

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number: 001-33765

AIRMEDIA GROUP INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

17/F, Sky Plaza
No. 46 Dongzhimenwai Street
Dongcheng District
100027, Beijing
People's Republic of China

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

American Depositary Shares, each representing two ordinary shares,
par value \$0.001 per share

Name of exchange on which each class is to be registered

Nasdaq Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report. **134,425,925 ordinary shares, par value US\$0.001 per share, as of December 31, 2008.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

- “ADSs” are to our American depositary shares, each of which represents two ordinary shares;
- “CAAC” are to the General Administration of Civil Aviation of China, a PRC governmental agency; the largest airports in China are measured by the number of air passengers in the 2007 Airport Data Report of CAAC and the largest airlines in China are measured by the number of air passengers in China Civil Aviation, a journal sponsored by the CAAC;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan;
- “Nasdaq” are to the Nasdaq Global Market;
- “ordinary shares” are to our ordinary shares, par value US\$0.001 per share;
- “preferred shares” are to our Series A redeemable convertible preferred shares and Series B redeemable convertible preferred shares, all of which were converted into our ordinary shares upon the completion of our initial public offering on November 13, 2007;
- “RMB” and “Renminbi” are to the legal currency of China; and
- “US\$,” “U.S. dollars,” “\$,” and “dollars” are to the legal currency of the United States.

Unless the context indicates otherwise, “we,” “us,” “our company,” “our,” and “AirMedia” refer to AirMedia Group Inc., its subsidiaries and consolidated variable interest entities and their subsidiaries. Although AirMedia does not directly or indirectly own any equity interests in its consolidated variable interest entities or their subsidiaries, AirMedia effectively controls, and is the primary beneficiary of these entities, through a series of contractual arrangements with them and their record owners. We have consolidated the financial results of these variable interest entities and their subsidiaries in our consolidated financial statements in accordance with the Generally Accepted Accounting Principles of the U.S. See “Item 4. Information on the Company—C. Organizational Structure,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” and “Item 3. Key Information—D. Risk Factors” for further information on our contractual arrangements with these parties.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- our plans to expand our air travel advertising network into additional locations, airports and airlines;

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- competition in the advertising industry and the air travel advertising industry in China;
- the expected growth in consumer spending, average income levels and advertising spending levels;
- the growth of the air travel sector in China; and
- PRC governmental policies relating to the advertising industry.

You should thoroughly read this annual report and the documents to which we refer with the understanding that our actual future results may be materially different from and worse than our expectations. We qualify all of our forward-looking statements with these cautionary statements. Other sections of this annual report include additional factors that could adversely affect our business and financial performance.

This annual report contains statistical data that we obtained from various government and private publications. We have not independently verified the data in these reports. Statistical data in these publications also include projections based on a number of assumptions. The air travel industry and the advertising industry in China, particularly the out-of-home and air travel advertising sectors, may not grow at the projected rates or at all. The failure of the air travel industry and the advertising industry to grow at the projected rates may have a material adverse effect on our business and the market price of our ADSs. Furthermore, if any one or more of the assumptions underlying the statistical data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements. In particular, this annual report contains statistical data from an August 2007 report of Sinomonitor commissioned by us, or the Sinomonitor report. The calculation of digital TV screens in the Sinomonitor report does not include digital TV screens in VIP lounges for logistical reasons.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Selected Consolidated Financial Data

The following table represents our selected consolidated financial information. The selected consolidated statement of operations data for the period from August 7, 2005, the date we commenced operations, to December 31, 2005 and the years ended December 31, 2006, 2007 and 2008 and the consolidated balance sheet data as of December 31, 2005, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements for the relevant periods which have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, and are prepared and presented in accordance with U.S. GAAP. The audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 are included elsewhere in this annual report. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and related notes included elsewhere in this annual report and “Item 5. Operating and Financial Review and Prospects” below. Our historical results do not necessarily indicate results expected for any future periods.

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	<u>Period from August 7, 2005 to December 31, 2005</u>	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2007</u>	<u>Year ended December 31, 2008</u>
(in thousands, except share, per share and per ADS data)				
Consolidated Statements of Operations Data:				
Revenues:				
Digital frames	US\$ —	US\$ —	US\$ 1,263	US\$ 45,011
Digital TV screens in airports	887	10,502	26,921	47,591
Digital TV screens on airplanes	405	4,868	11,093	19,227
Billboards on gate bridges in airports	—	—	—	6,051
Other displays	58	3,526	4,334	7,660
Total revenues	<u>1,350</u>	<u>18,896</u>	<u>43,611</u>	<u>125,540</u>
Business tax and other sales tax	(2)	(961)	(1,983)	(6,107)
Net revenues	<u>1,348</u>	<u>17,935</u>	<u>41,628</u>	<u>119,433</u>
Cost of revenues	<u>(3,189)</u>	<u>(10,040)</u>	<u>(21,365)</u>	<u>(70,995)</u>
Gross profit/(loss)	<u>(1,841)</u>	<u>7,895</u>	<u>20,263</u>	<u>48,438</u>
Operating expenses:				
Selling and marketing (including share-based compensation of nil, \$274 and \$1,158 in 2006, 2007 and 2008, respectively)	(461)	(2,751)	(4,813)	(10,171)
General and administrative (including share-based compensation of nil, \$18,831 and \$3,805 in 2006, 2007 and 2008, respectively)	(376)	(1,293)	(21,982)	(14,374)
Total operating expenses	<u>(837)</u>	<u>(4,044)</u>	<u>(26,795)</u>	<u>(24,545)</u>
Income/(loss) from operations	<u>(2,678)</u>	<u>3,851</u>	<u>(6,532)</u>	<u>23,893</u>
Interest income	3	17	1,745	5,379
Other income	—	—	—	1,135
Income/(loss) before income taxes and minority interest	<u>(2,675)</u>	<u>3,868</u>	<u>(4,787)</u>	<u>30,407</u>
Income tax benefits	273	197	195	498
Net income/(loss) before minority interest	<u>(2,402)</u>	<u>4,065</u>	<u>(4,592)</u>	<u>30,905</u>
Minority interest	—	1	2	(382)
Share of loss on equity method investments	—	—	(520)	(325)
Net income/(loss)	<u>US\$ (2,402)</u>	<u>US\$ 4,066</u>	<u>US\$ (5,110)</u>	<u>US\$ 30,198</u>
Deemed dividends on Series A convertible redeemable preferred shares—Accretion of redemption premium	US\$ (296)	US\$ (1,440)	US\$ (1,201)	—
Deemed dividends on Series B convertible redeemable preferred shares—Accretion of redemption premium	—	—	US\$ (2,152)	—
Net income/(loss) attributable to holders of ordinary shares	<u>US\$ (2,698)</u>	<u>US\$ 2,626</u>	<u>US\$ (8,463)</u>	<u>US\$ 30,198</u>
Net income/(loss) per ordinary share—basic	<u>US\$ (0.04)</u>	<u>US\$ 0.03</u>	<u>US\$ (0.12)</u>	<u>US\$ 0.23</u>
Net income/(loss) per ordinary share—diluted	<u>US\$ (0.04)</u>	<u>US\$ 0.03</u>	<u>US\$ (0.12)</u>	<u>US\$ 0.22</u>
Net income per Series A preferred share—basic	US\$ 0.01	US\$ 0.06	US\$ 0.04	N/A
Net income per Series B preferred share—basic	N/A	N/A	US\$ 0.32	N/A
Net income (loss) per ADS ⁽¹⁾				
Basic	US\$ (0.08)	US\$ 0.06	US\$ (0.23)	US\$ 0.45
Diluted	US\$ (0.08)	US\$ 0.06	US\$ (0.23)	US\$ 0.44
Weighted average shares used in calculating net income (loss) per ordinary share—basic	62,400,000	62,400,000	73,469,589	133,603,419
Weighted average shares used in calculating net income (loss) per ordinary share—diluted	62,400,000	62,400,000	73,469,589	137,782,135

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	<u>Period from August 7, 2005 to December 31, 2005</u>	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2007</u>	<u>Year ended December 31, 2008</u>
	(in thousands, except share, per share and per ADS data)			
Weighted average shares used in calculating net income per Series A preferred share—basic	37,600,000	37,600,000	31,461,918	N/A
Weighted average shares used in calculating net income per Series B preferred share—basic	N/A	N/A	6,706,849	N/A

Note: (1) Each ADS represents two ordinary shares.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2005, 2006, 2007 and 2008:

	<u>As of December 31, 2005</u>	<u>As of December 31, 2006</u>	<u>As of December 31, 2007</u>	<u>As of December 31, 2008</u>
	(in thousands)			
Consolidated Balance Sheet Data:				
Cash	US\$ 2,952	US\$ 2,086	US\$210,915	US\$161,534
Total assets	6,371	20,547	266,859	329,891
Total liabilities	2,765	9,511	9,257	28,028
Series A convertible redeemable preferred shares	12,296	13,736	—	—
Series B convertible redeemable preferred shares	—	—	—	—
Ordinary shares	62	62	133	134
Total shareholders' (deficiency) equity	(2,690)	221	257,605	300,732

The following table presents a summary of our condensed consolidated statements of cash flow for the period from August 7, 2005 to December 31, 2005, and the years ended December 31, 2006, 2007 and 2008, respectively.

	<u>Period from August 7, 2005 to December 31, 2005</u>	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2007</u>	<u>Year ended December 31, 2008</u>
	(in thousands)			
Consolidated Statements of Cash Flow:				
Net cash provided by (used in) operating activities	US\$ (3,277)	US\$ 2,020	US\$ (6,510)	US\$ 3,586
Net cash used in investing activities	(762)	(5,346)	(15,673)	(56,692)
Net cash provided by financing activities	6,984	2,285	229,989	789

Exchange Rate Information

Our reporting and financial statements are expressed in the U.S. dollar, which is our reporting and functional currency. However, substantially all of the revenues and expenses of our consolidated operating subsidiaries and variable interest entities are denominated in RMB. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.8225 to US\$1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Fluctuations in the value of the Renminbi may have a material adverse effect on your investment" and "—Restrictions on currency exchange may limit our ability to receive and use our revenues or financing effectively" for discussions of the effects of fluctuating exchange rates and currency control on the value of our ADSs. On April 24, 2009, the noon buying rate was RMB6.8250 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

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Period	Noon Buying Rate			
	Period End	Average(1)	Low	High
(RMB per US\$1.00)				
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
October	6.8388	6.8358	6.8521	6.8171
November	6.8254	6.8281	6.8373	6.8220
December	6.8225	6.8539	6.8842	6.8225
2009				
January	6.8392	6.8360	6.8403	6.8360
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April (through April 24)	6.8250	6.8318	6.8361	6.8250

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Business

Our limited operating history may not provide an adequate basis to evaluate our future prospects and results of operations.

We began our business operations in August 2005. Our limited operating history may not provide a meaningful basis for you to evaluate our business, financial performance and prospects. It is also difficult to evaluate the viability of our air travel advertising network because we do not have sufficient experience to address the risks frequently encountered by early stage companies using new forms of advertising media and entering new and rapidly evolving markets. Certain members of our senior management team have worked together for only a relatively short period of time and it may be difficult for you to evaluate their effectiveness, on an individual or collective basis, and ability to address future challenges to our business.

Given our limited operating history, we may not be able to:

- preserve our market position in the air travel advertising market in China;
- manage our relationships with airports and airlines to retain existing concession rights contracts and obtain new concession rights contracts to operate digital and other media platforms in leading airports and on airlines on commercially advantageous terms or at all;
- retain and acquire advertising clients;
- manage our relationships with third-party non-advertising content providers;

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- secure a sufficient amount of low-cost digital frames and digital TV screens from our suppliers;
- manage our expanding operations, including the integration of any past and future acquisitions;
- increase and diversify our revenue sources by successfully expanding into other advertising media platforms, including traditional media platforms in leading airports;
- respond to competitive market conditions;
- respond to changes in the PRC regulatory regime;
- maintain adequate control of our costs and expenses; or
- attract, train, motivate and retain qualified personnel.

If we are unsuccessful in addressing any of these risks, our business may be materially and adversely affected.

If advertisers or the viewing public do not accept, or lose interest in, our air travel advertising network, we may be unable to generate sufficient cash flow from our operating activities and our prospects and results of operations could be negatively affected.

The market for air travel advertising network in China is relatively new and its potential is uncertain. We compete for advertising spending with many forms of more established advertising media, such as television, print media, Internet and other types of out-of-home advertising. Our success depends on the acceptance of our air travel advertising network by advertising clients and agencies and their continuing and increased interest in this medium as a component of their advertising strategies. Our success also depends on the viewing public continuing to be receptive towards our media network. Advertisers may elect not to use our services if they believe that consumers are not receptive to our network or that our network does not provide sufficient value as an effective advertising medium. Likewise, if consumers find some element of our network to be disruptive or intrusive, airports and airplane companies may decide not to allow us to operate our air travel advertising network in airports or place our programs on airplanes and advertisers may view our network as a less attractive advertising medium compared to other alternatives. In that event, advertisers may determine to reduce their spending on our network and air travel advertising.

Air travel advertising is a relatively new concept in China and in the advertising industry generally. If we are not able to adequately track air traveler responses to our programs, in particular tracking the demographics of air travelers most receptive to air travel advertising, we will not be able to provide sufficient feedback and data to existing and potential advertising clients to help us generate demand and determine pricing. Without improved market research, advertising clients may reduce their use of air travel advertising and instead turn to more traditional forms of advertising that have more established and proven methods of tracking effectiveness.

If a substantial number of advertisers lose interest in advertising on our media network for these or other reasons or become unwilling to purchase advertising time slots on our network, we will be unable to generate sufficient revenues and cash flow to operate our business, and our revenues, prospects and results of operations could be negatively affected.

The recent global economic and financial market crisis has had and may continue to have a negative effect on the market price of our ADSs, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

The recent global economic and financial market crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, lower consumer and business spending, and lower consumer net worth, in the United States and other parts of the world. This global economic and financial market crisis has had, and may continue to have, a negative effect on the market price of our ADSs, the volatility of which has increased as a result of the disruptions in the financial

markets. It may also impair our ability to raise funds through capital market transactions or enter into other financial arrangements if and when additional funds become necessary for our operations. We believe many of our advertisers have also been affected by the current economic turmoil. Current or potential advertisers may no longer be in business, may be unable to fund advertising purchases or determine to reduce purchases, all of which would lead to reduced demand for our advertising services, reduced gross margins, and increased delays of payments of accounts receivable or defaults of payments. We are also limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn given our fixed concession fee costs associated with our operations. Therefore, the global economic and financial market crisis could have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, the timing and nature of any recovery in the economic and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected.

We derive substantially all of our revenues from the provision of air travel advertising services. Recent slowdown in the air travel advertising industry in China may materially and adversely affect our revenues and results of operations.

Substantially all of our historical revenues and expected future revenues have been and will be generated from the provision of air travel advertising services, in particular through the display of advertisements on digital frames located in airports and digital TV screens located in airports and on airplanes. Our other types of advertising media platforms, such as billboards and painted advertisement on gate bridges, light box displays and shuttle bus displays are also located in or near airports. We plan to expand into additional media platforms with a focus on increasing our market share in traditional media in the air travel sector. As the air travel advertising industry in China has been adversely affected by the recent economic slowdown, our revenues and results of operations could be materially and adversely affected.

If we are unable to carry out our operations as specified in existing concession rights contracts, retain existing concession rights contracts or obtain new concession rights contracts on commercially advantageous terms, we may be unable to maintain or expand our network coverage and our costs may increase significantly in the future.

Our ability to generate revenues from advertising sales depends largely upon our ability to provide a large air travel advertising network to display our clients' advertisements. This, in turn, requires that we retain existing concession rights contracts and obtain new concession rights contracts to operate in airports and on airlines.

As of March 1, 2009, we had concession rights to place and operate our digital frames in 26 airports and digital TV screens in 51 airports and to place our programs on the digital TV screens of 10 airlines. As of March 1, 2009, we operated at 22 airports out of the 26 airports and 41 out of the 51 airports where we had obtained contractual concession rights to operate our digital frames and digital TV screens, respectively. As of March 1, 2009, we had concession rights to place advertisements on gate bridges located in 10 major airports. We may roll out our operations of digital frames in the additional four airports and our operations of digital TV screens in the additional 10 airports where we have concession rights in the future. However, we cannot assure you that we will be able to carry out our operations in these airports as specified in the concession rights contracts.

A majority of our concession rights contracts to operate in airports and on airlines have terms ranging from three to five years without any automatic renewal provisions. As of December 31, 2008, 43 out of 104 and 9 out of 13 of our concession rights contracts to operate in airports and on airlines, respectively, would be subject to renewal by the end of 2010. The concession fees that we incur under our concession rights contracts comprise a significant portion of our cost of revenues and accounted for approximately 37.7%, 28.8% and 38.3% of our net revenues in 2006, 2007 and 2008, respectively. As of March 31, 2009, we were contractually obligated to pay in aggregate US\$315.7 million under our concession rights contracts through the year 2015. Airports and airlines tend to increase concession fees over time. As some of our concession rights contracts will terminate in the next several years, we may experience a significant increase in our costs of revenues. If we are unable to pass increased concession costs on to our advertising clients through rate increases, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

Furthermore, as of December 31, 2008, 57 out of 104 and 11 out of 13 of our concession rights contracts to operate in airports and on airlines, respectively, contained provisions granting us certain exclusive

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concession rights. The scope of the exclusivity, however, varies from contract to contract. Most of these exclusivity provisions limit the scope of our exclusivity to the operation of digital frames and digital TV screens in specific areas of an airport or to certain types of programs on airplanes. We cannot assure you that we will be able to retain these contracts, with or without exclusivity provisions, upon their expiration. If we were to lose exclusivity, in particular with the major airports and leading airlines, we may lose market share if our customers decide to place their advertisements on any competing digital frames or digital TV screens or otherwise decrease their spending on our network. Furthermore, certain concession rights contracts contain provisions allowing the airports to terminate the contracts unilaterally without any compensation due to governmental policy reasons or the restructuring or reorganization of the airports. We cannot assure you that our concession rights contracts will not be terminated, whether with or without justification. In addition, most of our concession rights contracts were entered into with the advertising companies operated by or advertising agencies hired by airports or airline companies, and not with the airports or airline companies directly. Although these advertising companies and agents have generally assured us in writing that they have the rights to operate advertising media in airports or on airplanes and all of them have performed their contractual obligations, we cannot assure you that airports or airline companies will not challenge or revoke the contractual concession rights granted to us by their advertising companies or agents. If any airport or airline company challenges or revokes the concession rights granted to us under the relevant contracts, our business could be materially and adversely affected.

We plan to renew our existing concession rights contracts and enter into new concession rights contracts for operating our air travel advertising network in airports and on airlines. There is no assurance that we will be able to retain our concession rights contracts or obtain new concession rights contracts for our digital frames and digital TV screens or programs on exclusive or commercially viable terms, or at all. If we fail to retain our concession rights contracts to operate in major airports or on key airlines, or retain exclusivity, if a significant number of our existing concession rights contracts are terminated or not renewed, or if we are unable to effectively expand our network by obtaining new concession rights contracts, advertisers may find advertising on our network unattractive and may not wish to purchase advertising time slots on our network, which would cause our revenues to decline and our business and prospects to deteriorate.

A significant portion of our revenues has been derived from the five largest airports and three largest airlines in China. If any of these airports or airlines experiences a material business disruption, we would likely incur substantial losses of revenues.

We derived 55.8% of our total revenues in 2008 from the five largest airports in China: Beijing Capital International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao Airport and Shenzhen International Airport. A material business disruption, major construction or renovation, or a natural disaster affecting any of these airports in our network could render our advertising media in such airport inoperative or materially limit the locations where we can place our digital frames, digital TV screens and other air travel advertising media.

In addition, we derived 12.8% of our advertising revenues in 2008 from the three largest domestic airlines in China: China Southern Airlines, China Eastern Airlines and Air China. If any of these airlines loses market share and we are not able to add other airlines or increase the revenues generated from existing airlines in our network, our advertising clients may decide to spend less on our advertising network.

We expect these five airports and three airlines to continue to contribute a significant portion of our revenues in the foreseeable future. If there were a material business disruption in any of these airports or airlines, we would likely incur substantial losses of revenues.

We depend on third-party program producers to provide the non-advertising content that we include in our programs. Failure to obtain high-quality content on commercially reasonable terms could materially reduce the attractiveness of our network, harm our reputation and cause our revenues to decline.

The programs on the majority of our digital TV screens include a mix of advertising and non-advertising content. Substantially all of the non-advertising content played over our network is provided by third-party content providers such as China International TV Corporation and various local television stations and television production companies.

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There is no assurance that we will be able to renew these contracts or obtain non-advertising content on satisfactory terms, or at all. In addition, some of the third-party content providers that currently do not charge us for their content may do so in the future. To make our programs more attractive, we must continue to secure contracts with these and other third-party content providers. If we fail to obtain a sufficient amount of high-quality content on a cost-effective basis, advertisers may find advertising on our network unattractive and may not wish to purchase advertising time slots on our network, which would materially and adversely affect our ability to generate revenues from our advertising time slots and cause our revenues to decline and our business and prospects to deteriorate.

If we are unable to attract advertisers to purchase advertising time on our network, we will be unable to maintain or increase our advertising fees, which could negatively affect our ability to grow our profits.

The fees we charge advertising clients and agencies for advertisements on our network depend on the size and quality of our network and the demand by advertisers for advertising time on our network. We believe advertisers choose to advertise on our network in part based on the size of our network, the desirability of the locations where we have placed our digital frames and digital TV screens and the attractiveness of our network content. If we fail to maintain or increase the number of our displays, solidify our brand name and reputation as a quality air travel advertising provider, or obtain high-quality non-advertising content at commercially reasonable prices, advertisers may be unwilling to purchase time on our network or to pay the levels of advertising fees we require to grow our profits.

We have incurred net losses in the past and may incur losses in the future.

For the period from August 7, 2005, the date we commenced operations, to December 31, 2005, we incurred a net loss of US\$2.4 million. We incurred a net loss of US\$5.1 million for the year ended December 31, 2007. We pay concession fees to airports for placing and operating our digital displays and to airlines for placing our programs on their digital TV screens. These fees constitute a significant portion of our cost of revenues and accounted for approximately 37.7%, 28.8% and 38.3% of our net revenues in the years ended December 31, 2006, 2007 and 2008, respectively. Most of the concession fees are fixed under the concession rights contracts with an escalation clause and payments are usually due three or six months in advance. However, our revenues may fluctuate significantly from period to period for various reasons. If our revenues decrease in a given period, we may be unable to reduce our cost of revenues as a significant portion of our cost of revenues is fixed, which could materially and adversely affect our results of operations and result in a net loss in the period.

When our current advertising network of digital frames and digital TV screens reaches saturation in the major airports and airlines where we operate, we may be unable to offer additional time slots to satisfy all of our advertisers' needs, which could hamper our ability to generate higher levels of revenues and profitability over time.

When our network of digital frames and digital TV screens reaches saturation in any particular airport or airline, we may be unable to offer additional advertising time slots to satisfy all of our advertisers' needs. We would need to increase our advertising rates for advertising in such airports or airlines in order to increase our revenues. However, advertisers may be unwilling to accept rate increases, which could hamper our ability to generate higher levels of revenues over time. In particular, the utilization rates of our advertising time slots in the five largest airports and on the three largest airlines are higher than those in other network airports or airlines and saturation of digital frames and digital TV screens in these airports or airlines could have a material adverse effect on our growth prospects.

Our strategy of expanding our air travel advertising network by building new media platforms and expanding into traditional media may not succeed, and our failure to do so could materially reduce the attractiveness of our network and harm our business, reputation and results of operations.

In 2008, our air travel advertising network primarily consisted of standard digital frames and digital TV screens. Our growth strategy includes broadening our service offerings by continuing to increase our digital media network coverage and expanding into traditional media to become a comprehensive air travel advertising provider in China.

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In particular, we have significantly expanded our digital frame platform by upgrading our light box displays to digital frames and installing new digital frames. As of March 1, 2009, we operated 2,428 digital frames in 22 airports. We intend to significantly increase the number of our digital frames in the near future. We could incur significant costs in installing new digital frames or in upgrading our light box displays to digital frame displays.

In addition, our growth strategy includes expanding into the traditional air travel advertising market to provide a broader range of advertising opportunities to our clients and to become a one-stop provider for air travel advertising. We have taken the initial steps by expanding our air travel advertising network to cover the advertising business on gate bridges in airports and diversifying our media resources to include billboards and painted advertisements. In March 2009, we obtained the contractual concession rights to operate various traditional advertising media including billboards, light boxes and other formats in Beijing Capital International Airport and light boxes in Shenzhen International Airport.

The majority of our concession rights contracts containing exclusive concession rights only grant us exclusivity with respect to digital frames and digital TV screens. By entering and expanding into traditional advertising media platforms, we may face competition from other companies that are already in these areas. We also have limited experience working in these areas. It is uncertain how these businesses will perform, and there is the risk that they may not succeed at all. Our failure to expand our air travel advertising network to introduce new platforms and into new areas could materially reduce the attractiveness of our network and harm our business, reputation and results of operations.

If advertising registration certificates are not obtained for our airport advertising operations where such registration certificates are deemed to be required, we may be subject to administrative sanctions, including the discontinuation of our advertisements at airports where the required advertising registration is not obtained.

On May 22, 2006, the State Administration for Industry and Commerce, or the SAIC, amended the Provisions on the Registration Administration of Outdoor Advertisements, or the new outdoor advertisement provisions. Pursuant to the new outdoor advertisement provisions, advertisements placed inside or outside of the “departure halls” of airports are treated as outdoor advertisements and must be registered in accordance with the local SAIC by “advertising distributors.” However, the terms “advertising distributors” and “departure halls” are not defined under the new outdoor advertisement provisions or other PRC laws and regulations.

To ensure that our airport operations comply with the applicable PRC laws and regulations, we are in the process of making inquiries with the local SAICs in the cities in which we have operations or intend to operate with respect to the application for an advertising registration certificate. However, the local SAICs with whom we consulted have expressed different views on whether the advertisements shown on our digital frames and digital TV screens would be regarded as outdoor advertisements and how to register those advertisements. As of the date of this annual report, only Shanghai and Beijing SAICs have accepted our application and issued the outdoor advertising registration certificates. Some local SAICs need more time to consider the implementation of the new outdoor advertising provisions. Other SAICs do not require us to register our advertisements.

We intend to register with the relevant SAICs if we are required to do so, but we cannot assure you that we will obtain any applicable registration certificates in compliance with the new outdoor advertisement provisions, or at all. If a required registration is not obtained, the relevant local SAICs may require us to forfeit our advertising income and may impose administrative fines of up to RMB30,000 on us. They may also require us to discontinue advertisements at airports where the required advertising registration is not obtained, which may result in a breach of one or more of our agreements with our advertising clients and materially and adversely affect our business and results of operations.

If we fail to obtain approvals for including non-advertising content in our programs, we may be unable to continue to include such non-advertising content in our programs, which may cause our revenues to decline and our business and prospects to deteriorate.

A majority of the digital frames and digital TV screens in our network include programs that consist of both advertising content and non-advertising content. On December 6, 2007, the State Administration of Radio, Film or Television, or the SARFT, issued the Circular regarding Strengthening the Management of Public Audio-Video in Automobiles, Buildings and Other Public Areas, or the SARFT Circular. According to

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the SARFT Circular, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT.

The relevant authority in China has not promulgated any implementation rules on the procedure of applying for the requisite approval pursuant to the SARFT Circular. We intend to obtain such approval for our non-advertising content, but we cannot assure you that we will obtain such approval in compliance with this new SARFT Circular, or at all. If the requisite approval is not obtained, we will be required to eliminate non-advertising content from the programs displayed on our digital frames and digital TV screens and advertisers may find our network less attractive and be unwilling to purchase advertising time slots on our network, which may cause our revenues to decline and our business and prospects to deteriorate.

Because we rely on third-party agencies to help source advertising clients, our failure to retain key third-party agencies or attract additional agencies on favorable terms could materially and adversely affect our revenue growth.

We engage third-party agencies to help source advertising clients from time to time. We do not have long-term or exclusive agreements with these agencies, including our key third-party agencies, and cannot assure you that we will continue to maintain favorable relationships with them. If we fail to retain key third-party agencies or attract additional agencies, we may not be able to retain existing advertising clients or attract new advertisers or advertising agency clients and our business and results of operations could be materially and adversely affected. Furthermore, the fees that we paid to these third-party agencies constituted a significant portion of our net revenues in the years ended December 31, 2006, 2007 and 2008—13.2%, 17.2% and 15.2%, respectively. It is important therefore for us to maintain favorable commercial terms with these third-party agencies.

We have been dependent on a limited number of customers for a significant portion of our revenues and this dependence may reoccur in the future, which would make us more vulnerable to the loss of major customers or delays in payments from these customers.

A small number of customers historically accounted for a significant portion of our revenue. Our top five customers collectively accounted for approximately 27.5%, 25.2% and 21.7% of our total revenues in the years ended December 31, 2006, 2007 and 2008, respectively. Our largest customers have changed from year to year primarily as a result of our limited operating history and rapid growth, broadened customer base and increased sales. No single advertising client accounted for more than 10% of our total revenues for the years ended December 31, 2006, 2007 and 2008, and we do not expect to be as dependent on a small number of customers in the future. Given our limited operating history and the rapid growth of our industry, we cannot assure you that we will not once again be dependent on a small number of customers in the future.

If we fail to sell our services to one or more of our major customers in any particular period, or if a large customer purchases less of our services, fails to purchase additional advertising time on our network or cancels some or all of its purchase orders, our revenues could decline and our operating results could be adversely affected. In addition, the dependence on a small number of customers could leave us more vulnerable to delays in payments from these customers. We are required under certain of our concession rights contracts to make prepayments. Although we do receive some prepayments from customers, there is typically a lag between the time of our prepayment of concession fees and the time that we receive payments from our customers. As our business expands and revenues grow, we have experienced and may continue to experience an increase in our accounts receivable. Our accounts receivable increased from US\$13.5 million as of December 31, 2007 to US\$38.4 million as of December 31, 2008. If our major customers are significantly delinquent with their payments, our financial conditions and liquidity may be materially and adversely affected.

If we are unable to adapt to changing advertising trends and the technology needs of advertisers and consumers, we will not be able to compete effectively and we will be unable to increase or maintain our revenues, which may materially and adversely affect our business prospects and revenues.

The market for air travel advertising requires us to continuously identify new advertising trends and the technological needs of both advertisers and consumers, which may require us to develop new formats, features and enhancements for our advertising network.

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We must be able to quickly and cost-effectively expand into additional advertising media and platforms beyond digital frames and digital TV screens if advertisers find these other media and platforms to be more attractive and cost-effective. In addition, as the advertising industry is highly competitive and fragmented with many advertising agencies exiting and emerging, we must closely monitor the trends in the advertising agency community. We must maintain strong relationships with leading advertising agencies to make certain that we are reaching the leading advertisers and are responsive to the needs of both the advertising agencies and the advertisers.

We currently play advertisements on digital frames through wireless network and on digital TV screens in our network airports through closed-circuit television systems and we currently play advertisements on our network airplanes mostly through video tapes. We may be required to incur development and acquisition costs in order to keep pace with new technology needs but we may not have the financial resources necessary to fund and implement future technological innovations or to replace obsolete technology. Furthermore, we may fail to respond to these changing technology needs. For example, if the use of broadband networking capabilities on our advertising network becomes a commercially viable alternative, and we fail to implement such changes on our network or fail to do so in a timely manner, our competitors or future entrants into the market who take advantage of such initiatives could gain a competitive advantage over us.

If we cannot succeed in defining, developing and introducing new formats, features and technologies on a timely and cost-effective basis, advertising demand for our advertising network may decrease and we may not be able to compete effectively or attract advertising clients, which would have a material and adverse effect on our business prospects and revenues.

We face significant competition in the PRC advertising industry, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected.

We face significant competition in the PRC advertising industry. We compete for advertising clients primarily on the basis of network size and coverage, location, price, the quality of our programs, the range of services that we offer and brand recognition. We compete for overall advertising spending with other alternative advertising media companies, such as Internet, street furniture, billboard and public transport advertising companies, and with traditional advertising media, such as newspapers, television, magazines and radio. We also compete for advertising dollars spent in the air travel advertising industry. While we have a large market share of the digital frames and digital TV screens located in airports and airplanes, we compete, and will compete, with other media platforms of advertising, for which we do not have exclusivity, including billboards, light boxes and print media. In addition, we may also face competition from new entrants into air travel advertising in the future.

Significant competition could reduce our operating margins and profitability and result in a loss of market share. Some of our existing and potential competitors may have competitive advantages, such as significantly greater brand recognition, financial, marketing or other resources and may be able to mimic and adopt our business model. In addition, several of our competitors have significantly larger advertising networks than we do, which gives them an ability to reach a larger number of overall potential consumers and which may make them less susceptible to downturns in particular sectors, such as air travel. Moreover, significant competition will provide advertisers with a wider range of media and advertising service alternatives, which could lead to lower prices and decreased revenues, gross margins and profits. We cannot assure you that we will be able to successfully compete against new or existing competitors.

Our results of operations are subject to fluctuations in the demand for air travel, which is affected by, among other things, seasonality, general economic conditions, terrorist attacks, security measures and plane crashes, and a decrease in the demand for air travel may make it difficult for us to sell our advertising time slots.

Our results of operations are directly linked to the fortunes of the air travel industry. Demand for air travel fluctuates significantly from period to period, is subject to seasonality due to holiday travel and weather conditions, and is particularly susceptible to downturns in the economy. In addition, among other things, terrorist attacks, or the fear of such attacks, additional security measures, plane crashes and significant and persistent air travel delays could lead to a reduction in the growth of the air travel industry in China.

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Business travel is one of the primary drivers of the air travel industry. In times of economic growth, air travel tends to increase. Conversely, in times of economic slowdown, air travel tends to decrease significantly. In light of the recent economic downturn, overall air passengers in China have decreased, which may cause advertisers to reduce their spending on our air travel advertising network.

The terrorist attacks of September 11, 2001 in the U.S. involving commercial aircraft severely and adversely affected the air travel industry in the U.S. and throughout the world. Any future terrorist activity involving the air travel industry could have an equal or greater impact. There have been highly reported attempted acts of terrorism involving aircraft flying out of Heathrow Airport in London and JFK International Airport in New York. Additional terrorist attacks or fear of such attacks, even if not made directly on the air travel industry, may negatively affect the air travel industry and the demand for air travel.

Terrorist attacks have also resulted in significantly increased security costs and associated passenger inconvenience. Since September 11, 2001, the Transportation Security Administration in the U.S. has implemented numerous security measures that affect airport and airline operations and costs, the effects of which may ultimately affect the demand for air travel. Increasingly, China and other countries in Asia are adopting similarly stringent security measures that may lead some air travelers to consider other travel options, such as trains, cars and boats, as more convenient and less intrusive. In addition, these security measures have resulted in higher costs for airports and airlines, which may result in our having to incur higher concession fees.

In addition, an aircraft crash or other accident could create a public perception that air travel is not safe or reliable, which could result in air travelers being reluctant to fly. Significant aircraft delays due to capacity constraints, weather conditions or mechanical problems could also result in lower demand for air travel, especially for shorter domestic flights.

If the demand for air travel decreases for any of these or other reasons, advertisers may be reluctant to advertise on our network and we may be unable to fill our advertising time slots and charge premium prices.

A decrease in demand for our advertising services may materially and adversely affect our ability to generate revenues, our financial condition and results of operations.

Demand for our advertising services, and the resulting advertising spending by our clients, may fluctuate due to changes in general economic conditions and advertising spending typically decreases during periods of economic downturn.

Our clients may reduce the money they spend to advertise on our network for a number of reasons, including:

- a general decline in economic conditions;
- a general decline in the number of air travelers and flights;
- a decline in economic conditions in the particular cities where our network airports are located;
- a decision to shift advertising expenditures to other available advertising media; and
- a decline in advertising spending in general.

A decrease in demand for advertising media in general and for our advertising services in particular would materially and adversely affect our ability to generate revenues from our advertising services, and our financial condition and results of operations.

If we fail to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our expansion strategies or meet the demands of our advertising clients.

We have experienced a period of rapid growth and expansion that has placed, and continues to place, significant strain on our management personnel, systems and resources. We must continue to expand our

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operations to meet the demands of advertisers for a larger and more diverse network coverage. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management efforts.

We will also need to continue to expand, train, manage and motivate our workforce as well as manage our relationships with airports, airlines and third-party non-advertising content providers. We must add sales and marketing offices and personnel to service relationships with new airports that we aim to add as part of our network. As we add new digital frames, digital TV screens and other media platforms, we will incur greater maintenance costs to maintain our equipment.

All of these endeavors will require substantial managerial efforts and skill, as well as the incurrence of additional expenditures. We cannot assure you that we will be able to manage our growth effectively, and we may not be able to take advantage of market opportunities, execute our expansion strategies or meet the demands of our advertising clients.

Past and future acquisitions may have an adverse effect on our ability to manage our business.

In July 2008, we acquired the advertising business on gate bridges in several airports by purchasing 100% of the equity interest in Excel Lead International Limited, or Excel Lead, and 80% of the equity interest in Flying Dragon Media Advertising Co., Ltd., or Flying Dragon. We may not be able to effectively integrate the gate bridge advertising business into our operations. We plan to continue to acquire businesses, technologies, services or products which are complementary to our core air travel advertising network business. Past and future acquisitions may expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing business and technology;
- our potential inability to generate sufficient revenue to offset new costs;
- the expenses of acquisitions; or
- the potential loss of or harm to relationships with both employees and advertising clients resulting from our integration of new businesses.

Any of the potential risks listed above could have a material and adverse effect on our ability to manage our business, our revenues and net income.

We may need to raise additional debt funding or sell additional equity securities to make such acquisitions. The raising of additional debt funding by us, if required, would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on our assets, that would restrict our operations. The sale of additional equity securities could result in additional dilution to our shareholders.

We do not expect to sustain our recent rates of growth in revenue or the numbers of airlines, airports or digital frames and digital TV screens in our network.

We have experienced significant growth in revenues in recent years. Our net revenues increased substantially from US\$17.9 million in 2006 to US\$119.4 million in 2008. Our network was located in 41 airports and on nine airlines as of December 31, 2008, compared to 28 airports and nine airlines by the end of 2006. The number of digital frames in airports increased from 632 as of December 31, 2007 to 2,156 as of December 31, 2008 while the number of digital TV screens operated by us in airports and on which we place our programs on airplanes increased from 1,562 and 16,015 as of December 31, 2006, to 2,854 and 49,482 as of December 31, 2008, respectively. We do not expect to achieve similar rates of growth in revenues or the number of airports, digital frames or digital TV screens in our network in future periods.

Our quarterly and annual operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Our quarterly and annual operating results are difficult to predict and may fluctuate significantly from period to period based on the seasonality of air travel, consumer spending and corresponding advertising trends in China. In addition, air travel and advertising spending in China generally tend to increase during the “golden” holiday periods, such as the National Day weekend in October and the Chinese New Year holiday in January or February, and tend to decrease during the fourth quarter. Air travel and advertising spending in China is also affected by certain special events such as the Beijing Olympics in 2008 and related government measures. As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of our future performance.

We may experience seasonality effects due to the seasonality of air travel and advertising spending in China. Other factors that may cause our operating results to fluctuate include a deterioration of economic conditions in China and potential changes to the regulation of the advertising industry in China, which are discussed elsewhere in this annual report. If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating costs and expenses for that quarter by a corresponding amount, which would harm our operating results for that quarter relative to our operating results for other quarters.

Our business depends substantially on the continuing efforts of our senior executives, and our business may be severely disrupted if we lose their services.

Our future success heavily depends upon the continued services of our senior executives and other key employees. In particular, we rely on the expertise and experience of our chief executive officer, Herman Man Guo, our president, Xiaoya Zhang, our chief operating officer, James Zhonghua Feng, our chief financial officer, Conor Chiahung Yang and our executive president, Ken Zijian Zeng. We rely on their industry expertise, their experience in our business operations and sales and marketing, and their working relationships with our advertising clients, airports and airlines, and relevant government authorities.

If one or more of our senior executives were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. If any of our senior executives joins a competitor or forms a competing company, we may lose clients, suppliers, key professionals and staff members. Each of our executive officers has entered into an employment agreement with us, which contains non-competition provisions. However, if any dispute arises between our executive officers and us, we cannot assure you the extent to which any of these agreements could be enforced in China, where these executive officers reside, in light of the uncertainties with China’s legal system. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could limit the legal protections available to us or result in substantial costs and the diversion of resources and management attention.”

Failure to maintain an effective system of internal control over financial reporting could have a material and adverse effect on the trading price of our ADSs.

We are subject to reporting obligations under the U.S. securities law. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company’s internal control over financial reporting in its annual report, which must also contain management’s assessment of the effectiveness of the company’s internal control over financial reporting. In addition, an independent registered public accounting firm must attest to the effectiveness of the company’s internal control over financial reporting. These requirements first applied to our annual report on Form 20-F for this fiscal year ended December 31, 2008.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2008. Our independent registered public accounting firm has issued an audit report, which is included elsewhere in this annual report and has concluded that we maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2008. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could negatively affect the reliability of our financial information and result in the loss of investors’ confidence in our reported financial information, which in turn could negatively impact the trading price of our ADSs, result in lawsuits being filed against us by our shareholders or otherwise harm our

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reputation. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We may need additional capital, which, if obtained, could result in dilution or significant debt service obligations. We may not be able to obtain additional capital on commercially reasonable terms, which could adversely affect our liquidity and financial position.

We may require additional cash resources due to changed business conditions or other future developments. If our current sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

In addition, our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of alternative advertising media companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in advertising services companies in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure to raise additional funds on favorable terms could have a material adverse effect on our liquidity and financial condition.

We may be subject to, and may expend significant resources in defending against government actions and civil suits based on the content we provide through our air travel advertising network.

Civil claims may be filed against us for fraud, defamation, subversion, negligence, copyright or trademark infringement or other violations due to the nature and content of the information displayed on our network. If consumers find the content displayed on our network to be offensive, airports or airlines may seek to hold us responsible for any consumer claims or may terminate their relationships with us. Offensive and objectionable content and legal standards for defamation and fraud in China are less defined than in other more developed countries and we may not be able to properly screen out unlawful content.

In addition, if the security of our content management system is breached and unauthorized images, text or audio sounds are displayed on our network, viewers or the PRC government may find these images, text or audio sounds to be offensive, which may subject us to civil liability or government censure despite our efforts to ensure the security of our content management system. Any such event may also damage our reputation. If our advertising viewers do not believe our content is reliable or accurate, our business model may become less appealing to viewers in China and our advertising clients may be less willing to place advertisements on our network.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.

Our commercial success depends to a large extent on our ability to operate without infringing the intellectual property rights of third parties. There is no assurance that our displays or other aspects of our business do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses and diversion of management time in defending against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially and adversely disrupt our business.

We have limited insurance coverage in China, and any business disruption or litigation we experience might result in our incurring substantial costs and the diversion of resources.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, except for fire insurance and our liability insurance for directors and officers, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation may result in our incurring substantial costs and the diversion of resources.

We face risks related to health epidemics, which could materially and adversely affect air travel and result in reduced demand for our advertising services or disrupt our operations.

Our business could be materially and adversely affected by the effect of a health epidemic or outbreak on the economic and business climate. Any prolonged recurrence of avian flu, SARS, or another epidemic or outbreak in China may have a material adverse effect on demand for air travel in China. For example, the SARS outbreak in 2003 and 2004 alarmed air travelers around both the region and the world raising issues pertaining to health and travel. During this time period, the SARS outbreak significantly deterred air travel and had a material and adverse effect on the air travel industry. From 2005 to 2008, there have also been reports on the occurrence of avian flu in various parts of China, including a few confirmed human cases and deaths. More recently, human cases of swine flu virus infection have been identified internationally.

A new outbreak of SARS, increased outbreaks of avian flu or swine flu, or the occurrence of other epidemics may result in health or other government authorities requiring the closure of our offices or other businesses, including airports and airline operations which comprise the primary locations where we provide our advertising services. A health epidemic could result in a significant drop in demand for air travel and ultimately our advertising services, severely disrupt our business operations and adversely affect our financial condition and results of operations.

If one or more of our PRC subsidiaries fails to maintain or obtain qualifications to receive PRC preferential tax treatments, we will be required to pay more taxes, which may have a material adverse effect on our result of operations.

On March 16, 2007, the PRC National People's Congress passed the Enterprise Income Tax Law, or the EIT Law, which imposes an uniform income tax rate of 25% on most domestic enterprises and foreign investment enterprises. The EIT Law became effective on January 1, 2008. Under the EIT Law, entities that qualify as "high and new technology enterprises strongly supported by the state" are entitled to the preferential income tax rate of 15%. A company's status as a "high and new technology enterprise strongly supported by the state" is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential income tax rate. In addition, according to the Administrative Regulations on the Recognition of High and New Technology Enterprises, the Guidelines for Recognition of High and New Technology Enterprises and the Notice of Favorable Enterprise Income Tax Policies jointly issued by the PRC Ministry of Science and Technology, the PRC Ministry of Finance and the PRC State Administration of Taxation in April 2008, July 2008 and February 2008, respectively, "new software enterprises" can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

On December 26, 2007, the PRC State Council issued the Notice of the State Council Concerning

Implementation of Transitional Rules for Enterprise Income Tax Incentives, or Circular 39. Based on Circular 39, certain enterprises established before March 16, 2007 that were eligible for tax exemptions or reductions according to the then effective tax laws and regulations can continue to enjoy such exemption or reduction until it expires. Furthermore, according to Circular 39, enterprises that were eligible for the preferential tax rates according to the then effective tax laws and regulations may be eligible for a gradual rate increase to 25% over the 5-year period beginning from January 1, 2008. Specifically, the applicable rates under such an arrangement for such enterprises that enjoyed the 15% tax rate prior to the effectiveness of the new PRC tax law will be 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. However, according to the Notice on Prepayment of Enterprise Income Tax issued by the State Administration of Taxation on January 30, 2008, the gradually increased rate of Enterprise Income Tax, or EIT, during the transition period is not applicable to entities that qualified for preferential tax rates as high and new technology enterprises alone and they would be subject to EIT at 25% from January 2008 if they cannot qualify as high and new technology enterprises under the EIT Law and regulations.

AirMedia Technology (Beijing) Co., Ltd., or AM Technology, has qualified as a “high and new technology enterprise” under the former EIT Law and was subject to a 15% preferential EIT. In addition, AM Technology is registered and operates in the Beijing New Technology Industry Development Zone. As a result, AM Technology was exempt from EIT from 2006 to 2008, and will be entitled to a 50% tax reduction from 2009 to 2011 under the former Foreign-Invested Enterprise Income Tax Law and the relevant implementation rules. AM Technology was recognized as a “high and new technology enterprise supported by the state” under the new rules in December 2008. As a result, it is entitled to continue to enjoy a preferential EIT at the rate of 7.5% from 2009 to 2011 and a preferential EIT of 15% thereafter. Xi’an Air Media Chuangyi Technology Co., Ltd, or Xi’an AM, qualified as a “software enterprise” in August 2008 by the Technology Information Bureau of Shanxi Province and has received a written approval from Xi’an local tax bureau that it will be granted a two-year exemption from EIT commencing on its first profitable year and a 50% reduction of the 25% EIT rate for the succeeding three years. Shenzhen AirMedia Information Technology Co., Ltd., or Shenzhen AM, was subject to a 15% preferential tax EIT rate as it is located in Shenzhen and is currently subject to EIT on its taxable income at the gradual rate pursuant to Circular 39. Shenzhen AM submitted its application to be qualified as a “high and new technology enterprise strongly supported by the State” under the new PRC tax law in March 2009 and if successful, will be eligible for a 15% EIT rate.

There is no assurance that our PRC subsidiaries will be able to maintain or obtain qualifications to receive the above preferential tax treatments. We will be required to pay more taxes if they fail to become or continue to be eligible to receive PRC tax benefits, which may have a material adverse effect on our result of operations.

Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income and dividends distributed to our investors may be subject to PRC withholding taxes under the new PRC tax law.

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. Under the EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, where our wholly owned subsidiary and the 100% shareholder of Shenzhen AM is incorporated, does not have such a tax treaty with China. Air Media (China) Limited, the 100% shareholder of AM Technology, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006 and the relevant rules, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). The EIT Law provides, however, dividends distributed between qualified resident enterprises will be exempted. As the term “resident enterprises” needs further clarification and explanation, we cannot assure you that the dividends distributed by Shenzhen AM, AM Technology and Xi’an AM to their direct shareholders would be regarded as dividends distributed between qualified resident enterprises, and be exempted from the EIT.

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Under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore be subject to EIT at the rate of 25% on their worldwide income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management and control over the business, personnel, accounts and properties of the enterprise. It remains unclear how the PRC tax authorities will interpret such a broad definition. We believe we are not a PRC resident enterprise. However, if we were considered a PRC resident enterprise, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income; dividend income we receive from the PRC subsidiaries, however, would be exempt from PRC tax since such income to a PRC resident recipient is exempted under the new EIT Law.

With the newly imposed 10% PRC dividend withholding tax, we will incur an incremental PRC tax cost when PRC profits are distributed to ultimate shareholders. In addition, if we are determined to be a PRC resident enterprise under the new PRC tax system and receive income other than dividends, our profitability and cash flow would be adversely impacted due to our worldwide income being taxed in China under the new PRC tax law.

Moreover, under the new PRC tax law, foreign ADS holders may be subject to a 10% withholding tax upon dividends payable by us and gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is sourced from within the PRC. Although our company is incorporated in the Cayman Islands, it remains unclear whether the dividends payable by us or the gains our foreign ADS holders may realize will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise. Any such tax on our dividend payments will reduce the returns of your investment.

Risks Related to Regulation of Our Business and to Our Structure

Compliance with PRC advertising laws and regulations may be difficult and could be costly, and failure to comply could subject us to government sanctions.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors, including businesses such as ours, to ensure that the content of the advertisements they prepare or distribute are fair and accurate and are in full compliance with applicable law. Violation of these laws or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the PRC government may revoke a violator’s license for advertising business operations.

As an air travel advertising service provider, we are obligated under PRC laws and regulations to monitor the advertising content that is shown on our network for compliance with applicable law. In general, the advertisements shown on our network have previously been broadcast over public television networks and have been subjected to internal review and verification of such networks. We are still required to independently review and verify these advertisements for content compliance before displaying the advertisements. In addition, if a special government review is required for certain product advertisements before they are shown to the public, we are obligated to confirm that such review has been performed and approval has been obtained. In addition, for advertising content related to certain types of products and services, such as food products, alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals including the advertising client’s operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filing with the local authorities.

We endeavor to comply with such requirements, including by requesting relevant documents from the advertisers. However, we cannot assure you that each advertisement that an advertiser or advertising agency client provides to us and which we include in our network programs is in compliance with relevant PRC advertising laws and regulations or that the supporting documentation and government approvals provided to us by our advertising clients in connection with certain advertising content are complete. Although we employ qualified advertising inspectors who are trained to review advertising content for compliance with relevant PRC laws and regulations, the content standards in the PRC are less certain and less clear than in those in more developed countries such as the U.S. and we cannot assure you that we will be able to properly review the content to comply with the standards imposed on us with certainty.

If the PRC government finds that the agreements that establish the structure for operating our

China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry and in the operating of non-advertising content, we could be subject to severe penalties.

Substantially all of our operations are conducted through our contractual arrangements with our consolidated variable interest entities in China, Beijing AirMedia Advertising Co., Ltd., or AM Advertising, Beijing Shengshi Lianhe Advertising Co., Ltd, or Shengshi Lianhe, AirMedia UC Advertising Co., Ltd., or AirMedia UC, and Beijing Yuehang Digital Media Advertising Co., Ltd., or AM Yuehang. Though PRC regulations currently permit 100% foreign ownership of companies that provide advertising services, any foreign entities that invest in the advertising services industry are required to have at least three years of direct operations in the advertising industry outside of China. In addition, PRC regulations currently prohibit foreign investment in the production and operation of any non-advertising content. We do not currently directly operate an advertising business outside of China and thus cannot qualify under PRC regulations until three years after we commence any such operations outside of China or until we acquire a company that has directly operated an advertising business outside of China for the required period of time. Accordingly, our three subsidiaries, Shenzhen AM, AM Technology and Xi'an AM are currently ineligible to apply for the required licenses for providing advertising services in China.

Our advertising business is primarily provided through our contractual arrangements with our four consolidated variable interest entities in China. AM Advertising is owned by Shengshi Lianhe and three PRC citizens: Herman Man Guo, Qing Xu and Xiaoya Zhang. Shengshi Lianhe is owned by three PRC citizens: Herman Man Guo, Qing Xu and Xiaoya Zhang. AirMedia UC is owned by two PRC citizens: Herman Man Guo and Qing Xu. AM Yuehang is owned by two PRC citizens: James Zhonghua Feng and Tao Hong. Our variable interest entities are the major companies through which we provide advertising services in China. They directly operate our advertising network, enter into concession rights contracts and sell advertising time slots to our clients. We depend on our variable interest entities to operate our advertising business. We have entered into contractual arrangements with our variable interest entities, pursuant to which we, through AM Technology, provide technical support and consulting services to our variable interest entities. In addition, we have entered into agreements with our variable interest entities and each of their shareholders, which provide us with the substantial ability to control our variable interest entities. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions.”

Under the equity pledge agreements, the shareholders of our variable interest entities respectively pledged their equity interests in our variable interest entities to AM Technology. This pledge was duly created by recording the pledge on AM Technology’s register of shareholders in accordance with the PRC Security Law, which governed the validity of such pledge prior to the effectiveness of the PRC Property Rights Law.

According to the PRC Property Rights Law, however, effective as of October 1, 2007, and Measures for the Registration of Equity Pledge with Administration for Industry and Commerce, effective as of October 1, 2008, such pledge will be effective upon registration with the relevant administration for industry and commerce. AM Technology is in the process of applying for such registration with the local administration for industry and commerce. Before the completion of such registration procedure, we cannot assure you that the effectiveness of such pledge can be recognized in PRC courts if disputes arise on certain pledged equity interest or that AM Technology’s interests as pledgee will prevail over those of third parties.

If we or any of our variable interest entities are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the SAIC, which regulates advertising companies, and the SARFT, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries and affiliates;
- discontinuing or restricting our PRC subsidiaries’ and affiliates’ operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and affiliates may not be able to comply; or
- requiring us or our PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang and their shareholders for a substantial portion of our China operations, which may not be as effective as direct ownership in providing operational control.

We rely on contractual arrangements with AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang to operate our advertising business. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entities. Under the current contractual arrangements, as a legal matter, if our variable interest entities or their shareholders fail to perform their respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective.

Many of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, which may make it difficult to exert effective control over our variable interest entities, and our ability to conduct our business may be negatively affected.

Contractual arrangements we have entered into among our subsidiaries and variable interest entities may be subject to scrutiny by the PRC tax authorities and a finding that we owe additional taxes or are ineligible for our preferential tax treatment, or both, could substantially increase our taxes owed, and reduce our net income and the value of your investment.

Under PRC law, arrangements and transactions among related parties may be audited or challenged by the PRC tax authorities. If any of the transactions we have entered into among AM Technology and our variable interest entities are found not to be on an arm’s length basis, or to result in an unreasonable reduction in tax under PRC law, the PRC tax authorities have the authority to disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties. A finding by the PRC tax authorities that we are ineligible for the tax savings we achieved for the period from August 7, 2005, the date we commenced operations, to December 31, 2005 or in 2006, 2007 and 2008, or that Shenzhen AM, AM Technology, Xi’an AM, AM Advertising and its subsidiaries, Shengshi Lianhe, AirMedia UC or AM Yuehang are ineligible for their preferential tax treatment, would substantially increase our taxes owed and reduce our net income and the value of your investment.

We may rely principally on dividends and other distributions on equity paid by our wholly-owned operating subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our operating subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may rely principally on dividends and other distributions on equity paid by AM Technology, Shenzhen AM and Xi’an AM for our cash requirements, including the funds necessary to service any debt we may incur. If AM Technology, Shenzhen AM or Xi’an AM incur debt on its own behalf in the future, the instruments governing the debt may restrict the ability of AM Technology, Shenzhen AM or Xi’an AM to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements AM Technology currently has in place with our variable interest entities in a manner that would materially and adversely affect AM Technology’s ability to pay dividends and other distributions to us.

Furthermore, relevant PRC laws and regulations permit payments of dividends by AM Technology, Shenzhen AM and Xi’an AM only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, AM Technology, Shenzhen AM and Xi’an AM are also required to set aside a portion of net income each year to fund certain reserve funds. These reserves are not distributable as cash dividends. In addition, subject to certain cumulative limits, the statutory general

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reserve fund requires annual appropriations of at least 10% of after-tax income to be set aside prior to payment of dividends until such reserve fund is equal to at least 50% of the respective registered capital of AM Technology, Shenzhen AM or Xi'an AM. As a result of these PRC laws and regulations, our PRC subsidiaries and our PRC variable interest entities are restricted in their ability to transfer a portion of their net assets to us whether in the form of dividends, loans or advances.

Although none of Shenzhen AM, Xi'an AM or AM Technology has any present plan to pay any cash dividends to us in the foreseeable future any limitation on the ability of AM Technology, Shenzhen AM or Xi'an AM to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, or otherwise fund and conduct our business.

Changes in laws and regulations governing air travel advertising or otherwise affecting our business in China may result in substantial costs and diversion of resources and may materially and adversely affect our business prospects and results of operations.

There are no existing PRC laws or regulations that specifically define or regulate air travel advertising. It has been reported that the relevant PRC government authorities are currently considering adopting new regulations governing air travel advertising. We cannot predict the timing and effects of such new regulations. Changes in laws and regulations governing the content of air travel advertising, our business licenses or otherwise affecting our business in China may result in substantial costs and diversion of resources and may materially and adversely affect our business prospects and results of operations.

Risks Related to Doing Business in China

Adverse changes in the political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and have a material adverse effect on our competitive position.

Substantially all of our assets are located in China and substantially all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments of China. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the amount of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has experienced significant growth in the past decades, growth has been uneven both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may also have a negative effect on us. We cannot predict the future direction of political or economic reforms or the effects such measures may have on our business, financial position or results of operations. Any adverse change in the political or economic conditions in China, including changes in the policies of the PRC government or in laws and regulations in China, could have a material adverse effect on the overall economic growth of China and in the air travel advertising industry. Such developments could have a material adverse effect on our business, lead to a reduction in demand for our services and materially and adversely affect our competitive position.

Uncertainties with respect to the PRC legal system could limit the legal protections available to us or result in substantial costs and the diversion of resources and management attention.

We conduct our business primarily through AM Technology, Shenzhen AM and Xi'an AM, which are subject to PRC laws and regulations applicable to foreign investment in China and, in particular, laws applicable to

wholly-foreign owned companies. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and the enforcement of these laws, regulations and rules involve uncertainties, which may limit the legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management attention.

Fluctuations in the value of the Renminbi may have a material adverse effect on your investment.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the Renminbi has also fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar.

The reporting and functional currency of our Cayman Islands parent company is the U.S. dollar. However, substantially all of the revenues and expenses of our consolidated operating subsidiaries and affiliate entities are denominated in Renminbi. Substantially all of our sales contracts were denominated in Renminbi and substantially all of our costs and expenses is denominated in Renminbi. To the extent that we need to convert U.S. dollars into Renminbi for our operations, depreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of dividend distribution or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue which will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited so that we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

Restrictions on currency exchange may limit our ability to receive and use our revenues or financing effectively.

Substantially all of our revenues and expenses are denominated in RMB. If our RMB-denominated revenues increase or RMB-denominated expenses decrease in the future, we may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payments of dividends declared, if any, in respect of our ordinary shares or ADSs. Under China's existing foreign exchange regulations, Shenzhen AM, AM Technology and Xi'an AM are able to pay dividends in foreign currencies, without prior approval from State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by our subsidiary and variable interest entities in China under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. In particular, if we or other foreign lenders make foreign currency loans to our subsidiaries or variable interest entities in China, these loans must be registered with the SAFE, and if we finance them by means of additional capital contributions, these capital contributions must be approved or registered by certain government authorities including the SAFE, the Ministry of Commerce or

their local counterparts. These limitations could affect the ability of these entities to obtain foreign exchange through debt or equity financing, and could affect our business and financial condition.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and registration requirements for employee stock ownership plans or share option plans may subject our PRC resident beneficial owners or the plan participants to personal liability, limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

Current regulations promulgated by SAFE require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under the SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies, will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file or update the registration with the local branch of SAFE, with respect to that offshore company, any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. Moreover, the PRC subsidiaries of that offshore company are required to urge the PRC resident shareholders to update their SAFE registration with the local branch of SAFE when such updates are required under applicable SAFE regulations. If any PRC shareholder fails to make the required SAFE registration or file or update the registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, such as restrictions on distributing dividend to our offshore entities or pecuniary measures against us.

We cannot provide any assurances that all of our shareholders who are PRC residents will make or obtain any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth therein may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends or obtain foreign-exchange-dominated loans to our company.

As it is uncertain how the SAFE regulations will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, or the PBOC Regulation, setting forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the PBOC Regulation, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, PRC citizens who are granted stock options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures. We and our PRC employees who have been granted stock options are subject to the Stock Option Rule. 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. See "Item 4. Information on

the Company—B. Business Overview—Regulation—SAFE Regulations on Offshore Investment by PRC Residents and Employee Stock Options.”

The new M&A rule sets forth complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions.

On August 8, 2006, six PRC government and regulatory authorities, including the PRC Ministry of Commerce and the Chinese Securities Regulatory Commission, or the CSRC, promulgated a rule entitled “Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors,” or the New M&A Rule, which became effective on September 8, 2006. The New M&A Rule, among other things, sets forth complex procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Part of our growth strategy includes acquiring complementary businesses or assets. Complying with the requirements of the New M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit the completion of such transactions, which could affect our ability to expand our business or maintain our market share. In addition, if any of our acquisitions were subject to the New M&A Rule and were found not to be in compliance with the requirements of the New M&A Rule in the future, relevant PRC regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

Risks Related to Our ADSs

The trading price of our ADSs has been volatile.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. During the year of 2008, the trading prices of our ADSs on the Nasdaq ranged from US\$3.80 to US\$26.51 per ADS and the closing sale price on April 24, 2009 was US\$5.59 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors including the following:

- changes in the economic performance or market valuations of other advertising companies;
- actual or anticipated fluctuations in our quarterly operating results and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the air travel advertising industry;
- announcements of studies and reports relating to the circulation, ratings, audience, quality or effectiveness of our services or those of our competitors;
- announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital commitments;
- addition or departure of our senior management; and
- sales or perceived potential sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Additional sales of our ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. In addition, certain holders of our ordinary shares have the right to cause us to register the sale of a certain number of our shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends if it is impractical to make them available to you.

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We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depository bank will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to you.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties.

In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct a substantial portion of our operations in China and the majority of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands, and conduct a substantial portion of our operations in China through AM Technology, Shenzhen AM and Xi'an AM. A majority of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2007 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary responsibilities of our directors are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which provides persuasive, but not binding, authority. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

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As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our memorandum and articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

We have included certain provisions in our memorandum and articles of association that could limit the ability of others to acquire control of our company, and deprive our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

We have included the following provisions in our articles that may have the effect of delaying or preventing a change of control of our company:

- Our board of directors has the authority to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series, including the designation of the series, the number of shares of the series, the dividend rights, dividend rates, conversion rights, voting rights, and the rights and terms of redemption and liquidation preferences.
- Our board of directors may issue a series of preferred shares without action by our shareholders to the extent of available authorized but unissued preferred shares. Accordingly, the issuance of preferred shares may adversely affect the rights of the holders of the ordinary shares. Issuance of preference shares may dilute the voting power of holders of ordinary shares.
- Subject to applicable regulatory requirements, our board of directors may issue additional ordinary shares or rights to acquire ordinary shares without action by our shareholders to the extent of available authorized but unissued shares.

Our corporate actions are substantially controlled by our principal shareholder who could exert significant influence over important corporate matters, which may reduce the price of our ADSs and deprive you of an opportunity to receive a premium for your shares.

As of April 27, 2009, our principal shareholder, Herman Man Guo, beneficially owned approximately 41.8% of our outstanding ordinary shares. In addition, as of April 27, 2009, Global Gateway Investments Limited, a wholly-owned subsidiary of CDH China Growth Capital Management Company Limited, or CDH, beneficially owned approximately 19.9% of our outstanding ordinary shares. These shareholders, if acting together, could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders. In addition, these persons could divert business opportunities from us to themselves or others.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. Holders.

Based on the price of our ADSs and ordinary shares and the composition of our income and assets, we believe that we were not a “passive foreign investment company,” or PFIC, for United States federal income tax purposes for our taxable year ended December 31, 2008. However, the application of the PFIC rules is subject to ambiguity in several respects and, in addition, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2009 or any future taxable year. In particular, we believe that there is a significant risk that we will be a PFIC for our taxable year ending December 31, 2009 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce active income. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that

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produce or are held for the production of passive income. The value of our assets will be determined based on the market price of our ADSs, which is likely to fluctuate. In addition, the composition of our income and assets will be affected by how, and how quickly, we utilize the cash (or other passive assets or investments) we have on hand or raise in any offering. If we were treated as a PFIC for any taxable year during which a U.S. Holder held an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder. For example, if we are a PFIC, U.S. Holders will become subject to increased tax liabilities under U.S. tax laws and regulations with respect to any gain recognized or the sale of our ADSs or ordinary shares and certain distributions, and will become subject to burdensome reporting requirements. See “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are a Cayman Islands incorporated holding company that conducts operations through our subsidiaries, consolidated variable interest entities and the variable interest entities’ subsidiaries in China. We commenced operations in August 2005 in China through Shengshi Lianhe, a consolidated variable interest entity of our principal subsidiary, AM Technology. We established another wholly-owned subsidiary, Shenzhen AM, in June 2006 in China. In order to facilitate foreign investment in our company, we established an offshore holding company, Broad Cosmos Enterprises Limited, or Broad Cosmos, as a company registered in the British Virgin Islands in June 2006. To prepare for our initial public offering, we incorporated AirMedia Group Inc. in the Cayman Islands in April 2007 as our listing vehicle and as our holding company, followed by a share exchange between AirMedia Group Inc. and Broad Cosmos. As a result of the share exchange, AirMedia Group Inc. acquired 100% of the equity interests in Broad Cosmos, which in turn holds 100% of the equity interests in AM Technology and Shenzhen AM.

On November 13, 2007, we completed our initial public offering, in which, including the exercise of the over-allotment options, we issued and sold 13,500,000 ADSs, representing 27,000,000 of our ordinary shares, and certain of our then shareholders sold 3,750,000 ADSs, representing 7,500,000 of our ordinary shares, in each case at a public offering price of US\$15.00 per ADS. On November 7, 2007, we began trading our ADSs on the Nasdaq Global Market under the symbol “AMCN.”

In July 2008, we acquired our current airport gate bridge advertising business by purchasing all of the equity interest in Excel Lead and an 80% equity interest in Flying Dragon. The consideration for the acquisition of Excel Lead consisted of an initial cash consideration of US\$0.3 million and a contingent consideration to be determined based on the after-tax net profit performance of Excel Lead in the second half of 2008, the full year of 2009 and 2010, respectively, in an aggregate amount of up to US\$27.3 million in cash and 1,530,950 of our ordinary shares, or up to US\$40.3 million in cash only, at the sole discretion of the sellers of Excel Lead. In 2008, we paid a total of US\$6.6 million to the sellers of Excel Lead, including the US\$0.3 million initial cash consideration and a US\$6.3 million advance payment of the contingent consideration. In addition, we paid US\$1.5 million in cash for the acquisition of the 80% equity interest in Flying Dragon in 2008.

Our principal executive offices are located at 17/F, Sky Plaza, No. 46 Dongzhimenwai Street, Dongcheng District, Beijing 100027, People’s Republic of China. Our telephone number at this address is +86-10-8438-6868 and our fax number is +86-10-8460-8658. Our registered office in the Cayman Islands is P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. Our telephone number at this address is +1-345-949-8066.

B. Business Overview

Overview

We operate the largest digital media network in China dedicated to air travel advertising. We believe we have the leading market share of digital frames in airports in China. We operate over 95% of the digital TV screens that display advertisements in the 15 largest airports in China, according to the Sinomonitor report. The advertising portion of our programs accounts for over 80% of the total length of the advertisements played on the digital TV screens for each of the three largest airlines in China. As of March 1, 2009, we operated 2,428 digital frames and 2,752 digital TV screens in airports and place our programs on 49,482 digital TV screens on airplanes. Due to PRC regulatory restrictions on foreign ownership of advertising businesses in China, we operate our advertising business through our consolidated variable interest entities and their subsidiaries in China. We have a series of contractual arrangements with these variable interest entities and their record owners that enable us to effectively control and derive substantially all of the economic benefits from these variable interest entities.

Currently, we have contractual concession rights to operate digital frames in 26 airports in China. As of March 1, 2009, we operated 2,428 digital frames in 22 airports. We plan to gradually roll out our digital frame operations in the additional four airports and intend to significantly increase the number of digital frames in our network. As of March 1, 2009, we had contractual concession rights to operate digital TV screens in 51 airports, including all of the 30 largest airports in China. As of March 1, 2009, our digital TV screens were located in 41 airports in China, including the five largest airports, Beijing Capital International Airport,

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Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao International Airport and Shenzhen International Airport. In addition, we have contractual concession rights to place our programs on the routes operated by 10 airlines, including the three largest airlines in China, China Southern Airlines, China Eastern Airlines and Air China. We are also currently the sole sales agent in mainland China to sell advertisements on both the international and domestic routes operated by Dragonair and Cathay Pacific Airways.

In July 2008, we expanded into the traditional air travel advertising market through acquisition of an airport gate bridge advertising business. As a result, we have obtained the contractual concession rights to place advertisements on gate bridges located in 10 major airports in China. Our advertisements on gate bridges include billboard advertisements on interior walls of gate bridges and painted advertisements on exterior walls of gate bridges. As of March 1, 2009, we placed 2,806 billboard advertisements on 134 gate bridges located in 10 major airports in China, including Terminals 1 and 2 of Beijing Capital International Airport and Guangzhou Baiyun International Airport; and we placed painted advertisements on 46 gate bridges located in 10 major airports in China.

In addition, in March 2009, we obtained the contractual concession rights to operate various traditional advertising media including billboards, light boxes and other formats in Beijing Capital International Airport and light boxes in Shenzhen International Airport. We will continue to acquire new media platforms to provide a broader range of advertising opportunities for our clients and to become a one-stop provider for air travel advertising.

Air travel advertising in China has experienced significant growth in recent years as a result of growth in China's advertising market and air travel sector. By focusing on air travel advertising, we enable our advertising clients to target air travelers in China, who we believe are an attractive demographic for advertisers due to their higher-than-average disposable income. We strategically place our digital frames and digital TV screens and other displays in high-traffic locations of airports, particularly in areas where there tend to be significant waiting time, such as departure halls, security check areas, boarding gates, baggage claim areas and arrival halls. In addition, the digital TV screens on our network airplanes are located in highly visible locations in passenger compartments and on the back of passenger seats. Furthermore, gate bridges connect terminal gates with airplanes. They are the areas through which every air passenger must pass before and after he or she boards airplanes. Our combined coverage in airports and on airplanes enables our programs to attract air travelers at multiple points during their travel experience, from check-in, boarding, flight time, to arrival.

We combine advertising content with non-advertising content, such as news, weather, sports and comedy clips, in our digital TV screen programs. We have agreements to show documentary clips provided by China International TV Corporation in airports and on airplanes. We also obtain program clips such as "Home Video Heroes" and "Globe Trekker" from other third-party content providers. We believe this makes air travelers more receptive to the advertisements included in our programs and ultimately makes our programs more effective for our advertising clients. Our standard programs in airports currently include 25 minutes of advertising content during each hour of programming and are shown for approximately 16 hours per day. The length of our in-flight programs typically ranges from approximately 45 minutes to an hour per flight, approximately five to 13 minutes of which consist of advertising content.

We derive revenues principally by selling advertising time slots on our network to our advertising clients, including both direct advertisers and advertising agencies. Since commencing operations in August 2005 to December 31, 2008, a total of 439 advertisers have purchased advertising time slots on our network. Our advertisers consist of international and domestic brands. Our top fifteen advertisers for 2008 in alphabetical order included China Mobile, China Unicom, Dragon Bay Villa, GE, Great Wall Wine, Haier, Hitachi, HSBC, Land Rover, Lexus, Mengniu Dairy, Nissan, Samsung, Toyota and Vodone.com., which collectively accounted for 43.9% of our revenues for 2008.

We have grown rapidly since we commenced operations. The number of airports and airlines in which we operated and the number of digital TV screens operating in our network increased from 16, six and 12,385 as of December 31, 2005 to 41, nine and 52,336 as of December 31, 2008, respectively. Our net revenues increased from US\$17.9 million in 2006 to US\$119.4 million in 2008, representing a compound annual growth rate of 158.3%. In 2008, we achieved a net income of US\$30.2 million.

Advertising Services

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We generate revenues from advertising services at the following platforms: digital frames in airports, digital TV screens in airports and on airplanes, billboards and painted advertisements on gate bridges in airports and other displays in airports, such as traditional advertising displays and light boxes.

Digital Frames in Airports

We own and operate a network of digital frames, strategically placed in areas of airports such as departure halls, terminals and arrival halls, where most of the air travelers congregate and spend significant time waiting. Our digital frames are high-definition LCD screens that change digital picture displays every 12 seconds. Our digital frames include standalone digital frames and TV-attached digital frames. Standalone digital frames display advertisements on vertical or horizontal display panels and all of our standalone digital frames were newly installed in our network airports, in sizes from 63 to 82 inches. TV-attached digital frames consist of a vertical digital frame beneath a digital TV screen and most of our TV-attached digital frames were upgraded from light boxes, in sizes ranging from 46 to 50 inches. As of March 1, 2009, we operated 2,428 digital frames in 22 airports, 698 of which were standalone digital frames, and 1,730 of which were TV-attached digital frames. Our digital frames play advertising content repeatedly in ten-minute cycles.

We believe digital frames provide an effective advertising platform to our advertising clients. We sell our advertisements on digital frames in one-week units which affords scheduling flexibility and cost-effectiveness to our clients. In addition, as our digital frames are located in both domestic and international terminals in a number of airports, our clients can choose to place their advertisements in domestic terminals only, international terminals only or a mix of domestic and international terminals. This flexibility in terms of location selection provides our clients with the ability to tailor their advertisement packages to effectively attract their target audiences. We also continue to diversify the arrangement and placement of our digital frames to offer enhanced visual effects. For example, in Guangzhou International Airport we put our digital frames in sets of two or three screens together as a group. An advertisement can be displayed in one picture on multiple screens to better attract air travelers' attention.

We began placing clients' advertisements on 46-inch digital frames upgraded from light box displays at Terminal 2 of Beijing Capital International Airport in December 2007. The new digital frames at Terminal 3 began displaying paid advertisements at the end of February 2008. We started selling advertisements on digital frames in five additional airports in April 2008 and another seven airports in early May 2008. We intend to significantly increase the number of our digital frames in the near future.

Digital TV Screens in Airports

As of March 1, 2009, we operated 2,752 digital TV screens in 41 airports in China and had entered into concession rights contracts to operate digital TV screens in 51 airports in China. The 41 airports in which we operate digital TV screens accounted for approximately 95.0% of the total air travelers in China in 2008 according to CAAC.

Our most common form of digital advertising in airports is closed-circuit television displays. We strategically place our digital TV screens in high-traffic areas of airports such as departure halls, security check areas, boarding gates, baggage claim areas and arrival halls, where there tend to be significant waiting time. A majority of our standard digital TV screens are 42-inch plasma display panels, or PDPs, or liquid crystal displays, or LCDs.

Our airport programs consist of advertising and non-advertising content and are played for approximately 16 hours per day. Our non-advertising content is played in two-hour cycles, during which our advertising content is repeated hourly. During each hour, 25 minutes of the program consists of advertising content provided to us by our advertising clients and the rest of the program consists of non-advertising content such as sports and entertainment content provided by third-party content providers. In addition to the separate advertising messages or videos, which are updated weekly, we promote the brand names of our advertising clients by naming our programs after their brand names. The non-advertising content consists of humor clips such as "The World's Funniest Home Videos," sports clips such as soccer, basketball and extreme sports, movie previews and interviews with celebrities, as well as the latest world fashion shows provided by Fashion TV. These programs are generally updated monthly, with the programs in Shanghai Pudong and Hongqiao airports updated weekly.

In addition to the traditional displays, some of our major network airports also have feature displays such as:

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- *Mega display screens.* In both the departure hall and the arrival hall of the Beijing Capital International Airport, we have placed four LED mega display screens with a size of nine square meters each, featuring large viewing angles and high resolution images. We have also placed one LED mega display screen of 22 square meters in Guangzhou Baiyun International Airport.
- *Shuttle bus displays.* We have placed 252 digital TV screens on 104 airport shuttle buses operated by the largest five airports to transport air passengers.

We will seek to expand our use of these applications and develop other technically advanced display platforms to other airports in our network in the future.

Digital TV Screens on Airplanes

As of March 1, 2009, our programs were placed on 49,482 digital TV screens on over 2,300 routes of 10 airlines. The displays on our network airplanes, which have been installed by aircraft manufacturers, are located at the top of passenger compartments and on the back of passenger seats. The digital TV screens at the top of passenger compartments typically range from 14 inches to 50 inches in size and there are approximately 10 to 300 on each plane. The display screens on the back of passenger seats typically range from seven inches to nine inches in size, depending on the class of the passenger seating area, and typically there is a display screen behind each passenger seat.

Our airplane display programs are played once for approximately 45 minutes to an hour per flight. Approximately five to 13 minutes of each program consists of advertising content provided to us by our advertising clients and the rest of the program consists of non-advertising content. The non-advertising content on our planes includes the latest domestic and international news, market updates and sports snapshots and other content similar to that shown on our airport programs. We also promote brand names of our advertising clients through our programs by naming our programs after their brand names or displaying their logos on the corner of the screens during the programs. We have obtained rights from film production companies to play blockbuster films on airplanes in our network.

As most of the airplanes on which our programs are played use video tape or DVD players to play video messages and most of these airplanes only have one video tape or DVD playing unit, passengers are not typically given a selection of channels.

Billboards and Painted Advertisement on Gates Bridges in Airports

In July 2008, we acquired a business selling advertisements on gate bridges in airports. As a result, we have obtained the contractual concession rights to place advertisements on gate bridges located in 10 major airports in China. The addition of gate bridges to our air travel advertising network has diversified our media resources to include billboard and painted advertisements.

Our advertisements on gate bridges in airports includes billboard advertisements on interior walls of gate bridges and painted advertisements on exterior walls of gate bridges. Our billboard advertisements measure 0.6 meter by 0.9 meter in size. As of March 1, 2009, we placed 2,806 billboard advertisements on 134 gate bridges located in 10 major airports in China, including Terminals 1 and 2 of Beijing Capital International Airport and Guangzhou Baiyun International Airport. As of March 1, 2009, we placed painted advertisements on 46 gate bridges located in 10 major airports in China.

Other Displays

In March 2009, we entered into a concession rights contract with Beijing Capital International Airport to operate traditional advertising formats including billboards, light boxes and other formats in 376 locations in Terminals 1, 2, and 3 of Beijing Capital International Airport. We started operating in most of these 376 locations in April 2009. We also entered into a concession rights contract with Shenzhen International Airport to operate 90 light boxes in the arrival walkways of Terminals A and B of Shenzhen International Airport. We started operating light boxes in most of these 90 locations in April 2009.

Light box advertisements are static poster advertisements illuminated with back lighting and set underneath our digital TV screens. As of March 1, 2009, we operated 292 light boxes in 17 airports. We will

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upgrade 128 of these static light boxes to 46-inch digital frame displays that will run advertisements across a ten-minute cycle.

We also have digital TV screens on top of newspaper racks. In Guangzhou Baiyun International Airport and Shenzhen International Airport, we have placed 50 14-inch digital TV screens on top of newspaper racks, which play advertising content repeatedly in 20-minute cycles.

Advertising Network

Airports

As of December 31, 2008, we had entered into 104 concession rights contracts to operate our digital frames, digital TV screens and other displays in 51 airports in China, covering substantially all of the major airports in China. Our air travel advertising network currently includes 41 airports in China, including the five largest airports in China, Beijing Capital International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao International Airport and Shenzhen International Airport, where we have placed and operated an aggregate of 828 digital frames and 1,077 digital TV screens. We derived more than 55.8% of our total revenue in 2008 from these five airports and we believe advertising in other airports in our network will further drive the increase of our revenues.

As of December 31, 2008, 57 out of these 104 concession rights contracts to operate in airports contained provisions granting us exclusive concession rights. The scope of the exclusivity, however, varies from contract to contract. Most of these exclusivity provisions limit the exclusivity to certain areas of an airport. For example, our contract with Guangzhou Baiyun International Airport granted us the exclusive right to operate all the closed-circuit displays located in the domestic and international arrival and departure areas.

We also have concession rights contracts to place advertisements on gate bridges or operate other displays, such as billboards and light box displays. For example, we have concession rights to place advertisements on gate bridges located in 10 major airports in mainland China, including Beijing Capital International Airport and Guangzhou Baiyun International Airport.

Most of the concession fees are fixed under the concession rights contracts with escalation, meaning fixed increases over each year of the agreement, and payments are usually due three or six months in advance. The concession fee that we pay for operation in each airport varies by its passenger volume and the city where the airport is located. As part of the value added service to our network airports, we provide up to 10% of the non-advertising content at the request of the network airports to provide displays of flight and airport information on our digital TV screens without charging the airports any fee. A majority of our concession rights contracts for our digital frames and digital TV screens in the airports have terms ranging from three to five years without any automatic renewal provisions. However, under some agreements we can opt to renew the agreements three or five months before the expiration of certain concession rights contracts, on the condition that we renew on similar commercial terms as those proposed by any third party. As of December 31, 2008, 43 out of 104 of our concession rights contracts to operate in airports would be subject to renewal by the end of 2010, including the concession rights contracts to operate in the four major airports in Beijing, Shanghai and Shenzhen. The number of displays and placement locations are explicitly specified in the majority of our concession rights contracts. As of December 31, 2008, five out of seven of our gate bridge concession rights contracts would be subject to renewal by the end of 2010.

Airlines

Our programs are currently placed on over 49,400 digital TV screens located on over 2,300 routes operated by the following 10 airlines:

- China Southern Airlines
- China Eastern Airlines
- Air China
- Shanghai Airlines

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- Shenzhen Airlines
- Air Macau
- Xiamen Airlines
- United Eagle Airlines
- East Star Airlines
- China United Airlines

Among the 13 concession rights contracts we had entered into to place our programs on these network airlines as of December 31, 2008, 11 concession rights contracts contained provisions granting us exclusive concession rights. The scope of the exclusivity, however, varies from contract to contract. Most of these exclusivity provisions limit the exclusivity to certain types of programs played on airplanes. For example, our concession rights contract for our programs on Air China granted us the exclusive right to operate the *Air Panorama* program, including both advertising and non-advertising content, that is played on all routes operated by Air China and we have the exclusive right to operate the *Eastern Airlines Entertainment* program under our concession rights contracts for our programs on China Eastern Airlines. Most of the concession fees are fixed under the concession rights contracts with an escalation clause, varying by the number of routes and airplanes, type of aircraft and the departure and destination cities. Some of the concession rights contracts set forth the number and model of airplanes on which our programs can be played. As of December 31, 2008, nine out of 13 of our concession rights contracts to operate on airlines would be subject to renewal by the end of 2010.

In March 2008, we entered into an agreement with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, to establish a joint venture, Beijing Eastern Media Corporation, Ltd., or BEMC. China Eastern Media Corporation holds 51% stake of BEMC and we hold the remaining 49% stake. BEMC obtained concession rights of certain media resources from its shareholders, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. The operation period of the joint venture is currently fixed at 50 years. Although we do not expect this joint venture to materially change our currently effective concession rights contracts with and our existing operations on China Eastern Airlines, we believe this innovative strategic partnership will further strengthen our relationship with China Eastern Group and help retain our contractual concession rights to operate our programs on China Eastern Airlines in the future. Going forward we intend to operate additional media resources other than digital TV screens that will be obtained by this joint venture, including other existing media resources of China Eastern Airlines and new media resources to be developed through cooperative efforts by China Eastern Airlines and us. BEMC did not generate any revenue from third parties in 2008.

In August 2008, we entered into an exclusive agency agreement to be the sole sales agent in mainland China to sell advertisements on both international and domestic routes operated by Dragonair and Cathay Pacific Airways from August 2008 to December 31, 2010. According to the agreement, we would earn commissions by selling advertisements on routes operated by Dragonair and Cathay Pacific Airways to advertisers. There was no revenue contribution from this new agency commission model in 2008.

Advertising Clients, Sales and Marketing

Our Advertising Clients

Advertisers purchase advertising time slots on our advertising network either directly or through advertising agencies. Many advertisers negotiate the terms of the advertising purchase agreements directly with us. We rely on advertising agency clients for a significant portion of our sales. Our advertisers consist of international and domestic brands. From the commencement of our operations in August 2005 to December 31, 2008, a total of 439 advertisers have purchased advertising time slots on our network, 251 of which purchased advertisements on our network directly and 188 of which purchased advertisements through advertising agencies. Our top fifteen advertisers for 2008 in alphabetical order included China Mobile, China Unicom, Dragon Bay Villa, GE, Great Wall Wine, Haier, Hitachi, HSBC, Land Rover, Lexus, Mengniu Dairy, Nissan, Samsung, Toyota and Vodone.com., which collectively accounted for 43.9% of our revenues in 2008.

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We have a broad base of international and domestic advertisers in various industries. In 2008, the top three industries which advertise on our network were automobile, electric appliances and food, tobacco and wines, based on revenues derived from companies in these industries. Advertising for the automobile industry, the electric appliances industry and the food, tobacco and wines industry accounted for approximately 26.4%, 19.6% and 13.6% of our total revenues in 2008, respectively.

We offer advertisers 12-second time slots of advertising on digital frames and five-, 15- or 30-second time slots of advertising on digital TV screens in our network. Our sales are made pursuant to written contracts with commitments ranging from one week to several months. The sales contracts typically fix the duration, time and frequency of advertisements. Payments under the certain sales contracts are subject to our clients' receipt of monitoring reports which verify the proper display of the advertisements. We generally require our clients to submit advertising content at least seven days prior to the campaign start date. We also reserve the right to refuse to display advertisements that are not in compliance with content requirements under PRC laws and regulations.

For the period from August 7, 2005, the date we commenced operations, to December 31, 2005, Shanghai Volkswagen and Mengniu Dairy accounted for 15.5% and 10.8% of our total revenues, respectively. No single advertising client accounted for more than 10% of our total revenues for 2006, 2007 and 2008.

Sales and Marketing

We provide a number of services in connection with each client's advertising campaign. We rely on our experienced sales team to assist advertisers in structuring advertising campaigns by analyzing advertisers' target audiences and consumer products and services. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for internal use to help our advertisers to create effective advertisements. We also purchase or commission studies containing relevant market study data from third-party market research firms such as Sinomonitor. We typically consult such studies to assist us in evaluating the effectiveness of our network to our advertising clients and to illustrate to our clients our ability to reach targeted demographic groups effectively.

Our experienced advertising sales team is organized by region and city with presence in 21 cities. Our regional marketing managers have an average of seven years of experience in the advertising industry in China. The members of our current sales team have an average of four years of sales experience in the advertising industry. We provide in-house education and training to our sales force to ensure they provide our current and prospective clients with comprehensive information about our services, the advantages of using our air travel advertising network as a marketing channel, and relevant information regarding the advertising industry. Our performance-linked compensation structure and career-oriented training are key drivers that motivate our sales employees.

We actively attend various public relation events to promote our brand image and the value of air travel digital advertising. We also market our advertising services by displaying our name and logo on all of our digital TV screens and by placing advertisements on third-party media from time to time, including CCTV.

We engage third-party agencies to help source advertising clients. Agency fees are calculated based on a pre-set percentage of revenues generated from the clients introduced to us by the agencies.

Pricing

The listing prices of our advertising services vary by the size of the airport or airline in which the advertisement is placed, the demand of advertising services for each airport and airlines, as well as by the number of time slots purchased. Prices for advertisements on our network are fixed under our sales contracts with advertisers or advertising agency clients, typically at a discount to our listing prices. We increased our listing prices in April 2007, October 2007 and January 2008, and going forward we plan to review our listing prices periodically.

Programming

Our digital frames in airports play advertising content repeatedly in ten-minute cycles throughout the day. We compile each cycle from advertisements of 12-seconds in length provided by advertisers to us. We generally update the contents displayed on our digital frames on a weekly basis.

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A majority of our digital TV screens in airports play programs in a two-hour cycle repeatedly throughout the day and our digital TV screens on our network airplanes play programs ranging from 45 minutes to one hour once per flight. We compile each cycle from advertisements of five-, 15- or 30-seconds in length provided by advertisers to us and from non-advertising content provided by third-party content providers. We generally create a programming list on a weekly and monthly basis for programs played in airports and on airlines, respectively, by first fixing the schedule for advertising content according to the respective sales contract with our clients to guarantee the agreed duration, time and frequency of advertisements. We then add the non-advertising content to achieve an optimal blend of advertising and non-advertising content.

Substantially all of the advertising content on our network is provided by our advertising clients. All of the advertising content displayed on the portion of the network we operate directly is reviewed by qualified members of our staff to ensure compliance with PRC laws and regulations. See “—Regulation—Regulation of Advertising Services—Advertising Content.” We update advertising content for our programs played on the digital TV screens in our network airports and airplanes on a weekly and monthly basis, respectively. Substantially all of the non-advertising content played over our network is provided by third-party content providers such as China International TV Corporation and various local television stations and television production companies.

In March 2008, we established a strategic partnership with Shanghai Media Group, or SMG, the second largest comprehensive media group in China, to provide TV programs to air travelers. According to the agreement with WingsMedia, a wholly-owned subsidiary of SMG, we obtained the exclusive right to show selected news, theme programs and documentary clips provided by SMG in airports and on airplanes of our network from March 2008 to February 2010. We have also entered into program purchase agreements with various television production companies to acquire the right to play certain of their programs on our network at fixed prices.

Our programming team edits, compiles and records into digital format all of our network programs according to the programming list. Each programming list and pre-recorded program is carefully reviewed by the head of the execution team to ensure the accuracy of the order, duration and frequency as well as the appropriateness of the content.

Airports

For content displayed on digital frames in our network airports, our programming team edits the content received from the advertisers into JPG files or Adobe flash files and delivers them to the display control panel in each of our network airports through CDMA wireless network, which in turn transmits the contents to each digital frame through Wi-Fi Alliance local wireless network. For the programs played on our digital TV screens in our network airports, our programming team converts content to a MPEG file and delivers it to the local execution teams in our network airports nationwide. The local execution team uploads the MPEG file to the local servers in each network airport, which transmits the pre-recorded programs to each digital TV screen through the closed-circuit television system in the airport. In each airport, we either use the closed-circuit television systems provided by the airport or install our own systems. The more technically advanced systems used in eight airports, including Beijing, Shanghai, Guangzhou and Shenzhen, enable us to simultaneously monitor digital TV screens from our headquarters in Beijing.

Airplanes

Most of the network airplanes use video tape players to show video programs while others use DVD players or digital format data players. Our programming team converts the content from digital format to video tapes and mails a master video tape to each airline on a monthly or weekly basis. For airlines that display news programs, we transfer edited news and advertising contents in digital format to airlines on a daily basis through secured online services. Airlines generally review the pre-recorded programs that we provide before duplicating and distributing the video tapes to each airplane. Flight attendants on each airplane are responsible for the daily operation of our programs on the airplane digital TV screens.

Display Equipment Supplies and Maintenance

The primary hardware required for the operation of our network are the digital frames and digital TV screens that we use in our media network. Our digital frames are flat-panel LCD displays. The majority of our

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digital TV screens consist of PDPs and LCDs. Maintaining a steady supply of our display equipment is important to our operations and the growth of our network. The top five suppliers of our digital frames were Samsung, Haier, HPC, Sharp and Hitachi as of December 31, 2008, which collectively provided 100% of our total digital frames. As of December 31, 2008 the top three suppliers of our digital TV screens were Hitachi, Haier and Konka, which collectively provided 99.9% of our total digital TV screens. Our digital frame suppliers typically provide us with one- to two-year warranties while our TV screen suppliers typically provide us with one-year warranties.

Approximately 2.1% of our digital TV screen purchases in 2008 were made through barter transactions, which means we provided advertising time slots to the digital TV screen manufacturers in exchange for the digital TV screens. Such barter transactions are based on our determination of the fair value of the advertising time slots exchanged for digital TV screens.

Our service team cleans, maintains and monitors digital frames, digital TV screens and other displays in our network airports on a daily basis. We have engaged two to four skilled maintenance staff for each network airport to make five scheduled inspections on our displays every day. They report any technical problems that they cannot solve on-site to our technicians in Beijing who strive to remotely analyze and fix problems within 12 hours.

Customer Service

Our customer service team is responsible for compiling monitoring reports to clients as evidence that their advertisements are played on our network within one week after launching the advertising campaign. We also provide our advertising clients with weekly reports prepared by third parties, which verify the proper functioning of our displays and the proper dissemination of the advertisement by conducting on-site evaluations and polls to analyze the effectiveness of and public reaction to the advertisement. In addition, our network airports and airlines are also actively involved in the monitoring process and provide our clients with stamped certificates certifying the playing of the advertisements.

Competition

We compete primarily with several different groups of competitors:

- advertising companies that operate airport advertising networks, such as JC Decaux, and out-of-home digital advertising networks beyond the air travel sector, such as Focus Media;
- in-house advertising companies of airports and airlines that may operate their own advertising networks; and
- other advertising media companies, such as Internet, street furniture displays, billboard and public transport advertising companies, and with traditional advertising media, such as newspapers, television, magazines and radio, some of which may advertise in the airports in which we have exclusive contract rights to operate digital TV screens.

We compete for advertising clients primarily on the basis of network size and coverage, location, price, quality of our programs, the range of services that we offer and our brand recognition. Many of our competitors have a variety of competitive advantages over us, such as larger resources. Many competitors have a longer history than us in the out-of-home advertising industry and may have a more extensive network that extends beyond the air travel sector and offers a more diversified portfolio. This may make their network more attractive to advertising clients and less reliant on a particular advertising sector. In addition, we may also face competition from new entrants into the air travel advertising sector in the future.

Intellectual Property

To protect our brand and other intellectual property, we rely on a combination of trademark and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. We are in the process of registering three trademarks in China, including “航美传媒,” “AirMedia” and our business logo. We have registered our domain name www.AirMedia.net.cn with the Internet Corporation for Assigned Names and Numbers. We do not hold any patents or copyrights and cannot be certain that our efforts

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to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights.

Legal Proceedings

We are currently not a party to any material legal proceeding. From time to time, however, we may be subject to various claims and legal actions arising in the ordinary course of business.

Regulation

We operate our business in China under a legal regime consisting of the State Council, which is the highest authority of the executive branch of the National People's Congress, and several ministries and agencies under its authority including the SAIC.

China's Advertising Law was promulgated in 1994. In addition, the State Council, SAIC and other ministries and agencies have issued regulations that regulate our business, all of which are discussed below.

Limitations on Foreign Ownership in the Advertising Industry

The principal regulations governing foreign ownership in the advertising industry in China include:

- The Administrative Regulations on Foreign-invested Advertising Enterprises (as amended in 2008); and
- Foreign Investment Industrial Guidance Catalogue (as amended in 2007).

On October 31, 2007, the Ministry of Commerce and National Development and Reform Commission jointly issued and amended *Foreign Investment Industrial Guidance Catalogue*, effective since December 1, 2007. According to the *Provisions on Guiding the Orientation of Foreign Investment* which became effective on April 1, 2002, foreign investment projects are divided into four categories: encouraged, permitted, restricted and prohibited. The foreign investment projects that are encouraged, restricted and prohibited shall be listed in the *Foreign Investment Industrial Guidance Catalogue*. The foreign investment projects that do not fall into the categories of encouraged, restricted or prohibited projects shall be the permitted foreign investment projects. The permitted foreign investments projects shall not be listed in the *Foreign Investment Industrial Guidance Catalogue*. Applicable regulations and approval requirements vary based on the different categories. Investments in the PRC by foreign investors through wholly foreign-owned enterprises must be in compliance with the applicable regulations, and such foreign investors must obtain governmental approvals as required by these regulations. Since the advertising industry is not listed in the *Foreign Investment Industrial Guidance Catalogue*, it falls into the permitted foreign investment category.

The Administrative Regulations on Foreign-invested Advertising Enterprises require foreign entities that directly invest in the advertising industry to have at least two years of direct operations in the advertising industry outside of China. Since December 10, 2005, foreign investors have been permitted to directly own a 100% interest in advertising companies in China, but must also have at least three years of direct operations in the advertising industry outside of China. PRC laws and regulations do not permit the transfer of any approvals, licenses or permits, including business licenses containing a scope of business that permits engaging in the advertising industry. In the event we are permitted to acquire the equity interests of our variable interest entities under the rules allowing for complete foreign ownership, our variable interest entities would continue to hold the required advertising licenses consistent with current regulatory requirements.

Since we have not been involved in advertising outside of China for the required number of years, our domestic PRC operating subsidiaries are currently ineligible to apply for the required advertising services licenses in China. Our advertising business is currently mainly provided through our contractual arrangements with our consolidated variable interest entities in China, including AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang. Our variable interest entities are the major companies through which we provide advertising services in China. Our subsidiary, AM Technology, has entered into a series of contractual arrangements with our PRC operating affiliates and their respective subsidiaries and shareholders under which:

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- we are able to exert effective control over our PRC operating affiliates and their respective subsidiaries;
- a substantial portion of the economic benefits of our PRC operating affiliates and their respective subsidiaries are transferred to us; and
- we have an exclusive option to purchase all of the equity interests in our PRC operating affiliates in each case when and to the extent permitted by PRC law.

See “Item 4. Information on the Company—C. Organizational Structure” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions.”

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel:

- the respective ownership structures of AM Technology and our consolidated variable interest entities are in compliance with existing PRC laws and regulations;
- the contractual arrangements among AM Technology and our consolidated variable interest entities, in each case governed by PRC law, are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and
- except for the SAIC outdoor advertising registrations and the SARFT approval for our non-advertising content, the PRC business operations of our variable interest entities as described in this annual report are in compliance with existing PRC laws and regulations in all material respects.

We have been advised by our PRC legal counsel, however, that there are some uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities, in particular the SAIC (which regulates advertising companies), will not in the future take a view that is contrary to the opinion of our PRC legal counsel. We have been further advised by our PRC counsel that if the PRC government determines that the agreements establishing the structure for operating our PRC advertising business do not comply with PRC government restrictions on foreign investment in the advertising industry, we could be subject to severe penalties. See “Item 3. Key Information—D. Risk Factors—Risks Related to Regulation of Our Business and to Our Structure—If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry and in the operating of non-advertising content, we could be subject to severe penalties.”

Regulation of Advertising Services

Business License for Advertising Companies

The principal regulations governing advertising businesses in China include:

- The Advertising Law (1994);
- The Advertising Administrative Regulations (1987); and
- The Implementing Rules for the Advertising Administrative Regulations (2004).

These regulations stipulate that companies that engage in advertising activities must obtain from the SAIC or its local branches a business license which specifically includes within its scope the operation of an advertising business. Companies conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation. We do not expect to encounter any difficulties in maintaining our business licenses. Each of our variable interest entities has obtained such a business license from the local branches of the SAIC as required by existing PRC regulations.

Advertising Content

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, 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 also prohibited. The dissemination of tobacco advertisements via media is also prohibited as well as the display of tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. 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 advertised through radio, film, television, newspaper, magazine, out-of-home and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws and administrative regulations, must be submitted to the relevant administrative authorities for content approval prior to dissemination. We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements displayed on our network.

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 are true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the prescribed supporting documents provided by advertisers for advertisements and verify that the content of the advertisements comply with applicable PRC laws and regulations. In addition, prior to distributing advertisements for certain commodities which are subject to government censorship and approval, advertising distributors are obligated to ensure 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 advertising business operations. Furthermore, advertisers, advertising operators 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.

Outdoor Advertising

The Advertising Law stipulates that the exhibition and display of outdoor advertisements must not:

- utilize traffic safety facilities and traffic signs;
- impede the use of public facilities, traffic safety facilities and traffic signs;
- obstruct commercial and public activities or create an unpleasant sight in urban areas;
- be placed in restrictive areas near government offices, cultural landmarks or historical or scenic sites; or
- be placed in areas prohibited by the local governments from having outdoor advertisements.

In addition to the Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998 and May 22, 2006, respectively, which governs the outdoor advertising industry in China.

Outdoor advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue an Outdoor Advertising Registration Certificate for such advertisement. The content, format, specifications, periods and locations of dissemination of the outdoor advertisement must be submitted for filing with the local SAIC. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If advertising registration certificates are not obtained for our airport advertising operations where such

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registration certificates are deemed to be required, we may be subject to administrative sanctions, including the discontinuation of our advertisements at airports where the required advertising registration is not obtained.”

In addition, according to the SARFT Circular dated December 6, 2007, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT. The relevant authority in China has not promulgated any implementation rules on the procedure of applying for the requisite approval pursuant to the SARFT Circular. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to obtain approvals for including non-advertising content in our programs, we may be unable to continue to include such non-advertising content in our programs, which may cause our revenues to decline and our business and prospects to deteriorate.”

Regulations on Foreign Exchange

Foreign exchange regulation in China is primarily governed by the following rules:

- Foreign Currency Administration Rules (1996), as amended, or the Exchange Rules; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Under the Exchange Rules, the RMB is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of RMB for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the SAFE or its qualified local branches.

Under the Administration Rules, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, including approval by the Ministry of Commerce, the SAFE and the State Development and Reform Commission or their respective qualified local branches.

Regulations on Dividend Distribution

The principal regulations governing dividend distributions of wholly foreign-owned companies include:

- Wholly Foreign-Owned Enterprise Law (1986), as amended;
- Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended; and
- The Enterprise Income Tax Law (2007) and its Implementation Regulations (2007).

Under these regulations, wholly foreign-owned companies in the PRC may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards. The distribution of dividends by a wholly foreign-owned enterprise out of China is subject to examination by banks designated by the SAFE. In addition, based on PRC accounting standards, these wholly foreign-owned companies are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain statutory reserve funds. A company is required to set aside its profits to fund the reserve until its cumulative total reserve fund is equal to at least 50% of the company’s registered capital. At the discretion of these wholly foreign-owned companies, they may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

In addition, under the new PRC enterprise income tax law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises will be subject to a 10% withholding tax unless any such foreign investor’s jurisdiction of

incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, where our wholly owned subsidiary and the 100% shareholder of Shenzhen AM is incorporated, does not have such a tax treaty with China. Air Media (China) Limited, the 100% shareholder of AM Technology, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). The new PRC tax law provides, however, dividends distributed between qualified resident enterprises are exempted. According to the Implementation Regulations of the Enterprise Income Tax Law, the qualified dividend and profit distribution from equity investment between resident enterprises shall refer to investment income derived by a resident enterprise from the direct investment in other resident enterprises with exception to the investment income from circulating stocks issued publicly by resident enterprises and traded on stock exchanges where the holding period is less than 12 months. As the term “resident enterprises” needs further clarification and interpretation, we cannot assure you that the dividends distributed by Shenzhen AM, AM Technology and Xi’an AM to their direct shareholders would be regarded as dividends distributed between qualified resident enterprises, and be exempted from the EIT. See “Item 3. Key Information — D. Risk Factors — Risks Related to our Business—Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income and dividends distributed to our investors may be subject to PRC withholding taxes under the new PRC tax law.”

SAFE Regulations on Offshore Investment by PRC Residents and Employee Stock Options

SAFE issued a public notice in January 2005 concerning foreign exchange regulations on mergers and acquisitions in China. The public notice stated that if an offshore company controlled by PRC residents intends to acquire a PRC domestic company, such acquisition will be subject to strict examination by the relevant foreign exchange authorities. The public notice also stated that the approval of the relevant foreign exchange authorities is required for any sale or transfer by PRC residents of a PRC domestic company’s assets or equity interests to foreign entities, such as us, for equity interests or assets of the foreign entities. In April 2005, SAFE issued another public notice. In accordance with the April notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents has been confirmed by a Foreign Investment Enterprise Certificate prior to the promulgation of the January notice, the PRC residents must each submit a registration form to the local SAFE branch with respect to their respective ownership interests in the offshore company, and must also file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transaction or use of assets in China to guarantee offshore obligations. The April notice also provided that failure to comply with the registration procedures set forth in the April notice may result in a restriction on the PRC company’s ability to distribute profits to its offshore parent company and to increase its registered capital.

On October 21, 2005, SAFE issued a new public notice which became effective on November 1, 2005. The new notice repealed the January and April 2005 SAFE notices, effective from November 1, 2005. The October 2005 notice also required every PRC resident to register with the local SAFE branch before setting up a special purpose company outside of China. PRC residents who had set up or controlled such special purpose offshore companies before November 1, 2005 are required to register with the local SAFE branch before March 31, 2006. On May 29, 2007, SAFE issued a new public notice requiring PRC companies to urge their PRC resident shareholders to register or update their SAFE registration with the local SAFE branch as required under the October 2005 notice. Failure to register with SAFE will subject such PRC residents to personal liability, and may also limit our ability to contribute additional capital into our PRC subsidiary or our subsidiary’s ability to distribute dividends to us, or otherwise adversely affect our business.

In December 2006, the People’s Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, or the PBOC Regulation, setting forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the PBOC Regulation, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen’s participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic

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Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rule. The purpose of the Stock Option Rule is to regulate foreign exchange administration of PRC domestic individuals who participate in employee stock holding plans and stock option plans of overseas listed companies.

According to the Stock Option Rule, if a PRC domestic individual participates in any employee stock holding plan or stock option plan of an overseas listed company, a PRC domestic agent or the PRC subsidiary of such overseas listed company shall, among others things, file, on behalf of such individual, an application with SAFE to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with stock holding or stock option exercises as PRC domestic individuals may not directly use overseas funds to purchase stock or exercise stock options. Concurrent with the filing of such application with SAFE, the PRC subsidiary shall obtain approval from SAFE to open a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the stock purchase or option exercise, any returned principal or profits upon sales of stock, any dividends issued upon the stock and any other income or expenditures approved by SAFE. The PRC subsidiary also is required to obtain approval from SAFE to open an overseas special foreign exchange account at an overseas trust bank to hold overseas funds used in connection with any stock purchase.

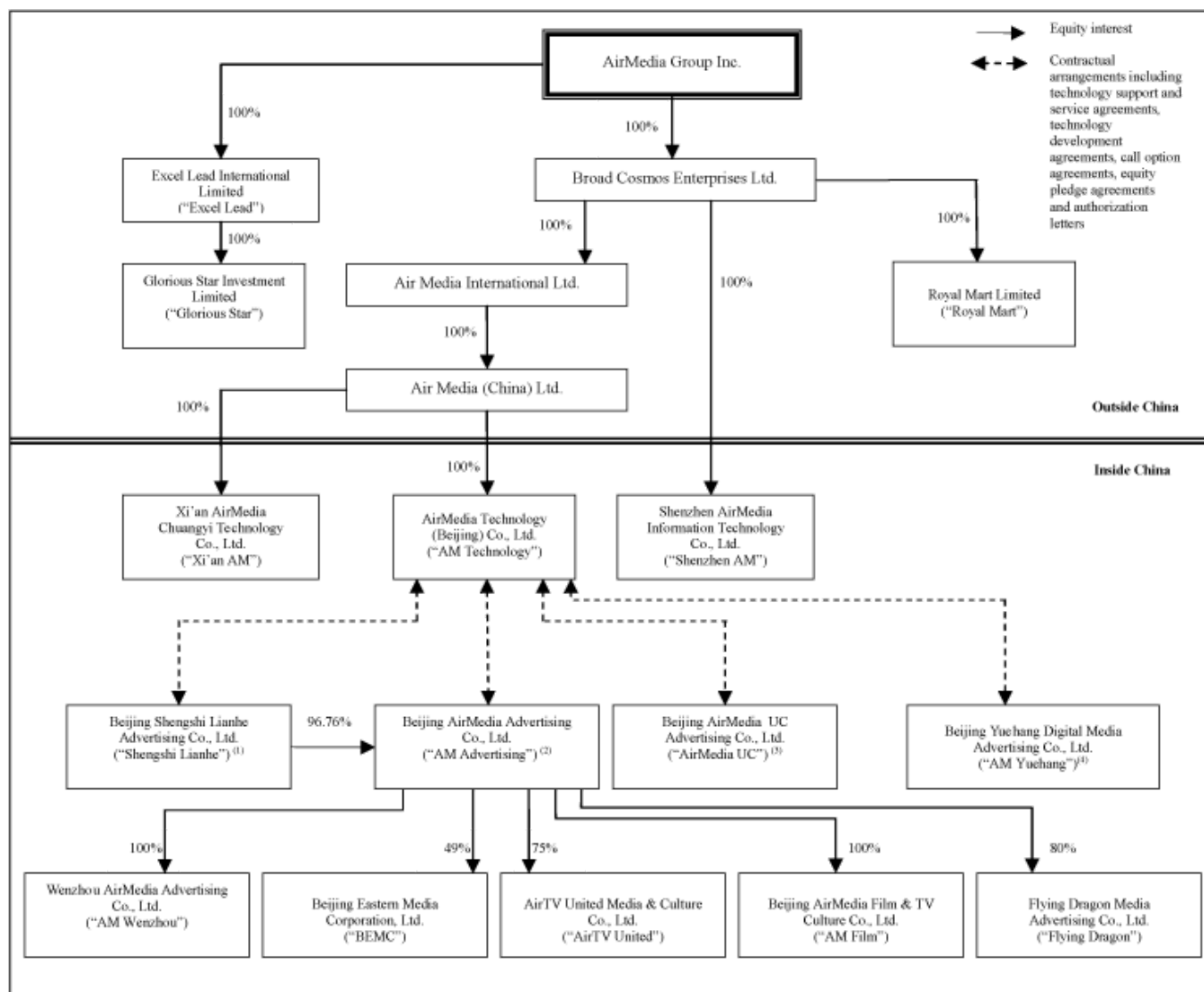
All proceeds obtained by PRC domestic individuals from sales of stock shall be fully remitted back to China after relevant overseas expenses are deducted. The foreign exchange proceeds from these sales can be converted into RMB or transferred to such individual's foreign exchange savings account after the proceeds have been remitted back to the special foreign exchange account opened at the PRC domestic bank. If the stock option is exercised in a cashless exercise, the PRC domestic individuals are required to remit the proceeds to the special foreign exchange account.

Although many issues relating to the Stock Option Rule still require further interpretation, we and our PRC employees who have been granted stock options are subject to the Stock Option Rule. If we or our PRC employees fail to comply with the Stock Option Rule, we and/or our PRC employees may face sanctions imposed by foreign exchange authority or any other PRC government authorities.

In addition, the General Administration of Taxation has issued a few circulars concerning employee stock options. Under these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee stock options with relevant tax authorities and withhold individual income taxes of those employees who exercise their stock options. If our employees fail to pay and we fail to withhold their income taxes, we may face sanctions imposed by tax authorities or any other PRC government authorities.

C. Organizational Structure

The following diagram illustrates our corporate structure as of March 1, 2009:



- Notes: (1) Shengshi Lianhe is 79.86% owned by Herman Man Guo, our founder, chairman, chief executive officer and an ultimate owner of our ordinary shares, 11.94% owned by Qing Xu, our director and an ultimate owner of our ordinary shares and 8.2% owned by Xiaoya Zhang, our president, director and an ultimate owner of our ordinary shares.
- (2) AM Advertising is 96.76% owned by Shengshi Lianhe, 2.833% owned by Herman Man Guo, our founder, chairman, chief executive officer and an ultimate owner of our ordinary shares, 0.241% owned by Qing Xu, our director and an ultimate owner of our ordinary shares and 0.166% owned by Xiaoya Zhang, our president, director and an ultimate owner of our ordinary shares.
- (3) AirMedia UC is 82.76% owned by Herman Man Guo, our founder, chairman, chief executive officer and an ultimate owner of our ordinary shares and 17.24% owned by Qing Xu, our director and an ultimate owner of our ordinary shares. AirMedia UC became a consolidated variable interest entity in 2007.
- (4) AM Yuehang is 80% owned by James Zhonghua Feng, our chief operating officer and 20% owned by Tao Hong. Yuehang became a consolidated variable interest entity in 2008.

D. Property, Plants and Equipment

Our headquarters are located in Beijing, China, where we lease over 2,800 square meters of office space. Our branch offices lease approximately 3,997 square meters of office space in approximately 20 other locations.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of

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operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information —D. Risk Factors” or in other parts of this annual report on Form 20-F.

A. Operating Results

Factors Affecting Our Results of Operations

Our operating results are substantially affected by the following factors and trends.

Demand for Our Advertising Time Slots

The demand for our advertising time slots is directly related to the demand for air travel and advertising spending in China. The demand for air travel is in turn affected by general economic conditions, the affordability of air travel in China and certain special events that may attract air travelers into and within China. Advertising spending is also particularly sensitive to changes in general economic conditions. The increase or decrease in demand for air travel and advertising spending could affect the attractiveness of our network to advertisers, our ability to fill our advertising time slots and the price we charge for our advertising time slots.

Service Offerings

Currently, our air travel advertising network primarily consists of standard digital frames and digital TV screens. We intend to broaden our service offerings by adding new advertising media platforms to make our network more comprehensive and effective. In particular, we have recently expanded our air travel advertising network to cover the advertising business on gate bridges in airports and have diversified our media resources to include billboards and painted advertisements. We have also recently obtained the contractual concession rights to operate various traditional advertising formats in two major airports. We believe our broadened service offerings will provide our advertising clients with more choices in selecting and combining different air travel advertising platforms that best suit their advertising needs and preferences. It will also expand the consumer reach of the advertisements shown on our network and allow us to cross-sell different advertising services. Ultimately, we believe these efforts will increase and diversify the sources of revenue we can generate from our network of airports and airplanes.

Number of Our Advertising Time Slots Available for Sale

The number of time slots available for our digital frames and digital TV screens in airports during the period presented is calculated by multiplying the time slots per week per airport by the number of weeks during the period presented when we had operations in each airport and then calculating the sum of all the time slots available for each of our network airports. The number of time slots available for our digital TV screens on airplanes during the period presented is calculated by multiplying the time slots per airline per month by the number of months during the period presented when we had operations on each airline and then calculating the sum of all the time slots for each of our network airlines.

By increasing the number of airports and airlines in our network, we can increase the number of advertising time slots that we have available to sell. In addition, the length of our advertising cycle can potentially be extended to longer durations depending on demand in each airport or airline. However, advertisers may be unwilling to accept placement of their advertisements on a longer time cycle which decreases the frequencies of their advertisements displayed each day. See “Item 3. Key Information — D. Risk Factors —Risks Related to our Business—When our current advertising network of digital frames and digital TV screens reaches saturation in the major airports and airlines where we operate, we may be unable to offer additional time slots to satisfy all of our advertisers’ needs, which could hamper our ability to generate higher levels of revenues and profitability over time.”

Pricing

The average selling price we charge for our advertising time slots is calculated by dividing our

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advertising revenue by the number of 12-second equivalent advertising time slots for digital frames in airports and 30-second equivalent advertising time slots for digital TV screens in airports and on airplanes sold during that period, after taking into account any discounts offered. The primary factors that affect the effective price we charge advertising clients for time slots on our network and our utilization rate include the attractiveness of our network to advertisers, which depends on the number of displays, the number and scale of airports and airplanes in our network, the level of demand for time slots, and the perceived effectiveness by advertisers of their advertising campaigns placed on our network. We may increase the average selling prices of our advertising time slots from time to time depending on the demand for our advertising time slots.

A significant percentage of the programs played on our digital TV screens in airports and on airlines includes non-advertising content. We do not directly generate revenue from non-advertising content, but instead obtain such content from third party content providers. We believe that the combination of non-advertising content with advertising content makes air travelers more receptive to our programs, which in turn makes the advertising content more effective for our advertisers. We believe this in turn allows us to charge a higher price for each advertising time slot. We closely track the program blend and customer demand to optimize our ability to generate revenue for each program cycle.

Utilization Rate

Our utilization rate is the total time slots sold as a percentage of total time slots available during the relevant period. In order to provide meaningful comparisons of our utilization rate, we normalize our time slots into 12-second units for digital frames in airports and 30-second units for digital TV screens in airports and on airplanes, which we can then compare across network airports, airlines and periods to chart the normalized utilization rate of our network by airports and airlines and over time. Our utilization rate is primarily affected by the demand for our advertising time slots and our ability to increase the sales of our advertising time slots, especially those advertising time slots on our network airports in second tier cities. We plan to strengthen our sales efforts in these cities by building local sales teams to increase our direct sales of advertising time slots in these cities and ultimately improve our utilization rate.

Network Coverage and Concession Fees

The demand for our advertising time slots and the effective price we charge advertising clients for time slots on our network depend on the attractiveness and effectiveness of our network to our advertising clients. This, in turn, is related to the breadth of our network coverage, including significant coverage in the major airports and airlines that advertisers wish to reach. As a result, it has been, and will continue to be, important for us to secure and retain concession rights contracts to operate our digital frames, digital TV screens and other displays in major airports and to place our programs on major airlines and to increase the number of displays which we operate in those airports and programs we place on those airlines.

Concession fees constitute a significant portion of our cost of revenues. Airports and airlines tend to increase concession fees over time, and a significant increase in concession fees will increase our cost while our revenues may not increase proportionately, or at all. It will therefore be important to our results of operations that we secure and retain these concession rights contracts on commercially advantageous terms.

Revenues

We generate revenues from the sale of advertising time slots on our air travel advertising network. The following table sets forth the revenues generated from each of our advertising categories, both in absolute amounts and as percentages of total revenues for the periods indicated.

	<u>Year ended December 31, 2006</u>		<u>Year ended December 31, 2007</u> (in thousands except percentages)		<u>Year ended December 31, 2008</u>		
Revenues:							
Digital frames	US\$	—	—%	US\$ 1,263	2.9%	US\$ 45,011	35.9%
Digital TV screens in airports		10,502	55.6	26,921	61.7	47,591	37.9
Digital TV screens on airplanes		4,868	25.8	11,093	25.4	19,227	15.3

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	<u>Year ended</u> <u>December 31, 2006</u>		<u>Year ended</u> <u>December 31, 2007</u> <small>(in thousands except percentages)</small>		<u>Year ended</u> <u>December 31, 2008</u>	
Billboards on gate bridges in airports	—	—	—	—	6,051	4.8
Other displays	3,526	18.6	4,334	10.0	7,660	6.1
Total revenues	18,896	100.0	43,611	100.0	125,540	100.0
Business tax and other sales tax	(961)	(5.1)	(1,983)	(4.5)	(6,107)	(4.9)
Net revenues	<u>US\$ 17,935</u>	<u>94.9%</u>	<u>US\$ 41,628</u>	<u>95.5%</u>	<u>US\$ 119,433</u>	<u>95.1%</u>

Revenues from our digital frames in airports accounted for 2.9% and 35.9% of our total revenues for the years ended 2007 and 2008, respectively. We started generating revenues from digital frames located in Beijing Capital International Airport in December 2007. In 2008, we have significantly expanded the number of digital frames in our network. As of December 31, 2008, we operated 2,156 digital frames in 22 airports. We plan to gradually roll out our operations in the additional four airports where we have contractual concession rights to operate digital frames.

Revenues from our digital TV screens in airports accounted for 55.6%, 61.7% and 37.9% of our total revenues for the years ended December 31, 2006, 2007 and 2008, respectively. As of December 31, 2006, we operated 1,562 digital TV screens in 28 airports. As of December 31, 2007, we operated 2,041 digital TV screens in 39 airports. As of December 31, 2008, we operated 2,854 digital TV screens in 41 airports.

Revenues from our digital TV screens on airplanes accounted for 25.8%, 25.4% and 15.3% of our total revenues for the years ended December 31, 2006, 2007 and 2008, respectively. Our network was located on nine, nine and nine airlines as of December 31, 2006, 2007 and 2008, respectively.

Revenues from billboards on gate bridges in airports accounted for 4.8% of our total revenues for the year ended December 31, 2008. We started generating revenues from billboards on gate bridges in airports in the third quarter of 2008. As of December 31, 2008, we have concession rights to place advertisements on gate bridges located in 10 major airports in mainland China, including Terminals 1 and 2 of Beijing Capital International Airport and Guangzhou Baiyun International Airport.

Revenues from our other displays accounted for 18.6%, 10.0% and 6.1% of our total revenues for the years ended December 31, 2006, 2007 and 2008, respectively. We have offered light box displays since the commencement of our operations. At the same time, we continue to diversify our display offerings and in March 2009, we entered into traditional advertising market by obtaining concession rights to operate traditional media formats such as billboards, light boxes and other formats in Beijing Capital International Airport and Shenzhen International Airport. We believe that our ability to broaden our service offerings and increase and diversify our revenue sources will be increasingly important in the future. With the recent addition of certain traditional advertising formats, we expect that revenues from our other displays will increase in 2009.

We exchange advertising time slots with other businesses for assets or services, such as digital TV screens and office rental from time to time. We recognized US\$0.8 million, US\$0.4 million and US\$1.1 million in revenues from the exchange of our advertising time slots for assets or services for the years ended December 31, 2006, 2007 and 2008, respectively. No costs were directly attributable to these revenues.

Our PRC subsidiaries and consolidated variable interest entities are subject to PRC business tax and other sales related taxes at the rate of 8.5% on total revenues after deduction of certain costs of revenues permitted by the PRC tax laws. We deduct these business taxes and other sales taxes from revenues to arrive at net revenues.

Cost of Revenues

Our cost of revenues consists primarily of concession fees, agency fees and other costs, including digital frames and digital TV screen depreciation costs, digital frames and digital TV screen maintenance costs and non-advertising content costs. The following table sets forth the major components of our cost of revenues, both in absolute amounts and as percentages of net revenues for the periods indicated.

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	<u>Year ended December 31, 2006</u>		<u>Year ended December 31, 2007</u> (in thousands except percentages)		<u>Year ended December 31, 2008</u>	
Net revenues	US\$ 17,935	100.0%	US\$ 41,628	100.0%	US\$119,433	100.0%
Cost of revenues						
Concession fees	(6,758)	(37.7)	(11,992)	(28.8)	(45,704)	38.3%
Agency fees	(2,361)	(13.2)	(7,172)	(17.2)	(18,164)	15.2%
Others	(921)	(5.1)	(2,201)	(5.3)	(7,127)	6.0%
Total cost of revenues	<u>US\$(10,040)</u>	<u>(56.0)%</u>	<u>US\$(21,365)</u>	<u>(51.3)%</u>	<u>US\$ 70,995</u>	<u>59.4%</u>

Concession Fees

We incur concession fees to airports for placing and operating our digital frames, digital TV screens and other displays and to airlines for placing our programs on their digital TV screens. These fees constitute a significant portion of our cost of revenues and accounted for approximately 37.7%, 28.8% and 38.3% of our net revenues in years ended December 31, 2006, 2007 and 2008, respectively. Most of the concession fees are fixed under the concession rights contracts with an escalation clause, which requires fixed fee increases over each year of the agreement, and payments are usually due three or six months in advance. The concession fees that we incur under concession rights contracts for our digital frames and digital TV screen in airports vary by the airports' passenger flow, the city where the airport is located and the profile of air passengers. The concession fees that we incur under concession rights contracts for our programs on airlines vary by the number of routes and airplanes, type of aircrafts and the departure and destination cities.

Concession fees tend to increase over time as growth in passenger volume increases demand for air travel advertising among advertisers. Our concession fees have increased significantly due to the new concession rights contracts that we have entered into in 2007 and 2008. As some of our concession rights contracts are subject to renewal in the next several years, we may experience a significant increase in our concession fees in order to retain these concession contracts.

Agency Fees

We engage third-party agencies to help source advertising clients from time to time. These third-party agencies assist us in identifying and introducing advertisers to us. In return, we pay them fees if any of these advertisers generates advertising revenues for us. Fees that we pay to these third-party agencies are calculated based on a pre-set percentage of revenues generated from the clients introduced to us by the third-party agencies and are paid when payments are received from the clients. We record these agency fees as cost of revenues ratably over the period in which the related advertisements are displayed. Agency fees accounted for 13.2%, 17.2% and 15.2% of our net revenues for the years ended December 31, 2006, 2007 and 2008, respectively. We expect to continue using these third-party agencies in the near future.

Others. Our other cost of revenues accounted for 5.1%, 5.3% and 6.0% of our net revenues for the years ended December 31, 2006, 2007 and 2008, respectively, and include the following:

Display Equipment Depreciation. Generally, we capitalize the cost of our digital frames and digital TV screens and recognize depreciation costs on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation costs are the number of digital frames and digital TV screens in our network and the unit cost for those displays, as well as the remaining useful life of the displays.

Display Equipment Maintenance Cost. Our display maintenance cost consists of salaries for our network maintenance staff, travel expenses in relation to on-site visits and monitoring and costs for materials and maintenance in connection with the upkeep of our advertising network. The primary factor affecting our display equipment maintenance cost is the size of our network maintenance staff. As we add new digital frames and digital TV screens and other media platforms, we expect that our network maintenance staff, and associated costs, will increase.

Non-advertising Content Cost. We do not produce or create any of the non-advertising content shown on our network. The non-advertising content played over our network is provided

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by third-party content providers either for free or at fixed prices. Some of the third-party content providers that currently do not charge us for their content may do so in the future and other third-party content providers may increase the prices for their programs over time. This may increase our cost of revenues in the future.

Operating Expenses

Our operating expenses consist of general and administrative expenses and selling and marketing expenses. The following table sets forth the two components of our operating expenses, both in absolute amount and as a percentage of net revenues for the periods indicated.

	Year ended December 31, 2006		Year ended December 31, 2007 (in thousands except percentages)		Year ended December 31, 2008	
Net revenues	US\$ 17,935	100.0%	US\$ 41,628	100.0%	US\$ 119,433	100.0%
Operating expenses						
General and administrative expenses	(1,293)	(7.2)	(21,982)	(52.8)	(14,374)	(12.0)
Selling and marketing expenses	(2,751)	(15.3)	(4,813)	(11.6)	(10,171)	(8.5)
Total operating expenses	US\$ (4,044)	(22.5)%	US\$ (26,795)	(64.4)%	US\$ (24,545)	(20.6)%

We expect that our operating expenses will further increase in the future as we expand our network and operations and enhance our sales and marketing activities.

General and Administrative Expenses

General and administrative expenses accounted for 7.2%, 52.8% and 12.0% of our net revenues for the years ended December 31, 2006, 2007 and 2008, respectively. Our general and administrative expenses included a one-time share-based compensation expense of US\$17.5 million in 2007 and share-based compensation expenses of US\$3.8 million in 2008. General and administrative expenses consist primarily of office and utility expenses, salaries and benefits for general management, finance and administrative personnel, depreciation of office equipment, public relations related expenses and other administration related expenses. Excluding the share-based compensation expenses in 2008, we expect that our general and administrative expenses will increase in the near term as we hire additional personnel and incur additional costs in connection with the expansion of our business.

Selling and Marketing Expenses

Selling and marketing expenses accounted for 15.3%, 11.6% and 8.5% of our net revenues for the years ended December 31, 2006, 2007 and 2008, respectively. Our selling and marketing expenses consist primarily of salaries and benefits for our sales and marketing personnel, office and utility expenses related to our selling and marketing activities, traveling expenses incurred by our sales personnel, expenses for the promotion, advertisement and sponsorship of media events, and other sales and marketing related expenses. We expect selling and marketing expenses to increase as we invest greater resources in sales and marketing of our air travel advertising network.

Minority Interest

On October 10, 2006, through our consolidated variable interest entity, AM Advertising, we acquired 75% of the equity interest in AirTV United Media & Culture Co., Ltd., or AirTV United, which holds a license granted by the SARFT to produce and operate television programs in airports and on airplanes. AirTV United entered into business cooperation agreements with AM Advertising and Shengshi Lianhe respectively in June 2007 to provide program collecting, selecting, editing and compiling services to AM Advertising and Shengshi Lianhe. We recorded minority interest in 2006, 2007 and 2008 to account for the interests of 25% held by the other shareholder in AirTV United. In July 2008, we acquired 80% of the equity interest in Flying Dragon, the operator of advertisement network on gate bridges in airports in China. We recorded a minority interest in 2008 to account for the 20% interest held by the other shareholder in Flying Dragon.

Equity Method Investments

In January 2007, through our consolidated variable interest entity, AM Advertising, we acquired a 51% equity interest in Beijing Aiyike Information Technology Ltd., or Beijing Aiyike. Because the minority equity owners of Beijing Aiyike had substantive participating rights in making major operating decisions for Beijing Aiyike, this acquisition was accounted for under the equity method of accounting. In November 2008, we sold our interest in Beijing Aiyike to a third party.

In March 2008, we formed a joint venture, BEMC, with China Eastern Media Corporation, Ltd. China Eastern Media Corporation Ltd. holds 51% stake of BEMC and we hold the remaining 49% stake. This investment was accounted for under the equity method of accounting since we have the ability to exercise significant influence on the operation of BEMC.

Taxation

Under the current laws of the Cayman Islands, we are not subject to tax on its income or capital gains. In addition, payments of dividends by us are not subject to withholding tax in the Cayman Islands.

We did not record any Hong Kong profits tax for the years ended December 31, 2007 and 2008 on the basis that Royal Mart Limited and Glorious Star Investment Limited did not have any assessable profits arising in or derived from Hong Kong for 2007 and 2008.

PRC Enterprise Income Tax

On March 16, 2007, the PRC National People's Congress passed the EIT Law, which imposes an uniform income tax rate of 25% on most domestic enterprises and foreign investment enterprises. The EIT Law became effective on January 1, 2008. Under the EIT Law, entities that qualify as "high and new technology enterprises strongly supported by the state" are entitled to the preferential income tax rate of 15%. A company's status as a "high and new technology enterprises strongly supported by the state" is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential income tax rate. In addition, according to the Administrative Regulations on the Recognition of High and New Technology Enterprises, the Guidelines for Recognition of High and New Technology Enterprises and the Notice of Favorable Enterprise Income Tax Policies jointly issued by the PRC Ministry of Science and Technology, the PRC Ministry of Finance and the PRC State Administration of Taxation in April 2008, July 2008 and February 2008, respectively, "new software enterprises" can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

On December 26, 2007, the PRC State Council issued Circular 39. Based on Circular 39, certain enterprises established before March 16, 2007 that were eligible for tax exemptions or reductions according to the then effective tax laws and regulations can continue to enjoy such exemption or reduction until it expires. Furthermore, according to Circular 39, enterprises that were eligible for the preferential tax rates according to the then effective tax laws and regulations may be eligible for a gradual rate increase to 25% over the 5-year period beginning from January 1, 2008. Specifically, the applicable rates under such an arrangement for such enterprises that enjoyed the 15% tax rate prior to the effectiveness of the new PRC tax law will be 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. However, according to the Notice on Prepayment of EIT issued by the State Administration of Taxation on January 30, 2008, the gradually increased EIT rate during the transition period is not applicable to entities that qualified for preferential rates as high and new technology enterprises alone and they would be subject to EIT at 25% from January 2008 if they cannot qualify as high and new technology enterprises under the EIT Law and regulations.

AM Technology has qualified as a "high and new technology enterprise" and is registered and operates in the Beijing New Technology Industry Development Zone. As a result, it was entitled to a three-year exemption from EIT from 2006 to 2008, and will be entitled to a preferential EIT at the rate of 7.5% from 2009 to 2011 and a preferential EIT of 15% thereafter. Xi'an AM qualified as a "software enterprise" in August 2008 by the Technology Information Bureau of Shanxi Province and has received the written notice from Xi'an local tax bureau that it will be granted a two-year exemption from EIT commencing on its first profitable year and a 50% deduction of the 25% EIT rate for the succeeding three years. Shenzhen AM was subject to 15% preferential tax EIT rate as it is located in Shenzhen and is currently subject to EIT on the taxable income at the gradual rate pursuant to Circular 39. Shenzhen AM submitted its application to be qualified as a "high and new technology enterprise strongly supported by the State" under the new PRC tax law in March 2009 and if successful, will be eligible for a 15% EIT rate. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business— If one or more of our PRC subsidiaries fails to maintain or obtain qualifications to receive PRC preferential tax treatments, we will be required to pay more taxes, which may have a material adverse effect on our result of operations." AM Advertising, Shengshi Lianhe, AirTV United, AM Film, AirMedia UC, AM Yuehang, Flying Dragon and AM Wenzhou were registered in the PRC, are all subject to 25% EIT on the taxable income in accordance with the EIT Law.

Furthermore, under the new PRC tax law, a "resident enterprise," which includes an enterprise established outside of China with management located in China, are subject to PRC income tax. If the PRC tax authorities subsequently determine that the Company and its subsidiaries established outside of

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China should be deemed as a resident enterprise, the Company and its subsidiaries established outside of China will be subject to PRC income tax at a rate of 25%. In addition, under the new PRC enterprise income tax law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, where our wholly owned subsidiary and the 100% shareholder of Shenzhen AM is incorporated, does not have such a tax treaty with China. Air Media (China) Limited, the 100% shareholder of AM Technology, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). The new PRC tax law provides, however, dividends distributed between qualified resident enterprises are exempted. Notwithstanding the foregoing provision, according to the Implementation Regulations of the Enterprise Income Tax Law, the qualified dividend and profit distribution from equity investment between resident enterprises shall refer to investment income derived by a resident enterprise from the direct investment in other resident enterprises with exception to the investment income from circulating stocks issued publicly by resident enterprises and traded on stock exchanges where the holding period is less than 12 months. We do not believe we and our subsidiaries located outside the PRC are PRC "resident enterprises." However, as the term "resident enterprises" needs further clarification and interpretation, we cannot assure you that the dividends distributed by Shenzhen AM, AM Technology and Xi'an AM to their direct shareholders would be regarded as dividends distributed between qualified resident enterprises, and be exempted from the EIT. See "Item 3. Key Information — D. Risk Factors — Risks Related to our Business—Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income and dividends distributed to our investors may be subject to PRC withholding taxes under the new PRC tax law."

Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and revenues and expenses. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from our expectations. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

Revenue Recognition

We derive revenues from selling advertising time slots on our air travel advertising network. For the year ended December 31, 2008, substantially most of the advertising revenues are generated from digital frames in airports and digital TV screens in airports and on airlines.

We typically sign standard contracts with our advertising customers, which require us to run the advertiser's advertisements on our network in specified airports and on specified airplanes for a period of time.

We recognize advertising revenues ratably over the performance period for which the advertisements are displayed, so long as collection of the fees remains probable.

Deferred Revenue

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

Non-monetary Exchanges

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We periodically exchange advertising time slots with other entities for assets or services, such as digital TV screen network equipment and office rental. Consistent with the guidance in APB Opinion No. 29 *Accounting for Nonmonetary Transactions*, as amended by FASB Statement No. 153 *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*, such transactions are accounted for as nonmonetary exchange, and based on guidance in EITF 99-17 *Accounting for Advertising Barter Transactions*, we recognize revenue and assets/expenses of the exchanges based on the fair value of the advertising provided, which can be determined based on our historical practice of receiving cash. For the years ended December 31, 2006, 2007 and 2008, the amounts of revenues recognized for nonmonetary transactions were US\$0.8 million, US\$0.4 million and US\$1.0 million, respectively. No costs are directly attributable to these revenues.

Concession Fees

We entered into concession rights contracts with airports and airlines, under which we have the right to use the spaces or equipment of the airports and airlines to display advertisements. The concession rights contracts are treated as operating lease arrangements.

Fees under concession right agreements with airports and airlines are usually due every three or six months. Payments made are recorded as current assets and current liabilities according to the respective payment terms. Most of the concession fees are fixed with escalation, which means fixed increase over each year of the agreement. The total concession fee under each concession right agreement is charged to the consolidated statements of operations on a straight-line basis over the agreement periods, which is generally between three and five years.

Agency Fees

We pay agency fees to advertising agencies, which assist us in identifying and introducing advertisers to us, based on a certain percentage of revenue made through the advertising agencies upon receipt of payment from advertisers. The agency fees are direct costs to generate revenues and they are charged to the consolidated statement of operation ratably over the period in which the advertising is displayed.

Prepaid and accrued agency fees are recorded as current assets and current liabilities according to the relative timing of payments made and advertising services provided.

Consolidation of Variable Interest Entity

PRC laws and regulations currently limit foreign ownership of companies that provide advertising services, including out-of-home advertising services. In order to comply with these foreign ownership restrictions, we conduct substantially all of our activities through our variable interest entities Shengshi Lianhe, AM Advertising, AirMedia UC, AM Yuehang and their subsidiaries. We have entered into a series of contractual arrangements with Shengshi Lianhe, AM Advertising, AirMedia UC, AM Yuehang and their subsidiaries. Through these contractual arrangements, we have the ability to effectively control Shengshi Lianhe, AM Advertising, AirMedia UC, AM Yuehang and their subsidiaries and are considered the primary beneficiary of Shengshi Lianhe, AM Advertising, AirMedia UC, AM Yuehang and their subsidiaries. Accordingly, Shengshi Lianhe, AM Advertising, AirMedia UC, AM Yuehang and their subsidiaries are variable interest entities of our company under U.S. GAAP and we consolidate their results in our consolidated 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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We record current income taxes in accordance with the laws and regulations applicable to us as enacted by the relevant tax authorities.

We adopted Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 for the years ended December 31, 2006, 2007 and 2008. Under FIN

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48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Share-based Compensation

For the options granted to our executive officers, directors and employees, we have accounted for these options to employees in accordance with SFAS No.123(R)—*Share-Based Payment* by recognizing compensation expenses based on the grant-date fair value over the period during which the grantee is required to provide service in exchange for the award. For the options granted to consultants, we have accounted for these options in accordance with EITF 96-18—*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. The compensation expenses relating to options granted to these consultants have been recognized entirely in July and November 2007 at the time the options were granted.

The fair value of the option award was estimated on the date of grant or the date of modification using the Black-Scholes option pricing model that uses the assumptions including fair value of the ordinary shares underlying to the options, risk free interest rate, expected life, expected dividend yield and expected volatility. The Black-Scholes model is one of the most commonly used models that meet the criteria required by SFAS No.123(R) in estimating fair value of employee share options.

The risk-free rate for periods within the expected life of the option was based on the implied yield rates of China International Bond denominated in US dollars as of the grant date. The expected life of options represented the period of time the granted options were expected to be outstanding. As we did not have sufficient historical exercising pattern to be followed in estimating the expected life, the expected life was estimated as the average of the contractual term and the vesting period. The employees that were granted the share options were expected to exhibit similar behavior. As we expected to grow the business with internally generated cash, we did not expect to pay dividend in the foreseeable future. The expected volatility was based on the historical volatilities of comparable publicly traded companies engaged in similar business because we did not have sufficient historic volatility data of our own ordinary shares, which commenced being publicly traded after our initial public offering in November 2007.

Our Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements, including the related notes, that appear elsewhere in this annual report. Our limited operating history makes it difficult to predict our future operating results. Therefore, our historical consolidated results of operations are not necessarily indicative of our results of operations you may expect for any future period.

	<u>Year ended</u> <u>December 31,</u> <u>2006</u>	<u>Year ended</u> <u>December 31,</u> <u>2007</u>	<u>Year ended</u> <u>December 31,</u> <u>2008</u>
(in thousands, except share, per share and per ADS data)			
Consolidated Statements of Operations Data:			
Revenues:			
Digital frames	US\$ —	US\$ 1,263	US\$ 45,011
Digital TV screens in airports	10,502	26,921	47,591
Digital TV screens on airplanes	4,868	11,093	19,227
Billboards on gate bridges in airports	—	—	6,051
Other displays	3,526	4,334	7,660
Total revenues	18,896	43,611	125,540
Business tax and other sales tax	(961)	(1,983)	(6,107)
Net revenues	17,935	41,628	119,433
Cost of revenues	(10,040)	(21,365)	(70,995)
Gross profit	7,895	20,263	48,438
Operating expenses:			
Selling and marketing	(2,751)	(4,813)	(10,171)
General and administrative	(1,293)	(21,982)	(14,374)

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	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2007</u>	<u>Year ended December 31, 2008</u>
	(in thousands, except share, per share and per ADS data)		
Total operating expenses	(4,044)	(26,795)	(24,545)
Income (loss) from operations	3,851	(6,532)	23,893
Interest income	17	1,745	5,379
Other income	—	—	1,135
Income tax benefits	197	195	498
Minority interest	1	2	(382)
Share of loss on equity method investments	—	(520)	(325)
Net income (loss)	<u>US\$ 4,066</u>	<u>US\$ (5,110)</u>	<u>US\$ 30,198</u>

The following table presents selected operating data for the years ended December 31, 2006, 2007 and 2008, respectively.

	<u>Year ended December 31, 2006</u>	<u>Year ended December 31, 2007</u> (in thousands)	<u>Year ended December 31, 2008</u>
Selected Operating Data:			
Digital frames in airports			
Number of airports in operation	—	1	22
Number of time slots available for sale ⁽¹⁾	—	354	48,570
Number of time slots sold ⁽²⁾	—	128	9,559
Utilization rate ⁽³⁾	—	36.2%	19.7%
Average advertising revenue per time slot sold ⁽⁴⁾	—	US\$ 9,841	US\$ 4,709
Digital TV screens in airports			
Number of airports in operation	28	39	41
Number of screens in our network airports	1,562	2,041	2,854
Number of time slots available for sale ⁽⁵⁾	42,800	77,574	100,624
Number of time slots sold ⁽²⁾	14,409	28,359	27,223
Utilization rate ⁽³⁾	33.7%	36.6%	27.1%
Average advertising revenue per time slot sold ⁽⁴⁾	US\$ 729	US\$ 949	US\$ 1,748
Digital TV screens on airplanes			
Number of airlines in operation	9	9	9
Number of screens on our network airplanes	16,015	17,417	49,482
Number of time slots available for sale ⁽⁵⁾	1,356	1,752	1,878
Number of time slots sold ⁽²⁾	568	845	962
Utilization rate ⁽³⁾	41.9%	48.2%	51.2%
Average advertising revenue per time slot sold ⁽⁴⁾	US\$ 8,572	US\$ 13,132	US\$ 19,992

Notes: (1) After our adjustment of time-slot length in mid May, we define a time slot as a 12-second equivalent advertising time unit for digital frames in airports, which is shown during each advertising cycle on a weekly basis in a given airport. Our airport advertising programs are shown repeatedly on a daily basis during a given week in 10-minute cycles, which allows us to sell a maximum of 50 time slots per week. The number of time slots available for our digital frames in airports during the period presented is calculated by multiplying the time slots per week per airport by the number of weeks during the period presented when we had operations in each airport and then calculating the sum of all the time slots available for each of our network airports.

(2) Number of time slots sold refers to the number of 30-second equivalent advertising time units for digital TV screens in airports and digital TV screens on airplanes or 12-second equivalent advertising time units for digital frames in airports sold during the period presented.

(3) Utilization rate refers to total time slots sold as a percentage of total time slots available for sale during the relevant period.

(4) Average advertising revenue per time slot sold for digital TV screens in airports, digital TV screens on airplanes and digital frames in airports is calculated by dividing our revenues derived from digital TV screens in airports, digital TV screens on airplanes and digital frames in airports by their respective number of time slots sold, respectively.

(5) We define a time slot as a 30-second equivalent advertising time unit for digital TV screens in airports and digital TV screens on airplanes, which is shown during each advertising cycle on a weekly basis in a given airport or on a monthly basis on the routes of a given airline, respectively. Our airport advertising programs are shown repeatedly on a daily basis during a given week in one-hour cycles and each hour of programming includes 25 minutes of advertising content, which allows us to sell a maximum of 50 time slots per week. The number of time slots available for our digital TV screens in airports during the period presented is calculated by multiplying the time slots per week per airport by the number of weeks during the period presented when we had operations in each airport and then calculating the sum of all the time slots available for each of our network airports. The length of our in-flight programs typically ranges from approximately 45 minutes to an hour per flight, approximately five to 13 minutes of which consist of advertising content. The number of time slots available for our digital TV screens on airplanes during the period presented is calculated by multiplying the time slots per airline per month by the number of months during the period presented when we had operations on each airline and then calculating the sum of all the time slots for each of our network airlines.

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Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net Revenues. Our net revenues increased by 186.9% from US\$41.6 million in 2007 to US\$119.4 million in 2008. The increase was primarily due to (1) a significant increase in revenues generated from the sale of advertising time slots of our digital frames in airports from US\$1.3 million in 2007 to US\$45.0 million in 2008, (2) an increase in revenues generated from the sale of advertising time slots of our digital TV screens in airports from US\$26.9 million in 2007 to US\$47.6 million in 2008, (3) an increase in revenues generated from the sale of advertising time slots of the digital TV screens on airplanes from US\$11.1 million in 2007 to US\$19.2 million in 2008, and (4) revenues of US\$6.1 million generated from the sale of billboard advertising on gate bridges in airports in the second half of 2008.

The increases were due in large part to the expansion of our network, the increase in average selling prices per time slot sold and the increase in time slots sold for digital frames in airports and digital TV screens on airplanes. We expanded our digital frame network coverage from the one-month operation in Beijing Capital International Airport in 2007 to 22 airports as of December 31, 2008 and the expansion of our digital TV screen advertising network coverage from 39 airports as of December 31, 2007 to 41 airports as of December 31, 2008. As a result, the number of advertising time slots available for sale in airports increased from 354 in 2007 to 48,570 in 2008 for digital frames and from 77,574 in 2007 to 100,624 in 2008 for digital TV screens. The number of advertising time slots available for sale on airlines increased from 1,752 in 2007 to 1,878 in 2008.

The number of time slots sold for digital frames in airports increased from 128 in 2007 to 9,559 in 2008. The number of time slots sold for digital TV screens in airports decreased from 28,539 in 2007 to 27,223 in 2008. For airlines, the number of time slots sold increased from 845 in 2007 to 962 in 2008. The increases were due to (1) our continued sales efforts (2) the growing acceptance of the emerging air travel digital advertising, (3) our rapid build-up of our brand and reputation among advertising clients, and (4) the increase in the number of network airports and airlines in which we operated. Primarily due to the increases in time slots available for sale, our utilization rates decreased from 36.2% to 19.7% for digital frames in airports, and from 36.6% to 27.1% for digital TV screens in airports from 2007 to 2008. Our utilization rate increased from 48.2% to 51.2% for airlines from 2007 to 2008.

In addition, average selling prices per time slot sold increased for digital TV screens in airports and on airlines as we increased the listing prices for our advertising time slots of the digital TV screens in select airports and fewer discounts off the listing price were offered to our customers in 2008. The average selling price per time slot sold for digital TV screens in our network airports increased from US\$949 in 2007 to US\$1,748 in 2008. For network airlines, the average selling price per time slot sold increased from US\$13,132 to US\$19,992 for those periods. The average selling prices per time slot sold decreased for digital frames in airports from US\$9,841 in 2007 to US\$4,709 in 2008, as the listing prices of digital frames in the newly operated airports in 2008 were significantly lower than the listing price of digital frames in Beijing Capital International Airport, which was the only airport where we had operation of digital frames in the fourth quarter of 2007.

Cost of Revenues. Our cost of revenues increased by 232.3% from US\$21.4 million in 2007 to US\$71.0 million in 2008. The increase was primarily due to the increases in concession fees and other components of cost of revenues. Our cost of revenues as a percentage of our total net revenues increased from 51.3% in 2007 to 59.4% in 2008.

Concession fees for 2008 were US\$45.7 million, representing an increase of 281.1% from US\$12.0 million in 2007 due to additional new concession contracts. Concession fees as a percentage of net revenues in 2008 increased to 38.3% from 28.8% in 2007 because concession fees were fixed once concession rights contracts were entered into while revenues generated from newly signed concession rights contracts need time to ramp up.

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Operating Expenses. Our operating expenses decreased by 8.4% from US\$26.8 million in 2007 to US\$24.5 million in 2008. Operating expenses as a percentage of our total net revenues decreased from 64.4% in 2007 to 20.6% in 2008. Our total operating expenses in 2008 included share-based compensation expenses of US\$5.0 million while our total operating expenses in 2007 included one-time share-based compensation expenses of US\$17.5 million. Our operating expenses excluding share-based compensation expenses and amortization of acquired intangible assets were US\$18.4 million in 2008, increased by 147.6% from US\$7.4 million in 2007. Total operating expenses excluding share-based compensation expenses and amortization of acquired intangible assets as a percentage of net revenues in fiscal year 2008 decreased to 15.4% in 2008 from 17.9% in 2007.

- *Selling and Marketing Expenses.* Our selling and marketing expenses increased from US\$4.8 million in 2007 to US\$10.2 million in 2008. This increase was primarily due to the expansion of the direct sales force and higher marketing expenses.
- *General and Administrative Expenses.* Our general and administrative expenses decreased from US\$22.0 million in 2007 to US\$14.4 million in 2008. Our general and administrative expenses excluding share-based compensation expense increased from US\$3.2 million in 2007 to US\$10.5 million in 2008, primarily due to the increase in the number of our administrative staff in support of our growing operations and our compliance with Section 404 of the Sarbanes-Oxley Act.

Income(loss) from Operations. We recorded US\$23.9 million of income from operations in 2008, as compared to our loss from operations of US\$6.5 million in 2007 as a cumulative result of the above factors.

Income Taxes. We recorded US\$498,000 income tax benefits in 2008 with an effective tax rate of negative 1.6% and we recorded US\$195,000 income tax benefits in 2007 with an effective tax rate of negative 4.1%, due to the preferential PRC enterprise income tax treatments enjoyed by our PRC subsidiaries.

Net Income. As a result of the foregoing, we had net income of US\$30.2 million in 2008, as compared to our net loss of US\$5.1 million in 2007.

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

Net Revenues. Our net revenues increased by 132.1% from US\$17.9 million in 2006 to US\$41.6 million in 2007. The increase was primarily due to (1) a significant increase in revenues generated from the sale of advertising time slots of our digital TV screens in airports from US\$10.5 million in 2006 to US\$26.9 million in 2007, (2) an increase in revenues generated from the sale of advertising time slots of the digital TV screens on airplanes from US\$4.9 million in 2006 to US\$11.1 million in 2007, and (3) revenues of US\$1.3 million generated from the sale of advertising time slots of our digital frames in airports in the fourth quarter of 2007.

The increases were due in large part to the expansion of our network coverage from 28 airports as of December 31, 2006 to 39 airports as of December 31, 2007, respectively. In addition, in the beginning of 2007, we increased the length of our advertising cycle in airports from 20 minutes per hour of our programs to 25 minutes per hour. As a result of the greater breadth of our network coverage and the longer advertising cycle, the number of advertising time slots available for sale in airports increased from 42,800 in 2006 to 77,574 in 2007. The number of advertising time slots available for sale on airlines increased from 1,356 in 2006 to 1,752 in 2007.

The number of time slots sold for airports increased from 14,409 in 2006 to 28,359 in 2007. For airlines, the number of time slots sold increased from 568 in 2006 to 845 in 2007. The increases were due to (1) the growing acceptance of the emerging air travel digital advertising, (2) our rapid build-up of our brand and reputation among advertising clients, and (3) the increase in the number of network airports and airlines in which we operated. As a result, our utilization rates increased from 33.7% in 2006 to 36.6% in 2007 for airports, and from 41.9% to 48.2% for airlines for those same periods.

In addition, average selling prices per time slot sold increased for both airports and airlines as we increased the listing prices for our advertising time slots of the digital TV screens in airports and on airplanes twice by over 30% each time in April 2007 and October 2007. The average selling price per time slot sold for

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our network airports increased from US\$729 to US\$949 in 2006 and 2007, respectively. For network airlines, the average selling price per time slot sold increased from US\$8,572 to US\$13,132 for those periods.

We started generating revenues from digital frames located in Beijing Capital International Airport in the fourth quarter of 2007. We upgraded 90 light box displays to 46-inch digital frames at Terminal 2 of Beijing Capital International Airport and have begun placing clients' advertisements on these frames in the beginning of December 2007. As of December 31, 2007, we had installed 328 46-inch digital frames at Terminal 3 of Beijing Capital International Airport. The new digital frames at Terminal 3 have begun displaying paid advertisements when Terminal 3 was open for testing at the end of February 2008. We intend to significantly increase the number of our digital frames in the near future.

Cost of Revenues. Our cost of revenues increased from US\$10.0 million in 2006 to US\$21.4 million in 2007. The increase was primarily due to an increase in concession fees from US\$6.8 million in 2006 to US\$12.0 million in 2007. Our cost of revenues as a percentage of our total net revenues decreased from 56.0% in 2006 to 51.3% in 2007.

The increase in concession fees was due primarily to the significant increase in the number of concession rights contracts that we had, from 49 as of December 31, 2006 to 107 as of December 31, 2007, and the higher amounts of concession fees that we incurred in 2007 after the renewal of certain existing concession rights contracts. The increase in third-party agency fees we paid was due to the increase in the number of agencies that we used and in the number of customers that these third-party agencies helped us source as we sought to grow our business to fill a larger number of time slots available for sale and at higher prices.

Operating Expenses. Our operating expenses increased by 562.6% from US\$4.0 million in 2006 to US\$26.8 million in 2007. Operating expenses as a percentage of our total net revenues increased from 22.5% in 2006 to 64.4% in 2007. Our total operating expenses in 2007 included a one-time share-based compensation expenses of US\$17.5 million. Our operating expenses excluding share-based compensation expenses and amortization of acquired intangible assets were US\$7.4 million in 2007, increased by 86.4% from US\$4.0 million in 2006. Total operating expenses excluding share-based compensation expenses and amortization of acquired intangible assets as a percentage of net revenues in fiscal year 2007 decreased to 17.9% in 2007 from 22.2% in 2006.

- *Selling and Marketing Expenses.* Our selling and marketing expenses increased from US\$2.8 million in 2006 to US\$4.8 million in 2007. This increase was primarily due to an increase of US\$1.0 million in salaries and benefits for our sales and marketing personnel as we grew our sales staff, an increase of US\$0.4 million in office and utility expenses related to our sales and marketing activities, and an increase of US\$0.3 million in travel expenses incurred by our sales and marketing personnel.
- *General and Administrative Expenses.* Our general and administrative expenses increased from US\$1.3 million in 2006 to US\$22.0 million in 2007, primarily due to an increase of 17.5 million in share-based compensation expenses in connection with the one-time share transfer of 5,000,000 ordinary shares in September 2007 and the employee stock option grants made in 2007, an increase of US\$0.5 million in salaries and benefits for our administrative personnel as our operations have grown and an increase of approximately US\$0.3 million in professional fees.

Income(loss) from Operations. We recorded US\$6.5 million loss from operations in 2007, as compared to our income from operations of US\$3.9 million in 2006 as a cumulative result of the above factors.

Net Income. As a result of the foregoing, we had net loss of US\$5.1 million in 2007, as compared to our net income of US\$4.1 million in 2006 as a result of a one-time share-based compensation expense of US\$17.5 million in connection with the share transfer of 5,000,000 ordinary shares in September 2007 by a principal shareholder of our company to Mr. Herman Man Guo, our chairman and chief executive officer.

Inflation

In recent years, China has not experienced significant inflation, and thus historically inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 1.8%, 1.5%, 4.8% and 5.9% in 2005, 2006, 2007 and 2008,

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respectively.

B. Liquidity and Capital Resources

To date, we have financed our operations primarily through internally generated cash, the sale of preferred shares in private placements and the proceeds we received from our public offering. As of December 31, 2008, we had approximately US\$161.5 million in cash. We generally deposit our excess cash in interest bearing bank accounts. Although we consolidate the results of our variable interest entities in our consolidated financial statements, we can only receive cash payments from them pursuant to our contractual arrangements with them and their shareholders. See “Item 4. Information on the Company — C. Organizational Structure.” Our accounts receivable as of December 31, 2008 included US\$10.4 million billed receivable and US\$28.0 million unbilled receivable. Unbilled receivable represents amounts earned under advertising contracts in progress but not billable as of December 31, 2008. We intend to maintain our current policies for collections of accounts receivable, which typically provide a credit period no longer than 120 days following the advertisement is displayed, and expect our accounts receivable to increase as a result of the increase in our advertising service revenues.

Our principal uses of cash primarily include capital expenditures, contractual concession fees and, to a lesser extent, salaries and benefits for our employees and other operating expenses. We expect that these will remain our principal uses of cash in the foreseeable future. However, we may use additional cash to fund strategic acquisitions, although we are not currently negotiating any material acquisitions.

The following table shows our cash flows with respect to operating activities, investing activities and financing activities for the years ended December 31, 2006, 2007 and 2008:

	<u>Year ended</u> <u>December 31, 2006</u>	<u>(in thousands)</u> <u>Year ended</u> <u>December 31, 2007</u> <u>(in thousands)</u>	<u>Year ended</u> <u>December 31, 2008</u>
Net cash provided by (used in) operating activities	US\$ 2,020	US\$ (6,510)	US\$ 3,586
Net cash used in investing activities	(5,346)	(15,673)	(56,692)
Net cash provided by financing activities	2,285	229,989	789
Net increase (decrease) in cash	(866)	208,829	(49,381)
Effect of exchange rate changes on cash	175	1,023	2,936
Cash at the beginning of the period	2,952	2,086	210,915
Cash at the end of the period	2,086	210,915	161,534

Operating Activities

Net cash provided by operating activities was US\$3.6 million for the year ended December 31, 2008. This was primarily attributable to (1) our net income of US\$30.2 million from the operation of our advertising networks and (2) an increase of US\$10.6 million in accounts payable primarily consisting of the concession fees payable under our concession rights contracts for our digital frames, digital TV screens or programs due to the expansion of our network coverage and increased number of concession rights contracts. The foregoing was partly offset by (1) an increase of US\$24.4 million in accounts receivable from our customers due to our increased sales, (2) an increase of US\$15.9 million in prepaid concession fees under our concession rights contracts with the airports and airlines, and (3) an increase of US\$8.9 million in long-term deposits primarily as security for office rental deposits.

Net cash used in operating activities was US\$6.5 million for the year ended December 31, 2007. This was primarily attributable to (1) an increase of US\$11.7 million in prepaid concession fees under our concession rights contracts with the airports and airlines, (2) an increase of US\$7.8 million in accounts receivable from our customers due to our increased sales, and (3) an increase of US\$3.8 million in long term-deposits primarily as security for office rental deposits. The foregoing was partly offset by (1) our net profit of US\$16.2 million from the operation of our advertising networks, and (2) an increase of US\$1.6 million in accounts payable primarily consisting of the concession fees payable under our concession rights

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contracts for our digital TV screens or programs due to the expansion of our network coverage and increased number of concession rights contracts.

We had cash provided by operating activities of US\$2.0 million in 2006. This was primarily attributable to (1) our net income of US\$4.1 million generated from the operation of our advertising networks, (2) an increase of US\$1.8 million in accounts payable primarily consisting of the concession fees payable under our concession rights contracts for our digital TV screens or programs due to the expansion of our network coverage, and (3) an increase of US\$1.0 million in deferred revenues derived from prepayment by customers due to our increased sales. The foregoing was partly offset by (1) an increase of US\$4.5 million in accounts receivable from our customers due to our increased sales, and (2) an increase of US\$1.1 million in other current assets primarily attributable to our prepayment of agency fees to third-party agencies and advance payments to our employees.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2008 amounted to US\$56.7 million, mainly as a result of (1) our purchases of equipment, primarily digital frames and digital TV screens for US\$50.4 million, and (2) US\$6.3 million for the advance payment of contingent considerations in connection with our acquisition of the airport gate bridge advertising business.

Net cash used in investing activities amounted to US\$15.7 million for the year ended December 31, 2007, mainly as a result of (1) our purchases of equipment, primarily digital TV screens, for US\$13.0 million, and (2) the final US\$1.3 million payment to acquire a 75% equity interest in AirTV United. The initial US\$2.0 million payment of the total consideration of US\$3.3 million for the 75% equity interest was paid in 2006. We also used US\$1.3 million for a long-term investment in connection with our acquisition of a 51% equity interest in Beijing Aiyike.

Net cash used in investing activities in 2006 amounted to US\$5.3 million, mainly as a result of our purchases of equipment, primarily digital TV screens, for US\$3.3 million and the purchase of intangible assets, primarily to acquire a 75% equity interest in AirTV United, for an initial US\$2.0 million payment out of total consideration of US\$3.3 million, the balance of which was recorded as amount due to a related party as of December 31, 2006.

Financing Activities

Net cash provided by financing activities amounted to US\$0.8 million for the year ended December 31, 2008, as a result of the proceeds from stock option exercises.

Net cash provided by financing activities amounted to US\$230.0 million for the year ended December 31, 2007, mainly as a result of (1) US\$190.8 million of the proceeds from our initial public offering in November 2007, (2) the US\$39.0 million of net proceeds from our Series B preferred share placement in June 2007, and (3) the final drawdown of US\$2.9 million of the total US\$12.0 million proceeds from our Series A preferred share placements.

Net cash provided by financing activities in 2006 amounted to US\$2.3 million, mainly as a result of US\$3.1 million of proceeds from our Series A preferred share placements, partly offset by our repayment of note payable of US\$0.8 million.

Capital Expenditures

We incurred capital expenditures of US\$7.4 million, US\$13.0 million and US\$50.4 million for the years ended December 31, 2006, 2007 and 2008, respectively. Our capital expenditures were made primarily to purchase digital TV screens, digital frames and associated equipment for our network. We also periodically exchange advertising time slots with other entities for digital TV screens, other equipment and office rental through barter transactions.

We expect to incur capital expenditures of approximately US\$32.2 million in 2009 primarily to purchase additional digital frames, upgrade our light box displays to digital frames and install mega LED

screens.

We believe that our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for capital expenditures for the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions.

Recently Issued Accounting Standards

In September 2006, FASB issued SFAS 157. Effective January 1, 2008, we adopted the measurement and disclosure other than those requirements related to nonfinancial assets and liabilities in accordance with guidance from FASB Staff Position 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of fiscal year 2009. We do not expect the adoption of SFAS 157 for nonfinancial assets and liabilities will have a significant effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141, Business Combinations: (Revised 2007) ("SFAS 141R"). SFAS 141R is relevant to all transactions or events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer to recognize any assets and noncontrolling interest acquired and liabilities assumed to be measured at fair value as of the acquisition date. Liabilities related to contingent consideration are recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of the consideration may be resolved beyond a reasonable doubt. This revised approach replaces SFAS 141's cost allocation process in which the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their respective fair value. SFAS 141R requires any acquisition-related costs and restructuring costs to be expensed as incurred as opposed to allocating such costs to the assets acquired and liabilities assumed as previously required by SFAS 141. Under SFAS 141R, an acquirer recognizes liabilities for a restructuring plan in purchase accounting only if the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, are met. SFAS 141R allows for the recognition of pre-acquisition contingencies at fair value only if these contingencies are likely to materialize. If this criterion is not met at the acquisition date, then the acquirer accounts for the non-contractual contingency in accordance with recognition criteria set forth under SFAS 5, Accounting for Contingencies, in which case no amount should be recognized in purchase accounting. SFAS 141R is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008. We do not expect the adoption of SFAS 141R will have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-An Amendment of ARB No. 51, or SFAS 160. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity on the financial statements. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Furthermore, disclosure of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest is required on the face of the financial statements. SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008. We do not expect the adoption of SFAS 160 will have significant impact on our consolidated financial position or results of operations, other than certain changes to the presentation of the financial statements.

In April 2008, the FASB issued FASB Staff Position FAS142-3: Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. We are in the process of assessing the potential impact the adoption of FSP 142-3 may have on our consolidated financial position or results of operations.

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At a November 24, 2008 meeting, the FASB ratified the consensus reached by the Task Force in Issue No. 08-6: Equity Method Investment Accounting Considerations, or EITF 08-6. Because of the significant changes to the guidance on subsidiary acquisitions and subsidiary equity transactions and the increased use of fair value measurements as a result of Statements 141(R) and 160, questions have arisen regarding the application of that accounting guidance to equity method investments. EITF 08-6 provides guidance for entities that acquire or hold investments accounted for under the equity method. This issue is effective for transactions occurring in fiscal years and interim periods beginning on or after December 15, 2008. Early adoption is not permitted. We do not expect the adoption of EITF 08-6 will have significant impact on our consolidated financial position or results of operations.

C. Research and Development, Patents and Licenses, Etc.

Intellectual Property

To protect our brand and other intellectual property, we rely on a combination of trademark and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. We are in the process of registering three trademarks in China, including “航美传媒,” “AirMedia” and our business logo. We have registered our domain name www.AirMedia.net.cn with the Internet Corporation for Assigned Names and Numbers. We do not hold any patents or copyrights and cannot be certain that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights.

We cannot assure you that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights. If others are able to copy and use our proprietary information and operational system and other proprietary technology platform without spending time and resources to develop their own, we may not be able to maintain our competitive position. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving and could involve substantial risks to us. If litigation is necessary to enforce our intellectual property rights or determine the scope of the proprietary rights of others, we may have to incur substantial costs or divert other resources, which could harm our business and prospects.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since January 1, 2008 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our 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. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

We have entered into operating lease agreements primarily for our office spaces in China. These leases expire through 2010 and are renewable upon negotiation. In addition, the contract terms of our concession rights contracts are usually three to five years. Most of these concession rights expire through 2015 and are renewable upon negotiation. The following table sets forth our contractual obligations and commercial commitments as of December 31, 2008:

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	Payment Due by Period				
	Total	Less than 1 year	1-3 years (in thousands)	3-5 years	more than 5 years
Operating lease agreements	US\$ 2,053	US\$ 1,435	US\$ 618	US\$ —	US\$ —
Concession rights contracts	160,024	66,142	71,534	16,237	6,111
Total	<u>US\$162,076</u>	<u>US\$ 67,577</u>	<u>US\$ 72,152</u>	<u>US\$ 16,237</u>	<u>US\$ 6,111</u>

Other long-term liabilities, such as non-current deferred tax liabilities, have been excluded from the above table due to the uncertainty of the timing of payments. The above table also excludes the contingent consideration to be paid in connection with our acquisition of the gate bridge advertising business in 2008, which would amount to a total of up to US\$27.3 million in cash and 1,530,950 of our ordinary shares, or up to US\$40.3 million in cash only, at the sole discretion of the sellers of Excel Lead, over the next two years, depending on the after-tax net profit performance of Excel Lead in the second half of 2008, the full year of 2009 and 2010, respectively.

G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other and similar expressions. Forward-looking statements involve inherent risks and uncertainties.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- our plans to expand our air travel advertising network into additional locations, airports and airlines;
- competition in the advertising industry and the air travel advertising industry in China;
- the expected growth in consumer spending, average income levels and advertising spending levels;
- the growth of the air travel sector in China; and
- PRC governmental policies relating to the advertising industry.

You should read thoroughly this annual report and the documents that we refer to in this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

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Directors and Executive Officers	Age	Position/Title
Herman Man Guo	45	Chairman and Chief Executive Officer
Xiaoya Zhang	46	Director and President
Qing Xu	48	Director
Shichong Shan	78	Independent Director
Donglin Xia	48	Independent Director
Junjie Ding	45	Independent Director
Songzuo Xiang	44	Independent Director
James Zhonghua Feng	38	Chief Operating Officer
Conor Chiahung Yang	46	Chief Financial Officer
Wei He	34	Chief Public Relations Officer
Ken Zijian Zeng	47	Executive President
Jacky Jian Li	52	Vice President of Operations
Aaron Ting Pan Tsoi	37	Vice President of Sales

Mr. Herman Man Guo is our founder and has served as the chairman of our board of directors and our chief executive officer since our company's inception. He was the general manager of Beijing Sunshine Media Co., Ltd. from 1997 to 2004. From 1991 to 1996, Mr. Guo served as the deputy general manager of Beijing Trade & Technology Development Company. Prior to that, he worked in China Civil Aviation Development Service Company in 1988. Mr. Guo received his bachelor's degree in applied mathematics from People's Liberation Army Information Engineering University in China in 1983 and currently attends the Executive MBA program at Peking University in China.

Mr. Xiaoya Zhang has served as our director and president since our company's inception. From 1995 to 2004, Mr. Zhang was a department director of China Investment Engineering Consulting Company. Prior to that, he served as the deputy general manager of Dalian Zhongxing Industrial Company from 1992 to 1995. From 1989 to 1992, Mr. Zhang served as the program manager of China Agriculture Development Trust Investment Company. Mr. Zhang received his bachelor's degree in mathematics from Shandong University in China in 1983 and his master's degree in system engineering from Beijing University of Aeronautics and Astronautics in China in 1989.

Mr. Qing Xu has served as our director since October 2005. From 2003 to 2005, Mr. Xu served as a vice president of Zhongyuan Guoxin Investment Guarantee Co., Ltd. Prior to that, he served as a department director of China Haohua Group Co., Ltd. from 1997 to 2003 and as a department manager of Beijing Trade & Technology Development Company from 1991 to 1997. Mr. Xu was a secretary at the PRC State Council Secretary Bureau from 1984 to 1991. Mr. Xu received his associate's degree in business and economics management from Beijing Normal University in 1996.

Mr. Shichong Shan has served as our independent director since July 2007. Mr. Shan has retired since 1996. Before he retired, Mr. Shan had held a number of senior executive positions in various government agencies and other organizations in the aviation industry in China, including CAAC. Mr. Shan attended the college program at the Eastern China Military and Politics Institute in China.

Mr. Donglin Xia has served as our independent director since October 2007. Mr. Xia is an accounting professor of the School of Economics and Management, Tsinghua University. He is also an advisor to the Accounting Standard Committee of the Ministry of Finance in China and the deputy chairman of the Section of Basic Accounting Theory of the Accounting Society of China. He served as the head of the accounting department at the School of Economics and Management, Tsinghua University from 1998 to 2000. Mr. Xia currently serves on the board of Huaneng Power International, a power generation company in China that is listed on the New York Stock Exchange, Shanghai Stock Exchange and Hong Kong Stock Exchange, Shantui Construction Machinery Co., Ltd., a soil-moving equipment company listed on the Shenzhen Stock Exchange in China, and Xinxing Pipes Group, a company manufacturing ductile iron pipes and steel listed on the Shenzhen Stock Exchange in China. Mr. Xia received his Ph.D. degree in economics from the Research Institute of Fiscal Science of the Ministry of Finance in China in 1994.

Mr. Junjie Ding has served as our independent director since November 2008. Mr. Ding is also an independent director of SinoMedia Holding Limited, a media advertising operator in China that is listed on the Hong Kong Stock Exchange. Mr. Ding is a vice president of the Communication University of China and the

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deputy officer of the China Advertising Association of Commerce. With nearly 20 years of experience in the media and advertisement industry, Mr. Ding is the editor of various periodicals, such as International Advertising and the Annual Book of Chinese Advertising Works. He received his Ph.D. degree in communications in 2003 from the Communication University of China.

Dr. Songzuo Xiang has served as our independent director since November 2008. He currently serves on the board of Hurray Holding Co., Ltd., a Nasdaq-listed company providing music and music-related products to mobile users in China, and China Digital TV Co. Ltd., a NYSE-listed company providing conditional access systems to China's digital television market. Dr. Songzuo Xiang previously served as the Deputy Director of the Fund Planning Department at the People's Bank of China Shenzhen Branch and was an investment manager at Shenzhen Resources & Property Development Group. He was a visiting scholar at Columbia University from May 1999 to July 2000 and at Cambridge University from October 1998 to May 1999. Dr. Xiang received his bachelor's degree in engineering in Huazhong University of Science and Technology in 1986, his master's degree in international affairs from Columbia University in 1999, his master's degree in management science in 1993 and his Ph.D. degree in economics in 1993 from Renmin University in China.

Mr. James Zhonghua Feng has served as our chief operating officer since October 2005. Before joining us in 2005, he served as the general manager of New Chang'an Media Advertising Company from 2004 to 2005. From 2002 to 2004, Mr. Feng served as the deputy general manager of Beijing Tianzhi Creative Advertising Company. Prior to that, he was the general manager of the Beijing and Shanghai branches of Shenzhen Nantong Umbrella Industry Group Co., Ltd. Mr. Feng received his bachelor's degree in Chinese literature from Sichuan Normal University in China in 1993 and currently attends the Executive MBA program at Peking University in China.

Mr. Conor Chiahung Yang has served as our chief financial officer since March 2007. Prior to joining our company, he was the chief executive officer of Rock Mobile Corporation from 2004 to February 2007. From 1999 to 2004, Mr. Yang served as the chief financial officer of the Asia Pacific region for CellStar Asia Corporation. Mr. Yang was an executive director of Goldman Sachs (Asia) L.L.C. from 1997 to 1999 and the chief investment officer of Sherwood Inc. from 1996 to 1997. Mr. Yang was a vice president of Lehman Brothers Asia Limited from 1994 to 1996 and worked at Morgan Stanley Asia from 1992 to 1994. Mr. Yang received his bachelor's degree in food science from Fu Jen University in Taiwan in 1985 and his MBA degree from University of California, Los Angeles in 1992.

Ms. Wei He has served as our chief public relations officer since May 2006. Prior to joining our company, she worked as the deputy general manager of Taixiang Investment Consulting Co. Ltd. from 2003 to 2006. Prior to this, she served as the director of the liaison department of Kelon Electrical Holdings Company Ltd. from 2000 to 2002. She served as the account manager of Hongkong Pengli Group from 1999 to 2000. She received her bachelor's degree from Qufu Normal University in China in 1998 and her MBA degree from the City University of Washington in 2006.

Mr. Ken Zijian Zeng has served as our executive president since January 2008. Prior to joining our company, he served as the general manager of Asiary Media Group, an out-of-home advertising company with operation in approximately 30 airports in China, where he oversaw its overall operation and management from 1999 to 2007 and expanded its business from approximately 6 airports to 30 airports. From 2002 to 2005, Mr. Zeng served as the general manager of Posterscope China, an outdoor advertising company. From 1994 to 1998, Mr. Zeng ran his own business of international trade between Australia and China. Prior to that, Mr. Zeng worked as a programmer at Industrial and Commercial Bank of China from 1990 to 1997. Mr. Zeng received his bachelor's degree in computer science from University of Technology Sydney in Australia in 1991 and another bachelor's degree in automatic control from Sun Yat-sen University in China in 1983.

Mr. Jacky Jian Li has served as our vice president of operations since October 2005. Prior to joining our company, Mr. Li worked for ASDM International Advertising Co., Ltd. from 2003 to 2005, where he was a program director. From 2002 to 2003, he served as a program director of CCTV. He was the deputy general manager of Super Star Reader Company from 2000 to 2002 after he served as the chief representative of Polyglot International in China from 1993 to 2000. Mr. Li received his bachelor's degree in Chinese literature from Peking University in China in 1983.

Mr. Aaron Ting Pan Tsoi has served as our vice president of sales since June 2008. Prior to joining our company, Mr. Tsoi served as a regional managing partner of North Asia at MindShare Beijing, a leading global media network of the WPP Group, where he oversaw the accounts for the North Asia markets, People's

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Republic of China, Hong Kong, Taiwan and Japan since 2006. From March 2001 to May 2006, Mr. Tsoi served as the general manager of MediaCom China, a Grey Group company, where he was in charge of the overall operation of the Beijing, Shanghai and Guangzhou offices. Mr. Tsoi received his bachelor's degree in economics from the University of Hong Kong in 1993.

Employment Agreements

We have entered into employment agreements with all of our senior executive officers, Herman Man Guo, Xiaoya Zhang, James Zhonghua Feng and Conor Chiahung Yang. Under these employment agreements, each of our four executive officers is employed for a specified time period, subject to automatic extension unless either we or the executive officer gives a one-month prior notice to terminate such employment. We have also entered into employment agreements with our other executive officers, including Jacky Jian Li, Ken Zijian Zeng, Aaron Tsoi and Wei He. Each of the contract terms was a period of two or three years. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the employee, including but not limited to a conviction or plea of guilty to certain crimes, negligence or dishonesty to our detriment and failure to perform the agreed-to duties after a reasonable opportunity to cure the failure. An executive officer may terminate his employment at any time without notice or penalty if there is a material reduction in his authority, duties and responsibilities or if there is a material reduction in his annual salary before the next annual salary review. Furthermore, either we or an executive officer may terminate the employment at any time without cause upon advance written notice to the other party. These agreements do not provide for any special termination benefits, nor do we have other arrangements with these executive officers for special termination benefits.

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use, except as required in the performance of his duties in connection with the employment, any confidential information, trade secrets and know-how of our company or the confidential information of any third party, including our variable interest entities and our subsidiaries, received by us. In addition, each executive officer has agreed to be bound by non-competition restrictions set forth in his or her employment agreement. Specifically, each executive officer has agreed not to, for a period ranging from one to two years following the termination or expiration of the employment agreement, (i) carry on or be engaged or interested, directly or indirectly, as shareholder, director, employee, partner, agent or otherwise carry on any business in direct competition with our business; (ii) solicit or entice away from us, or attempt to solicit or entice away from us, any person or entity who has been our customer, client or our representative or agent or in the habit of dealing with us within two years prior to such executive officer's termination of employment; (iii) solicit or entice away from us, or attempt to solicit or entice away from us, any person or entity who has been our officer, manager, consultant or employee within two years prior to such executive officer's termination of employment; or (iv) use a name including the word "AirMedia" or any other words used by us in our name or in the name of any of our products or services, in such a way as to be capable of or likely to be confused with our name or the name of our products or services.

B. Compensation of Directors and Executive Officers

In 2008, the aggregate cash compensation to our executive officers was approximately US\$1.1 million and the aggregate cash compensation to our non-executive directors was approximately US\$70,735.

Share Options

In July 2007, we adopted the 2007 Share Incentive Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. As of the date of this annual report, our board of directors has authorized the issuance of up to 17,000,000 ordinary shares upon the exercise of awards granted under our plan. As of December 31, 2008, options to purchase a total of 10,395,000 of our ordinary shares have been granted and 9,902,052 options were outstanding. These options will vest on a straight-line basis over a three-year period, with one-twelfth of the options vesting each quarter from the date of grant.

The following table summarizes, as of the date of this annual report, the options granted to our senior executive officers, directors and to other individuals as a group, without giving effect to the options that were exercised or terminated, if any.

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Name	Ordinary Shares Underlying Options	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Herman Man Guo	2,000,000	2.00	July 2, 2007	July 2, 2017
Xiaoya Zhang	1,000,000	2.00	July 2, 2007	July 2, 2017
James Zhonghua Feng	*	2.00	July 2, 2007	July 2, 2017
	*	2.00	July 20, 2007	July 20, 2017
	*	2.98 ⁽¹⁾	November 29, 2007	November 29, 2012
Conor Chaihung Yang	*	2.00	July 2, 2007	July 2, 2017
	*	2.98 ⁽¹⁾	November 29, 2007	November 29, 2012
Shichong Shan	*	2.00	July 20, 2007	July 20, 2017
Donglin Xia	*	2.98 ⁽¹⁾	November 29, 2007	November 29, 2012
Zijian Zeng	*	2.98 ⁽¹⁾	November 29, 2007	November 29, 2012
Other individuals as a group	3,265,000	2.00	July 20, 2007	July 20, 2017
Other individuals as a group	870,000	2.98 ⁽¹⁾	November 29, 2007	November 29, 2012

* Aggregate beneficial ownership of our company by such officer or director is less than 1% of our total outstanding ordinary shares.

Note (1): On December 10, 2008, to provide better incentive to our employees, our board of directors approved an adjustment to the exercise price of the stock options previously granted on November 29, 2007. The exercise price of each option was originally \$8.50 per ordinary share. The revised exercise price for each option is \$2.98 per ordinary share.

The following paragraphs summarize the terms of our 2007 Share Incentive Plan.

Plan Administration. Our board of directors, or a committee designated by our board or directors, will administer the plan. The committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of each option grant.

Award Agreements. Options and stock purchase rights granted under our plan are evidenced by a stock option agreement or a stock purchase right agreement, as applicable, that sets forth the terms, conditions and limitations for each grant. In addition, the stock option agreement and the stock purchase right agreement also provide that securities granted are subject to a 180-day lock-up period following the effective date of a registration statement filed by us under the Security Act, if so requested by us or any representative of the underwriters in connection with any registration of the offering of any of our securities.

Eligibility. We may grant awards to our employees, directors and consultants or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest.

Acceleration of Options upon Corporate Transactions. The outstanding options will terminate and accelerate upon occurrence of a change-of-control corporate transaction where the successor entity does not assume our outstanding options under the plan. In such event, each outstanding option will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and the repurchase or forfeiture rights will terminate immediately before the date of the change-of-control transaction provided that the grantee's continuous service with us shall not be terminated before that date.

Term of the Options. The term of each option grant shall be stated in the stock option agreement, provided that the term shall not exceed 10 years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the stock option agreement specifies, the vesting schedule.

Transfer Restrictions. Options to purchase our ordinary shares may not be transferred in any manner by the optionee other than by will or the laws of succession and may be exercised during the lifetime of the optionee only by the optionee.

Termination of the Plan. Unless terminated earlier, the plan will expire and no further awards may be granted after July 2017. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law. However, no such action may (i) impair the rights of any optionee unless agreed by the optionee and the plan administrator or (ii) affect the plan administrator's ability to exercise the powers granted to it under our plan.

C. Board Practices

Our board of directors currently consists of seven directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the 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 the company or of any third party.

Committees of the Board of Directors

We have established two committees under the board of directors: the audit committee and the compensation committee. We currently do not plan to establish a nominating committee. The independent directors of our company will select and recommend to the board for nomination by the board such candidates as the independent directors, in the exercise of their judgment, have found to be well qualified and willing and available to serve as our directors prior to each annual meeting of our shareholders at which our directors are to be elected or re-elected. In addition, our board of directors has resolved that director nominations be approved by a majority of the board as well as a majority of the independent directors of the board. In compliance with Rule 5605(b)(1) of the Nasdaq Marketplace Rules, all members of our audit committee and compensation committee are independent directors. We have adopted a charter for each of the board committees. Each committee's members and responsibilities are described below.

In 2008, our board held meetings or passed resolutions by unanimous written consent 15 times.

Audit Committee. Our audit committee consists of Messrs. Songzuo Xiang, Shichong Shan and Donglin Xia. We have determined that Messrs. Songzuo Xiang, Shichong Shan and Donglin Xia satisfy the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 5605(c)(2)(A) of the Nasdaq Marketplace Rules. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the 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 the independent auditors;
- 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 the independent auditors; and
- reporting regularly to the full board of directors.

In 2008, our audit committee held meetings or passed resolutions by unanimous written consent five times.

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Compensation Committee. Our compensation committee consists of Messrs. Junjie Ding, Shichong Shan and Donglin Xia. We have determined that Messrs. Junjie Ding, Shichong Shan and Donglin Xia satisfy the “independence” requirements of Rule 5605(d) of the Nasdaq Marketplace Rules. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided 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 will be responsible for, among other things:

- reviewing and recommending to the board with respect to the total compensation package for our four most senior executives;
- approving and overseeing the total compensation package for our executives other than the four 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.

In 2008, our compensation committee held meetings or passed resolutions by unanimous written consent five times.

Duties of Directors

Under Cayman Islands law, our directors have a statutory duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and with 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. A shareholder has the right to seek damages if a duty owed by our directors is breached.

Terms of Directors and Officers

All directors hold office until their successors have been duly elected and qualified. A director may only be removed by the shareholders. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

We had 165, 451 and 564 employees as of December 31, 2006, 2007 and 2008, respectively. The following table sets forth the number of our employees by area of business as of December 31, 2008:

	<u>Number of Employees</u>	<u>% of Total</u>
Sales and Marketing Department	262	46.5%
Quality Control and Technology Department	131	23.2
Programming Department	37	6.6
Resources Development Department	24	4.3
General Administrative and Accounting	110	19.4
Total	564	100.0%

Generally we enter into standard employment contracts with our officers, managers and other employees. According to these contracts, all of our employees are prohibited from engaging in any other employment during the period of their employment with us. The employment contracts with officers and managers are subject to renewal every three years and the employment contracts with other employees are subject to renewal every year.

In addition, we enter into standard confidentiality agreements with all of our employees including officers and managers that prohibit any employee from disclosing confidential information obtained during their

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employment with us. Furthermore, the confidentiality agreements include a covenant that prohibits all employees from engaging in any activities that compete with our business up to two years after the period of their employment with us.

None of our employees is a member of a labor union and we consider our relationship with our employees to be good.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares, as of April 27, 2009, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5.0% of our ordinary shares.

The calculations in the shareholder table below are based on 131,132,919 ordinary shares issued and outstanding as of April 27, 2009. 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 after April 27, 2009, including through the exercise of any option, 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.

	Shares Beneficially Owned	
	Number	%
Directors and Executive Officers:		
Herman Man Guo(1)	55,276,068	41.8
Qing Xu(2)	6,950,560	5.3
Xiaoya Zhang(3)	3,206,798	2.4
Shichong Shan	*	*
Donglin Xia	*	*
James Zhonghua Feng	*	*
Conor Chiahung Yang	*	*
Ken Zijian Zeng	*	*
Jacky Jian Li	*	*
Wei He	*	*
Principal Shareholders:		
Wealthy Environment Limited(4)	54,109,402	41.3
Global Gateway Investments Limited(5)	26,100,000	19.9
Mambo Fiesta Limited(6)	6,950,560	5.3

* Aggregate beneficial ownership of our company by such director or officer is less than 1% of our total outstanding ordinary shares.

Note: (1) Includes (i) 53,747,558 ordinary shares held by Wealthy Environment Limited, a British Virgin Islands company wholly owned by Mr. Guo, (ii) 361,844 ordinary shares held by Wealthy Environment Limited, in the form of ADSs, each representing two ordinary shares of the company, and (iii) 1,166,666 ordinary shares issuable upon exercise of options held by Mr. Guo that are exercisable within 60 days after April 27, 2009. The business address of Mr. Guo is 17/F, Sky Plaza, No.46 of Dongzhimenwai Street, Dongcheng District, Beijing, China.

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- (2) Includes 6,950,560 ordinary shares held by Mambo Fiesta Limited, a British Virgin Islands company wholly owned by Mr. Xu. The business address of Mr. Xu is 17/F, Sky Plaza, No.46 of Dongzhimenwai Street, Dongcheng District, Beijing, China.
- (3) Includes 2,623,466 ordinary shares held by Great Bridges International Corporation, a British Virgin Islands company wholly owned by Mr. Zhang, and 583,332 ordinary shares issuable upon exercise of options held by Mr. Zhang that are exercisable within 60 days after April 27, 2009. The business address of Mr. Zhang is 17/F, Sky Plaza, No.46 of Dongzhimenwai Street, Dongcheng District, Beijing, China.
- (4) Includes 53,747,558 ordinary shares of the company and 361,844 ordinary shares of the company in the form of ADSs. Wealthy Environment Limited, a company incorporated in the British Virgin Islands, is wholly owned and controlled by Herman Man Guo. The registered address of Wealthy Environment Limited is P.O. Box 173, Kingston Chambers, Road Town Tortola, British Virgin Islands.
- (5) All of the issued and outstanding shares of Global Gateway Investments Limited are wholly owned by CDH Fund II, a Cayman Islands exempted limited partnership. CDH China Growth Capital Holdings Company Limited, or CDH Growth Capital Holdings, a Cayman Islands exempted limited liability company, is the general partner of CDH Fund II and has the power to direct CDH Fund II as to the voting and disposition of shares directly and indirectly held by CDH Fund II. The investment committee of CDH Growth Capital Holdings comprises Wu Shangzhi, Jiao Shuge and Liu Xinlai. Changes to the investment committee require the approval of the directors of CDH Growth Capital Holdings. The directors of CDH Growth Capital Holdings are nominated by the principal shareholders of CDH Growth Capital Holdings, being (1) an affiliate of Capital Z Partners, (2) an affiliate of the Government of Singapore Investment Corporation, and (3) China Diamond Holdings II, L.P., a British Virgin Islands limited partnership controlled by senior members of the CDH Fund II investment team. The registered address for Global Gateway Investments Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.
- (6) Mambo Fiesta Limited, a company incorporated in the British Virgin Islands, is wholly owned and controlled by Qing Xu. The registered address of Mambo Fiesta Limited is P.O. Box 173, Kingston Chambers, Road Town Tortola, British Virgin Islands.

None of our existing shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of April 27, 2009, 131,132,919 of our ordinary shares were issued and outstanding. To our knowledge, we had only one record shareholder in the United States, JPMorgan Chase Bank, N.A., which is the depository of our ADS program and held approximately 31.8% of our total outstanding ordinary shares as of April 27, 2009. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

For the options granted to our directors, officers and employees, please refer to “—B. Compensation of Directors and Executive Officers.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Contractual Arrangements

Since December 10, 2005, foreign investors have been permitted to own directly a 100% interest in PRC advertising companies with at least three years of direct operations outside of China. We do not currently directly operate an advertising business outside of China and cannot qualify under the PRC regulations allowing 100% foreign ownership of a PRC advertising company any earlier than three years after we commence any such operations or until we acquire a company which has directly operated an advertising business for the required period of time. Accordingly, since we have not been involved in the direct operation of an advertising business outside of China, our domestic PRC subsidiaries, AM Technology, Shenzhen AM and Xi’an AM which are considered foreign-invested, are currently ineligible to apply for the required advertising services licenses in China. Our advertising business is currently provided through contractual arrangements with our consolidated variable interest entities in China, principally AM Advertising, certain of its subsidiaries, Shengshi Lianhe, AirMedia UC and AM Yuehang.

Our consolidated variable interest entities directly operate our advertising network, enter into concession rights contracts and sell advertising time slots to our clients. We have been and are expected to continue to be dependent on our variable interest entities to operate our advertising business until we qualify for

direct ownership of an advertising business in China under the PRC laws and regulations and acquire our variable interest entities as our direct, wholly-owned subsidiaries. AM Technology has entered into contractual arrangements with our variable interest entities, pursuant to which AM Technology provide exclusive technology support and service and technology development services in exchange for payments from them. In addition, AM Technology has entered into agreements with our variable interest entities and each of their shareholders which provide AM Technology with the substantial ability to control our variable interest entities. These agreements are summarized in the following paragraphs.

Technology Support and Service Agreements. Pursuant to the technology support and service agreements and the supplementary agreements thereto between AM Advertising and AM Technology, Shengshi Lianhe and AM Technology, AirMedia UC and AM Technology, and AM Yuehang and AM Technology, respectively, AM Technology has the exclusive right to provide to AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang technology consulting services, including research and development of technologies related to AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang's operation, the maintenance and monitoring of displays and programming systems, research on the solution of technical problems, and other related technical support and services. AM Technology owns the intellectual property rights developed in the performance of these agreements. The service fees that AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang pay to AM Technology, respectively, should be in amounts that guarantee that AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, or 1.0% in the case of AM Yuehang, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. These service fees should be settled by the end of each quarter and subject to adjustments in the annual account settlement that should be completed within three months after the end of each fiscal year. These agreements run for ten-year terms and are subject to automatic renewal for an additional ten-year term provided that no objection is made in the twenty-days prior to the renewal of the term.

Technology Development Agreements. Pursuant to the technology development agreements and the supplementary agreements thereto between AM Advertising and AM Technology, Shengshi Lianhe and AM Technology, AirMedia UC and AM Technology and AM Yuehang and AM Technology, respectively, AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang exclusively engage AM Technology to provide technology development services. AM Technology owns the intellectual property rights developed in the performance of these agreements. The service fees that AM Advertising, Shengshi Lianhe and AirMedia UC pay to AM Technology, respectively, should be in amounts that guarantee that AM Advertising, Shengshi Lianhe and AirMedia UC can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5%, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The service fees that AM Yuehang pays to AM Technology should be an amount mutually agreed by AM Yuehang and AM Technology in the first month of each year. These service fees should be settled by the end of each quarter and subject to adjustments in the annual account settlement that should be completed within three months after the end of each fiscal year. These agreements run for ten-year terms and are subject to automatic renewal for an additional ten-year term provided that no objection is made within twenty-days prior to the renewal of the term.

Call Option Agreements. Under the call option agreements among AM Advertising, AM Technology, and the shareholders of AM Advertising, among Shengshi Lianhe, AM Technology and the shareholders of Shengshi Lianhe, among AirMedia UC, AM Technology and the shareholders of AirMedia UC and among AM Yuehang, AM Technology and the shareholders of AM Yuehang, respectively, the shareholders of AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang irrevocably granted AM Technology or its designated third party an exclusive and irrevocable right to purchase from AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang's shareholders, as the case may be, to the extent permitted under PRC law, all of the equity interests in AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. AM Technology agrees to provide a guarantee for AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang's performance of their obligations under any contracts or agreements relating to their business operations and committed to provide loans to support the business development needs of AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang or when AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang suffers any operating difficulties. In April 2008, AM Technology provided an entrusted loan in the amount of US\$5.9 million and US\$4.4 million to Shengshi Lianhe and AM Advertising, respectively, to meet their working capital needs. As of December 31, 2008, US\$3.7 million of these entrusted loans was outstanding.

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Equity Pledge Agreements. Under the equity pledge agreements among AM Advertising, AM Technology and the shareholders of AM Advertising, among Shengshi Lianhe, AM Technology and the shareholders of Shengshi Lianhe, among AirMedia UC, AM Technology and the shareholders of AirMedia UC and among AM Yuehang, AM Technology and the shareholders of AM Yuehang, respectively, the shareholders of AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang pledged all of their equity interests in AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang, as the case may be, to AM Technology to guarantee AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang's performance of its obligations under the technology support and service agreements and the technology development agreements. AM Technology has the right to receive dividends from the shares pledged by the shareholders of AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang.

Loan Agreements. In 2007 and 2008, AM Technology entered into loan agreements with, and extended interest-free loans in the aggregate amount of US\$675,899 to, the record owners of the following consolidated variable interest entities: AM Advertising, AirMedia UC and AM Yuehang. These loans were made solely in connection with the initial capitalization and the subsequent increase of registered capitals of the applicable variable interest entities by the respective record owners. All record owners of these variable interest entities have pledged their respective equity interests in these entities to AM Technology to secure their obligations to repay the loans upon maturity. Each loan agreement will expire ten years from the date thereof.

Authorization Letters. Each shareholder of AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang has executed an authorization letter to authorize AM Technology to exercise certain of its rights as shareholder of AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang, as the case may be, including voting rights, the rights to enter into legal documents to transfer any or all of its equity interests in AM Advertising, Shengshi Lianhe, AirMedia UC or AM Yuehang, as the case may be, and the rights to designate the general manager of AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang in the shareholder meetings. Such authorization letters will remain effective during the respective operating periods of AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang.

Business Cooperation Agreements. AirTV United, a PRC company 75% owned by AM Advertising, holds a license to produce and operate television programs to be played in airports and on airplanes, which was granted by the State Administration of Radio, Film and Television. Under the business cooperation agreements between AirTV United and AM Advertising, and AirTV United and Shengshi Lianhe, respectively, AirTV United agreed to provide program collecting, selecting, editing and compiling services to AM Advertising and Shengshi Lianhe to satisfy their requirements for non-advertising contents shown in airports or on airplanes. AirTV United owns the copyrights developed in the performance of these agreements. AM Advertising and Shengshi Lianhe pay AirTV United a certain amount of service fees based on the program acquisition costs of AirTV United, the number and experience of program editing staff of AirTV United and the contents and value of the programs provided by AirTV United. AirTV United agreed not to enter into similar cooperation agreements or arrangements with any third parties without the written consent of AM Advertising and Shengshi Lianhe. These agreements run for ten-year terms.

Amounts Due to BEMC

We assigned concession rights of certain media resources to BEMC, our joint venture with China Eastern Media Corporation, Ltd. As of December 31, 2008, we received US\$408,000 deposit from BEMC as the consideration for the assignment of these concession rights.

Amounts Due to Sunshine Media Co., Ltd.

Sunshine Media Co., Ltd., or Sunshine, is a PRC company that was incorporated in September 1997. It was formed by Herman Man Guo, our chairman and chief executive officer, Qing Xu, our director, and other third party shareholders. Its principal business operation is to sell flight tickets for airlines.

In 2005, Sunshine paid to third parties on our behalf the costs of purchasing digital TV screens and certain operating expenses, and we agreed to reimburse Sunshine. We do not expect to enter into similar arrangements with Sunshine in the future. In October 2006, AM Advertising acquired a 75% equity interest in AirTV United from Sunshine at a purchase price of approximately US\$3.3 million. Our amounts due to Sunshine were US\$0.6 million and US\$2.6 million as of December 31, 2005 and 2006, respectively. The amount for 2005 comprised operating expenses paid by Sunshine on behalf of and reimbursable by us for the purchase of digital TV screens. The amount for 2006 comprised operating expenses paid by Sunshine on behalf

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of and reimbursable by us for the purchase of digital TV screens and payable in connection with AM Advertising's acquisition of 75% of the equity interest in AirTV United from Sunshine. The amount due to Sunshine has been paid off by us in June 2007.

Amounts Due from Beijing Aiyike

We entered into an agreement with Beijing Aiyike, of which we own a 51% equity interest, in June 2007 to provide short-term, interest free and unsecured loans to Beijing Aiyike, which was repaid in July 2007.

In November 2008, we sold the investments in Beijing Aiyike to a third party for cash consideration of US\$0.7 million.

Private Placements

Series A Preferred Shares

In October 2005, we and CDH entered into an agreement, according to which we agreed that CDH or its affiliate would acquire a Series A preferred share interest in us. Under this agreement, CDH or its affiliate was obligated to pay US\$12.0 million to us in return for a Series A preferred share interest of 37.6% of our total equity interest on an as converted basis, with the payments to be made at our discretion. CDH, through its wholly-owned subsidiary, paid approximately US\$6.0 million and US\$3.0 million in 2005 and 2006, respectively, and paid the remaining balance in February 2007. In February 2007, we and Global Gateway Investments Limited, a wholly-owned subsidiary of CDH, entered into a Series A share purchase agreement to document the issuance of a Series A preferred share interest contemplated under the October 2005 agreement.

In conjunction with the October 2005 agreement, CDH agreed to transfer up to 5,000,000 ordinary shares (converted from CDH's Series A preferred shares) to Herman Man Guo, our founder, chairman and chief executive officer, if we achieved certain pre-determined performance benchmarks. On September 27, 2007, the share transfer arrangement was amended to eliminate the performance benchmarks and CDH transferred 5,000,000 ordinary shares (converted from CDH's Series A preferred shares) to Mr. Guo without any conditions in recognition of his service to us.

Each of the remaining outstanding Series A preferred shares was automatically converted into one ordinary share upon the closing of our initial public offering in November 2007.

Series B Preferred Shares

In June 2007, we issued and sold an aggregate of 16,000,000 Series B Redeemable Convertible Preferred Shares, par value US\$0.001 each, in a private placement pursuant to a Series B share purchase agreement dated April 26, 2007 at an aggregate price of US\$40.0 million to a group of investors, including OZMO, which purchased 3,868,000 shares, OZMA, which purchased 3,447,200 shares, SIMF, which purchased 684,800 shares, and AM SPV Limited, which purchased 8,000,000 shares from us. The 16,000,000 Series B preferred shares were automatically converted into 5,925,925 ordinary shares upon the completion of our initial public offering in November 2007. The price at which the Series B preferred shares converted into ordinary shares was 90% of the initial public offering price.

Shareholders Agreement

In connection with our Series A private placement in October 2005, we and certain of our shareholders entered into a shareholders agreement in March 2007 to further document the shareholding relationship agreed upon in October 2005. That shareholders agreement was terminated in June 2007 when we and certain of our shareholders entered into a new shareholders agreement, dated as of June 7, 2007, with the Series B investors pursuant to the Series B private placement. The June shareholders agreement was further amended and restated on September 27, 2007. Under this agreement, we have granted certain of our shareholders customary registration rights, including demand and piggyback registration rights and Form F-3 registration rights.

Share Exchange

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Pursuant to a share exchange agreement dated June 7, 2007 among AirMedia Group Inc., Broad Cosmos, Global Gateway Investments Limited and Herman Man Guo, Qing Xu and Xiaoya Zhang, or the Existing Shareholders, AirMedia Group Inc. acquired all of shares of Broad Cosmos from Global Gateway Investments Limited and each Existing Shareholders in exchange for the issuance of substantially identical equity securities of AirMedia Group Inc. to Global Gateway Investments Limited and each Existing Shareholders as held in Broad Cosmos immediately prior to the share exchange. As a result, AirMedia Group Inc. owns 100% of the outstanding equity securities of Broad Cosmos and Global Gateway Investments Limited and the Existing Shareholders together owned (prior to the Series B private placement) 100% of the outstanding equity securities of AirMedia Group Inc.

Share Options

See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Options.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

We may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. We are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy

We have never declared or paid any dividends, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion in deciding whether to distribute dividends. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing two of our ordinary shares, have been listed on the Nasdaq Global Market since November 7, 2007. Our ADSs trade under the symbol “AMCN.” For the period from November

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7, 2007 to April 24, 2009, the trading price of our ADSs on the Nasdaq Global Market has ranged from US\$3.80 to US\$26.51 per ADS. The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Market for (1) the year 2008; (2) the first quarter in 2009, the fourth quarter in 2007 and all quarters in 2008; and (3) each of the past six months.

	Trading Price	
	High US\$	Low US\$
Annual High and Low		
2008	26.51	3.85
Quarterly Highs and Lows		
Fourth Quarter 2007 (from November 7, 2007)	25.15	15.60
First Quarter 2008	26.51	15.01
Second Quarter 2008	21.96	12.91
Third Quarter 2008	15.06	6.43
Fourth Quarter 2008	7.70	3.85
First Quarter 2009	6.08	3.80
Monthly Highs and Lows		
2008		
October	7.70	3.85
November	6.96	4.26
December	6.18	3.88
2009		
January	6.08	4.72
February	5.74	3.94
March	4.77	3.80
April (through April 24)	5.71	4.18

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing two of our ordinary shares, have been listed on the Nasdaq Global Market since November 7, 2007. Our ADSs trade under the symbol "AMCN."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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We incorporate by reference into this annual report our amended and restated memorandum and articles of association filed as Exhibit 3.2 to our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Securities and Exchange Commission on October 19, 2007.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Exchange.”

E. Taxation

The following summary of the material Cayman Islands and United States federal income tax consequences of an investment in our ADSs or ordinary 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 ordinary shares, such as the tax consequences under state, local and other tax laws.

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. No Cayman Islands stamp duty will be payable unless an instrument is executed in, brought to or produced before a court in 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.

PRC Taxation

Under the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises effective prior to January 1, 2008, dividends payable to non-PRC investors are exempt from PRC withholding tax. In addition, under the PRC laws effective prior to January 1, 2008, any dividends payable, or distributions made, by us to holders or beneficial owners of our ADSs would not be subject to any PRC tax, provided that the holders or beneficial owners have not been physically resident in the PRC for a period of one year or more and have not become subject to PRC tax.

Under the new PRC tax law, which took effect on January 1, 2008, 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. Under the implementation rules of the new PRC tax law, “de facto management bodies” is defined as the bodies that have material and overall management and control over the business, personnel, accounts and properties of the enterprise. Substantially all of our management is currently based in China, and may remain in China after the effectiveness of the EIT Law. In addition, although the new PRC tax law provides that dividend income between “qualified resident enterprises” is exempted income, it is unclear what is considered a “qualified resident enterprise” under the new PRC tax law. Even a foreign enterprise otherwise classified as a “non-resident enterprise” shall be subject to the EIT on its income derived from PRC at the rate of 25% provided it has an establishment and premise in the PRC and at 10% provided its income derived from PRC is not effectively connected with that establishment and premise or it has no establishment or premise in the PRC.

Furthermore, unlike the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprise effective prior to January 1, 2008, which specifically exempted withholding tax on dividends payable to non-PRC investors, under the new PRC tax law, foreign corporate shareholders and corporate ADSs holders may be subject to a 10% income tax upon the dividends payable by us or on any gains they realize from the transfer of our shares or ADSs, if such income is regarded as income from “sources within the PRC.” Given the fact that (i) the new PRC tax law does not define what is “sources within the PRC”, (ii) whether we would be regarded as “Resident Enterprise” is not clear; and (iii) official clarification of the proper interpretation and implementation of the new PRC enterprise income tax law has not been promulgated, it is uncertain whether

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foreign corporate shareholders and corporate ADSs holders may be subject to a 10% income tax upon the dividends payable by us or on any gains they realize from the transfer of our shares or ADSs. If we are required under the new tax law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders and ADSs holders or on any gains of the transfer of their shares or ADSs, your investment in our ADSs or ordinary shares may be materially and adversely affected.

United States Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the ADSs or ordinary shares. This discussion applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this registration statement and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this registration statement, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, and it is possible that such change will apply retroactively and affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- certain financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting stock;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee stock options or otherwise as compensation; or
- persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR ORDINARY SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply if you are the beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

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- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership or other entity taxable as a partnership that holds ADSs or ordinary shares, your tax treatment will depend on your status and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with the terms. If you hold ADSs, you should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

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 beneficial ownership of the underlying shares (for example, pre-releasing ADSs to persons who do not have the beneficial ownership of the securities underlying the ADSs). Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders (discussed below) could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and our company if as a result of such actions the holders of ADSs are not properly treated as beneficial owners of underlying shares.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to discussions below under “—Passive Foreign Investment Company,” the gross amount of all our distributions to you with respect to the ADSs or ordinary shares will be included in your gross income as ordinary dividend income on the date of actual or constructive receipt by the depositary, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, for taxable years beginning before January 1, 2011, dividends will be “qualified dividend income” that is taxed at the lower applicable capital gains rate, provided that certain conditions are satisfied, including that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefit of the income tax treaty between the United States and the PRC, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. United States Treasury Department guidance indicates that our ADSs, upon listing on the Nasdaq Global Market (but not our ordinary shares), will be readily tradable on an established securities market in the United States. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or ordinary shares will constitute “passive category income” or, in the case of certain U.S. Holders, constitute “general category income.” If PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares, you may be able to obtain a reduced rate of PRC withholding taxes under the income tax 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 may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. U.S. Holders should consult their own tax advisors regarding the creditability of any PRC tax.

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your

tax basis in your ADSs or ordinary 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 intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder can expect that a distribution will be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Taxation of a Disposition of ADSs or Ordinary Shares

Subject to discussions below under “—Passive Foreign Investment Company,” you will recognize capital gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized (in U.S. dollars) for the ADS or ordinary share and your tax basis (in U.S. dollars) in the ADS or ordinary share. If you are a non-corporate U.S. holder (such as an individual), you will be eligible for reduced tax rates if you have held the ADSs or ordinary shares for more than a year. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will be treated as U.S. source gain or loss for foreign tax credit limitation purposes, subject to exceptions and limitations. However, in the event we are deemed to be a Chinese “resident enterprise” under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat such gain as PRC source income. U.S. Holders should consult their own tax advisors regarding the creditability of any PRC tax.

Passive Foreign Investment Company

Based on the price of our ADSs and ordinary shares and the composition of our income and assets, we believe that we were not a “passive foreign investment company,” or PFIC, for United States federal income tax purposes for our taxable year ended December 31, 2008. However, the application of the PFIC rules is subject to ambiguity in several respects and, in addition, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2009 or any future taxable year. In particular, we believe that there is a significant risk that we will be a PFIC for our taxable year ending December 31, 2009 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce active income. A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

We must make a separate determination each year as to whether we are a PFIC. As a result, it is possible that our PFIC status will change. In particular, because the total value of our assets for purposes of the asset test will be calculated using the market price of our ADSs and ordinary shares, our PFIC status will depend in large part on the market price of our ADSs and ordinary shares. Accordingly, it is possible that fluctuations in the market price of the ADSs and ordinary shares will result in our being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we utilize the cash (or other passive assets or investments) we have on hand or raise in any offering. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares, absent a special election. For instance, if we cease to be a PFIC, you can avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the ADSs or ordinary shares, as applicable. If we are a PFIC for any taxable year and any of our foreign subsidiaries is also a PFIC, a U.S. 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.

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If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary 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 the highest tax rate in effect for that year and the interest charge applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC can make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. However, such election cannot be made with respect to any lower tier PFIC. If you make a mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “—Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares” would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. We expect that the ADSs will be listed on the Nasdaq Global Market and, consequently, if you are a holder of ADSs and the ADSs are regularly traded on the Nasdaq Global Market, the mark-to-market election would be available to you were we to be or become a PFIC.

If a non-U.S. corporation is a PFIC, a holder of shares in that corporation can avoid taxation under the rules described above by making a “qualified electing fund” election to include its share of the corporation’s income on a current basis, or a “deemed sale” election once the corporation no longer qualifies as a PFIC. However, you can make a qualified electing fund election with respect to your ADSs or ordinary shares only if we agree to furnish you annually with certain tax information, and we do not intend to prepare or provide such information.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares.

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You are strongly urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares will be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%, unless the conditions of an applicable exception are satisfied. Backup withholding will not apply to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status can provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding can be credited against your U.S. federal income tax liability, and you can obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish JPMorgan Chase Bank, N.A., the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

I. Subsidiary Information

For a listing of our subsidiaries, see "Item 4. Information on the Company—C. Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

Foreign Exchange Risk

Our financial statements are expressed in U.S. dollars, which is our reporting and functional currency. However, substantially all of the revenues and expenses of our consolidated operating subsidiaries and affiliate entities are denominated in RMB. Substantially all of our sales contracts are denominated in RMB and substantially all of our costs and expenses are denominated in RMB. We have not had any material foreign exchange gains or losses. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars relative to the RMB because the value of the business of our operating subsidiaries and entities is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars. Furthermore, a decline in the value of the RMB could reduce the U.S. dollar equivalent of the value of the earnings from, and our investments in, our subsidiaries and PRC-incorporated affiliates in China.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. It is difficult to predict how long the current situation may last and when and how it may change again. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk.

Inflation

In recent years, China has not experienced significant inflation, and thus historically inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 1.8%, 1.5%, 4.8% and 5.9% in 2005, 2006, 2007 and 2008, respectively.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See "Item 10. Additional Information" for a description of the rights of securities holders, which remain unchanged.

The following "Use of Proceeds" information relates to the registration statement on Form F-1 (File number: 333-146825) filed by us in connection with our initial public offering. The registration statement was declared effective by the SEC on November 6, 2007. We received net proceeds of approximately US\$187.0 million from our initial public offering.

As of December 31, 2008, the net proceeds from our initial public offering have been used as follows:

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- approximately US\$41.8 million for purchasing digital displays and other equipment;
- approximately US\$6.3 million for the advanced payment for contingent considerations in connection with our acquisition of the airport gate bridge advertising business; and
- approximately US\$1.2 million for other investments.

In 2009, we expect to use the net proceeds received from our initial public offering as follows: approximately US\$32.2 million to fund capital expenditure and approximately US\$13.6 million for other general corporate purposes, which may include strategic acquisitions of businesses that could complement our existing capabilities and businesses.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedure, as such term is defined under 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008 using criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2008 based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management has excluded from our assessment for internal control over financial reporting that of Excel Lead and Flying Dragon, which were acquired on July 4, 2008 and July 7, 2008, respectively, and in aggregate accounted for 2.5% and 3.2% of our net and total assets, respectively, 6.5% of our revenues and 3.3% of our net income on a consolidated basis as of and for the year ended December 31, 2008.

The effectiveness of internal control over financial reporting as of December 31, 2008 has been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2008.

Attestation Report of the Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of AirMedia Group Inc.

We have audited the internal control over financial reporting of AirMedia Group Inc. (the “Company”), its subsidiaries, its variable interest entities (the “VIEs”) and its VIEs’ subsidiaries (collectively the “Group”) as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Excel Lead International Limited and Flying Dragon Media Advertising Co., Ltd., which were acquired on July 4, 2008 and July 7, 2008, respectively, and whose financial statements, in aggregate, constitute 2.5% and 3.2% of net and total assets, respectively, 6.5% of revenues and 3.3% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2008. Accordingly, our audit did not include the internal control over financial reporting at Excel Lead International Limited and Flying Dragon Media Advertising Co., Ltd. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Group’s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of director, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2008 of the Group and our report dated April 28, 2009 expressed an unqualified opinion on those financial statements and financial statement schedule.

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/s/ Deloitte Touche Tohmatsu CPA Ltd.
Beijing, the People's Republic of China
April 28, 2009

Changes in Internal Control

There were no adverse changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Donglin Xia, a member of our audit committee, is an audit committee financial expert. Donglin Xia is an independent director as defined by Nasdaq Marketplace Rule 5605(a)(2) and under Rule 10A-3 of the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief operating officer, chief technology officer, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-146825).

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu CPA Ltd., our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	For the Year Ended December 31,		
	2006	2007	2008
Audit fees(1)	US\$100,000	US\$1,341,005	US\$1,300,546
Audit-related fees(2)	79,136	—	—
All other fees(3)	—	16,468	128,551

- (1) "Audit fees" means the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual financial statements and the review of our comparative interim financial statements, and also the other assurance services rendered in connection with our initial public offering in 2007.
- (2) "Audit related fees" represents aggregate fees billed for professional services rendered by our principal auditors for the assurance and related services, which mainly included the financial due diligence services rendered by our principal auditors.
- (3) "All other fees" represents aggregate fees billed for professional services rendered by our principal auditors, other than the audit fees and audit-related fees, which mainly included the tax reconstruction and transfer price consulting fees incurred in 2008.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu CPA Ltd., including audit services, audit-related services, tax services and other services as described above, other than those for *de minimus* services which are approved by the Audit Committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

No equity securities of our company were purchased by or on behalf of our company or any “affiliated purchaser” (as such term is defined in Rule 10b-18 under the Exchange Act) of our company in the year ended December 31, 2008. In December 2008, our board of directors authorized a repurchase of up to US\$50 million worth of our outstanding ADSs throughout 2009.

We commenced repurchases of our ADSs in the open market pursuant to our share repurchase plan in the first quarter of 2009 through an agent. As of the date of this annual report, we have purchased a total of 1,646,502 ADSs at a total cost of US\$7.4 million. The ordinary shares underlying the repurchased ADSs have been canceled pursuant to Cayman Islands law.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Nasdaq Marketplace Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer’s fiscal year-end. Nasdaq Marketplace Rule 5635(c) and IM-5635-1 require each issuer to seek shareholder approval for any material amendments to the issuer’s equity compensation plans, including a repricing of outstanding options. However, Nasdaq Marketplace Rule 5615(a)(3) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters.

Maples and Calder has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings. We followed home country practice with respect to annual meetings and did not hold any annual meeting of shareholders in 2008. We may hold additional annual shareholder meetings in the future if there are significant issues that require shareholder approval.

Maples and Calder, our Cayman Islands counsel, has also provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to seek shareholder approval for any material amendments to our equity compensation plans. In 2008, we followed home country practice with respect to our 2007 Share Incentive Plan by amending it to permit repricings of options without seeking shareholder approval. On December 10, 2008, we adjusted the exercise price of the stock options granted on November 29, 2007.

Other than the above, we have followed and intend to continue to follow the applicable corporate governance standards under Nasdaq Marketplace Rules.

In accordance with Nasdaq Marketplace Rule 5250(d)(1), we will post this annual report on Form 20-F on our company website www.airmedia.net.cn. In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of AirMedia Group Inc. are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
2.1	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 (included as Exhibit A thereof) of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
2.2	Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
2.3	Amended and Restated Shareholders' Agreement originally dated as of June 7, 2007, as amended and restated on September 27, 2007, among the Company and Shareholders (incorporated by reference to Exhibit 4.4 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.1	Amended and Restated 2007 Share Incentive Plan (incorporated by reference to Exhibit 10.1 of our Registration Statement on Form S-8 (file no. 333-148352) filed with the Securities and Exchange Commission on December 11, 2008)
4.2	Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.2 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.3	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.4	Investment Framework Agreement dated October 18, 2005, as amended on September 27, 2007, among Man Guo, Qing Xu and CDH China Management Company Limited (incorporated by reference to Exhibit 10.4 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.5	Series A Convertible Preferred Share Purchase Agreement dated February 28, 2007, as amended on September 27, 2007, among Broad Cosmos Enterprises Ltd., certain of its shareholders, its existing group companies and Global Gateway Investments Limited (incorporated by reference to Exhibit 10.5 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.6	Series B Convertible Preferred Share Purchase Agreement dated April 26, 2007 among the Registrant, certain of its shareholders, its existing group companies, OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and AM SPV Limited (incorporated by reference to Exhibit 10.6 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.7	Share Exchange Agreement dated June 7, 2007 among the Registrant, Man Guo, Qing Xu, Xiaoya Zhang and Global Gateway Investments Ltd. (incorporated by reference to Exhibit 10.7 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.8	Agreement for the Transfer and Assumption of Various Obligations and Rights under the February 28, 2007 Share Purchase Agreement, dated June 7, 2007, among the Registrant, Broad Cosmos Enterprises Ltd., Global Gateway Investment Ltd., consolidated subsidiaries and variable interest equities of the Registrant and Man Guo, Qing Xu and Xiaoya Zhang (incorporated by reference to Exhibit 10.8 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.9	English Translation of Business Cooperation Agreement dated June 14, 2007 between Shengshi Lianhe Advertising Co., Ltd. and AirTV United Media & Culture Co., Ltd. (incorporated by reference to Exhibit 10.9 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.10	English Translation of Business Cooperation Agreement dated June 14, 2007 between Beijing AirMedia Advertising Co., Ltd. and AirTV United Media & Culture Co., Ltd. (incorporated by reference to Exhibit 10.10 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.11*	English Translation of Amended Power of Attorneys dated November 28, 2008 from each of the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd.
4.12	English Translation of Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.12 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.13	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.1 of our annual report on Form 20-F (File No. 001-33765) filed with the Commission on April 30, 2008)
4.14	English Translation of Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.13 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.15	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.2 of our annual report on Form 20-F (File No. 001-33765) filed with the Commission on April 30, 2008)
4.16	English Translation of Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.14 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.17*	English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd.
4.18	English Translation of Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.15 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.19*	English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd.
4.20*	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia Advertising Co., Ltd.
4.21	English Translation of Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.17 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the

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<u>Exhibit Number</u>	<u>Description of Document</u>
	Commission on October 19, 2007)
4.22	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.3 of our annual report on Form 20-F (File No. 001-33765) filed with the Commission on April 30, 2008)
4.23	English Translation of Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.18 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.24	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.4 of our annual report on Form 20-F (File No. 001-33765) filed with the Commission on April 30, 2008)
4.25	English Translation of Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.19 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.26*	English Translation of Supplementary Agreement No. 1 dated June 19, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd.
4.27*	English Translation of Supplementary Agreement No. 2 dated November 28, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd.
4.28	English Translation of Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.20 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.29*	English Translation of Supplementary Agreement No. 1 dated June 19, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd.
4.30*	English Translation of Supplementary Agreement No. 2 dated November 28, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd.
4.31*	English Translation of Supplementary Agreement dated November 28, 2008 among AirMedia Technology (Beijing) Co., Ltd. and Guo Man, a shareholder of Beijing AirMedia Advertising Co., Ltd., supplementing the original Loan Agreement dated June 14, 2007
4.32*	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia UC Advertising Co., Ltd.
4.33	English Translation of Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.22 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.34	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC

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<u>Exhibit Number</u>	<u>Description of Document</u>
	Advertising Co., Ltd. (incorporated by reference to Exhibit 10.5 of our annual report on Form 20-F (File No. 001-33765) filed with the Commission on April 30, 2008)
4.35	English Translation of Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.23 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.36	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.6 of our annual report on Form 20-F (File No. 001-33765) filed with the Commission on April 30, 2008)
4.37	English Translation of Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.24 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.38*	English Translation of Supplementary Agreement dated November 28, 2008 to the Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd.
4.39	English Translation of Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.25 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
4.40*	English Translation of Supplementary Agreement dated November 28, 2008 to the Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd.
4.41*	English Translation of Supplementary Agreement dated October 31, 2008 among AirMedia Technology (Beijing) Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd., supplementing the original Loan Agreement dated January 1, 2007
4.42*	English Translation of Power of Attorneys dated April 1, 2008 from each of the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd.
4.43*	English Translation of Technology Development Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd.
4.44*	English Translation of Technology Support and Service Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd.
4.45*	English Translation of Supplementary Agreement dated June 25, 2008 to the Technology Support and Service Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd.
4.46*	English Translation of Equity Pledge Agreement dated April 1, 2008 among AirMedia Technology (Beijing) Co., Ltd., Beijing Yuehang Digital Media Advertising Co., Ltd. and the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd.
4.47*	English Translation of Call Option Agreement dated April 1, 2008 among AirMedia Technology (Beijing) Co., Ltd., Beijing Yuehang Digital Media Advertising Co., Ltd. and the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd.
4.48*	Share Purchase Agreement dated July 4, 2008 among the Registrant, First Reach Holdings Limited and Excel Lead International Limited
8.1*	Subsidiaries of the Registrant

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<u>Exhibit Number</u>	<u>Description of Document</u>
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 of our F-1 registration statement (File No. 333-146825), as amended, initially filed with the Commission on October 19, 2007)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Deloitte Touche Tohmatsu CPA Ltd.
15.2*	Consent of Commerce & Finance Law Offices
15.3*	Consent of Sinomonitor
15.4*	Consent of Maples and Calder

* Filed with this Annual Report on Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

AIRMEDIA GROUP INC.

By: /s/ Herman Man Guo

Name: Herman Man Guo

Title: Chairman and Chief Executive Officer

Date: April 28, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AIRMEDIA GROUP INC.

We have audited the accompanying consolidated balance sheets of AirMedia Group Inc. (the “Company”), its subsidiaries, its variable interest entities (the “VIEs”) and its VIEs’ subsidiaries (collectively the “Group”) as of December 31, 2007 and 2008 and the related consolidated statements of operations, shareholders’ equity (deficiency) and comprehensive income (loss), and cash flows for the years ended December 31, 2006, 2007 and 2008 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 consolidated 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2007 and 2008, and the consolidated results of its operations and its cash flows for the years ended December 31, 2006, 2007 and 2008 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2009 expressed an unqualified opinion on the Group’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.
Beijing, The People’s Republic of China
April 28, 2009

AIRMEDIA GROUP INC.
CONSOLIDATED BALANCE SHEETS
(In U.S. dollars in thousands, except share related data)

	December 31, 2007	December 31, 2008
Assets		
Current assets:		
Cash	\$ 210,915	\$ 161,534
Accounts receivable, net of allowance for doubtful accounts of \$455 and \$1,521 in 2007 and 2008	13,478	38,386
Prepaid concession fees	13,130	32,706
Other current assets	2,393	7,830
Deferred tax assets — current	95	380
Total current assets	240,011	240,836
Acquired intangible assets, net	4,862	9,027
Property and equipment, net	15,985	62,443
Long-term investments	788	1,099
Long term deposits	4,706	14,724
Deferred tax assets — non-current	507	1,762
TOTAL ASSETS	266,859	329,891
Liabilities		
Current liabilities:		
Accounts payable	4,666	15,696
Accrued expenses and other current liabilities	1,309	5,664
Deferred revenue	1,712	2,929
Income tax payable	32	852
Amounts due to related parties	11	408
Total current liabilities	7,730	25,549
Non-current liabilities:		
Deferred tax liability — non-current	1,527	2,659
Total liabilities	9,257	28,208
Commitments (Note 19)		
Minority interest	(3)	951
Shareholders' equity		
Ordinary shares (\$0.001 par value; 162,400,000 shares authorized in 2007 and 2008; 133,425,925 shares and 134,425,925 shares issued and outstanding as of December 31, 2007 and 2008, respectively)	133	134
Additional paid-in capital	263,130	268,881
Statutory reserve	1,782	5,593
Retained earnings (accumulated deficiency)	(10,317)	16,070
Accumulated other comprehensive income	2,877	10,054
Total shareholders' equity	257,605	300,732
TOTAL LIABILITIES, MINORITY INTEREST, AND SHAREHOLDERS' EQUITY	\$ 266,859	\$ 329,891

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

AIRMEDIA GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In U.S. dollars in thousands, except share related data)

	For the year ended December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Revenues	\$ 18,896	\$ 43,611	\$ 125,540
Business tax and other sales tax	(961)	(1,983)	(6,107)
Net revenues	17,935	41,628	119,433
Cost of revenues	10,040	21,365	70,995
Gross profit	7,895	20,263	48,438
Operating expenses:			
Selling and marketing (including share-based compensation of nil, \$274 and \$1,158 in 2006, 2007 and 2008, respectively)	2,751	4,813	10,171
General and administrative (including share-based compensation of nil, \$18,831 and \$3,805 in 2006, 2007 and 2008, respectively)	1,293	21,982	14,374
Total operating expenses	4,044	26,795	24,545
Income/(loss) from operations	3,851	(6,532)	23,893
Interest income	17	1,745	5,379
Other income	—	—	1,135
Income/(loss) before income taxes and minority interest	3,868	(4,787)	30,407
Income tax benefits	197	195	498
Net income/(loss) before minority interest	4,065	(4,592)	30,905
Minority interest	1	2	(382)
Share of loss on equity method investments	—	(520)	(325)
Net income/(loss)	4,066	(5,110)	30,198
Deemed dividend on series A and B convertible redeemable preferred shares — Accretion of redemption premium	(1,440)	(3,353)	—
Net income/(loss) attributable to holders of ordinary shares	2,626	(8,463)	30,198
Net income/(loss) per ordinary share — basic	\$ 0.03	\$ (0.12)	\$ 0.23
Net income/(loss) per ordinary share — diluted	\$ 0.03	\$ (0.12)	\$ 0.22
Net income per Series A preferred share — basic	\$ 0.06	\$ 0.04	N/A
Net income per Series B preferred share — basic	N/A	\$ 0.32	N/A
Weighted average shares used in calculating net income/(loss) per ordinary share — basic	62,400,000	73,469,589	133,603,419
Weighted average shares used in calculating net income/(loss) per ordinary share — diluted	62,400,000	73,469,589	137,782,135
Weighted average shares used in calculating net income per Series A preferred share — basic	37,600,000	31,461,918	N/A
Weighted average shares used in calculating net income per Series B preferred share — basic	N/A	6,706,849	N/A

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

AIRMEDIA GROUP INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
AND COMPREHENSIVE INCOME (LOSS)
(In U.S. dollars in thousands, except share data)

	Ordinary shares		Subscription receivable	Additional Paid in capital	Statutory reserve	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity (deficiency)	Comprehensive income (loss) for the year
	Shares	Amount							
Balance as of January 1, 2006	62,400,000	\$ 62	\$ (62)	\$ —	\$ —	\$ (2,698)	\$ 8	\$ (2,690)	
Deemed dividend on series A convertible redeemable preferred shares — Accretion of redemption premium	—	—	—	—	—	(1,440)	—	(1,440)	
Provision for statutory reserve	—	—	—	—	102	(102)	—	—	
Foreign currency translation adjustment	—	—	—	—	—	—	285	285	\$ 285
Net income	—	—	—	—	—	4,066	—	4,066	4,066
Balance as of December 31, 2006	62,400,000	62	(62)	—	102	(174)	293	221	4,351
Subscription received	—	—	62	—	—	—	—	62	
Deemed dividend on series A convertible redeemable preferred shares- Accretion of redemption premium	—	—	—	—	—	(1,201)	—	(1,201)	
Deemed dividend on series B convertible redeemable preferred shares- Accretion of redemption premium	—	—	—	—	—	(2,152)	—	(2,152)	
Conversion of Series A convertible redeemable preferred shares into ordinary shares upon initial public offering	37,600,000	37	—	14,900	—	—	—	14,937	
Conversion of Series B convertible redeemable preferred shares into ordinary shares upon initial public offering	5,925,925	6	—	41,146	—	—	—	41,152	
Provision for statutory reserve	—	—	—	—	1,680	(1,680)	—	—	
Issuance of ordinary shares upon IPO	27,500,000	28	—	190,785	—	—	—	190,813	
IPO expenses	—	—	—	(2,806)	—	—	—	(2,806)	
Share-based compensation	—	—	—	19,105	—	—	—	19,105	
Foreign currency translation adjustment	—	—	—	—	—	—	2,584	2,584	2,584
Net loss	—	—	—	—	—	(5,110)	—	(5,110)	(5,110)
Balance as of December 31, 2007	133,425,925	133	—	263,130	1,782	(10,317)	2,877	257,605	(2,526)
Ordinary shares issued	1,000,000	1	—	788	—	—	—	789	

for share based compensation										
Provision for statutory reserve	—	—	—	—	3,811	(3,811)	—	—		
Share-based compensation	—	—	—	4,963	—	—	—	—	4,963	
Foreign currency translation adjustment	—	—	—	—	—	—	7,177	7,177	7,177	7,177
Net income	—	—	—	—	—	30,198	—	30,198	30,198	30,198
Balance as of December 31, 2008	<u>134,425,925</u>	<u>\$ 134</u>	<u>\$ —</u>	<u>\$ 268,881</u>	<u>\$ 5,593</u>	<u>\$ 16,070</u>	<u>\$ 10,054</u>	<u>\$ 300,732</u>	<u>\$ 37,375</u>	<u>\$ 37,375</u>

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

AIRMEDIA GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars in thousands)

	For the year ended December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 4,066	\$ (5,110)	\$ 30,198
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Minority interest	(1)	(2)	382
Allowance for doubtful accounts	268	218	1,027
Depreciation and amortization	522	1,386	5,545
Share-based compensation	—	19,105	4,963
Share of loss on equity method investments	—	520	325
Loss on disposal of property and equipment	—	100	1,180
Changes in assets and liabilities			
Accounts receivable	(4,455)	(7,827)	(24,376)
Prepaid concession fees	(844)	(11,658)	(15,933)
Other current assets	(1,083)	(980)	(1,226)
Long term deposits	(97)	(3,764)	(8,882)
Accounts payable	1,829	1,613	10,623
Amounts due to related parties	12	(150)	396
Amounts due to shareholders	—	(210)	—
Accrued expenses and other current liabilities	985	16	2,357
Deferred revenue	1,015	428	(2,036)
Deferred tax assets (liabilities), net	(197)	(227)	(1,766)
Income tax payable	—	32	809
Net cash provided by (used in) operating activities	<u>2,020</u>	<u>(6,510)</u>	<u>3,586</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of a business, net of cash acquired of \$2,351	—	—	562
Advance payment for contingent consideration in connection with a business combination	—	—	(6,334)
Purchase of property and equipment	(3,377)	(13,046)	(50,412)
Proceeds from disposal of property and equipment	—	—	2
Purchase of intangible assets	(1,969)	(1,324)	—
Purchase of long-term investments	—	(1,303)	(1,181)
Proceeds from disposal of a long-term investment	—	—	671
Net cash used in investing activities	<u>(5,346)</u>	<u>(15,673)</u>	<u>(56,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of note payables	(795)	—	—
Proceeds from amounts due to shareholders	—	62	—
Proceeds from issuance of series A convertible redeemable preferred shares	3,080	2,920	—
Proceeds from issuance of series B convertible redeemable preferred shares, net of issuance cost of \$1,000	—	39,000	—
Short-term borrowings from a bank	—	13,068	—
Repayment of short-term borrowings to a bank	—	(13,068)	—
Proceed from issuance of ordinary shares	—	190,813	—
IPO expenses paid	—	(2,806)	—
Proceed from stock option exercises	—	—	789
Net cash provided by financing activities	<u>2,285</u>	<u>229,989</u>	<u>789</u>
Effect of exchange rate changes	175	1,023	2,936
NET (DECREASE) INCREASE IN CASH	(866)	208,829	(49,381)
CASH, BEGINNING OF YEAR	2,952	2,086	210,915
CASH, END OF YEAR	<u>\$ 2,086</u>	<u>\$ 210,915</u>	<u>\$ 161,534</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION NON-CASH			
INVESTING ACTIVITIES:			
Interest paid	\$ —	\$ 51	\$ —
Income tax paid	\$ —	\$ —	\$ 885
Amount due to related party for acquisition of intangible assets	\$ 1,341	\$ —	\$ —
Fair value of property and equipment acquired in exchange of advertising services rendered	<u>\$ 699</u>	<u>\$ 286</u>	<u>\$ 1,041</u>

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

AIRMEDIA GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In U.S. dollars in thousands, except share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES*Introduction of the Group*

AirMedia Group Inc. (“AirMedia” or the “Company”) was incorporated in the Cayman Islands on April 12, 2007.

AirMedia, its subsidiaries, its variable interest entities (“VIEs”) and VIEs’ subsidiaries (collectively referred to “AirMedia and its subsidiaries” or the “Group”) operate air travel TV media network in the People’s Republic of China (“the PRC”) with exclusive contracts and concession rights to operate digital displays and billboards on gate bridges in the major airports in the PRC, and on the airplanes operated by major airline companies in the PRC.

As of December 31, 2008, details of the Group’s subsidiaries, VIEs and VIE’s subsidiaries are as follows:

Name	Date of incorporation/ acquisition	Place of incorporation	Percentage of economic ownership
Intermediate Holding Company:			
Broad Cosmos Enterprises Ltd.	June 26, 2006	British Virgin Islands (“BVI”)	100%
Excel Lead International Limited (“Excel Lead”)	August 1, 2008	BVI	100%
Subsidiaries:			
AirMedia Technology Co., Ltd. (“AM Technology”)	September 19, 2005	the PRC	100%
Shenzhen AirMedia Technology Co., Ltd. (“Shenzhen AM”)	June 6, 2006	the PRC	100%
Xi’an AirMedia Chuangyi Science and Technology Co., Ltd (“Xi’an AM”)	December 31, 2007	the PRC	100%
Royal Mart Limited (“Royal Mart”)	December 24, 2007	Hong Kong	100%
Glorious Star Investment Limited (“Glorious Star”)	August 1, 2008	Hong Kong	100%
VIEs:			
Beijing Shengshi Lianhe Advertising Co., Ltd. (“Shengshi Lianhe”)	August 7, 2005	the PRC	100%
Beijing AirMedia Advertising Co., Ltd. (“AM Advertising”)	November 22, 2005	the PRC	100%
Beijing AirMedia UC Advertising Co. Ltd. (“AirMedia UC”)	January 1, 2007	the PRC	100%
Beijing Yuehang Digital Media Advertising Co. Ltd. (“AM Yuehang”)	January 16, 2008	the PRC	100%
VIE’s subsidiaries:			
Beijing AirTV United Media & Culture Co., Ltd. (“AirTV United”)	October 10, 2006	the PRC	75%
Beijing AirMedia Film culture Co. Ltd. (“AM Film”)	September 13, 2007	the PRC	100%
Flying Dragon Media Advertising Co., Ltd. (“Flying Dragon”)	August 1, 2008	the PRC	80%
Wenzhou AirMedia Advertising Co., Ltd. (“AM Wenzhou”)	October 17, 2008	the PRC	100%

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In U.S. dollars in thousands, except share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES — continued

The VIE arrangements

Chinese regulations currently limit foreign ownership of companies that provide advertising services, including out-of-home television advertising services. Since December 30, 2005, foreign investors have been permitted to own directly a 100% interest in PRC advertising companies if the foreign investor has at least three years of direct operations outside of PRC.

However, since the Group has not been involved in the direct operation of the advertising business outside of the PRC over three years, the PRC subsidiaries of the Group, AM Technology, Shenzhen AM and Xi'an AM which are considered foreign-invested, are currently ineligible to apply for the required advertising service licenses in the PRC.

The Group therefore conducts substantially all of its activities through Shengshi Lianhe, AM Advertising, AirMedia UC and AM Yuehang (the "VIEs") and the VIEs' subsidiaries. The VIEs have entered into a series of agreements with AM Technology as below:

- **Technology support and service agreement:** AM Technology provides exclusive technology supports and consulting services to the VIEs and VIEs are required to pay AM Technology for the technical and consulting services they are provided. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, or 1.0% in the case of AM Yuehang, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity.
- **Technology development agreement:** VIEs exclusively engage AM Technology to provide technology development services. AM Technology owns the intellectual property rights developed in the performance of these agreements. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity.
- **Call option agreement:** Under the call option agreements, the shareholders of VIEs irrevocably granted AM Technology or its designated third party an exclusive option to purchase from VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. In addition, AM Technology will act as guarantor of VIEs in all operation related contracts, agreements and transactions and commit to provide loans to support the business development needs of VIEs or when the VIEs are suffering operating difficulties. In 2008, AM Technology provided such loans without collateral in the amount of \$10,260 to the VIEs. The loans' balance, \$3,664 as of December 31, 2008, was fully eliminated in the accompanying consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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1. ORGANIZATION AND PRINCIPAL ACTIVITIES — continued

The VIE arrangements — continued

- **Equity pledge agreement:** Under the equity pledge, the shareholders of the VIEs pledged all of their equity interests, including the right to receive declared dividends, in the VIEs to AM Technology to guarantee VIEs' performance of its obligations under the technology support and service agreement and the technology development agreement.
- **Authorization letter:** Each shareholder of the VIEs has executed an authorization letter to authorize AM Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. Such authorization letters will remain effective during the operating periods of the VIEs.

Through the above contractual arrangements, AM Technology has obtained 100% of shareholders' voting interest in the VIEs, has the right to receive all dividends declared and paid by the VIEs and may receive substantially all of the net income of the VIEs through the technical support and service fees as determined by AM Technology. As a result, AM Technology receives substantially all of the VIEs' expected residual returns and holds variable interests in the VIEs. Since AM Technology is the primary beneficiary of the VIE arrangement, it consolidates the VIEs under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46(R), "Consolidation of Variable Interest Entities-an interpretation of ARB No. 51", which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

Other than the contractual arrangements described above, because the management and certain employees of AM Technology also serve in the VIEs as management or employees, certain operating costs paid by AM Technology, such as payroll costs and office rental, were recharged to the VIEs.

The following financial statement amounts and balances of Air Media's VIEs were included in the accompanying consolidated financial statements as of and for the years ended December 31:

	December 31,	
	<u>2007</u>	<u>2008</u>
Total assets	\$ 63,520	\$ 149,487
Total liabilities	<u>60,112</u>	<u>150,114</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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1. ORGANIZATION AND PRINCIPAL ACTIVITIES — continued

The VIE arrangements — continued

	Years ended December 31,		
	2006	2007	2008
Net revenue	\$ 17,942	\$ 53,801	\$ 119,521
Net (loss) income	4,713	539	(4,182)

History of the Group and corporate reorganization

The Group's history began with the commencement of operation by the following shareholders in Shengshi Lianhe, a company registered in the PRC, on August 7, 2005. Prior to the commencement of operations, Shengshi Lianhe had no assets, no liabilities and no operations. It was incorporated on March 12, 2001 with the following owners:

	Percentage of ownership
Mr. Guo, Man ("Guo, Man")	79.86%
Mr. Xu, Qing ("Xu, Qing")	11.94%
Mr. Zhang, Xiaoya ("Zhang, Xiaoya")	8.20%

Shengshi Lianhe began to enter into concession right agreements with airports and airlines to display advertising at those airports and on airplanes.

In October 2005, Guo, Man, Xu, Qing and Zhang, Xiaoya, (collectively the "founding shareholders") and CDH China Management Company Limited entered into a legally binding agreement (the "2005 Agreement"), according to which CDH China Growth Fund II L.P. or its affiliate (collectively "CDH"), became an investor through the ownership of convertible preferred shares. CDH is a third party private equity fund. Under this 2005 Agreement:

- (i) the founding shareholders obtained 100% of the common stock issued and outstanding in AM Technology, which entered into a VIE arrangement with Shengshi in November, 2005, and any new entities formed in the Group. Assuming the conversion of the convertible preferred interest held by CDH into ordinary shares, the founding shareholders would hold 62.4% of total ordinary shares.
- (ii) CDH agreed to contribute \$12,000 cash into the business in return for a convertible redeemable preferred share interest, which represents 37.6% of the total equity interest in AM Technology on an if converted basis and in any new entities formed in the Group (see Note 14).

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES — continued

History of the Group and corporate reorganization — continued

Upon CDH's investment, the equity interest structure of AM Technology on and as converted basis was as follows:

	Percentage of ownership %
Guo, Man	49.83
Xu, Qing	7.45
Zhang, Xiaoya	5.12
CDH	37.60
Total	<u>100.00</u>

In anticipation of making such an investment, in August 2005, CDH had established AirMedia (China) Ltd. in Hong Kong with 100% ownership through AM International, a wholly owned BVI company and in September 2005, AirMedia (China) Ltd. established a wholly owned PRC subsidiary, AM Technology.

There was no change in control of the underlying business of Shengshi Lianhe before and after CDH became a shareholder of AM Technology and this has been treated as a recapitalization of the Shengshi Lianhe business with no change in basis.

Broad Cosmos was incorporated in the BVI on June 26, 2006 for the purpose of holding a 100% equity interest in AM Technology and other subsidiaries and VIEs formed subsequent to the incorporation of AM Technology.

In March 2007, Broad Cosmos executed a share split which made total ordinary shares issued and outstanding 62,400,000.

On April 12, 2007, the shareholders of Broad Cosmos incorporated AirMedia in the Cayman Islands as a new holding Company of Broad Cosmos and executed a 1 to 1 share swap between Broad Cosmos and AirMedia. As a result, AirMedia has become the holding company of Broad Cosmos and its subsidiaries, its VIEs and its VIE's subsidiary. The impact of this share split and share swap has been retroactively reflected in the Group's consolidated financial statements.

In November 2007, the Group completed an initial public offering ("IPO") and issued 13,750,000 American depositary shares representing 27,500,000 of the Company's ordinary shares. Immediately prior to the completion of the IPO, all of the Company's then outstanding Series A preferred shares and Series B preferred shares were automatically converted into 32,600,000 ordinary shares and 5,925,925 ordinary shares, respectively.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

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

(b) *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and its VIE's subsidiaries. All inter-company transactions and balances have been eliminated upon combination.

(c) *Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the financial statements and accompanying notes, including allowance for doubtful accounts, the useful lives of and impairment for property and equipment and intangible assets, impairment of long-term investment and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

(d) *Significant risks and uncertainties*

The Group participates in a 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: the Group's limited operating history; advances and trends in new technologies and industry standards; competition from other competitors; regulatory or other PRC related factors; and risks associated with the Group's ability to attract and retain employees necessary to support its growth; risks associated with the Group's growth strategies; and general risks associated with the advertising industry.

(e) *Property and equipment, net*

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

Digital display network equipment	5 years
Furniture and fixture	5 years
Computer and office equipment	5 years
Vehicle	5 years
Leasehold improvement	Shorter of the term of the lease or the estimated useful lives of the assets

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(f) *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.

(g) *Equity method investments*

Investee companies over which the Company has the ability to exercise significant influence, but does not have a controlling interest are accounted for using the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock of the investee between 20% and 50%, and other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

(h) *Cost method investment*

For investments in an investee over which the Group does not have significant influence, the Group carries the investment at cost and recognizes income as any dividends declared from distribution of investee's earnings. The Group reviews the cost method investments for impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. An impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value of the investment would then become the new cost basis of the investment. No impairment charges were recorded during the years presented.

(i) *Acquired intangible assets*

Acquired intangible assets with finite lives are carried at cost less accumulated amortization.

Amortization of finite-lived intangible assets is computed using the straight-line method over the following estimated economic lives:

TV program license	20 years
Customer relationships	3.4 years
Contract backlog	1.2 years
Agreements with airports	3.8 years
Non-compete agreements	4.4 years

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(j) *Revenue recognition*

The Group's revenues are derived from selling advertising time slots on the Group's air travel digital media network. For the year ended December 31, 2008, substantially most of the advertising revenues are generated from digital frames in airports, digital TV screens in airports, digital TV screens on airlines and billboards advertising on gate bridges in airports.

The Group typically signs standard contracts with its advertising customers, who require the Group to run the advertiser's advertisements on the Group's network in specified airports and on specified airplanes for a period of time. The Group recognizes advertising revenues ratably over the performance period for which the advertisements are displayed, so long as collection of the fees remains probable.

Deferred revenue

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

Non-monetary exchanges

The Group periodically exchange advertising time slots with other entities for assets or services, such as digital screen network equipment and office rental. Consistent with the guidance in APB Opinion No. 29 *Accounting for nonmonetary transactions as amended by FASB Statement No. 153 Exchanges of nonmonetary assets, an amendment of APB Opinion No. 29*, such transactions are accounted for as nonmonetary exchange, and based on guidance in EITF 99-17, *Accounting for Advertising Barter Transactions*, the Group recognizes revenue and assets/expenses of the exchanges based on the fair value of the advertising provided, which can be determined based on the Group's historical practice of receiving cash. The amounts of revenue recognized for nonmonetary transactions were \$759, \$430 and \$1,049 for the years ended December 31, 2006, 2007 and 2008, respectively. No direct costs are attributable to the revenues.

(k) *Business tax and other sale related taxes*

The Group's PRC subsidiary and VIEs are subject to business tax and other sale related taxes at the rate of 8.5% on total revenues after deduction of certain costs of revenues permitted by the PRC tax laws. Business tax is recorded as a deduction to revenue when incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(l) *Concession fees*

The Group enters concession right agreements with airports and airlines, under which the Group has the right to use the spaces or equipment of the airports and airlines to display the advertisements. The concession right agreement is treated as an operating lease arrangement.

Fees under concession right agreements with airports and airlines are usually due every three or six months. Payments made are recorded as current assets and current liabilities according to the respective payment terms. Most of the concession fees are fixed with escalation, which means fixed increase over each year of the agreement. The total concession fee under each concession right agreement is charged to the consolidated statements of operations on a straight-line basis over the agreement periods, which is generally between three and five years.

(m) *Agency fees*

The Group pays fees to advertising agencies based on certain percentage of revenue made through the advertising agencies upon receipt of payment from advertisers. The agency fees are charged to cost of revenues in the consolidated statement of operation ratably over the period in which the advertising is displayed. Prepaid and accrued agency fees are recorded as current assets and current liabilities according to relative timing of payments made and advertising service provided.

(n) *Other operating leases*

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

(o) *Advertising costs*

The Group expenses advertising costs as incurred. Total advertising expenses were \$239, \$400 and \$1,430 for the years ended December 31, 2006, 2007 and 2008, respectively, and have been included as part of selling and marketing expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(p) *Foreign currency translation*

The functional and reporting currency of AirMedia 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 when the transactions occurred. Transaction gains and losses are recognized in the statements of operations.

The financial records of the Group’s subsidiaries, its VIEs and its VIEs’ subsidiaries located in the PRC are maintained in its local currency, the Renminbi (“RMB”), which is the functional currency of these entities. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Equity accounts are translated at historical exchange rates. Revenues, expenses, gains and losses are translated using the transaction weighted average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the accompanying consolidated statements of shareholders’ equity (deficiency) and comprehensive income (loss).

(q) *Income taxes*

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

The Group adopted Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* for the years ended December 31, 2006, 2007 and 2008. Under FIN 48, the Group may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 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, and income tax disclosures.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(r) *Share based payments*

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument issued in accordance with the FASB Statement of Financial Accounting Standard (“SFAS”) No. 123(R), Share-Based Payment, and recognized as compensation expense over the requisite service period based on a straight-line attribution method, with a corresponding impact reflected in additional paid-in capital.

Share-based payment transactions with non-employees are accounted for as share based compensation expense in accordance with EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

(s) *Comprehensive income (loss)*

Comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances except for transactions resulting from investments by shareholders and distributions to shareholders.

(t) *Concentration of credit risk*

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and accounts receivable. The Group places their cash with financial institutions with high-credit ratings and quality.

The Group conducts credit evaluations of customers and generally do not require collateral or other security from their customers. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors relevant to determining the credit risk of specific customers. The amount of receivables ultimately not collected by the Group has generally been consistent with management’s expectations and the allowance established for doubtful accounts.

There was no customer, which accounted for 10% or more of total revenues, for each of the years ended December 31, 2006, 2007 and 2008, respectively and there was no customer accounting for 10% or more of accounts receivable for each of the years ended December 31, 2007 and 2008, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(u) Fair value

The Group adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”) on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

SFAS 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SFAS 157 establishes three levels of inputs that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group did not have any financial assets and liabilities or nonfinancial assets and liabilities that are measured at fair value on recurring basis as of December 31, 2008.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(v) *Fair value of financial instruments*

The carrying amounts of accounts receivable, accounts payable, amounts due to related parties and income tax payable approximate their fair values due to the short-term maturity of these instruments.

The fair value of the long-term investments is not disclosed because it is not readily determinable.

(w) *Net income/(loss) per share*

Basic net income (loss) per share are computed by dividing net income/(loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares (convertible preferred stock, forward contract, warrants to purchase ordinary shares, contingently issuable shares, common stock options and warrants and their equivalents using the treasury stock method) were exercised or converted into ordinary shares. Potential common shares in the diluted net income/(loss) per share computation are excluded in periods of losses from continuing operations, as their effect would be antidilutive.

The holders of Series A preferred shares and Series B preferred shares were entitled to share dividends on a pro rata basis, as if their shares had been converted into ordinary shares. Accordingly, the Group used the two-class method in computing net income (loss) per share for the year 2006 and 2007. Under the two-class method, net income was allocated on a pro rata basis to each class of ordinary shares and other participating securities based on their participating rights. Net losses applicable to holders of ordinary shares were allocated to ordinary shares because the Series A and Series B preferred shares were not contractually obligated to participate in sharing losses.

(x) *Recently issued accounting standards*

In September 2006, FASB issued SFAS 157. Effective January 1, 2008, the Group adopted the measurement and disclosure other than those requirements related to nonfinancial assets and liabilities in accordance with guidance from FASB Staff Position 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of fiscal year 2009. The Group does not expect the adoption of SFAS 157 for nonfinancial assets and liabilities will have a significant effect on the Group's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(x) *Recently issued accounting standards* — continued

In December 2007, the FASB issued SFAS No. 141, Business Combinations: (Revised 2007) (“SFAS 141R”). SFAS 141R is relevant to all transactions or events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer to recognize any assets and noncontrolling interest acquired and liabilities assumed to be measured at fair value as of the acquisition date. Liabilities related to contingent consideration are recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of the consideration may be resolved beyond a reasonable doubt. This revised approach replaces SFAS 141’s cost allocation process in which the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their respective fair value. SFAS 141R requires any acquisition-related costs and restructuring costs to be expensed as incurred as opposed to allocating such costs to the assets acquired and liabilities assumed as previously required by SFAS 141. Under SFAS 141R, an acquirer recognizes liabilities for a restructuring plan in purchase accounting only if the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, are met. SFAS 141R allows for the recognition of pre-acquisition contingencies at fair value only if these contingencies are likely to materialize. If this criterion is not met at the acquisition date, then the acquirer accounts for the non-contractual contingency in accordance with recognition criteria set forth under SFAS 5, Accounting for Contingencies, in which case no amount should be recognized in purchase accounting. SFAS 141R is effective as of the beginning of an entity’s first fiscal year that begins after December 15, 2008. The Group does not expect the adoption of SFAS 141R will have a significant impact on the Group’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-An Amendment of ARB No. 51 (“SFAS 160”). This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity on the financial statements. SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Furthermore, disclosure of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest is required on the face of the financial statements. SFAS 160 is effective as of the beginning of an entity’s first fiscal year that begins after December 15, 2008. The Group does not expect the adoption of SFAS 160 will have significant impact on its consolidated financial position or results of operations, other than certain changes to the presentation of the financial statements.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — continued

(x) *Recently issued accounting standards* — continued

In April 2008, the FASB issued FASB Staff Position FAS142-3: Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. The Group is in the process of assessing the potential impact the adoption of FSP 142-3 may have on its consolidated financial position or results of operations.

At a November 24, 2008 meeting, the FASB ratified the consensus reached by the Task Force in Issue No. 08-6: Equity Method Investment Accounting Considerations (“EITF 08-6”). Because of the significant changes to the guidance on subsidiary acquisitions and subsidiary equity transactions and the increased use of fair value measurements as a result of Statements 141(R) and 160, questions have arisen regarding the application of that accounting guidance to equity method investments. EITF 08-6 provides guidance for entities that acquire or hold investments accounted for under the equity method. This issue is effective for transactions occurring in fiscal years and interim periods beginning on or after December 15, 2008. Early adoption is not permitted. The Group does not expect the adoption of EITF 08-6 will have significant impact on its consolidated financial position or results of operations.

3. SEGMENT INFORMATION AND REVENUE ANALYSIS

The Group is mainly engaged in selling air-traveling television advertising time slots and digital frame advertising time slots on their network of television screens and digital frame screens located in high traffic airports and on airplanes of airline companies throughout PRC.

In accordance with SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, the Group chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group; hence, the Group has only one operating segment. The Group has internal reporting that does not distinguish between markets or segments.

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3. SEGMENT INFORMATION AND REVENUE ANALYSIS — continued

Geographic information

The Group operates in the PRC and all of the Group's long-lived assets are located in the PRC. Although the Group operates through multiple airports and airlines in PRC which include Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu and Wenzhou etc, it believes it operates in one segment as all airports and airlines provide selling digital frame advertising time slots, air-traveling television advertising time slots and billboards advertising on gate bridges in airports to the customers and advertisers.

Revenue by service categories

	2006	December 31, 2007	2008
Revenues:			
Digital frames	\$ —	\$ 1,263	\$ 45,011
Digital TV screens in airports	10,502	26,921	47,591
Digital TV screens on airplanes	4,868	11,093	19,227
Billboards on gate bridges in airports	—	—	6,051
Other displays	3,526	4,334	7,660
	<u>\$ 18,896</u>	<u>\$ 43,611</u>	<u>\$ 125,540</u>

4. BUSINESS ACQUISITION

Acquisition of Advertising Business on Gate Bridges in Airports

In July 2008, the Group acquired 100% of the equity interest in Excel Lead and 80% of the equity interest in Flying Dragon, which operate the advertising business on gate bridges in 10 airports in mainland China, with an initial cash consideration of \$1,789. The transaction further expanded the Group's air travel advertising network to cover the advertising business on gate bridges in airports, and diversify its media resources to include billboard advertisements.

Contingent consideration will be paid to the selling shareholders in installments based on the after-tax net profit of the acquired business for each of the periods from July 1, 2008 to December 31, 2008 and of the years of 2009 and 2010. The total contingent considerations will be up to \$27,257 in cash and 1,530,950 ordinary shares of AirMedia, or up to \$39,653 in cash only, at the sole discretion of the selling shareholders.

AIRMEDIA GROUP INC.

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The transaction was considered as an acquisition of a business and accordingly the purchase method of accounting has been applied in accordance with SFAS No. 141, Business Combination (“SFAS 141”). The acquired net assets were recorded at their estimated fair values on the acquisition date.

The Group recognized \$4,160, which represented the excess of the fair value of the net assets acquired over the initial cash consideration, as a liability in respect of contingent consideration in accordance with SFAS 141. The aggregate initial recognized consideration of \$5,949 consisted of the following:

Cash consideration	\$ 1,789
Contingent consideration	4,160
	<u>\$ 5,949</u>

The purchase price was allocated as follows:

		Amortization period
Cash acquired	\$ 2,351	
Accounts receivable	149	
Other current assets	3,498	
Property and equipment	12	
Intangible assets:		
Customer relationships	699	3.4 years
Contract backlog	1,461	1.2 years
Agreements with airports	2,547	3.8 years
Non-compete agreements	172	4.4 years
Deferred revenue	(3,076)	
Other current liabilities	(73)	
Deferred tax liability	(1,220)	
Minority interest	(571)	
Total consideration	<u>\$ 5,949</u>	

The 20% interest held by other shareholders of Flying Dragon is recorded as minority interest in the consolidated balance sheets and consolidated statement of operations.

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4. BUSINESS ACQUISITION — continued

Acquisition of Advertising Business on Gate Bridges in Airports — continued

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2008 of the Group as if the acquisition had occurred on January 1, 2008. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	For the year ended December 31, 2008 <hr style="width: 100%; border: none; border-top: 1px solid black; margin-bottom: 2px;"/> (unaudited)
Pro forma revenue	132,096
Pro forma net income	32,061
Pro forma net income per ordinary share-basic	0.23
Pro forma net income per ordinary share-diluted	0.22

The Group made an advance payment of \$6,334 to the selling shareholders on the date of acquisition. The advance payment is interest-free without collateral. The amount will be used to offset the contingent considerations based on the future after-tax net profit of the acquired business and the excess amount over the final contingent consideration to be determined, if any, will be repayable to the Group after the availability of the 2010 operating results of the acquired business.

The amount of contingent consideration, based on the after-tax net profit of acquired business in the second half of 2008, was determined to be \$2,340 in 2008, which was paid by offsetting the advance payment as set out in preceding paragraph. Accordingly, the remaining balance of advance payment in other current assets was \$3,994 (Note 7) and the liability in respect of contingent consideration in accrued expenses and other current liabilities was \$1,820 (Note 11) as of December 31, 2008.

Management believes the payment of the contingent consideration based on 2009 earnings will probably exceed the advance payment balance as of December 31, 2008, and accordingly the balance was recorded in other current assets of the balance sheet as of December 31, 2008 as set out in Note 7.

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5. LONG-TERM INVESTMENTS

(a) Equity method investments

The Group had the following equity method investments:

Name of company	As of December 31,			
	2007		2008	
	Percentage %	Carrying value	Percentage %	Carrying value
Beijing Aiyike Information Technology Ltd. ("Beijing Aiyike") (1)	51	\$ 788	—	\$ —
Beijing Eastern Media Corporation, Ltd. ("BEMC") (2)	—	—	49	953
		<u>\$ 788</u>		<u>\$ 953</u>

(1): On January 1, 2007, the Group, through AM Advertising, a VIE of the Group, acquired 51% equity interest of Beijing Aiyike, an advertising service provider focusing on exhibit advertising at airports in the PRC, with initial cash consideration of \$640. An additional cash consideration of \$663 was paid on October 22, 2007 in line with that the founders of Beijing Aiyike obtained certain concession rights from certain airports as defined in the share purchase agreement. Because the minority equity owners have substantive participating rights in making major operating decisions, including annual budgets and appointment of CEO and his/her compensation, among others, over Beijing Aiyike, the acquisition was accounted for using the equity method of accounting in accordance with EITF 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights".

The Group shared the loss of Beijing Aiyike of \$520 and \$243 for the year ended December 31, 2007 and the ten-month period ended October 31, 2008, respectively.

On November 1, 2008, the Group sold the investment in Beijing Aiyike to a third party with the cash consideration of \$671. A gain of \$42, which represented the excess of consideration received and the carrying amount of the investment as of November 1, 2008, was recognized as share of loss from equity method investments in the consolidated statements of operation.

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5. LONG-TERM INVESTMENTS — continued

(a) Equity method investments — continued

- (2): In March 2008, the Group entered into a definitive agreement with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, to establish a joint venture, BEMC. BEMC was incorporated on March 18, 2008 with China Eastern Media Corporation and the Group holding 51% and 49% equity interest, respectively. BEMC obtained concession rights of certain media resources from its shareholders, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. The total paid in capital of BEMC was \$2,119, which was contributed by both parties proportionately.

The investment was accounted for using equity method of accounting since the Group has the ability to exercise the significant influence to the operation of BEMC.

The Group shared the loss of BEMC of \$124 from the loss for the year ended December 31, 2008.

The financial statement amounts and balances of the investments as shown in its financial statements as of and for the year ended December 31, 2008 were as follows:

Total current assets	\$1,929
Total assets	2,028
Total current liabilities	84
Total liabilities	84
Total net revenue	1,353
Loss from operations	(700)

(b) Cost method investment

Beijing AirMedia City Outdoor Advertising Co., Ltd (“AM Outdoor”) was incorporated on December 4, 2008 and the Group holds 10% shares as of December 31, 2008. The investment was carried at cost of \$146. As of December 31, 2008, AM Outdoor did not commence to operating activities.

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Accounts receivable, net consists of the following:

	December 31,	
	2007	2008
Billed receivable	\$ 5,389	\$ 10,370
Unbilled receivable	8,089	28,016
	<u>\$ 13,478</u>	<u>\$ 38,386</u>

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

Movement of allowance for doubtful accounts is as follows:

	Balance at beginning of the year	Charge to expenses	Write off	Exchange adjustment	Balance at end of the year
2007	\$ 273	218	(46)	10	\$ 455
2008	<u>\$ 455</u>	<u>1,027</u>	<u>—</u>	<u>39</u>	<u>\$ 1,521</u>

7. OTHER CURRENT ASSETS

Other current assets consist of the follows:

	December 31,	
	2007	2008
Receivable from underwriters	\$ 631	\$ —
Advances to employees	444	284
Short-term deposits	328	1,488
Interest receivable	326	158
Prepaid insurance premium	214	146
Prepaid agency fees	83	167
Other prepaid expenses	367	1,593
Advance payment in connection with a business acquisition (Note 4)	—	3,994
	<u>\$ 2,393</u>	<u>\$ 7,830</u>

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7. OTHER CURRENT ASSETS — continued

Receivable from underwriters represents cash advance to one of the underwriters for the expenses to be paid by the underwriter on behalf of the company in connection with the Company's IPO. The balance was fully repaid by the underwriter in January 2008.

Short-term deposits primarily consist of prepaid deposit for leasing office space and bidding for concession rights.

8. LONG-TERM DEPOSITS

Long term deposits consist of the follows:

	December 31,	
	2007	2008
Concession fee deposits	\$ 4,322	\$ 14,213
Office rental deposits	384	511
	<u>\$ 4,706</u>	<u>\$ 14,724</u>

Concession fee deposits normally have terms of three to five years and are refundable at the end of the concession terms. Office rental deposits normally have terms of two to three years and are refundable at the end of the lease term.

The long term deposits are not within the scope of Accounting Principles Board Opinion No. 21, *Interests on Receivables and Payables*, because they are intended to provide security for the counterparty to the concession rights or office rental agreements. Therefore, the deposits are recorded at costs.

9. ACQUIRED INTANGIBLE ASSETS, NET

Acquired intangible assets, net, consist of the following:

	December 31,					
	2007			2008		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
TV program license (1)	\$ 5,186	\$ (324)	\$ 4,862	\$ 5,654	\$ (629)	\$ 5,025
Intangible assets arising from Business combinations:						
— Customer relationships	—	—	—	701	(86)	615
— Contract Backlog	—	—	—	1,466	(509)	957
— Agreements with Airports	—	—	—	2,554	(280)	2,274
— Non-compete agreements	—	—	—	172	(16)	156
	<u>\$ 5,186</u>	<u>\$ (324)</u>	<u>\$ 4,862</u>	<u>\$ 10,547</u>	<u>\$ (1,520)</u>	<u>\$ 9,027</u>

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9. ACQUIRED INTANGIBLE ASSETS, NET — continued

- (1): On October 10, 2006, the Group, through AM Advertising, acquired 75% equity interest of AirTV United with cash consideration of \$3,310. AirTV United had no material assets and liabilities and was inactive other than holding a TV program production and operation license (“TV program license”), which is authorized by China National TV & Movie Broadcasting Bureau. This license allows editing, producing and operating non-advertising programs that are displayed on TV. The license has perpetual life but is subject to annual compliance review by a government agency. The Company determined the license has an estimated economic useful life of 20 years and computed the amortization using the straight-line method. Accordingly, the purchase was accounted for as an asset acquisition. The following table presents the allocation of the acquisition costs:

		<u>Amortization period</u>
Total consideration	\$ 3,310	
Less: cash acquired	<u>(1)</u>	
Cost allocated to TV program license	3,309	
Plus: deferred income tax liability recognized	<u>1,631</u>	
Total acquired intangible asset cost initially recognized	<u>\$ 4,940</u>	20 years

The 25% interest held by other shareholders of AirTV United is recorded as minority interest in the consolidated balance sheets and consolidated statement of operations.

The amortization expenses for the years ended December 31, 2006, 2007 and 2008 were \$55, \$254 and \$1,170, respectively. The Group expects to record amortization expenses of \$2,157, \$1,200, \$1,197, \$579 and \$3,894 for 2009, 2010, 2011, 2012, 2013 and thereafter, respectively.

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10. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the follows:

	December 31,	
	2007	2008
Digital display network equipment	\$ 15,739	\$ 65,481
Computer and office equipment	551	994
Vehicle	342	595
Leasehold improvement	757	962
Furniture and fixture	529	594
	<u>17,918</u>	<u>68,626</u>
Less: accumulated depreciation and amortization	<u>(1,933)</u>	<u>(6,183)</u>
	<u>\$ 15,985</u>	<u>\$ 62,443</u>

Depreciation and amortization expenses recorded for the years ended December 31, 2006, 2007 and 2008 were \$467, \$1,132 and \$4,375, respectively.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the follows:

	December 31,	
	2007	2008
Accrued payroll and welfare	\$ 437	\$ 1,216
Other tax payable	372	1,114
Contingent consideration in connection with a business acquisition (Note 4)	—	1,820
Others liabilities	500	1,514
	<u>\$ 1,309</u>	<u>\$ 5,664</u>

Others liabilities primarily consist of professional fee, staff disbursement, social insurance and miscellaneous operating expenses incurred but not yet paid.

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12. INCOME TAXES

AirMedia is a tax-exempted company incorporated in the Cayman Islands.

Broad Cosmos and Excel Lead are tax-exempted company incorporated in the British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the years ended December 31, 2007 and 2008 on the basis that Royal HK and Glorious Star did not have any assessable profits arising in or derived from Hong Kong for the years.

AM Advertising, Shengshi Lianhe, AirTV United, AM Film, AirMedia UC, AM Yuehang, Flying Dragon and AM Wenzhou were registered in the PRC, are all subject to PRC Enterprise Income Tax (“EIT”) on the taxable income in accordance with the relevant PRC income tax laws. EIT rate for companies operating in the PRC was 33% prior to January 1, 2008. On March 16, 2007, the National People’s Congress adopted the Enterprise Income Tax Law (the “EIT Law”), which became effective on January 1, 2008. The EIT rate was reduced to 25% in accordance with the EIT Law in 2008.

AM Technology qualified for the New and High-Tech Enterprise (“HNTE”) status that would allow for a reduced 15% tax rate under EIT Law since year 2006. AM Technology also qualified as a HNTE located in a high-tech zone in Beijing and, therefore, was entitled to a three-year exemption from EIT from year 2006 to 2008 and a preferential EIT of 7.5% from the year 2009 to 2011.

Shenzhen AM is subject to EIT on the taxable income at the gradual rate, which is 18% in 2008, and will be 20% in 2009, 22% in 2010, 24% in 2011, 25% in 2012, respectively, since it is located in Shenzhen. Shenzhen AM submitted its application to be qualified as a HNTE in March 2009 and if rewarded Shenzhen AM will enjoy a 15% preferential EIT rate since January 2009.

Xi’an AM qualified as an “Software Enterprise” in August 2008 by Technology Information Bureau of Shan Xi province, and has been agreed by the relevant tax authorities as entitled to a two-year exemption from the EIT commencing from its first profitable year and an 50% deduction of 25% EIT rate for the succeeding three years.

The Group did not record any Hong Kong profits tax for the years ended December 31, 2007 and 2008 on the basis that Royal Mart and Glorious Star did not have any assessable profits arising in or derived from Hong Kong for 2007 and 2008.

Income tax benefits are as follows:

	December 31,		
	2006	2007	2008
Income taxes benefits:			
Current	\$ —	\$ (32)	\$ (1,268)
Deferred	197	227	1,766
Total	<u>\$ 197</u>	<u>\$ 195</u>	<u>\$ 498</u>

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12. INCOME TAXES — continued

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

	December 31,	
	2007	2008
Deferred tax assets:		
Current		
Allowance for doubtful accounts	\$ 95	\$ 380
Total deferred tax assets	<u>95</u>	<u>380</u>
Non-current		
Depreciation of property and equipment	185	274
Start-up cost	4	3
Prepaid concession fee	—	1,087
Taxable loss arising from a disposal of an equity method investment	—	198
Net operating loss carry forwards	<u>318</u>	<u>200</u>
Total deferred tax assets	507	1,762
Valuation allowance	—	—
Net deferred tax assets	<u>602</u>	<u>2,142</u>
Deferred tax liabilities:		
Non-current		
Acquired intangible assets	1,527	2,659
Total deferred tax liabilities	<u>\$ 1,527</u>	<u>\$ 2,659</u>

As management believes that the Group will generate taxable PRC statutory income in the near future and it is more likely than not that all of the deferred tax assets will be realized, no valuation allowance has been established for the deferred tax assets as of December 31, 2007 and 2008.

The subsidiaries, registered in the PRC, had total net operating loss carryforward of \$852 as of December 31, 2008. The net operating loss carry forwards for the PRC subsidiaries will expire on various dates through 2013.

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12. INCOME TAXES — continued

Reconciliation between the provision for income taxes computed by applying the PRC EIT rate of 25% or 33% to income before income taxes and the actual provision of income taxes is as follows:

	December 31,		
	2006	2007	2008
Net income/(loss) before provision for income taxes	\$ 3,868	\$ (4,787)	\$ 30,407
PRC statutory tax rate	33%	33%	25%
Income tax at statutory tax rate	1,277	(1,580)	7,602
Expenses not deductible for tax purposes:			
Entertainment expenses exceeded the tax limit	96	46	62
Payroll expenses exceeded the tax limit	82	202	—
Others	106	79	19
Effect of income tax holidays in subsidiaries and VIEs in the PRC	(1,784)	1,251	(9,217)
Effect of income tax rate difference in other jurisdictions	26	(193)	1,036
Income tax benefits	\$ (197)	\$ (195)	\$ (498)
Effective tax rates	(5.1)%	4.1%	(1.6)%

If the Group's subsidiaries and VIEs in the PRC were not in a tax holiday period in the year ended December 31, 2008, net income/(loss) per share amounts would be as follows:

	2006	2007	2008
Changes in income tax expenses	\$ 1,685	\$ 4,562	\$ 9,217
Decrease in net income/(loss) per ordinary share-basic	0.01	0.06	0.07
Decrease in net income/(loss) per ordinary share-diluted	0.01	0.06	0.07
Decrease in net income/(loss) per preferred share A — basic and diluted	0.02	—	N/A
Decrease in net income/(loss) per preferred share B — basic and diluted	N/A	—	N/A

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2006, 2007 and 2008. The Group did not incur any interest and penalties related to potential underpaid income tax expenses for the year ended December 31, 2006, 2007 and 2008.

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12. INCOME TAXES — continued

Since the commencement of operations in August 2005, the relevant tax authorities of the Group's subsidiaries in PRC have not conducted a tax examination. As such, the Group's subsidiaries, VIEs and VIE's subsidiary are subject to tax audits at the tax authority's discretion.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. EIT Law includes a provision specifying that legal entities organized outside of China will be considered residents for Chinese Income tax purposes if the place of effective management or control is within China. The Implementation Rules to the EIT Law provide that non-resident legal entities will be considered China residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc, occurs within China. Additional guidance is expected to be released by the Chinese government in the near future that may clarify how to apply this standard to taxpayers. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that its legal entities organized outside of China should be treated as residents for EIT Law purposes.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial report over tax basis, including those differences attributable to a more than 50% interest in a subsidiary. However, recognition is not required in situations where the tax law provides a means by which reported amount of that investment in subsidiary can be recovered tax-free and the enterprise expects that it will ultimately use that means.

The Company, which has subsidiaries located in the PRC, is subject to the PRC dividend withholding tax of 10% when and if undistributed earnings are declared to be paid as dividends commencing on January 1, 2008 to the extent those dividends are paid out of profits that arose on or after January 1, 2008.

Aggregate undistributed earnings of the Company's subsidiaries located in the PRC that are taxable upon distribution to the Company of approximately \$32,038 at December 31, 2008 are considered to be indefinitely reinvested under APB opinion No. 23, because the Group does not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business. Accordingly, no deferred tax liability has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company as of December 31, 2008.

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13. NET INCOME/(LOSS) PER SHARE

The calculation of the net income/(loss) per share is as follows:

	For the year ended December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Net income/(loss)	\$ 4,066	\$ (5,110)	\$ 30,198
Deemed dividend on Series A convertible redeemable preferred shares — Accretion of redemption premium	(1,440)	(1,201)	—
Deemed dividend on Series B convertible redeemable preferred shares — Accretion of redemption premium	—	(2,152)	—
Net income/(loss) attributable to holders of ordinary shares	<u>2,626</u>	<u>(8,463)</u>	<u>30,198</u>
Numerator used in basic and diluted net income/(loss) per share:			
Net income/(loss) allocated for computing net income/(loss) per ordinary share — basic and diluted	<u>\$ 1,639(i)</u>	<u>\$ (8,463)(i)</u>	<u>\$ 30,198</u>
Net income/(loss) allocated for computing net income/(loss) per preferred share A — basic	2,427(i)	1,201(i)	—
Net income/(loss) allocated for computing net income/(loss) per preferred share B — basic	<u>N/A(i)</u>	<u>2,152(i)</u>	<u>—</u>
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing net income/(loss) per ordinary share — basic	<u>62,400,000(ii)</u>	<u>73,469,589</u>	<u>133,603,419</u>
Weighted average ordinary and preferred shares outstanding used in computing net income/(loss) per ordinary share — diluted	<u>62,400,000(iii)</u>	<u>73,469,589(iii)</u>	<u>137,782,135(iii)</u>
Weighted average shares outstanding used in computing net income/(loss) per preferred share A- basic	37,600,000	31,461,918	N/A
Weighted average shares outstanding used in computing net income/(loss) per preferred share B- basic	<u>N/A</u>	<u>6,706,849</u>	<u>N/A</u>
Net income/(loss) per ordinary share-basic	<u>\$ 0.03</u>	<u>\$ (0.12)</u>	<u>\$ 0.23</u>
Net income/(loss) per ordinary share-diluted	<u>0.03</u>	<u>(0.12)</u>	<u>0.22</u>
Net income/(loss) per preferred share A-basic	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>N/A</u>
Net income/(loss) per preferred share B-basic	<u>N/A</u>	<u>\$ 0.32</u>	<u>N/A</u>

- (i) The net income attributable to holders of ordinary shares was allocated between ordinary shares and preferred shares on pro rata basis on the dividend participant rights. Since each Series A and Series B preferred share had the same participating right as each ordinary shares, the allocation was based on the number of ordinary shares and Series A and Series B preferred shares issued. The net income allocated for computing net income per preferred share-basic also contained the deemed dividend for accretion of the redemption premium.
- (ii) The proceeds for subscription of ordinary shares were paid off in June 2007. However, since the unpaid ordinary shares were entitled to full rights, such as right to participate in dividends, for the full year 2006, they are included in computation of net income (loss) per share.

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13. NET INCOME/(LOSS) PER SHARE — continued

(iii) The Group had securities outstanding which could potentially dilute basic net income/(loss) per share, but which were excluded from the computation of diluted net income/(loss) per share for the years end December 31, 2006, 2007 and 2008, as their effects would have been anti-dilutive. For year 2006, such outstanding securities consisted of 37,600,000 shares on Series A preferred shares. For 2007, such outstanding securities consisted of 37,600,000 shares on Series A preferred shares, 16,000,000 shares on Series B preferred shares, and stock options of a weighted average number of 4,083,329. For year 2008, such outstanding securities consisted of stock options of a weighted average number of 2,320,767.

The calculation of the weighted average number of ordinary shares in 2008 for the purpose of diluted net income per share has included the effect of stock of a weighted average number of 7,874,013 which gives rise to an incremental weighted average number of 4,178,716 ordinary shares from the assumed conversion of these stock options using the treasury stock method.

14. CONVERTIBLE REDEEMABLE PREFERRED SHARES

Series A convertible redeemable preferred shares

On October 18, 2005, CDH, the founding shareholders and AM Technology entered into an agreement whereby CDH purchased an aggregate of \$12,000 of the Series A convertible redeemable preferred share interest in AM Technology, representing 37.6% voting power in the Group.

The preferred share interest in AM Technology was subsequently replaced with the preferred shares representing the same interest in Broad Cosmos, which subsequently became the corresponding number of preferred shares in AirMedia through share swap.

The significant terms of Series A Preferred Shares were as follows.

Dividends

If the Group declares and pays any dividends on the ordinary shares, then, holders of Series A Preferred Shares shall be entitled to share in such dividends on a pro rata basis, as if their shares have been converted into ordinary shares.

Liquidation preference

In the event of any liquidation event, the shareholders of the series A preferred share would be entitled to receive in preference to the shareholders of the ordinary shares a an amount per Series A Preferred Shares equal to the Series A issue price plus all accrued or declared but unpaid dividends. After full preference amount has been paid on all the shares of the Series A Preferred Shares, any remaining funds or assets of the Group legally available for distribution to shareholders shall be distributed pro rata among the holders of the Series A Preferred Shares (on an as-if-converted basis) together with the holders of the ordinary shares.

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14. CONVERTIBLE REDEEMABLE PREFERRED SHARES — continued

Series A convertible redeemable preferred shares — continued

Voting rights

Each Series A Share carries a number of votes equal to the number of ordinary shares then issuable upon its conversion into ordinary shares. The Series A Preferred Shares generally vote together with the Ordinary Shares and not as a separate class.

Conversion

Each holder of Series A Preferred Shares shall have the right, at such holder's sole discretion, to convert at any time and from time to time all or any portion of the Series A Preferred Shares held by it into ordinary shares. The initial conversion ratio shall be on a one for one basis, subject to certain general anti-dilution adjustments.

The Series A Preferred Shares are automatically converted into ordinary shares upon the closing of a qualified public offering, which means a firm commitment underwritten initial public offering and listing on an internationally recognized stock exchange by the Group of its ordinary shares representing at least 15% of the ordinary shares (on a fully diluted basis immediately prior to such initial public offering) at a price per share implying a pre-money valuation of the Group of at least \$100,000.

As the effective conversion price exceeded the fair value of ordinary shares on commitment day of October 18, 2005, there was no beneficial conversion feature upon issuance of Series A Preferred Shares.

Redemption

The Series A Preferred Shares shall be redeemed wholly or in part from time to time at the election of holders of majority Series A Preferred Shares on or after the third anniversary of the date of issuance of the Series A Preferred Shares. The redemption price will be sufficient to yield a 12% annualized effective internal rate of return with respect to the Series A Preferred Shares issue price, computed from the date of issuance of the Series A preferred shares until the date that the redemption payment has been paid in full, plus any declared but unpaid dividends thereon.

The Group accrued the 12% premium over the redemption period as deemed dividends with debits to the accumulated deficit of \$1,440 and \$1,201 for the year ended December 31, 2006 and 2007, respectively.

On September 27, 2007, CDH converted 5,000,000 Series A preferred share into ordinary shares and transferred the 5,000,000 ordinary shares to Mr. Guo Man in connection with the share-based compensation arrangement as set out in Note 15.

On November 7, 2007, all remaining outstanding 32,600,000 Series A preferred shares were automatically converted into ordinary shares upon the IPO of the Company.

AIRMEDIA GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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14. CONVERTIBLE REDEEMABLE PREFERRED SHARES — continued

Series B convertible redeemable preferred shares

On June 8, 2007, AirMedia issued 16,000,000 shares of Series B Preferred Shares for consideration of \$2.50 per share for an aggregate purchase price of \$40,000. The consideration was fully paid in June 2007 and the total proceeds were \$39,000 (net of issuance cost of \$1,000).

The significant terms of Series B Preferred Shares were as follows.

Dividends

If the Group declares and pays any dividends on the ordinary shares, then, holders of Series B Preferred Shares shall be entitled to share in such dividends on a pro rata basis, as if their shares have been converted into ordinary shares.

Liquidation preference

In the event of any liquidation event, the shareholders of the Series A and Series B preferred shares (collectively “Preferred Shares”) shall be entitled to receive, on the same basis, prior to any distribution to the holders of the ordinary shares or any other class or series of shares, an amount per Preferred Share equal to the applicable issue price plus all accrued or declared but unpaid dividends. After full preference amount has been paid on all the shares of the Preferred Shares, any remaining funds or assets of the Group legally available for distribution to shareholders shall be distributed pro rata among the holders of the Preferred Shares (on an as-if-converted basis) together with the holders of the ordinary shares.

Voting rights

Each Preferred Share carries a number of votes equal to the number of ordinary shares then issuable upon its conversion into ordinary shares. The Preferred Shares generally vote together with the ordinary shares and not as a separate class.

Conversion

Unless converted resulting from automatic conversion, the Series B Preferred Shares may not be optionally converted unless the Company gives its prior written consent for such optional conversion. Each Series B Preferred Share, if consented to by the Company in writing, shall be convertible into such number of ordinary shares as is determined by dividing the Series B issue price by the Series B conversion price in effect at the time of conversion. The initial conversion ratio shall be on a one for one basis, subject to certain anti-dilution adjustments.

The Series B Preferred Shares shall automatically be converted into ordinary shares, at the Series B conversion price determined below, upon the earlier of (i) the closing of an IPO and (ii) the three year anniversary of the Series B original issue date.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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14. CONVERTIBLE REDEEMABLE PREFERRED SHARES — continued

Series B convertible redeemable preferred shares — continued

Conversion — continued

In the event that triggering event is an IPO, the Series B conversion price shall automatically be adjusted for purpose of such conversion to a price per ordinary share that will result in the conversion of Series B Preferred Shares into such number of ordinary shares that equal to the quotient of the Series B investment amount divided by product of ninety percent multiplied by the IPO price. "IPO Price" means the price per ordinary share as set forth in the final prospectus and underwriting agreement for the IPO

As the effective conversion price exceeded the fair value of ordinary shares on commitment day of April 26, 2007, there was no beneficial conversion feature upon issuance of Series B Preferred Shares as of June 8, 2007, the issuance date. On November 7, 2007, the conversion price was adjusted to \$6.75 determined by the ninety percent of the IPO price of the Company. Since adjusted conversion price exceeded the fair value of ordinary shares on commitment day of April 26, 2007, there was no beneficial conversion feature upon the triggering contingency events, which was the IPO, occurred on November 7, 2007.

Redemption

The Series B Preferred Shares shall be redeemed wholly or in part from time to time at the election of holders of Series B Preferred Shares holding at least twenty five percent of all then outstanding Series B Preferred Shares, on or after February 27, 2010. The redemption price will be sufficient to yield a 12% annualized effective internal rate of return with respect to the Series B Preferred Shares issue price, computed from the date of issuance of the Series B preferred shares until the date that the redemption payment has been paid in full, plus any declared but unpaid dividends thereon.

The Group accrued the 12% premium and the amortization of issuance cost over the redemption period as deemed dividends with debits to the retained earnings of \$2,152 for the year ended December 31, 2007.

On November 7, 2007, all remaining outstanding 16,000,000 Series B preferred shares were automatically converted into ordinary shares upon the IPO of the Company.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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15. STOCK BASED PAYMENTS

Share transfer from CDH to Mr. Guo Man

Pursuant to the 2005 Agreement, in the event that the Group's 2006 audited net income after certain agreed adjustments (the "Adjusted Net Income") defined in the 2005 agreement exceeded the pre-determined 2006 threshold, CDH should have transferred to Guo Man, a founder, chairman and the Chief Executive Officer of the Group, 2006 Reward Shares up to 5,000,000 ordinary shares converted from Series A preferred shares, based on a graded vesting increasing schedule, for zero consideration. If the 2006 Reward Shares did not reach the maximum number of shares which was 5,000,000, and if the average Adjusted Net Income of 2006 and 2007 exceeded pre-determined 2007 threshold, then CDH would have transferred to Guo Man, the applicable 2007 Reward Shares, based on a graded vesting increasing schedule, for zero consideration, until the aggregate number of 2007 Reward Shares and 2006 Reward Shares equaled the maximum number of reward shares, which was 5,000,000.

As of December 31, 2006, since the 2006 Adjusted Net Income did not meet the pre-determined 2006 threshold and management did not believe the average Adjusted Net Income of 2006 and 2007 would meet the pre-determined 2007 threshold, no share based compensation was recognized in the statement of operations for the year ended December 31, 2006.

On September 27, 2007, the share transfer arrangement was amended to eliminate the performance conditions set out above and CDH transferred 5,000,000 ordinary shares, converted from Series A preferred shares, to Mr. Guo Man without any conditions in recognition of his service to the Company. As a result of the transaction, a share-based compensation of \$17,500 was recognized in the statement of operation for the year ended December 31, 2007 at the fair value of the ordinary shares as of the date of share transfer determined based on the estimated preliminary valuation of the Company in connection with the IPO as of the date.

2007 Stock incentive plan

On July 2, 2007, the Board of Directors adopted the 2007 share incentive plan (the "2007 Option Plan"), which allows the Group to grant options to its employees and directors to purchase up to 12,000,000 ordinary shares of the Company subject to vesting requirement. On December 29, 2008, the Board of Directors amended 2007 Option Plan to allow the Group to grant options to its employees and directors to purchase up to 17,000,000 ordinary shares. No options shall be exercisable after ten years from the date of grant. On July 2, 2007, The Group awarded options to the Company's four senior executives (the "Senior Executive Options") and certain other officers and employees (the "Employee Options") to purchase an aggregate of 4,600,000 and 3,125,000 ordinary shares of the Company, respectively, at an exercise price of \$2.00 per share. One twelfth of the Senior Executive Options will vest each quarter until July 2, 2010.

On July 20, 2007, the Board of Directors decided to remove the vesting clause that the vesting of the Employee Option is subject to management's determination of whether the grantee passes the periodic evaluation of the performance of each vesting period. After this modification, the vesting of these Employee Option is only subject to services and one twelfth of the Employee Options will vest each quarter from July 20, 2010. Therefore, July 20, 2007 was treated as the grant date of the Employee Options.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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15. STOCK BASED PAYMENTS — continued

2007 Stock incentive plan — continued

On July 20, 2007, the Board of Directors also granted options to certain consultants (the “Consultant Options”) to purchase an aggregate of 340,000 ordinary shares of the company at an exercise price of \$2.00 per share. The Consultant Options have the same vesting schedule with the Employee Options.

On November 29, 2007, the Board of Directors granted options to the Company’s non-employee directors, employees and consultants to purchase an aggregate of 2,330,000 ordinary shares of the Company, at an exercise price of \$8.50 per share. One twelfth of the Options will vest each quarter until November 29, 2010.

On December 10, 2008, the Board of Directors voted to adjust the exercise price of the stock options which were granted on November 29, 2007 from \$8.50 per share to \$2.98 per share. The fair value of the options on December 10, 2008, the modification date, was \$1.38 per option calculated using black-scholes model based on the closing market price of the ordinary shares of the Company on the date. The incremental compensation cost of the re-priced options was \$1,727, with totalling \$626 recognized as compensation cost during 2008, and \$1,101 to be recognized as expense over the remaining vesting period.

The following table summarizes information regarding the stock options granted/modified:

Date of grant/modification	Options granted	Exercise price per option	Fair value per ordinary share at the grant dates	Intrinsic value per option at the grant dates
July 02, 2007	4,600,000	\$2.00	\$1.92	—
July 20, 2007	3,465,000	\$2.00	\$1.92	—
December 10, 2008	2,330,000	\$2.98	\$2.98	—
Total	<u>10,395,000</u>			

	2007		2008	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding at beginning of the year	—	—	10,395,000	\$3.46
Granted	10,395,000	\$3.46	—	—
Exercised	—	—	(394,614)	2.00
Forfeited	—	—	(98,334)	4.38
Outstanding at end of the year	<u>10,395,000</u>	3.46	<u>9,902,052</u>	2.22(1)
Shares exercisable at end of year	<u>672,083</u>		<u>3,742,469</u>	

(1): The weighted average exercise price per option as of December 31, 2008 has reflected the impact of the exercise price adjustment made in the modification as set out in the preceding paragraph.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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15. STOCK BASED PAYMENTS — continued

2007 Stock incentive plan — continued

The following table summarizes information with respect to stock options outstanding as of December 31, 2008:

	Number outstanding	Options outstanding		Aggregate intrinsic value as of December 31, 2008	Number exercisable	Options exercisable	
		Weighted average remaining contractual life	Weighted average exercise price per option			Weighted average exercise price per option	Aggregate intrinsic value as of December 31, 2008
Ordinary shares	9,902,052	7.48	\$ 2.22	3,057	3,742,469	\$ 2.20	1,186

As of December 31, 2008, options to purchase 6,703,334 ordinary shares were available for future grant.

The range of fair value of the options as of their respective grant/modification dates is as follows:

	For the year ended December 31,	
	2007	2008
Options	0.897-5.61	1.38

The fair value of each option granted was estimated on the date of grant/modification using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable period.

	For the year ended December 31,	
	2007	2008
Risk-free interest rate of return	3.19%~5.57%	1.08%
Expected term	3.5~5.81 years	2.37 years
Volatility	39.0%~40.9%	78.43%
Dividend yield	—	—

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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15. STOCK BASED PAYMENTS — continued

2007 Stock incentive plan — continued

(1) Volatility

Expected volatility is estimated based on daily stock price of comparable company for a period with length commensurate to expected term since the Company lacks historic records of its own stock prices. The companies selected for reference were Focus Media Holding Limited, Lamar Advertising Company, Clear Media Limited, Dahe Media Company Limited, Tom Group Limited.

(2) Risk-free rate

Risk free rate is based on yield of US treasury bill as of valuation date with maturity date same as the qualified IPO time.

(3) Expected term

The expected term is estimated by averaging the expiration period and the vesting term. This is determined in accordance with information on the Staff Accounting Bulletin No. 107 of the Securities and Exchange Commission of the United States.

(4) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options. The Company has no plan to pay any dividend in the foreseeable future. Therefore, the Company considers the dividend yield to be zero.

(5) Exercise price

The exercise price of the options was determined by the Company's board of directors.

(6) Fair value of underlying ordinary shares

When estimating the fair value of the ordinary shares on the grant dates before the IPO of the Company in November 2007, management had considered a number of factors, including the result of a third-party appraisal and equity transactions of the Company, while taking into account standard valuation methods and the achievement of certain events. After the IPO, the closing market price of the ordinary shares of the Company as of the grant/modification date was used as the fair value of the ordinary shares on that date.

The Group recorded share-based compensation of nil, \$19,105 and \$4,963 for the year ended December 31, 2006, 2007 and 2008, respectively.

There was \$8,531 of total unrecognized compensation expense related to nonvested share options granted as of December 31, 2008. The expense is expected to be recognized over a weighted-average period of 1.61 years on a straight-line basis.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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16. SHARE REPURCHASE PLAN

On December 29, 2008, AirMedia's Board of Directors has authorized, but not obligated, AirMedia to repurchase up to \$50,000 worth of its own outstanding American Depositary Shares ("ADSs") throughout 2009. The repurchases will be made from time to time on the open market at prevailing market prices, in negotiated transactions off the market, in block trades or otherwise. AirMedia may execute its repurchase program pursuant to a plan in conformity with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which allows AirMedia to repurchase its ADSs pursuant to the pre-determined terms under the plan at any time, including during periods in which it may be in possession of material non-public information. The timing and extent of any purchases will depend upon market conditions, the trading price of ADSs and other factors, and be subject to the restrictions relating to volume, price and timing in accordance with applicable laws. No shares were repurchased as of December 31, 2008.

17. MAINLAND CHINA CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits were \$89, \$392 and \$1,270 for the year ended December 31, 2006, 2007 and 2008, respectively.

18. STATUTORY RESERVES

As stipulated by the relevant law and regulations in the PRC, the Group's subsidiaries in the PRC are required to maintain non-distributable statutory surplus reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the subsidiaries' statutory financial statements prepared under PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the general reserve is accumulated to 50% of the subsidiaries' registered capital, the subsidiaries can choose not to provide more reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and increase in registered capital of the subsidiaries. Amounts contributed to the statutory reserve were \$1,680 and \$3,811 for the year ended December 31, 2007 and 2008, respectively. As of December 31, 2008, the aggregate amounts of capital and reserves restricted which represented the amount of net assets of the relevant subsidiaries in the Group not available for distribution was \$187,056.

AIRMEDIA GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In U.S. dollars in thousands, except share data)

19. COMMITMENTS**(a) Rental leases**

The Group has entered into operating lease agreements principally for its office spaces in the PRC. These leases expire through 2010 and are renewable upon negotiation. Rental expenses under operating leases for the years ended December 31, 2006, 2007 and 2008 were \$305, \$846 and \$1,368, respectively.

Future minimum rental lease payments under non-cancellable operating leases agreements were as follows:

Year ending	
2009	\$ 1,435
2010	618
	<u>\$ 2,053</u>

(b) Concession fees

The Group has entered into concession right agreements with airports and airlines. The contract terms of such concession rights are usually three to five years. The concession rights expire through 2015 and are renewable upon negotiation. Concession fees charged into statement of operations for the year ended December 31, 2006, 2007 and 2008 was \$6,758, \$11,992 and \$45,704, respectively.

Future minimum concession fee payments under non-cancellable concession right agreements were as follows:

Year ending	
2009	\$ 66,142
2010	52,874
2011	18,660
2012	10,398
2013 and thereafter	11,950
	<u>\$ 160,024</u>

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
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20. CONTINGENT LIABILITIES

(a) Outdoor advertisement registration certificate

On May 22, 2006, the State Administration for Industry and Commerce, or the SAIC, a governmental authority in the PRC, amended the Provisions on the Registration Administration of Outdoor Advertisements, or the new outdoor advertisement provisions. Pursuant to the amended outdoor advertisement provisions, advertisements placed inside or outside of the “departure halls” of airports are treated as outdoor advertisements and must be registered in accordance with the local SAIC by “advertising distributors.” To ensure that the Group’s airport operations comply with the applicable PRC laws and regulations, the Group is in the process of making inquiries with the local SAICs in the cities in which the Group has operations or intends to operate with respect to the application for an advertising registration certificate. However, the local SAICs with whom the Group consulted have expressed different views on whether the advertisements shown on the Group’s digital TV screens should be regarded as outdoor advertisements and how to register those advertisements. As of the date of this annual report, only Shanghai and Beijing SAIC has accepted the Group’s application and issued the outdoor advertising registration certifications. Some local SAICs need more time to consider the implementation of the new outdoor advertising provisions. Other SAICs do not require the Group to register. The Group intends to register with the relevant SAICs if the Group is required to do so, But the Group cannot assure that the Group will obtain the registration certificate in compliance with the new outdoor advertisement provisions, or at all. If the requisite registration is not obtained, the relevant local SAICs may require the Group to forfeit advertising income earned. They may also require the Group to discontinue advertisements at airports where the requisite advertising registration is not obtained, which may result in a breach of one or more of the Group’s agreements with the Group’s advertising clients and materially and adversely affect the Group’s business and results of operations. As of December 31, 2008, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is unlikely and any liability it may incur would not have a material adverse effect on its financial condition and its results of operations.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In U.S. dollars in thousands, except share data)**20. CONTINGENT LIABILITIES — continued**

(b) Approval for non-advertising content

A majority of the digital frames and digital TV screens in the Group's network include programs that consist of both advertising content and non-advertising content. On December 6, 2007, the State Administration of Radio, Film or Television, or the SARFT, a governmental authority in the PRC, issued the Circular regarding Strengthening the Management of Public Audio-Video in Automobiles, Buildings and Other Public Areas, or the SARFT Circular. According to the SARFT Circular, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT. The Group intends to obtain the requisite approval of the SARFT for the Group's non-advertising content, but the Group cannot assure that the Group will obtain such approval in compliance with this new SARFT Circular, or at all. If the requisite approval is not obtained, the Group will be required to eliminate non-advertising content from the programs included in the Group's digital frames and digital TV screens and advertisers may find the Group's network less attractive and be unwilling to purchase advertising time slots on the Group's network. As of December 31, 2008, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is unlikely and any liability it may incur would not have a material adverse effect on its financial condition and its results of operations.

(c) Contingent consideration in connection with a business acquisition

The Group is contractually obligated to pay additional consideration to the selling shareholders contingently based on the future earnings of the acquired business as set out in the Note 4.

21. RELATED PARTY TRANSACTIONS

Details of amounts due to related parties as of December 31, 2007 and 2008 were as follows:

Name of related parties	Relationship	December 31,	
		2007	2008
CDH	A shareholder with more than 10% shareholding of the Company	11	—
BEMC	Equity method investment of the Group	—	408
		<u>\$ 11</u>	<u>\$ 408</u>

The amount due to BMEC represents the deposits received for publishing advertisement as of December 31, 2008.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued
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22. SUBSEQUENT EVENT

In accordance with the share repurchase plan as set out in Note 16, as of April 28, 2009, the Company had repurchased 1,646,502 ADSs, each representing two ordinary shares, of the Company at a total cost of \$7,387. The average executed price was \$4.4864 per ADS. The Company plans to continue to repurchase shares from time to time in 2009.

AIRMEDIA GROUP INC.
ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
BALANCE SHEET
(In U.S. dollars in thousands, except share related data)

	December 31, 2007	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 186,501	\$ 60,998
Investment in subsidiaries	17,466	73,944
Amount due from subsidiaries	53,081	163,770
Other current assets	1,225	4,249
TOTAL ASSETS	258,273	302,961
Liabilities		
Current liabilities		
Amount due to subsidiaries	668	55
Accrued expenses and other liabilities	—	2,174
Total Liabilities	668	2,229
Shareholders' equity		
Ordinary Shares (\$0.001 par value; 162,400,000 shares authorized in 2007 and 2008; 133,425,925 shares and 134,425,925 shares issued and outstanding in 2007 and 2008 respectively)	133	134
Additional paid in capital	263,130	268,881
Retained earnings (accumulated deficit)	(8,535)	21,663
Accumulated other comprehensive income	2,877	10,054
Total shareholders' equity	257,605	300,732
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 258,273	\$ 302,961

AIRMEDIA GROUP INC.
ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
STATEMENTS OF OPERATIONS
(In U.S. dollars in thousands)

	For the year ended December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Operating expenses			
General and administrative	\$ (1)	\$ (19,135)	\$ (5,397)
Selling and marketing	—	(327)	(1,213)
Total operating expenses	<u>(1)</u>	<u>(19,462)</u>	<u>(6,610)</u>
Equity in earnings of subsidiaries	4,066	12,863	32,813
Interest income	1	1,489	3,995
Net income (loss) attributable to holders of ordinary shares	<u>4,066</u>	<u>(5,110)</u>	<u>30,198</u>
Deemed dividend on Series A and B convertible redeemable preferred shares — Accretion of redemption premium	<u>(1,440)</u>	<u>(3,353)</u>	<u>—</u>
Net income (loss)	<u>\$ 2,626</u>	<u>\$ (8,463)</u>	<u>\$ 30,198</u>

AIRMEDIA GROUP INC.
**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In U.S. dollars in thousands, except share related data)**

	Ordinary shares		Subscription receivable	Statutory reserve	Additional Paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity (deficiency)	Comprehensive income (loss)
	Shares	Amount							
Balance as of January 1, 2006	62,400,000	\$ 62	\$ (62)	\$ —	\$ —	\$ (2,698)	\$ 8	\$ (2,690)	
Deemed dividend on series A convertible redeemable preferred shares — Accretion of redemption premium	—	—	—	—	—	(1,440)	—	(1,440)	
Provision for statutory reserve	—	—	—	102	—	(102)	—	—	
Foreign currency translation adjustment	—	—	—	—	—	—	285	285	\$ 285
Net income	—	—	—	—	—	4,066	—	4,066	4,066
Balance as of December 31, 2006	62,400,000	62	(62)	102	—	(174)	293	221	4,351
Deemed dividend on series A convertible redeemable preferred shares — Accretion of redemption premium	—	—	—	—	—	(1,201)	—	(1,201)	
Deemed dividend on series B convertible redeemable preferred shares — Accretion of redemption premium	—	—	—	—	—	(2,152)	—	(2,152)	
Series A convertible redeemable preference shares converted into ordinary shares upon initial public offering	37,600,000	37	—	—	14,900	—	—	14,937	
Series B convertible redeemable preference shares converted into ordinary shares upon initial public offering	5,925,925	6	—	—	41,146	—	—	41,152	
Issuance of ordinary shares upon IPO	27,500,000	28	—	—	190,785	—	—	190,813	
IPO expenses	—	—	—	—	(2,806)	—	—	(2,806)	
Subscription received	—	—	62	—	—	—	—	62	
Provision for statutory reserve	—	—	—	1,680	—	(1,680)	—	—	
Share-based compensation	—	—	—	—	19,105	—	—	19,105	
Foreign currency translation adjustment	—	—	—	—	—	—	2,584	2,584	2,584
Net income	—	—	—	—	—	(5,110)	—	(5,110)	(5,110)
Balance as of December 31, 2007	133,425,925	133	—	1,782	263,130	(10,317)	2,877	257,605	(2,526)
Ordinary shares issued for share based compensation	1,000,000	1	—	—	788	—	—	789	

Share-based compensation	—	—	—	—	4,963	—	—	4,963	
Provision for statutory reserve	—	—	—	3,811	—	(3,811)	—	—	
Foreign currency translation adjustment	—	—	—	—	—	—	7,177	7,177	7,177
Net income	—	—	—	—	—	30,198	—	30,198	30,198
Balance as of December 31, 2008	<u>134,425,925</u>	<u>\$ 134</u>	<u>\$ —</u>	<u>\$ 5,593</u>	<u>\$ 268,881</u>	<u>\$ 16,070</u>	<u>\$ 10,054</u>	<u>\$ 300,732</u>	<u>\$ 37,375</u>

AIRMEDIA GROUP INC.
ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
STATEMENTS OF CASH FLOWS
(In U.S. dollars in thousands)

	For the year ended December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss)	\$ 4,066	\$ (5,110)	\$ 30,198
Equity in earnings of subsidiaries	(4,066)	(12,863)	(32,813)
Share-based compensation	—	19,105	4,963
CHANGES IN WORKING CAPITAL ACCOUNTS			
Other current assets	—	(595)	3,310
Other current liabilities	—	(513)	(1,986)
Amount due to subsidiaries	—	(210)	(614)
Amount due from subsidiaries	—	(4,358)	(122,689)
Net cash used in operating activities.	<u>—</u>	<u>(4,544)</u>	<u>(119,631)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	—	—	(327)
Prepayment for contingent consideration	—	—	(6,334)
Net cash used in investing activities.	<u>(64)</u>	<u>(39,659)</u>	<u>(6,661)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of series A convertible redeemable preferred shares	80	2,920	—
Proceeds from issuance of series B convertible redeemable preferred shares, net of issuance of \$1,000	—	39,000	—
Proceed from issuance of ordinary shares	—	190,812	—
IPO expense paid	—	(2,044)	—
Proceeds from stock options exercises	—	—	789
Net cash provided by financing activities	<u>80</u>	<u>230,688</u>	<u>789</u>
NET INCREASE (DECREASE) IN CASH	16	186,485	(125,503)
CASH, BEGINNING OF YEAR	<u>—</u>	<u>16</u>	<u>186,501</u>
CASH, END OF YEAR	<u>\$ 16</u>	<u>\$ 186,501</u>	<u>\$ 60,998</u>

AIRMEDIA GROUP INC.

**NOTES TO ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
(In U.S. dollars in thousands)**

Notes:

1. BASIS FOR PREPARATION

The Condensed Financial Information of the parent company, AirMedia Group Inc., only has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the parent company has used equity method to account for its investment in its subsidiaries, AM Technology, Shenzhen AM, Xi'an AM, Royal HK and Glorious Star, and its VIEs, Shengshi Lianhe, AM Advertising AirMedia UC and AM Yuehang, and VIE's subsidiaries, AirTV United, AM Film, Flying Dragon and AM Wenzhou.

2. INVESTMENTS IN SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

The Company and its subsidiaries and its variable interest entities are included in the consolidated financial statements where the inter-company balances and transactions are eliminated upon consolidation. For the purpose of the Company's stand-alone financial statements, its investments in subsidiaries and variable interest entities are reported using the equity method of accounting. The Company's share of income and losses from its subsidiaries and variable interest entities is reported as earnings from subsidiaries and variable interest entities in the accompanying condensed financial information of parent company.

3. INCOME TAXES

The Company is a tax exempted company incorporated in the Cayman Islands.

Power of Attorney

I, Zhang Xiaoya, a citizen of the People's Republic of China ("China"), Chinese ID number: 130104196210091519, am a shareholder of Beijing Shengshi Lianhe Advertising Co., Ltd. ("Shengshi Lianhe") and hold the 8.20% equity of Shengshi Lianhe. I hereby irrevocably authorize Mr. Xu Qing to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Xu Qing (Chinese ID number: 11010119610220531x) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of Shengshi Lianhe at the shareholders' meeting of Shengshi Lianhe, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in Shengshi Lianhe and as my authorized representative, nominating and appointing the general manager of Shengshi Lianhe at the shareholders' meeting of Shengshi Lianhe.

The precondition for the said authorization and entrustment is that Mr. Xu Qing is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Xu Qing no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of Shengshi Lianhe.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of Shengshi Lianhe, unless the Amended and Restated Call Option Agreement jointly signed by me, AM Technology and Shengshi Lianhe on June 14, 2007 is prematurely terminated for whatsoever reason.

Zhang Xiaoya

/s/ Zhang Xiaoya

November 28, 2008

Power of Attorney

I, Xu Qing, a citizen of the People's Republic of China ("China"), Chinese ID number: 11010119610220531X, am a shareholder of Beijing Shengshi Lianhe Advertising Co., Ltd. ("Shengshi Lianhe") and hold the 11.94% equity of Shengshi Lianhe. I hereby irrevocably authorize Mr. Guo Man to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Guo Man (Chinese ID number: 110102196305041171) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of Shengshi Lianhe at the shareholders' meeting of Shengshi Lianhe, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in Shengshi Lianhe and as my authorized representative, nominating and appointing the general manager of Shengshi Lianhe at the shareholders' meeting of Shengshi Lianhe.

The precondition for the said authorization and entrustment is that Mr. Guo Man is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Guo Man no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of Shengshi Lianhe.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of Shengshi Lianhe, unless the Amended and Restated Call Option Agreement jointly signed by me, AM Technology and Shengshi Lianhe on June 14, 2007 is prematurely terminated for whatsoever reason.

Xu Qing

/s/ Xu Qing

November 28, 2008

Power of Attorney

I, Guo Man, a citizen of the People's Republic of China ("China"), Chinese ID number: 110102196305041171, am a shareholder of Beijing Shengshi Lianhe Advertising Co., Ltd. ("Shengshi Lianhe") and hold the 79.86% equity of Shengshi Lianhe. I hereby irrevocably continue to authorize Mr. Zhang Xiaoya to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Zhang Xiaoya (Chinese ID number: 130104196210091519) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of Shengshi Lianhe at the shareholders' meeting of Shengshi Lianhe, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in Shengshi Lianhe and as my authorized representative, nominating and appointing the general manager of Shengshi Lianhe at the shareholders' meeting of Shengshi Lianhe.

The precondition for the said authorization and entrustment is that Mr. Zhang Xiaoya is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Zhang Xiaoya no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of Shengshi Lianhe.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of Shengshi Lianhe, unless the Amended and Restated Call Option Agreement jointly signed by me, AM Technology and Shengshi Lianhe on June 14, 2007 is prematurely terminated for whatsoever reason.

Guo Man

/s/ Guo Man

November 28, 2008

**Supplementary Agreement to
the Amended and Restated Equity Pledge Agreement**

This Supplementary Agreement (“this Agreement”) is entered into among the following parties in Beijing on November 28, 2008:

- Party A: AirMedia Technology (Beijing) Co., Ltd.
- Party B: Guo Man, Wang Zhenyu, Xu Qing and Zhang Xiaoya
- Party C: Beijing Shengshi Lianhe Advertising Co., Ltd.

WHEREAS:

- (1) Party A, Party B and Party C signed the Equity Agreement (the “Original Agreement”) on June 14, 2007;
- (2) Guo Man, Wang Zhenyu, Xu Qing and Zhang Xiaoya signed an Equity Transfer Agreement on November 28, 2008, by which it was agreed that Wang Zhenyu shall transfer his 30.03%, 4.49% and 3.08% equity interests in Party C to Guo Man, Xu Qing and Zhang Xiaoya, respectively. After the transfer, Guo Man, Xu Qing and Zhang Xiaoya shall own 79.86%, 11.94% and 8.20% equity interests in Party C respectively.

NOW THEREFORE, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Party A agrees that Wang Zhenyu transfers to Guo Man, Xu Qing and Zhang Xiaoya all of his equity interests that was pledged to Party A under the Original Agreement.
2. Guo Man, Xu Qing and Zhang Xiaoya agree to pledge all of their respective 79.86%, 11.94% and 8.20% equity interests in Party C to Party A. The purpose of the pledge shall be the same as stated in the Original Agreement. Guo Man, Xu Qing and Zhang Xiaoya agree to perform their obligations set out in the Original Agreement.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
4. This Agreement is effective upon the signature by all parties to this Agreement. This Agreement shall be signed in four counterparts, all of which shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Signature: /s/ Zhang Xiaoya

Party C: Beijing Shengshi Lianhe Advertising Co., Ltd.

Common seal: Beijing Shengshi Lianhe Advertising Co., Ltd. (Seal)

**Supplementary Agreement to
the Amended and Restated Call Option Agreement**

This Supplementary Agreement (“this Agreement”) is entered into among the following parties in Beijing on November 28, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Guo Man, Wang Zhenyu, Xu Qing and Zhang Xiaoya (hereafter individually a “Shareholder” and collectively the “Shareholders”)

Party C: Beijing Shengshi Lianhe Advertising Co., Ltd.

WHEREAS:

- (1) Parties A, B and C signed the Call Option Agreement on June 14, 2007 (“Original Agreement”);
- (2) Guo Man, Wang Zhenyu, Xu Qing and Zhang Xiaoya signed an Equity Transfer Agreement on November 28, 2008, by which it was agreed that Wang Zhenyu shall transfer his 30.03%, 4.49% and 3.08% equity interests in Party C to Guo Man, Xu Qing and Zhang Xiaoya, respectively. After the transfer, Guo Man, Xu Qing and Zhang Xiaoya shall own 79.86%, 11.94% and 8.20% equity interests in Party C respectively.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Party A agrees that Wang Zhenyu transfers all his equity interests in Party C to Guo Man, Xu Qing and Zhang Xiaoya.
2. After the transfer, Guo Man, Xu Qing and Zhang Xiaoya agree to grant Party A the call option to purchase the 79.86%, 11.94% and 8.20% equity interests that they respectively hold in Party C, pursuant to the terms and conditions under the Original Agreement.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
4. This Agreement is effective upon the signature by all parties to this Agreement. This Agreement shall be signed in four counterparts, all of which shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Signature: /s/ Zhang Xiaoya

Party C: Beijing Shengshi Lianhe Advertising Co., Ltd.

Common seal: Beijing Shengshi Lianhe Advertising Co., Ltd. (Seal)

Power of Attorney

Our company, Beijing Shengshi Lianhe Advertising Co., Ltd., which is a limited liability company registered in Beijing, the People's Republic of China ("China") and whose registration number is 1101042256681, is a shareholder of Beijing AirMedia Advertising Co., Ltd. ("AM Advertising") and holds the 96.76% equity of AM Advertising. Our company hereby irrevocably authorizes Mr. Guo Man to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Guo Man (Chinese ID number: 110102196305041171) to represent our company to exercise our company's shareholder rights (including voting power) as specified by PRC laws and the articles of association of AM Advertising at the shareholders' meeting of AM Advertising, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of our company's equity in AM Advertising and as an authorized representative of our company, nominating and appointing the general manager of AM Advertising at the shareholders' meeting of AM Advertising.

The precondition for the said authorization and entrustment is that Mr. Guo Man is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees with the said authorization and entrustment. Once Mr. Guo Man no longer serves AM Technology or AM Technology informs our company to terminate the said authorization and entrustment, our company will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise all our company's shareholder rights (including voting power) at the shareholders' meeting of AM Advertising.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of AM Advertising, unless the Amended and Restated Call Option Agreement jointly signed by our company, AM Technology and AM Advertising on June 14, 2007 is prematurely terminated for whatsoever reason.

Beijing Shengshi Lianhe Advertising Co., Ltd.

/s/ Guo Man

November 28, 2008

Power of Attorney

I, Zhang Xiaoya, a citizen of the People's Republic of China ("China"), Chinese ID number: 130104196210091519, am a shareholder of Beijing AirMedia Advertising Co., Ltd. ("AM Advertising") and holds 0.166% equity of AM Advertising. I hereby irrevocably authorize Mr. Xu Qing to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Xu Qing (Chinese ID number: 11010119610220531x) to represent myself to exercise my rights (including voting power) as specified by PRC laws and the articles of association of AM Advertising at the shareholders' meeting of AM Advertising, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in AM Advertising and as my authorized representative, nominating and appointing the general manager of AM Advertising at the shareholders' meeting of AM Advertising.

The precondition for the said authorization and entrustment is that Mr. Xu Qing is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees with the said authorization and entrustment. Once Mr. Xu Qing no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise all my shareholder rights (including voting power) at the shareholders' meeting of AM Advertising.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of AM Advertising, unless the Amended and Restated Call Option Agreement signed by me, AM Technology and AM Advertising on June 14, 2007 is prematurely terminated for any reason.

Zhang Xiaoya

/s/ Zhang Xiaoya

November 28, 2008

Power of Attorney

I, Xu Qing, a citizen of the People's Republic of China ("China"), Chinese ID number: 11010119610220531X, am a shareholder of Beijing AirMedia Advertising Co., Ltd. ("AM Advertising") and holds 0.241% equity of AM Advertising. I hereby irrevocably authorize Mr. Guo Man to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Guo Man (Chinese ID number: 110102196305041171) to represent myself to exercise my rights (including voting power) as specified by PRC laws and the articles of association of AM Advertising at the shareholders' meeting of AM Advertising, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in AM Advertising and as my authorized representative, nominating and appointing the general manager of AM Advertising at the shareholders' meeting of AM Advertising.

The precondition for the said authorization and entrustment is that Mr. Guo Man is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees with the said authorization and entrustment. Once Mr. Guo Man no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise all my shareholder rights (including voting power) at the shareholders' meeting of AM Advertising.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of AM Advertising, unless the Amended and Restated Call Option Agreement jointly signed by me, AM Technology and AM Advertising on June 14, 2007 is prematurely terminated for whatsoever reason.

Xu Qing

/s/ Xu Qing

November 28, 2008

Power of Attorney

I, Guo Man, a citizen of the People's Republic of China ("China"), Chinese ID number: 110102196305041171, am a shareholder of Beijing AirMedia Advertising Co., Ltd. ("AM Advertising") and holds 2.833% equity of AM Advertising. I hereby irrevocably authorize Mr. Zhang Xiaoya to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Zhang Xiaoya (Chinese ID number: 130104196210091519) to represent myself to exercise my rights (including voting power) as specified by PRC laws and the articles of association of AM Advertising at the shareholders' meeting of AM Advertising, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in AM Advertising and as my authorized representative, nominating and appointing the general manager of AM Advertising at the shareholders' meeting of AM Advertising.

The precondition for the said authorization and entrustment is that Mr. Zhang Xiaoya is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees with the said authorization and entrustment. Once Mr. Zhang Xiaoya no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise all my shareholder rights (including voting power) at the shareholders' meeting of AM Advertising.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of AM Advertising, unless the Amended and Restated Call Option Agreement jointly signed by me, AM Technology and AM Advertising on June 14, 2007 is prematurely terminated for whatsoever reason.

Guo Man

/s/ Guo Man

November 28, 2008

**Supplementary Agreement No. 1 to the
Amended and Restated Equity Pledge Agreement**

This Supplementary Agreement No. 1 (“this Agreement”) is entered into among the following parties in Beijing on June 19, 2008:

- Party A: AirMedia Technology (Beijing) Co., Ltd.
- Party B: Guo Man, Wang Zhenyu, Xu Qing, Zhang Xiaoya, Beijing Shengshi Lianhe Advertising Co., Ltd.
- Party C: Beijing AirMedia Advertising Co., Ltd.

WHEREAS:

- (1) Party A, Party B and Party C signed the Amended and Restated Equity Agreement (the “Original Agreement”) on June 14, 2007;
- (2) The registered capital of Party C was increased from RMB 10 million to RMB 50 million on June 19, 2008;
- (3) After Party C has increased its registered capital, the respective shareholding of each person of Party B in Party C became: Guo Man holds 1.615% equity interests; Wang Zhenyu holds 1.218% equity interests; Xu Qing holds 0.241% equity interests; Zhang Xiaoya holds 0.166% equity interests and Beijing Shengshi Lianhe Advertising Co., Ltd. holds 96.76% equity interests.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Article no. 3 under the recital part of the Original Agreement starting with “WHEREAS” shall be amended to “As a result of the increase in capital contribution by Party C, Guo Man holds 1.615% equity interests; Wang Zhenyu holds 1.218% equity interests; Xu Qing holds 0.241% equity interests; Zhang Xiaoya holds 0.166% equity interests and Beijing Shengshi Lianhe Advertising Co., Ltd. holds 96.76% equity interests. Each shareholder agreed to continue to guarantee Party C’s performance of obligation under the Original Agreement, as amended.”
2. Article no. 1 of the Original Agreement titled “Pledge” shall be amended to “Guo Man, Wang Zhenyu, Xu Qing, Zhang Xiaoya and Beijing Shengshi Lianhe Advertising Co., Ltd. agreed to pledge all of their respective 1.615%, 1.218%, 0.241%, 0.166% and 96.76% equity interests in Party C to Party A, as a guarantee for Party C’s performance of its obligation under the Original Agreement, as amended.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms

absent from this Agreement shall be governed by the Original Agreement.

4. This Agreement is effective upon the signature and/or stamp of common seal by all parties to this Agreement. This Agreement shall be signed in six counterparts, and each party shall keep one copy. All counterparts shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Signature: /s/ Zhang Xiaoya

Beijing Shengshi Lianhe Advertising Co., Ltd.

Common seal: Beijing Shengshi Lianhe Advertising Co., Ltd. (Seal)

Party C: Beijing AirMedia Advertising Co., Ltd.

Common seal: Beijing AirMedia Advertising Co., Ltd. (Seal)

**Supplementary Agreement No. 2 to the
Amended and Restated Equity Pledge Agreement**

This Supplementary Agreement No. 2 (“this Agreement”) is entered into among the following parties in Beijing on November 28, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Guo Man, Wang Zhenyu, Xu Qing, Zhang Xiaoya, Beijing Shengshi Lianhe Advertising Co., Ltd.

Party C: Beijing AirMedia Advertising Co., Ltd.

WHEREAS:

- (1) Party A, Party B and Party C signed the Amended and Restated Equity Agreement and its supplementary agreement No. 1 (the “Original Agreement”) in June 2007 and June 2008, respectively, by which it was agreed that Party B shall pledge all their equity interests in Party C to Party A;
- (2) Guo Man and Wang Zhenyu signed an Equity Transfer Agreement in November 2008, by which it was agreed that Wang Zhenyu shall transfer all his equity interests in Party C to Party B. After the transfer, Guo Man’s equity interests in Party C changed from 1.615% to 2.833%.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Party A agrees that Wang Zhenyu transfers to Guo Man and Xu Qing all of his equity interests that was pledged to Party A under the Original Agreement.
2. Guo Man agrees to pledge all of his 2.833% equity interests in Party C to Party A after the above-said transfer is completed. The purpose of the pledge shall be the same as stated in the Original Agreement, and Guo Man agrees to perform his obligations set out in the Original Agreement.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
4. This Agreement is effective upon the signature and/or stamp of common seal by all parties to this Agreement. This Agreement shall be signed in fourteen counterparts, two of which shall be kept by each of Party A and Party C, and ten shall be kept by Party B. All counterparts shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Signature: /s/ Zhang Xiaoya

Beijing Shengshi Lianhe Advertising Co., Ltd.

Common seal: Beijing Shengshi Lianhe Advertising Co., Ltd. (Seal)

Party C: Beijing AirMedia Advertising Co., Ltd.

Common seal: Beijing AirMedia Advertising Co., Ltd. (Seal)

**Supplementary Agreement No. 1 to
the Amended and Restated Call Option Agreement**

This Supplementary Agreement No. 1 (“this Agreement”) is entered into among the following parties in Beijing on June 19, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Guo Man, Wang Zhenyu, Xu Qing, Zhang Xiaoya and Beijing Shengshi Lianhe Advertising Co., Ltd.

Party C: Beijing AirMedia Advertising Co., Ltd.

WHEREAS:

- (1) Parties A, B and C signed the Amended and Restated Call Option Agreement on June 14, 2007 (“Original Agreement”);
- (2) The registered capital of Party C was increased from RMB 10 million to RMB 50 million on June 19, 2008;
- (3) After Party C has increased its registered capital, the respective shareholding of each person of Party B in Party C became: Guo Man holds 1.615% equity interests; Wang Zhenyu holds 1.218% equity interests; Xu Qing holds 0.241% equity interests; Zhang Xiaoya holds 0.166% equity interests and Beijing Shengshi Lianhe Advertising Co., Ltd. holds 96.76% equity interests.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Article no. 1 under the recital part of the Original Agreement starting with “WHEREAS” shall be amended to “Guo Man, Wang Zhenyu, Xu Qing and Zhang Xiaoya, each of which being a citizen of the People’s Republic of China (“China”, solely for the purpose of this Agreement, excluding Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan), Beijing Shengshi Lianhe Advertising Co., Ltd., a limited liability company incorporated in Beijing under the laws of the People’s Republic of China, respectively hold 1.615%, 1.218%, 0.241%, 0.166 and 96.76% equity interests in Party C.
2. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
3. This Agreement is effective upon the signature by all parties to this Agreement. This Agreement shall be signed in six counterparts, and each party shall keep one counterpart. All counterparts shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Signature: /s/ Zhang Xiaoya

Beijing Shengshi Lianhe Advertising Co., Ltd.

Common seal: Beijing Shengshi Lianhe Advertising Co., Ltd. (Seal)]

Party C: Beijing AirMedia Advertising Co., Ltd.

Common seal: Beijing AirMedia Advertising Co., Ltd. (Seal)

**Supplementary Agreement No. 2 to
the Amended and Restated Call Option Agreement**

This Supplementary Agreement No. 2 ("this Agreement") is entered into among the following parties in Beijing on November 28, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Guo Man, Wang Zhenyu, Xu Qing, Zhang Xiaoya and Beijing Shengshi Lianhe Advertising Co., Ltd.

Party C: Beijing AirMedia Advertising Co., Ltd.

WHEREAS:

- (1) Parties A, B and C signed the Amended and Restated Call Option Agreement and its supplementary agreement No. 1 in June 2007 and June 2008, respectively (the "Original Agreement");
- (2) Guo Man and Wang Zhenyu signed an Equity Transfer Agreement in November 2008, by which it was agreed that Wang Zhenyu shall transfer all his equity interests in Party C to Party B. After the transfer, Guo Man's equity interests in Party C changed from 1.615% to 2.833%.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Party A agrees that Wang Zhenyu transfers all his equity interests in Party C to Guo Man.
2. After the transfer, Guo Man agrees to grant Party A the call option to purchase the 2.833% equity interests that he owns in Party C, pursuant to the terms and conditions under the Original Agreement.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
4. This Agreement is effective upon the signature by all parties to this Agreement. This Agreement shall be signed in fourteen counterparts, two of which shall be kept by each of Party A and Party C, and ten shall be kept by Party B. All counterparts shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Signature: /s/ Zhang Xiaoya

Beijing Shengshi Lianhe Advertising Co., Ltd.

Common seal: Beijing Shengshi Lianhe Advertising Co., Ltd. (Seal)

Party C: Beijing AirMedia Advertising Co., Ltd.

Common seal: Beijing AirMedia Advertising Co., Ltd. (Seal)

Supplementary Agreement to the Loan Agreement

THIS **Supplementary Agreement** (“this Agreement”) is entered into by the parties below in Beijing on November 28, 2008:

- Party A: AirMedia Technology (Beijing) Co., Ltd.
Registered address: Room 3088, Building 1, No. 2 of Hengfu Zhongjie, Science Town, Fengtai District, Beijing
- Party B: Guo Man
ID No.: 110102196305041171

WHEREAS,

1. Party A is a wholly foreign-owned enterprise incorporated under the laws of the People’s Republic of China (“PRC”);
2. Party A entered into a Loan Agreement (the “Original Agreement”) on June 14, 2007 with Party B, Xu Qing, Wang Zhenyu, Zhang Xiaoya, by which Party A offered a loan of RMB1,620,000 to Party B, Xu Qing, Wang Zhenyu and Zhang Xiaoya for their investment in the equity of Beijing AirMedia Advertising Co., Ltd. (“AMAD”). After the aforesaid investment, Party B, Xu Qing, Wang Zhenyu and Zhang Xiaoya respectively holds 1.615%, 0.241%, 1.218% and 0.166% of the equity of AMAD.
3. Party A agrees to offer Party B a second loan of RMB609,120 for his purpose of acquiring the 1.218% equity interests of AMAD held by Wang Zhenyu, a shareholder of AMAD.

NOW THEREFORE, through friendly negotiations, both parties hereby agree as follows:

1. Party A shall provide Party B an interest-free loan of RMB609,120, apart from the loan offered by the Original Agreement. Party B agrees to accept the aforesaid loan.
 2. Party B hereby confirms that the aforesaid loan has been duly received and has been used to acquire the equity of AMAD held by Wang Zhenyu. After the acquisition, Party B holds 2.833% of the equity of AMAD.
 3. Party B shall perform the borrowers’ obligations in the Original Agreement with respect to the loan offered by Party A in this Agreement.
 4. The remaining terms in the Original Agreement shall remain unchanged. This Agreement is a supplementary agreement to the Original Agreement, and shall have the same legal effect as the Original Agreement. For any inconsistencies between this Agreement and the Original Agreement, this Agreement prevails. The Original Agreement shall prevail for any matters not provided for by this Agreement.
-

5. This Agreement shall become effective from the date of signing or the imprinting of seals by both parties. This Agreement is executed in four originals, with each party hereto holding two originals. All originals have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd. (seal of AirMedia Technology (Beijing) Co., Ltd.)

Party B: Guo Man

/s/ Guo Man

LOAN AGREEMENT

THIS LOAN AGREEMENT ("this Agreement") is entered into by the parties below in Beijing on June 14, 2007:

- Party A: AirMedia Technology (Beijing) Co., Ltd.
Registered address: Room 3088, Building 1, No. 2 OF Hengfu Zhongjie, Science Town, Fengtai District, Beijing
- Party B: Xu Qing
ID No.: 11010119610220531X
- Party C: Guo Man
ID No.: 110102196305041171
- Party D: Wang Zhenyu
ID No.: 410103196311087018
- Party E: Zhang Xiaoya
ID No.: 130104196210091519

WHEREAS,

1. Party A is a wholly foreign-owned enterprise incorporated under the laws of the People's Republic of China ("PRC");
2. Party B, Party C Party D and Party E are PRC citizens and Party B holds 1.21% of the equity of Beijing AirMedia Advertising Co., Ltd. ("AMAD"), Party C holds 8.07% of the equity of AMAD, Party D holds 6.09% of the equity of AMAD and Party E holds 0.83% of the equity of AMAD; (separately or together as "Target Equity")
3. Party A undertook to provide Party B, Party C, Party D and Party E (separately or together as the "Borrower") on October 22, 2005 a sum of RMB1,620,000 as interest-free loan for the Borrower to purchase the equity of AMAD.

NOW THEREFORE, through friendly negotiations, the parties hereby agree as follows:

1. Party A lent to the Borrower an interest-free loan of a total of RMB1, 620,000, which includes the loan of RMB120,690 to Party B, the loan of RMB 807,246 to Party C, the loan of RMB 60,912 to Party D and the loan of RMB 82,944 to Party E (each of the aforesaid loans, or together, "Loan"); the Borrower agrees to accept the aforesaid Loan.
2. The Borrower hereby confirms that the aforesaid Loan should be used for the purchase of the equity of AMAD.
3. The loan term under this Agreement starts from the date when the Borrower receives the Loan until ten (10) years after signing of this Agreement and may be extended subject to the mutual agreement between the parties. During the loan term or any

extension thereof, Party A may inform the Borrower in writing that all or part of the Loan under this Agreement is due and payable immediately and request the Borrower to repay the Loan in the manner as specified herein if:

- (1) The Borrower resigns from or is dismissed by Party A or any of its affiliates;
 - (2) The Borrower dies or loses its civil capacity or with limited capacity for civil conduct;
 - (3) The Borrower commits a crime or is involved in a crime;
 - (4) Any other third party claims more than RMB100,000 against the Borrower; or
 - (5) To the extent permitted by PRC laws, Party A or its designated person may invest in the advertising agency and distribution businesses that AMAD is engaged in. Party A may also give the Borrower a written notice about purchasing the Borrower's equity in AMAD according to the provisions of the "Call Option Agreement" as set forth in Article 4 below to exercise its call option.
4. The parties hereby agree and acknowledge that, to the extent permitted by PRC laws, Party A shall be entitled but not obliged to, at any time, purchase, or designate other person (including natural person, legal person or any other entity), to purchase all or part of the equity held by Party B and/or Party C and/or Party D and/or Party E in AMAD (the "Call Option"), provided, however, that Party A shall give a written notice about equity purchase to Party B, Party C Party D and Party E. When Party A exercise the Call Option, the purchase price of the Target Equity ("Equity Price") shall be the lowest price permitted by the then applicable PRC laws, unless the Target Equity shall be valued or the Equity Price is otherwise specified restrictively by the then applicable PRC laws. The parties agree to execute the "Call Option Agreement" with respect thereto.
 5. The parties hereby agree and acknowledge that Party B and/or Party C and/or Party D and/or Party E shall repay the Loan only in the manner as given below: when the Loan is due, at Party A's written request, if permitted by PRC laws, the Borrower or any of its successors, assignees shall transfer its equity in AMAD to Party A or its designee and use the proceeds from such equity transfer to repay the Loan under this Agreement.
 6. The parties hereby agree and acknowledge that, except as otherwise provided herein, the Loan under this Agreement shall be interest-free. However, when the Loan is due and the Borrower needs to transfer its equity hereof to Party A or its designee, if the actual equity transfer price is higher than the Borrower's loan principal due to legal requirements or other causes, the excess shall be deemed as the loan interest or fund utilization costs to the extent permitted by PRC laws, and be paid to Party A together with the loan principal.
 7. The parties hereby agree and acknowledge that the Borrower's obligations under this Agreement are deemed to be fully performed only if all the following requirements are met:

(1) The Borrower has transferred all its equity in AMAD to Party A and/its designee; and

(2) The Borrower has paid to Party A as loan repayment all proceeds from equity transfer.

8. Party A hereby represents and warrants to the Borrower that, as of the execution date of this Agreement:

(1) Party A is a wholly foreign-owned enterprise incorporated and validly existing under PRC laws;

(2) Party A has the authority to execute and perform this Agreement. The execution and performance by Party A of this Agreement comply with its business scope, articles of association or other organizational documents and Party A has obtained all the necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;

(3) The loan principal offered to the Borrower is legally own by Party A;

(4) The execution and performance of this Agreement by Party A do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party; and

(5) Once executed, this Agreement shall constitute a legal, valid and binding obligation of Party A, enforceable against Party A in accordance with its provisions.

9. The Borrower hereby represents and warrants to Party A that, from the execution date of this Agreement until this Agreement terminates:

(1) AMAD is a limited liability company incorporated and validly existing under PRC laws and the Borrower legally owns the equity of AMAD.

(2) The Borrower has the authority to execute and perform this Agreement. The execution and performance by the Borrower of this Agreement comply with the articles of association or other organizational documents of AMAD and the Borrower has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;

(3) The execution and performance of this Agreement by the Borrower do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party;

- (4) Once executed, this Agreement shall constitute a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its provisions;
- (5) The registered capital of AMAD has been paid up by the Borrower and AMAD has obtained capital verification report issued by a qualified accounting firm;
- (6) Except the provisions stipulated in Equity Pledge Agreement and Call Option Agreement as of June 14, 2007, the Borrower has not mortgaged, pledged or otherwise encumbered its equity in AMAD, solicited an offer about the transfer of such equity to any third party, made any commitment about the offer of any third party to purchase such equity, or executed any agreement with any third party to transfer such equity;
- (7) There are no actual or threatened disputes, litigations, arbitrations, administrative proceedings or other legal proceedings in connection with the Borrower's equity in AMAD; and
- (8) AMAD has completed all government approvals, authorizations, licenses, registrations, filing and other procedures necessary to carry out the business activities within its business scope and to possess its assets.

10. The Borrower covenants that it shall, during the term of this Agreement,

- (1) Without Party A's prior written consent, not sell, transfer, mortgage or otherwise dispose of or allow any other security interest to be created on its equity or other interests in AMAD, except the equity pledge and other rights set for the benefit of Party A in the Equity Pledge Agreement as of June 14, 2007;
- (2) Without Party A's prior written consent, not cause the shareholders' meeting of AMAD to adopt a resolution on selling, transferring, mortgaging or otherwise disposing of, or allow any other security interest to be created on, its legal or beneficial interest in AMAD, except to Party A and its designee;
- (3) Without Party A's prior written consent, not vote for, support or sign at the shareholders' meeting of AMAD any resolution approving AMAD to be merged or consolidated with, acquire or invest in any person;
- (4) Promptly inform Party A of any litigation, arbitration or administrative proceedings pending or threatened against the Borrower's equity in AMAD;
- (5) Execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defenses against all claims in order to maintain its equity in AMAD;
- (6) Not do any act and/or omission that may materially affect the assets, business and liabilities of AMAD without Party A's prior written consent;

- (7) At Party A's request, appoint any person nominated by Party A as the director of AMAD;
- (8) When Party A exercises its Call Option, transfer all of the Borrower's equity in AMAD promptly and unconditionally to Party A and/or its designee to the extent permitted by PRC laws;
- (9) Not request AMAD to distribute dividends or profits to it;
- (10) In case its equity in AMAD is transferred to Party A or its designee, the Borrower will pay all equity transfer proceeds to Party A as the loan principal and loan interests or fund utilization costs to the extent permitted by PRC laws; and
- (11) Comply strictly with the provisions of this Agreement, fully perform its obligations under this Agreement and not do any act or omission that affects or impairs the validity and enforceability of this Agreement.

11. Within the term of this Agreement, the Borrower undertakes that it will, in the capacity of the shareholder of the AMAD, cause AMAD:

- (1) Not to supplement, amend or modify its articles of association in any way, or to increase or decrease its registered capital, or to change its capital structure in any way without Party A's prior written consent;
- (2) To maintain and operate its business and deal with matters prudently and effectively, in coherence with good financial and business rules and practices;
- (3) Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, any of its assets, business or the beneficial or legal interests of its income at any time after the signing of this Agreement without Party A's prior written consent;
- (4) Not to create, succeed, guarantee or permit any liability, without Party A's prior written consent, except (i) the liability arising from the normal course of business, but not arising from loans; and (ii) the liability reported to Party A and approved by Party A in writing;
- (5) To operate persistently all the business in the normal course of business to maintain the value of its assets;
- (6) Not to execute any material contracts (a contract will be deemed material if its value exceeds RMB 100,000), without Party A's prior written consent, other than those executed during the normal course of business;
- (7) To provide information concerning all of its operations and financial performance at Party A's request;
- (8) Not to be merged or consolidated with, acquire or invest in, any other person without Party A's prior written consent;
- (9) Not to amend the articles of association of the Borrower (if any) in any way;

- (10) Not to distribute dividends to its shareholders in any way without Party A's prior written consent. However, AMAD shall promptly distribute all its distributable profits to Party A's shareholders upon Party A's request;
 - (11) To inform promptly Party A of any pending or threatened suit, arbitration or administrative proceedings concerning its assets, business or income;
 - (12) To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate lawsuits or to make all necessary and appropriate defenses against all claims in order to maintain the ownership over all its assets;
 - (13) To comply strictly with the terms of Technology Support and Service Agreement, Technology Development Agreement Equity Pledge Agreement and Call Option Agreement as of June 14, 2007, and any other agreements executed by it with Party A from time to time, to perform its obligations under aforesaid agreements, and not to do any act or omission that affects the validity and enforceability of such agreements;
12. This Agreement shall be binding on and inure to the benefit of the parties and their respective successors and assignees. Without prior written approval of Party A, the Borrower shall not transfer, pledge or otherwise assign any of its rights, benefits or obligations under this Agreement.
 13. The Borrower hereby agrees that Party A may assign its rights and duties under this Agreement to a third party without requiring the Borrower's consent, but such transfer shall be notified in writing to the Borrower.
 14. The formation, validity, interpretation, performance, amendment and termination of and resolution of disputes in connection with this Agreement shall be governed by PRC laws.
 15. Arbitration.
 - (1) Any dispute, controversy or claim arising from the interpretation or performance in connection with this Agreement (including any question regarding its existence, validity or termination) shall be settled by the parties through friendly consultations. In case no settlement can be reached within thirty (30) days after one party makes a request for settlement, either party may submit such dispute to China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration in accordance with its rules. The arbitration award shall be final and binding upon the parties.
 - (2) The seat of arbitration should be Beijing.
 - (3) The language of arbitration proceedings shall be Chinese.
 16. This Agreement shall be formed on its signing date. The parties agree and acknowledge that the terms and conditions of this Agreement shall be effective as of October 22, 2005, the date on which Party A granted the Loan to Party B, until the parties have performed their obligations under this Agreement.
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17. The Borrower cannot terminate or revoke this Agreement unless (a) Party A commits a gross negligence, fraud or other material illegal acts; or (b) Party A goes bankrupt.
18. This Agreement may not be amended or modified except with a mutual agreement reached by the parties. In case of anything not covered herein, the parties may sign a written supplementary agreement. Any amendment, modification, supplement or annex to this Agreement shall form an integral part of this Agreement.
19. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior oral discussions or written agreements reached by the parties with respect to the subject matter hereof.
20. This Agreement is severable. If any provision of this Agreement is held to be invalid or unenforceable, such provision shall not affect the validity and enforceability of the remainder of this Agreement.
21. Each party hereto should keep in strict confidence the information concerning the other party's business, operation, financial performance or other confidential data obtained under this Agreement or during the performance of this Agreement.
22. Any obligation accrued before the expiration or premature termination of this Agreement shall survive such expiration or premature termination. Articles 14, 15 and 21 shall survive the termination of this Agreement.
23. This Agreement is executed in ten originals, with each party hereto holding two originals. All originals have the same legal effect.

IN WITNESS WHEREOF, each party has caused this Agreement to be executed by itself or its legal representative or authorized representative as of the day and year as first above written.

[No text below]

[Signing Page]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Legal Representative

Authorized Representative: /s/ Guo Man

Common seal: AirMedia Technology (Beijing) Co., Ltd.

Party B: Xu Qing

Signature: /s/ Xu Qing

Party C: Guo Man

Signature: /s/ Guo Man

Party D: Wang Zhenyu

Signature: /s/ Wang Zhenyu

Party E: Zhang Xiaoya

Signature: /s/ Zhang Xiaoya

Power of Attorney

I, Xu Qing, a citizen of the People's Republic of China ("China"), Chinese ID number: 11010119610220531X, am a shareholder of Beijing AirMedia UC Advertising Co., Ltd. ("AirMedia UC") and hold the 17.24% equity of AirMedia UC. I hereby irrevocably authorize Mr. Guo Man to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Guo Man (Chinese ID number: 110102196305041171) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of AirMedia UC at the shareholders' meeting of AirMedia UC, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in AirMedia UC and as my authorized representative, nominating and appointing the general manager of AirMedia UC at the shareholders' meeting of AirMedia UC.

The precondition for the said authorization and entrustment is that Mr. Guo Man is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Guo Man no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of AirMedia UC.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of AirMedia UC, unless the Call Option Agreement jointly signed by me, AM Technology and AirMedia UC on June 14, 2007 is prematurely terminated for whatsoever reason.

Xu Qing

/s/ Xu Qing

November 28, 2008

Power of Attorney

I, Guo Man, a citizen of the People's Republic of China ("China"), Chinese ID number: 110102196305041171, am a shareholder of Beijing AirMedia UC Advertising Co., Ltd. ("AirMedia UC") and hold the 82.76% equity of AirMedia UC. I hereby irrevocably authorize Mr. Zhang Xiaoya to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Zhang Xiaoya (Chinese ID number: 130104196210091519) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of AirMedia UC at the shareholders' meeting of AirMedia UC, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in AirMedia UC and as my authorized representative, nominating and appointing the general manager of AirMedia UC at the shareholders' meeting of AirMedia UC.

The precondition for the said authorization and entrustment is that Mr. Zhang Xiaoya is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Zhang Xiaoya no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of AirMedia UC.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of AirMedia UC, unless the Call Option Agreement jointly signed by me, AM Technology and AirMedia UC on June 14, 2007 is prematurely terminated for whatsoever reason.

Guo Man

/s/ Guo Man

November 28, 2008

Supplementary Agreement to the Equity Pledge Agreement

This Supplementary Agreement (“this Agreement”) is entered into among the following parties in Beijing on November 28, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Guo Man, Wang Zhenyu, Xu Qing

Party C: Beijing AirMedia UC Advertising Co., Ltd.

WHEREAS:

- (1) Party A, Party B and Party C signed the Equity Agreement (the “Original Agreement”) on June 14, 2007, by which it was agreed that Party B shall pledge all their equity interests in Party C to Party A;
- (2) Guo Man, Wang Zhenyu and Xu Qing signed an Equity Transfer Agreement in November 2008, by which it was agreed that Wang Zhenyu shall transfer all his equity interests in Party C to Guo Man and Xu Qing. After the transfer, Guo Man and Xu Qing shall own 82.76% and 17.24% equity interests, respectively, in Party C.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Party A agrees that Wang Zhenyu transfers to Guo Man and Xu Qing all of his equity interests that was pledged to Party A under the Original Agreement.
2. Guo Man and Xu Qing agree to pledge all of their respective 82.76% and 17.26% equity interests in Party C to Party A after the above-said transfer is completed. The purpose of the pledge shall be the same as stated in the Original Agreement, and Guo Man and Xu Qing agree to perform their obligations set out in the Original Agreement.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
4. This Agreement is effective upon the signature and/or stamp of common seal by all parties to this Agreement. This Agreement shall be signed in seven counterparts, two of which shall be kept by each of Party A and Party C, and three shall be kept by Party B. All counterparts shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Party C: Beijing AirMedia UC Advertising Co., Ltd.

Common seal: Beijing AirMedia UC Advertising Co., Ltd. (Seal)

Supplementary Agreement to the Call Option Agreement

This Supplementary Agreement ("this Agreement") is entered into among the following parties in Beijing on November 28, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Guo Man, Wang Zhenyu, Xu Qing

Party C: Beijing AirMedia UC Advertising Co., Ltd.

WHEREAS:

- (1) Parties A, B and C signed the Call Option Agreement on June 14, 2007 ("Original Agreement");
- (2) Guo Man, Wang Zhenyu and Xu Qing signed an Equity Transfer Agreement in November 2008, by which it was agreed that Wang Zhenyu shall transfer all his equity interests in Party C to Guo Man and Xu Qing. After the transfer, Guo Man and Xu Qing shall own 82.76% and 17.24% equity interests, respectively, in Party C.

Now therefore, after friendly negotiation among Parties A, B and C, the Original Agreement shall be amended, and each of the party agrees on the following the terms and conditions:

1. Party A agrees that Wang Zhenyu transfers all his equity interests in Party C to Guo Man and Xu Qing.
2. After the transfer, Guo Man agrees to grant Party A the call option to purchase the 82.76% equity interests that he owns in Party C, pursuant to the terms and conditions under the Original Agreement; Xu Qing agrees to grant Party A the call option to purchase the 17.24% equity interests that he owns in Party C, pursuant to the terms and conditions under the Original Agreement.
3. Upon effectiveness of this Agreement, in case of any difference in terms between the Original Agreement and this Agreement, this Agreement shall prevail; terms absent from this Agreement shall be governed by the Original Agreement.
4. This Agreement is effective upon the signature and/or stamp of common seal by all parties to this Agreement. This Agreement shall be signed in seven counterparts, two of which shall be kept by each of Party A and Party C, and three shall be kept by Party B. All counterparts shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Guo Man

Signature: /s/ Wang Zhenyu

Signature: /s/ Xu Qing

Party C: Beijing AirMedia UC Advertising Co., Ltd.

Common seal: Beijing AirMedia UC Advertising Co., Ltd. (Seal)

Supplementary Agreement to the Loan Agreement

This **Supplementary Agreement** ("this Agreement") is entered into by the parties below in Beijing on October 31, 2008:

- Party A: AirMedia Technology (Beijing) Co., Ltd.
Registered address: Room 3088, Building 1, No. 2 of Hengfu Zhongjie, Science Town,
Fengtai District, Beijing
- Party B: Guo Man
ID No.: 110102196305041171
- Party C: Xu Qing
ID No.: 11010119610220531X

WHEREAS,

1. Party A is a wholly foreign-owned enterprise incorporated under the laws of the People's Republic of China ("PRC");
2. Party A entered into a Loan Agreement (the "Original Agreement") in January 2007 with Party B, Party C and Wang Zhenyu, by which Party A offered a loan of RMB1,000,000 to Party B, Party C and Wang Zhenyu for their investments in the equity of Beijing AirMedia UC Advertising Co., Ltd. ("AMUC"). After the aforesaid investment, Party B, Party C and Wang Zhenyu respectively holds 51.13%, 10.65% and 38.22% of the equity of AMUC.
3. Party A agrees to offer Party B and Party C a second interest-free loan of RMB382,200 for their purpose of acquiring the 38.22% equity interests of AMUC held by Wang Zhenyu.

NOW THEREFORE, through friendly negotiations, the parties hereby agree as follows:

1. Party A shall provide Party B an interest-free loan of RMB316,320 and offer Party C an interest-free loan of RMB65,880, apart from the loan offered by the Original Agreement. Party B and Party C agree to accept the aforesaid loan.
 2. Party B and Party C hereby confirm that the aforesaid loan has been duly received and has been used to acquire the equity of AMUC held by Wang Zhenyu. After the acquisition, Party B holds 82.76% of the equity of AMUC and Party C holds 17.24% of the equity of AMUC.
 3. Party B and Party C shall perform the borrowers' obligations in the Original Agreement with respect to the loan offered by Party A in this Agreement.
 4. The remaining terms in the Original Agreement shall remain unchanged. This Agreement is a supplementary agreement to the Original Agreement, and shall have
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the same legal effect as the Original Agreement. For any inconsistencies between this Agreement and the Original Agreement, this Agreement prevails. The Original Agreement shall prevail for any matters not provided for by this Agreement.

5. This Agreement shall become effective from the date of signing or the imprinting of seals by the parties. This Agreement is executed in four originals, of which two are to be kept by Party A and one is to be kept by each of Party B and Party C. All originals have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd. (seal of AirMedia Technology (Beijing) Co., Ltd.)

Party B: Guo Man
/s/ Guo Man

Party C: Xu Qing
/s/ Xu Qing

LOAN AGREEMENT

THIS LOAN AGREEMENT ("this Agreement") is entered into by the parties below in Beijing on January 1, 2007:

Party A: AirMedia Technology (Beijing) Co., Ltd.
Registered address: Room 3088, Building 1, No. 2 OF Hengfu Zhongjie, Science
Town, Fengtai District, Beijing

Party B: Xu Qing
ID No.: 11010119610220531X

Party C: Guo Man
ID No.: 110102196305041171

Party D: Wang Zhenyu
ID No.: 410103196311087018

WHEREAS,

1. Party A is a wholly foreign-owned enterprise incorporated under the laws of the People's Republic of China ("PRC");
2. Party B, Party C and Party D are PRC citizens and Party B holds 10.65% of the equity of Beijing AirMedia UC Advertising Co., Ltd. ("AMUC"), Party C holds 51.13% of the equity of AMUC and Party D holds 38.22% of the equity of AMUC;(separately or together as "Target Equity")
3. Party A granted to Party B, Party C and Party D (separately or together as the "Borrower") on October 20, 2006 a sum of RMB1,000,000 as interest-free loan for the Borrower to purchase the equity of AMUC.

NOW THEREFORE, through friendly negotiations, the parties hereby agree as follows:

1. Party A lent to the Borrower on October 20, 2006 the interest-free loan for the sum of RMB1, 000,000, which includes the loan of RMB106, 500 to Party B, the loan of RMB 511,300 to Party C and the loan of RMB 382,200 to Party D (each of the aforesaid loans, or together, "Loan"); the Borrower agrees to accept the aforesaid Loan.
2. The Borrower hereby confirms that the aforesaid Loan was duly received on October 20, 2006 and it has been used as the consideration for acquiring the equity of AMUC.
3. The loan term under this Agreement starts from the date when the Borrower receives the Loan until ten (10) years after signing of this Agreement and may be extended subject to the mutual agreement between the parties. During the loan term or any extension thereof, Party A may inform the Borrower in writing that all or part of the Loan under this Agreement is due and payable immediately and request the Borrower to repay the Loan in the manner as specified herein if:
 - (1) The Borrower resigns from or is dismissed by Party A or any of its affiliates;

- (2) The Borrower dies or loses its civil capacity or with limited capacity for civil conduct;
 - (3) The Borrower commits a crime or is involved in a crime;
 - (4) Any other third party claims more than RMB100,000 against the Borrower; or
 - (5) To the extent permitted by PRC laws, Party A or its designated person may invest in the advertising agency and distribution businesses that AMUC is engaged in. Party A may give the Borrower a written notice about purchasing the Borrower's equity in AMUC according to the provisions of the "Call Option Agreement" as set forth in Article 4 below to exercise its call option.
4. The parties hereby agree and acknowledge that, to the extent permitted by PRC laws, Party A shall be entitled but not obliged to, at any time, purchase, or designate other person (including natural person, legal person or any other entity), to purchase all or part of the equity held by Party B and/or Party C and/or Party D in AMUC (the "Call Option"), provided, however, that Party A shall give a written notice about equity purchase to Party B, Party C and Party D. When Party A exercise the Call Option, the purchase price of the Target Equity ("Equity Price") shall be the lowest price permitted by the then applicable PRC laws, unless the Target Equity shall be valued or the price of Target Equity is otherwise specified restrictively by the then applicable PRC laws. The parties agree to execute the "Call Option Agreement" with respect thereto.
 5. The parties hereby agree and acknowledge that Party B and/or Party C and/or Party D shall repay the Loan only in the manner as given below: when Loan is due, at Party A's written request, if permitted by PRC laws, the Borrower or any of its successors or assignees shall transfer its equity in AMUC to Party A or its designee and use the proceeds from such equity transfer to repay the Loan under this Agreement.
 6. The parties hereby agree and acknowledge that, except as otherwise provided for herein, the Loan under this Agreement shall be interest-free. However, when the Loan is due and the Borrower needs to transfer its equity hereof to Party A or its designee, if the actual equity transfer price is higher than the Borrower's loan principal due to legal requirements or other causes, the excess shall be deemed as the loan interest or fund utilization costs to the extent being permitted by PRC laws, and be paid to Party A together with the loan principal.
 7. The parties hereby agree and acknowledge that the Borrower's obligations under this Agreement are deemed to be fully performed only if all the following requirements are met:
 - (1) The Borrower has transferred all its equity in AMUC to Party A and/its designee; and
 - (2) The Borrower has paid to Party A as loan repayment all proceeds from equity transfer.
 8. To secure the performance of the debts under this Agreement, The Borrower agrees to pledge all its equity in AMUC to Party A ("Equity Pledge"). The parties acknowledge
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and agree that, apart from the obligations under this Agreement, the principal obligation guaranteed by the Equity Pledge shall include any and all the obligations of AMUC to Party under the Technology Support and Service Agreement signed on January 1, 2007 and the Technology Development Agreement signed on January 1, 2007. The parties agree to sign an "Equity Pledge Agreement" to honor the above arrangement.

9. Party A hereby represents and warrants to the Borrower that, as of the execution date of this Agreement:

- (1) Party A is a wholly foreign-owned enterprise incorporated and validly existing under PRC laws;
- (2) Party A has the authority to execute and perform this Agreement. The execution and performance by Party A of this Agreement comply with its business scope, articles of association or other organizational documents and Party A has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;
- (3) The loan principal offered to the Borrower is legally own by Party A;
- (4) The execution and performance of this Agreement by Party A do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party; and
- (5) Once executed, this Agreement shall constitute a legal, valid and binding obligation of Party A, enforceable against Party A in accordance with its provisions.

10. The Borrower hereby represents and warrants to Party A that, from the execution date of this Agreement until this Agreement terminates:

- (1) AMUC is a limited liability company incorporated and validly existing under PRC laws and the Borrower legally owns the equity of AMUC;
- (2) The Borrower has the authority to execute and perform this Agreement. The execution and performance by the Borrower of this Agreement comply with the articles of association or other organizational documents of AMUC and the Borrower has obtained all necessary and appropriate approvals and authorizations with respect to the execution and performance of this Agreement;
- (3) The execution and performance of this Agreement by the Borrower do not violate any laws, regulations, government approvals, authorizations, notices or other government documents binding upon or influencing it, any agreement signed by it with any third party or any undertaking made by it to any third party;

- (4) Once executed, this Agreement shall constitute a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its provisions;
- (5) The registered capital of AMUC has been paid up by the Borrower and AMUC has obtained capital verification report issued by a qualified accounting firm;
- (6) Except the provisions stipulated in Equity Pledge Agreement and Call Option Agreement as of January 1, 2007, the Borrower has not mortgaged, pledged or otherwise encumbered its equity in AMUC, solicited an offer about the transfer of such equity to any third party, made any commitment about the offer of any third party to purchase such equity, or executed any agreement with any third party to transfer such equity;
- (7) There are no actual or threatened disputes, litigations, arbitrations, administrative proceedings or other legal proceedings in connection with the Borrower's equity in AMUC; and
- (8) AMUC has completed all government approvals, authorizations, licenses, registrations, filing and other procedures necessary to carry out the business activities within its business scope and to possess its assets.

11. The Borrower covenants that it shall, during the term of this Agreement,

- (1) Without Party A's prior written consent, not sell, transfer, mortgage or otherwise dispose of or allow any other security interest to be created on its equity or other interests in AMUC, except the equity pledge and other rights set for the benefit of Party A in the Equity Pledge Agreement as of January 1, 2007;
- (2) Without Party A's prior written consent, not cause the shareholders' meeting of AMUC to adopt a resolution on selling, transferring, mortgaging or otherwise disposing of, or allow any other security interest to be created on, its legal or beneficial interest in AMUC, except to Party A and its designee;
- (3) Without Party A's prior written consent, not vote for, support or sign at the shareholders' meeting of AMUC any resolution approving AMUC to be merged or consolidated with, acquire or invest in any person;
- (4) Promptly inform Party A of any litigation, arbitration or administrative proceedings pending or threatened against the Borrower's equity in AMUC;
- (5) Execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defenses against all claims in order to maintain its equity in AMUC;
- (6) Not do any act and/or omission that may materially affect the assets, business and liabilities of AMUC without Party A's prior written consent;

- (7) At Party A's request, appoint any person nominated by Party A as the director of AMUC;
- (8) When Party A exercises its Call Option, transfer all of the Borrower's equity in AMUC promptly and unconditionally to Party A and/or its designee to the extent permitted by PRC laws;
- (9) Not request AMUC to distribute dividends or profits to it;
- (10) In case its equity in AMUC is transferred to Party A or its designee, the Borrower will pay all equity transfer proceeds to Party A as the loan principal and loan interests or fund utilization costs to the extent permitted by PRC laws; and
- (11) Comply strictly with the provisions of this Agreement, fully perform its obligations under this Agreement and not do any act or omission that affects or impairs the validity and enforceability of this Agreement.

12. Within the term of this Agreement, the Borrower undertakes that it will, in the capacity of the shareholder of the AMUC, cause AMUC:

- (1) Not to supplement, amend or modify its articles of association in any way, or to increase or decrease its registered capital, or to change its capital structure in any way without Party A's prior written consent;
- (2) To maintain and operate its business and deal with matters prudently and effectively, in coherence with good financial and business rules and practices;
- (3) Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, any of its assets, business or the beneficial or legal interests of its income at any time after the signing of this Agreement without Party A's prior written consent;
- (4) Not to create, succeed, guarantee or permit any liability, without Party A's prior written consent, except (i) the liability arising from the normal course of business, but not arising from loans; and (ii) the liability reported to Party A and approved by Party A in writing;
- (5) To operate persistently all the business in the normal course of business to maintain the value of its assets;
- (6) Not to execute any material contracts (a contract will be deemed material if its value exceeds RMB 100,000), without Party A's prior written consent, other than those executed during the normal course of business;
- (7) To provide information concerning all of its operations and financial performance at Party A's request;
- (8) Not to be merged or consolidated with, acquire or invest in, any other person without Party A's prior written consent;
- (9) Not to amend the articles of association of the Borrower (if any) in any way;

- (10) Not to distribute dividends to its shareholders in any way without Party A's prior written consent. However, AMUC shall promptly distribute all its distributable profits to Party A's shareholders upon Party A's request;
 - (11) To inform promptly Party A of any pending or threatened suit, arbitration or administrative proceedings concerning its assets, business or income;
 - (12) To execute all necessary or appropriate documents, to take all necessary or appropriate actions and to bring all necessary or appropriate lawsuits or to make all necessary and appropriate defenses against all claims in order to maintain the ownership over all its assets;
 - (13) To comply strictly with the terms of Technology Support and Service Agreement, Technology Development Agreement Equity Pledge Agreement and Call Option Agreement as of January 1, 2007, and any other agreements executed by it with Party A from time to time, to perform its obligations under aforesaid agreements, and not to do any act or omission that affects the validity and enforceability of such agreements;
13. This Agreement shall be binding on and inure to the benefit of the parties and their respective successors and assignees. Without prior written approval of Party A, the Borrower shall not transfer, pledge or otherwise assign any of its rights, benefits or obligations under this Agreement.
 14. The Borrower hereby agrees that Party A may assign its rights and duties under this Agreement to a third party without requiring the Borrower's consent, but such transfer shall be notified in writing to the Borrower.
 15. The formation, validity, interpretation, performance, amendment and termination of and resolution of disputes in connection with this Agreement shall be governed by PRC laws.
16. Arbitration.
 - (1) Any dispute, controversy or claim arising from the interpretation or performance in connection with this Agreement (including any question regarding its existence, validity or termination) shall be settled by the parties through friendly consultations. In case no settlement can be reached within thirty (30) days after one party makes a request for settlement, either party may submit such dispute to China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration in accordance with its rules. The arbitration award shall be final and binding upon the parties.
 - (2) The seat of arbitration should be Beijing.
 - (3) The language of arbitration proceedings shall be Chinese.
 17. This Agreement shall be formed on its signing date. The parties agree and acknowledge that the terms and conditions of this Agreement shall be effective as of October 20, 2006, the date on which the Borrower was granted the Loan, until the parties have performed their obligations under this Agreement.

18. The Borrower cannot terminate or revoke this Agreement unless (a) Party A commits a gross negligence, fraud or other material illegal acts; or (b) Party A goes bankrupt.
19. This Agreement may not be amended or modified except with a mutual agreement reached by the parties. In case of anything not covered herein, the parties may sign a written supplementary agreement. Any amendment, modification, supplement or annex to this Agreement shall form an integral part of this Agreement.
20. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior oral discussions or written agreements reached by the parties with respect to the subject matter hereof.
21. This Agreement is severable. If any provision of this Agreement is held to be invalid or unenforceable, such provision shall not affect the validity and enforceability of the remainder of this Agreement.
22. Each party hereto should keep in strict confidence the information concerning the other party's business, operation, financial performance or other confidential data obtained under this Agreement or during the performance of this Agreement.
23. Any obligation accrued before the expiration or premature termination of this Agreement shall survive such expiration or premature termination. Articles 15, 16 and 22 shall survive the termination of this Agreement.
24. This Agreement is executed in eight originals, with each party hereto holding two originals. All originals have the same legal effect.

IN WITNESS WHEREOF, each party has caused this Agreement to be executed by itself or its legal representative or authorized representative as of the day and year as first above written.

[No text below]

[Signature Page]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Legal Representative

Authorized Representative: /s/ Guo Man

Common seal: AirMedia Technology (Beijing) Co., Ltd.

Party B: Xu Qing

Signature: /s/ Xu Qing

Party C: Guo Man

Signature: /s/ Guo Man

Party D: Wang Zhenyu

Signature: /s/ Wang Zhenyu

Power of Attorney

I, Hong Tao, a citizen of the People's Republic of China ("China"), Chinese ID number: 110108196210191239, am a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd. ("Yuehang Digital") and hold the 20% equity of Yuehang Digital. I hereby irrevocably authorize Mr. Zhang Xiaoya to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Zhang Xiaoya (Chinese ID number: 130104196210091519) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of Yuehang Digital at the shareholders' meeting of Yuehang Digital, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in Yuehang Digital and as my authorized representative, nominating and appointing the general manager of Yuehang Digital at the shareholders' meeting of Yuehang Digital.

The precondition for the said authorization and entrustment is that Mr. Zhang Xiaoya is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Zhang Xiaoya no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of Yuehang Digital.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of Yuehang Digital, unless the Call Option Agreement jointly signed by me, AM Technology and Yuehang Digital on April 1, 2008 is prematurely terminated for whatsoever reason.

Hong Tao

/s/ Hong Tao

April 1, 2008

Power of Attorney

I, Fong Zhonghua, a citizen of the People's Republic of China ("China"), Chinese ID number: 513027197101055217, am a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd. ("Yuehang Digital") and hold the 80% equity of Yuehang Digital. I hereby irrevocably authorize Mr. Guo Man to exercise the following rights within the valid term of this Power of Attorney:

Authorize Mr. Guo Man (Chinese ID number: 110102196305041171) to represent myself to exercise my shareholder rights (including voting power) as specified by PRC laws and the articles of association of Yuehang Digital at the shareholders' meeting of Yuehang Digital, including, but not limited to, signing related legal instruments with respect to the selling or transfer of all or part of my equity in Yuehang Digital and as my authorized representative, nominating and appointing the general manager of Yuehang Digital at the shareholders' meeting of Yuehang Digital.

The precondition for the said authorization and entrustment is that Mr. Guo Man is a Chinese citizen and an employee of AirMedia Technology (Beijing) Co., Ltd. ("AM Technology") and AM Technology agrees to the said authorization and entrustment. Once Mr. Guo Man no longer serves AM Technology or AM Technology informs me to terminate the said authorization and entrustment, I will immediately withdraw the entrustment and authorization granted herein to him and will designate/authorize the other person as nominated by AM Technology to exercise any and all my shareholder rights (including voting power) at the shareholders' meeting of Yuehang Digital.

This Power of Attorney shall become effective as of the signing date and will remain in force throughout the duration of Yuehang Digital, unless the Call Option Agreement jointly signed by me, AM Technology and Yuehang Digital on April 1, 2008 is prematurely terminated for whatsoever reason.

Fong Zhonghua
/s/ Fong Zhonghua
April 1, 2008

Technology Development Agreement

THIS TECHNOLOGY DEVELOPMENT AGREEMENT ("this Agreement") is entered into by the parties below in Beijing on April 1, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Beijing Yuehang Digital Media Advertising Co., Ltd.

WHEREAS,

- (1) Party A is a wholly foreign-owned enterprise incorporated in accordance with law. It has a stronger technology development capacity and also has ample experiences in respect of technology development services;
- (2) Party B requires a professional technology company to provide technology development services in the course of its operation and management;

NOW, THEREFORE, Party A and Party B, through friendly negotiations and abiding by the principle of equality and mutual benefit, hereby agree as follows:

1. Technology Development Services

- 1.1 Subject to the terms and conditions hereof, Party A agrees to provide technology development services to Party B and Party B agrees to accept the technology development services provided by Party A.
- 1.2 Party B shall actively assist Party A in fulfilling the said work, including, but not limited to, providing related data, technology requirements, explanation, etc.
- 1.3 The valid term of this Agreement is ten (10) years, starting from the effective date of this Agreement. Both parties agree that the term of this Agreement shall be automatically extended for ten (10) years upon its expiry, unless either party informs the other party of its intention of no extension at least twenty (20) days prior to the expiration of this Agreement.

2. Exclusivity

Party A is the exclusive provider providing the technology development services hereunder to Party B. Except with Party A's prior written consent, Party B shall not accept the identical or similar technology development services provided by any third party.

3. Intellectual Property Rights

Any and all intellectual property rights arising from the performance of this Agreement, including, but not limited to, copyright, patent right and technology

know-how, shall belong to Party A, and Party B may not be entitled to any right except those as specified herein. Both parties agree that this article will survive the change, cancellation or termination of this Agreement.

4. Service Fee

- 4.1 Both parties agree that as a consideration for the technology development services rendered by Party A to Party B under Article 1.1 hereof, Party B shall pay Party A the service fee pursuant to the stipulations of this Agreement. The amount of service fee and method of payment are set forth in the annex hereto. This annex may be amended on the basis of implementation after negotiations between both parties.
- 4.2 Each party shall bear the taxes payable by it in connection with the execution or performance of this Agreement in accordance with law. As requested by Party A, Party B shall endeavor to assist Party A in obtaining the business tax exemption for all or part of its technology service fee income under this Agreement, including, without limitation, providing related documents and from time to time, signing the written agreements meeting the format requirements for declaration to related department in charge of science and technology with Party A with respect to the specific service items within the scope of this Agreement, but the execution of these documents shall be subject to the following conditions: (1) the terms of such written agreements are, in principle, consistent with those of this Agreement and may not conflict with those of this Agreement; and (2) the execution of such documents does not violate laws and regulations.
- 4.3 Party B's shareholders will provide a pledge security to Party A for the technology service fee payable by Party B under this Agreement by pledging their equity in Party B.

5. Confidentiality

Both parties agreed that all information relating to this Agreement is confidential. Neither party shall disclose such information to any third party except its officers, directors, employees, agents and professional consultants, albeit that no consents are required from the opposite parties if disclosure of such information is mandated by law.

This article shall survive any change, cancellation or termination of this Agreement.

6. Defaulting Liabilities

Both parties have the obligation to fully perform this Agreement. Where either party fails to perform any of its obligations hereunder, or any of its representations or warranties hereunder is materially untrue or inaccurate, such party shall be deemed to default under this Agreement and shall be held liable for all the losses thus incurred to the other party.

7. Force Majeure

- 7.1 Force Majeure refers to objective situations that are not foreseeable, avoidable and surmountable. If either party becomes unable to perform this Agreement due to force majeure, its obligation may be waived partly or fully, depending on the impact of the force majeure. If the force majeure occurs after any delay of performance of obligations, the obligation shall not be waived.
- 7.2 Should either party be prevented from performing this Agreement due to force majeure, the prevented party shall without any delay notify the other party in order to mitigate any loss caused to the other party. The prevented party shall also provide written proof of the force majeure within 15 working days of the force majeure.

8. Entire Agreement

Both parties acknowledge that this Agreement constitutes the entire agreement and understanding between both parties with respect to the subject matter hereof and completely supersedes and replaces all prior oral and/or written agreements and understandings between both parties with respect to the subject matter hereof.

9. Governing Law

The execution, effectiveness, interpretation, performance, amendment, termination and dispute resolutions of this Agreement shall be governed by the law of the Peoples of Republic of China.

10. Dispute Resolution

Any dispute arising from the performance of this Agreement shall be solved by both parties through friendly negotiations. In case no resolution can be reached, such dispute shall be referred to Beijing Arbitration Commission for arbitration in accordance with its arbitration rules. Venue of arbitration shall be Beijing and arbitral award shall be final.

11. Supplementary Provisions

- 11.1 The annex attached hereto shall form an integral part of this Agreement and has the same effect as the remainder of this Agreement.
- 11.2 This Agreement shall come into effect as of the date of signing by both parties.
- 11.3 This Agreement is executed in two (2) originals in Chinese, one (1) original for each party. All the original copies shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Authorized representative (signature): /s/ Guo Man

Name: Guo Man

Title:

Common seal: [Seal: AirMedia Technology (Beijing) Co., Ltd.]

Party B: Beijing Yuehang Digital Media Advertising Co., Ltd.

Authorized representative (signature): /s/ Fong Zhonghua

Name: Fong Zhonghua

Title:

Common seal: [Seal: Beijing Yuehang Digital Media Advertising Co., Ltd.]

Service Fee Calculation Standard

1. Party A and Party B agree that Party B shall pay technology support and technology service fee to Party A according to the following requirements:
 - (1) In the first month of each year (for the first year, it means the next month after the signing of this Agreement), Party A and Party B determine the annual service fee amount of this year. The annual service fee amount confirmed by both parties shall be annexed to this Agreement respectively.
 - (2) When both parties determine annual service fee amount, the technology service fee of current year may be adjusted by giving due consideration to the following factors, including, but not limited to:
 - (a) The number of the employees to be assigned by Party A to render services for Party B and the qualification of these employees;
 - (b) The amount of time proposed for Party A's employees to provide services;
 - (c) The specific contents and value of the services rendered by Party A;
 - (d) Whether use licenses are provided to Party B with respect to specific technologies (including patented and non-patented technologies) during the provisioning of technology support and technology services;
 - (e) The internal relations between Party A's technology support and technology services and Party B's operating income.
 - (3) Party B shall pay the said annual service fee evenly on a quarterly basis. Party B shall, within fifteen (15) working days before each quarter finishes, pay the service fee amount of this quarter to the bank account designated by Party A.
2. If Party A is of the opinion that the fee as set out in Article 1 of this Annex becomes inappropriate for the change of objective situation and needs to be adjusted, Party B shall, within seven (7) working days after receiving the written request about fee adjustment from Party A, negotiate with Party A actively and in good faith so as to determine the new billing standard or system.

Technology Support and Service Agreement

THIS TECHNOLOGY SUPPORT AND SERVICE AGREEMENT ("this Agreement") is entered into by the parties below in Beijing on April 1, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.
Party B: Beijing Yuehang Digital Media Advertising Co., Ltd.

WHEREAS,

- (1) Party A is a wholly foreign-owned enterprise incorporated in accordance with law. It has a strong technology development and technology support capacity and also has ample experiences in respect of technology support and services;
- (2) Party B requires a professional technology company to provide technology support and services in the course of its operation and management;

NOW, THEREFORE, Party A and Party B, through friendly negotiations and abiding by the principle of equality and mutual benefit, hereby agree as follows:

1. Technology Support and Services

1.1 Party A agrees to provide the following services to Party B:

- 1.1.1 Perform research and development on related technologies according to Party B's business needs;
 - 1.1.2 Be responsible for the daily maintenance, monitoring, debugging and troubleshooting of Party B's advertising production and broadcasting system;
 - 1.1.3 As requested by Party B from time to time, carry out related investigations and collect relevant data and materials concerning Party B's technology problems and needs during business operations; provide the investigation findings and reports within the time limit required by Party B;
 - 1.1.4 Provide to Party B (such as, but not limited to) the technology design, schemes, drawings, data, parameters, standards, programs, databases, technology research results of the same type, reports, materials and data in connection with Party B's technology problems during operation;
 - 1.1.5 Timely answer Party B's technology inquiries and if necessary, send personnel to solve technology problems on site;
 - 1.1.6 Provide other related technology support and technology services for Party B according to the provisions of this Agreement.
-

- 1.2 Party B shall actively assist Party A in fulfilling the said work, including, but not limited to, providing related data, technology requirements, explanation.
- 1.3 The valid term of this Agreement is ten (10) years, starting from the effective date of this Agreement. Both parties agree that the term of this Agreement shall be automatically extended for ten (10) years upon its expiry, unless either party informs the other party of its intention of no extension at least twenty (20) days prior to the expiration of this Agreement.

2. **Exclusivity**

Party A is the exclusive provider providing the technology support and services hereunder to Party B. Except with Party A's prior written consent, Party B shall not accept the identical or similar technology support and services provided by any third party.

3. **Intellectual Property Rights**

Any and all intellectual property rights arising from the performance of this Agreement, including, but not limited to, copyright, patent right and technology know-how, shall belong to Party A, and Party B may not be entitled to any right except those as specified herein. Both parties agree that this article will survive the change, cancellation or termination of this Agreement.

4. **Service Fee**

Both parties agree that as a consideration for the technology support and technology services rendered by Party A to Party B under Article 1.1 hereof, Party B shall pay Party A the service fee pursuant to the stipulation of this Agreement. The amount of service fee and method of payment are set forth in the annex hereto. This annex may be amended on the basis of implementation after negotiations between both parties.

5. **Confidentiality**

Both parties agreed that all information relating to this Agreement is confidential. Neither party shall disclose such information to any third party except its officers, directors, employees, agents and professional consultants, albeit that no consents are required from the opposite parties if disclosure of such information is mandated by law.

This article shall survive any change, cancellation or termination of this Agreement.

6. **Defaulting Liabilities**

Both parties have the obligation to fully perform this Agreement. Where either party fails to perform any of its obligations hereunder, or any of its representations or warranties hereunder is materially untrue or inaccurate, such party shall be deemed to default under this Agreement and shall be held liable for all the losses thus incurred to the other party.

7. Force Majeure

- 7.1 Force Majeure refers to objective situations that are not foreseeable, avoidable and surmountable. If either party becomes unable to perform this Agreement due to force majeure, its obligation may be waived partly or fully, depending on the impact of the force majeure. If the force majeure occurs after any delay of performance of obligations, the obligation shall not be waived.
- 7.2 Should either party be prevented from performing this Agreement due to force majeure, the prevented party shall without any delay notify the other party in order to mitigate any loss caused to the other party. The prevented party shall also provide written proof of the force majeure within 15 working days of the force majeure.

8. Entire Agreement

Both parties acknowledge that this Agreement constitutes the entire agreement and understanding between both parties with respect to the subject matter hereof and completely supersedes and replaces all prior oral and/or written agreements and understandings between both parties with respect to the subject matter hereof.

9. Governing Law

The execution, effectiveness, interpretation, performance, amendment, termination and dispute resolutions of this Agreement shall be governed by the law of the Peoples of Republic of China.

10. Dispute Resolution

Any dispute arising from the performance of this Agreement shall be solved by both parties through friendly negotiations. In case no resolution can be reached, such dispute shall be referred to Beijing Arbitration Commission for arbitration in accordance with its arbitration rules. Venue of arbitration shall be Beijing and arbitral award shall be final.

11. Supplementary Provisions

- 11.1 The annex attached hereto shall form an integral part of this Agreement and has the same effect as the remainder of this Agreement.
- 11.2 This Agreement shall come into effect as of the date of signing by both parties.
- 11.3 This Agreement is executed in two (2) originals in Chinese, one (1) original for each party. All the original copies shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Authorized representative (signature): /s/ Guo Man

Name: Guo Man

Title:

Common seal: [Seal: AirMedia Technology (Beijing) Co., Ltd.]

Party B: Beijing Yuehang Digital Media Advertising Co., Ltd.

Authorized representative (signature): /s/ Fong Zhonghua

Name: Fong Zhonghua

Title:

Common seal: [Seal: Beijing Yuehang Digital Media Advertising Co., Ltd.]

Service Fee Calculation Standard

1. Party A and Party B agree that Party B shall pay technology support and technology service fee to Party A according to the following requirements:
 - (1) In the first month of each year (for the first year, it means the next month after the signing of this Agreement), Party A and Party B determine the annual service fee amount of this year. The annual service fee amount confirmed by both parties shall be annexed to this Agreement, respectively.
 - (2) When both parties determine annual service fee amount, the technology service fee of current year may be adjusted by giving due consideration to the following factors, including, but not limited to:
 - (a) The number of the employees to be assigned by Party A to render services for Party B and the qualification of these employees;
 - (b) The amount of time proposed for Party A's employees to provide services;
 - (c) The specific contents and value of the services rendered by Party A;
 - (d) Whether use licenses are provided to Party B with respect to specific technologies (including patented and non-patented technologies) during the provisioning of technology support and technology services;
 - (e) The internal relations between Party A's technology support and technology services and Party B's operating income.
 - (3) Party B shall pay the said annual service fee evenly on a quarterly basis. Party B shall, within fifteen (15) working days before each quarter finishes, pay the service fee amount of this quarter to the bank account designated by Party A.
2. If Party A is of the opinion that the fee as set out in Article 1 of this Annex becomes inappropriate for the change of objective situation and needs to be adjusted, Party B shall, within seven (7) working days after receiving the written request about fee adjustment from Party A, negotiate with Party A actively and in good faith so as to determine the new billing standard or system.

Supplementary Agreement
to the Technology Support and Service Agreement

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Beijing Yuehang Digital Media Advertising Co., Ltd.

Whereas Party A and Party B have entered into an "Technology Support and Service Agreement" (hereinafter referred to as the "Original Agreement") on April 1, 2008 in relation to the engagement of Party A by Party B to provide technology support and technology service, the two parties hereby agree to amend and supplement the Original Agreement by entering into this supplementary agreement (hereinafter referred to as "this Agreement"), with the following specific terms:

1. All the risks in connection with the technology development and after-sales technology service under the Original Agreement shall be solely borne by Party A. Party A shall be entitled to the portion of advertising profits that is related to technology.
2. Article 1.1.6 of the Original Agreement shall be changed to: "To provide to Party B, in accordance with this Agreement, other related technology support and technology services, including but not limited to equipment rental, joint marketing service, joint procurement service, strategic management service, financial management service and human resources management service."
3. Article 4 of the Original Agreement shall be changed to: "The technology development and technology service fee chargeable by Party A on Party B shall guarantee that Party B can achieve, after deducting the fees payable to Party A, a net cost-plus rate of no less than 1%, to be rounded to the nearest RMB1,000;

Net cost-plus rate = Operating profit / Total cost and expenses x 100%

Where: Operating profit = Operating revenue - Operating cost - sales expenses - administrative expenses

Total cost and expenses = Total operating cost + sales expenses + administrative expenses

If Party B records a loss before deducting the fees due to Party A, Party B shall not be entitled to any fee payments from Party B. All the market risks and other risks shall be solely borne by Party A.

4. Term 1 under Article 1 of the annex to the Original Agreement shall be changed to: “Party A shall settle the accounts with Party B every quarter, and a yearly account settlement shall be done within one month after each year end. After the end of each quarter, the two parties shall settle the fees according to the confirmation letter. Party B shall settle all the fees due to Party A within one week after receipt of the confirmation letter from Party A. All fees shall be integrated and settled at the end of a year. Party B shall provide to Party A a formal invoice showing the exact amount before Party A pays.
5. The authorized signatory for the quarterly earnings confirmation letter and supplementary agreements within the validity of the Original Agreement shall be:
 - (1) Name: Wu Wennan; Position: Financial Controller, being the agent for AirMedia Technology (Beijing) Co., Ltd.
 - (2) Name: Duan Qiuwen; Position: Chief ledger keeper, being the agent for Beijing Yuehang Digital Media Advertising Co., Ltd.
6. This Agreement is a supplementary agreement to the Original Agreement, and shall have the same legal effect as the Original Agreement. The remaining terms in the Original Agreement shall remain unchanged. For any inconsistencies between this Agreement and the Original Agreement, this Agreement prevails. The Original Agreement shall prevail for any matters not provided for by this Agreement.
7. Any disputes that arise from or are related to the execution and performance of this Agreement shall be resolved through friendly negotiation. If no agreement can be reached, all disputes shall be brought to Beijing Arbitration Committee for an arbitral award.
8. This Agreement shall become effective from the date of signing and the imprinting of seals by the authorized representatives of both parties. The original Chinese copy has two counterparts, each to be kept by one party. Both counterparts shall have the same legal effect.

(The rest of this page is left blank)

Party A: AirMedia Technology (Beijing) Co., Ltd. (seal)

Authorized representative: /s/ Guo Man

Date: June 25, 2008

Party B: Beijing Yuehang Digital Media Advertising Co., Ltd. (seal)

Authorized representative: /s/ Feng Zhonghua

Date: June 25, 2008

Equity Pledge Agreement

THIS EQUITY PLEDGE AGREEMENT ("this Agreement") is entered into among the following parties in Beijing on April 1, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.
Party B: Fong Zhonghua, Hong Tao
Party C: Beijing Yuehang Digital Media Advertising Co., Ltd.

WHEREAS:

- (1) Party A and Party C signed the Technology Development Agreement and the Technology Support and Service Agreement on April 1, 2008;
- (2) On January 7, 2008, Party A and Party B signed the Loan Agreement (collectively with the Technology Development Agreement and the Technology Support and Service Agreement shall be referred to hereinafter as "Master Contracts");
- (3) Fong Zhonghua and Hong Tao respectively holds 80% and 20% of equity interests in Party C. Party B agrees to guarantee the payment obligations under the Master Contracts that it had signed with Party C by means of an equity pledge.

NOW, THEREFORE, Party A, Party B and Party C, through friendly negotiations, hereby agree on and promise to abide by the following terms:

1. Pledge

Fong Zhonghua and Hong Tao agree to pledge all their respective 80% and 20% equities in Party C ("Pledged Equity") to Party A, as a guaranty for the performance of obligations by Party B and Party C under the Master Contracts.

2. Term of Pledge

- 2.1 The pledge under this Agreement shall become effective on the date when the equity pledge is recorded in Party C's register of shareholders.
- 2.2 After the guaranteed liabilities under the Master Contracts are fully repaid and Party B and Party C no longer undertake any obligations under the Master Contracts, this Agreement is terminated. So far as reasonably practicable, Party A shall assist in undergoing necessary procedures so as to discharge the pledge of equity.
- 2.3 During pledge, if Party B and Party C fail to perform its obligations under any Master Contract, Party A shall be entitled to dispose of right of pledge pursuant to the provisions of this Agreement.

3. Scope of Pledge Guarantee

The guaranty scope of pledged equity under this Agreement covers any arrear, payment, liquidated damages, compensation and expenses from realization of principal claims and right of pledge payable but unpaid by Party B and Party C to Party A under the Master Contracts.

4. Registration

4.1 Party B undertakes to Party A that its execution of this Agreement and performance of the obligations under this Agreement has obtained and/or will obtain the consent of Party C's shareholders' meeting and the equity pledge under this Agreement will be recorded in Party C's register of shareholders. Party C agrees to render assistance. Party B and Party C shall deliver the certificates of Party B's capital contributions to Party C and register of shareholders to Party A for keeping on the date of this Agreement.

4.2 The Parties agree that they will try to handle and cause the registration of the pledge under this Agreement with the Industrial and Commercial Administration of Party C's place of registration. The Parties confirm that the failure to register the pledge under this Agreement with the Industrial and Commercial Administration of Party C's place of registration after the execution of this Agreement will not affect the validity of this Agreement, unless such registration is mandatory as specified by laws.

5. Yield

Within the period of pledge, Party A shall be entitled to the yield arising from the Pledged Equity, including, but not limited to, the bonus, dividends, profit distribution, distributable profits, arising from or received with respect to the Pledged Equity.

6. Representations of Party B

6.1 Party B is the owner of the equity.

6.2 Party B has not created any other security interest or third-party interests on the Pledged Equity except the pledge under this Agreement.

6.3 Within the term of this Agreement, Party B undertakes to Party A that

6.3.1 Without Party A's prior written consent, it will not transfer the Pledged Equity or create or allow to be created any security interest on the Pledged Equity, unless otherwise agreed upon by both parties.

6.3.2 It will comply with all the laws and regulations with respect to the pledge of rights; present to Party A the notices, orders or suggestions with respect to the right of pledge issued or made by the competent authority within five (5) days upon receipt thereof; and comply with such notices, orders or suggestions; or make an objection to or a statement on the foregoing matters at the reasonable request of Party A or with the

consent from Party A.

6.3.3 It will not cause Party C's other shareholders not to distribute Party C's income.

6.3.4 It will not do or permit to be done any act that may adversely affect Party A's interests under the Amended Master Contracts and this Agreement or the Pledged Equity.

6.4 Party B agrees that, for the purpose of this Agreement, Party A is entitled to dispose of right of pledge in the manner as specified in this Agreement and Party A's right to exercise the right of pledge obtained from this Agreement will not be interrupted or hindered by Party B or any of its successors or principals or any other person through legal proceedings.

6.5 Party B warrants to Party A that, in order to protect or improve the guaranty for the repayment of the expenses under the Master Contracts in this Agreement, Party B will execute in good faith and cause other persons interested in the right of pledge to execute all right certificates and contracts relating to the implementation of this Agreement as required by Party A and/or perform and cause other interested persons to perform the acts relating to the implementation of this Agreement as required by Party A and provide convenience for the exercise of the rights and authority granted to Party A under this Agreement.

6.6 Party B warrants to Party A that, in order to ensure Party A's interests, Party B will comply with and perform all warranties, undertakings, agreements, representations and conditions. Where Party B does not perform, in whole or in part, its warranties, undertakings, agreements, representations or conditions, Party B shall compensate all losses thus incurred to Party A.

7. Disposal of the Pledged Equity

7.1 Party A and Party B hereby agree that, in case of any default, Party A shall be entitled to exercise all the remedies and powers under PRC laws, transaction agreement and this Agreement upon giving a written notice to Party B, including, but not limited to, auctioning or selling the Pledged Equity and being first compensated with the proceeds from such disposal. Party A shall not be liable for any loss arising from its reasonable exercise of such rights and powers.

7.2 Party A shall be entitled to designate in writing its lawyer or other agent to exercise any or all said rights and powers and Party B shall not raise any objection thereto.

7.3 The reasonable expenses of Party A when it exercises any or all said rights and powers shall be borne by Party B. Party A shall have the right to deduct such expenses from the payments obtained by Party A from the exercise of its rights and powers.

7.4 The payments obtained by Party A from the exercise of its rights and powers shall

be used in the following order:

- 1) Pay all the expenses arising out of the disposal of the Pledged Equity and Party A's exercise of its rights and powers (including the remunerations for its lawyer and agent);
- 2) Pay the taxes payable with respect to the disposal of the Pledged Equity; and
- 3) Pay the guaranteed liabilities to Party A.

If there is any balance after the above deductions, Party A shall return such balance to Party B or the other person which is entitled to such balance in accordance with law or regulations or place such balance under escrow with the notary public office in the place where Party A is located (all the expenses arising therefrom shall be borne by Party B).

7.5 Party A shall be entitled to exercise any of its remedies simultaneously or successively. Before Party A exercises the right to auction or sell the Pledged Equity under this Agreement, it does not need to first exercise other remedies.

8. Transfer

8.1 Without Party A's prior written consent, Party B shall have no right to donate or transfer any of its rights and obligations under this Agreement, excluding the Call Option Agreement signed by Party B and Party A.

8.2 This Agreement shall bind upon Party B and its successors and inure to Party A and its successors and assigns.

8.3 Party A may, at any time, transfer any or all of its rights and obligations under the Master Contracts to the person designated by it (natural person/legal person). In this case, the transferee shall take over Party A's rights and obligations under this Agreement as if it is a party to this Agreement. When Party A transfers its rights and obligations under the Master Contracts, at its request, Party B shall execute the related agreements and/or documents with respect to such transfer.

8.4 If the above transfer results in the change of pledgee, two new parties to pledge shall sign a new pledge agreement.

9. Confidentiality

9.1 Both parties agreed that all information relating to this Agreement is confidential. Neither party shall disclose such information to any third party except its officers, directors, employees, agents and professional consultants, albeit that no consents are required from the opposite parties if disclosure of such information is mandated by law.

9.2 This article shall survive the change, cancellation or termination of this Agreement.

10. Defaulting Liabilities

Both parties have the obligation to fully perform this Agreement. Where either party

fails to perform any of its obligations hereunder, or any of its representations or warranties hereunder is materially untrue or inaccurate, such party shall be deemed to default under this Agreement and shall be held liable for all the losses thus incurred to the other party.

11. Force Majeure

11.1 Force Majeure refers to objective situations that are not foreseeable, avoidable and surmountable. If either party becomes unable to perform this Agreement due to force majeure, its obligation may be waived partly or fully, depending on the impact of the force majeure. If the force majeure occurs after any delay of performance of obligations, the obligation shall not be waived. 11.2 Should either party be prevented from performing this Agreement due to force majeure, the prevented party shall without any delay notify the other party in order to mitigate any loss caused to the other party. The prevented party shall also provide written proof of the force majeure within 15 working days of the force majeure.

12. Governing Law

The execution, effectiveness, interpretation, performance, amendment, termination and dispute resolutions of this Agreement shall be governed by the law of the Peoples of Republic of China.

13. Dispute Resolution

Any dispute arising from the performance of this Agreement shall be solved by both parties through friendly negotiations. In case no resolution can be reached, such dispute shall be referred to Beijing Arbitration Commission for arbitration in accordance with its arbitration rules. Venue of arbitration shall be Beijing and arbitral award shall be final.

14. Supplementary Provisions

14.1 This Agreement shall come into effect as of the date of signing by both parties.

14.2 This Agreement is executed in four (4) originals in Chinese, one (1) original for each party. All the original copies shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Authorized representative (signature): /s/ Guo Man

Name: Guo Man

Title:

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Fong Zhonghua

Signature: /s/ Hong Tao

Party C: Beijing Yuehang Digital Media Advertising Co., Ltd.

Authorized representative (signature): /s/ Fong Zhonghua

Name: Fong Zhonghua

Title:

Common seal: Beijing Yuehang Digital Media Advertising Co., Ltd. (Seal)

Call Option Agreement

THIS CALL OPTION AGREEMENT (“this Agreement”) is entered into among the following parties in Beijing on April 1, 2008:

Party A: AirMedia Technology (Beijing) Co., Ltd.

Party B: Fong Zhonghua, Hong Tao (hereafter individually a “Shareholder” and collectively the “Shareholders”)

Party C: Beijing Yuehang Digital Media Advertising Co., Ltd.

WHEREAS:

- (1) Fong Zhonghua and Hong Tao are the citizens of the People’s Republic of China (“China”, for the purpose of this Agreement, excludes Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan), who respectively 80% and 20% equity interests in Party C.

Now therefore, the Parties hereby enter into this Agreement with respect to Party A purchasing the equities held by the Shareholders in Party C, on and subject to the terms and conditions as set forth below:

1. Purchase and Sale of Equity

1.1 Granting of Rights

The Shareholders hereby irrevocably grant to Party A an option (“Call Option”) to purchase or cause any person or persons designated by Party A (“Designee”) to purchase from the Shareholders at any time, to the extent permitted by PRC laws and according to the steps as determined by Party A at its own discretion, all or part of their equity in Party C (“Target Equity”) at the price specified in Article 1.3 of this Agreement. The Shareholders shall not sell, sell by offer, transfer, donate or pledge the equity to any other third person other than Party A and/or the Designee. Party C hereby agrees to the granting of the Call Option by the Shareholders to Party A and/or the Designee. The “person” set forth in this article and this Agreement means an individual, corporation, joint venture, partnership, enterprise, trust or a non-corporation organization.

1.2 Exercising Steps

Subject to PRC laws and regulations,

- 1.2.1 When this Agreement is signed, Party B shall agree that it will deliver the Equity Transfer Contract signed as per the format in Annex 1 below and the Letter of Consent signed as per Annex 2 below with respect to equity transfer to Party A for keeping.

1.2.2 If Party A decides to purchase the Target Equity pursuant to Article 1.1 hereof, it shall give a written notice to Party B, indicating the percentage of the Target Equity to be purchased and the identity of purchaser. Party B and Party C shall, within seven (7) days of receiving the notice from Party A, provide all the materials and documents necessary to handle equity transfer.

1.2.3 Except the notice as stated in Article 1.2.2, there are no other preconditions or additional conditions or procedures for Party A's exercise of the option to purchase the Target Equity.

1.3 Purchase Price

1.3.1 In the event that applicable PRC laws and regulations require appraisal of the Target Equity or have other restrictions on the price of the Target Equity at the time when Party A exercises the Call Option, the Parties agree that the Purchase Price of the Target Equity shall be the lowest price permitted by applicable laws.

1.3.2 In the event that Party A opts to purchase part of the Target Equity, the Purchase Price shall be adjusted on the basis of the ratio of the purchased equity to all the equity of Party C.

1.4 Transfer of the Target Equity

At each exercise of the Call Option:

1.4.1 Each Shareholder shall cause Party C to convene a shareholders' meeting in time, at which to adopt a resolution on the transfer by the Shareholders of the Target Equity to Party A and/or the Designee, and cause other Shareholders to waive the right of first refusal to the Target Equity in writing;

1.4.2 Each Shareholder shall, subject to the terms and conditions of this Agreement and the Purchase Notice related to the Target Equity, enter into an equity transfer contract with Party A and/or the Designee (as applicable) for each transfer;

1.4.3 The related Parties shall execute all other requisite contracts, agreements or documents, obtain all requisite government approvals and consents and take all necessary actions; without any security interest, transfer the valid ownership of the Target Equity to Party A and/or the Designee, and cause Party A and/or the Designee to be the legal owner of the Target Equity. In this Article and this Agreement, "Security Interest" includes guaranty, mortgage, pledge, third-party right or interest, any share option, right of acquisition, right of first refusal, right of set-off, retention of title or other security arrangements, but excluding any security interest arising under the Equity Pledge Agreement signed by Party A, Shareholders and Party C on April 1, 2008.

1.5 Payment

The payment of the Purchase Price shall be subject to the negotiations between Party A and/or the Designee and the Shareholders according to the laws applicable at the exercise of the Call Option.

2. Undertakings Relating to Equity

2.1 Undertakings of Party C

Shareholders and Party C hereby undertake that:

- 2.1.1 They will not supplement, amend or modify Party C's articles of association in any way, or increase or decrease its registered capital, or change its shareholding structure by other means without Party A's prior written consent;
- 2.1.2 Based on good financial and commercial standards and practices, Party C will maintain its existence, prudently and effectively deal with its businesses and affairs and make its best efforts to ensure that it continuously has the permits, licenses and approvals necessary for its business operations and that these permits, licenses and approvals are not cancelled; make its best efforts to keep its existing organization structure and senior management personnel unchanged and continue to maintain its relations with customers so as to ensure that the exercise of the Call Option by Party A has no material adverse influence on Party C's goodwill and operations;
- 2.1.3 Without Party A's prior written consent, Party C will not sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, any of Party C's legal or beneficial rights on assets, business or income at any time after the date of this Agreement;
- 2.1.4 Without Party A's prior written consent, Party C will not distribute dividends to its shareholders in any way. However, Party C shall promptly distribute all or part of its distributable profits to its shareholders upon Party A's request;
- 2.1.5 If Party A exercises the Call Option pursuant to the provisions of this Agreement, Party C will do its best to obtain all the government approvals and other consents (if applicable) necessary for the completion of equity transfer as early as possible;
- 2.1.6 At Party A's request, they will appoint the person nominated by Party A as the director of Party C.

2.2 Undertakings of the Shareholders

The Shareholders hereby undertakes:

- 2.2.1 Not to sell, transfer, mortgage or otherwise dispose of, or cause any other security interest to be created on, the legal or beneficial right of any Target Equity at any time after the date of this Agreement without Party A's prior written consent, except the right of pledge under the Equity Pledge

Agreement;

- 2.2.2 Without Party A's prior written consent, at the shareholders' meeting of Party C, not to agree to, support or execute a resolution on selling, transferring, mortgaging or otherwise disposing of, or cause any other security interest to be created on, its legal or beneficial right of any Target Equity, except to Party A or the Designee;
- 2.2.3 Without Party A's prior written consent, at the shareholders' meeting of Party C, not to agree to, support or execute a resolution on approving Party C to be merged or consolidated with, acquire or invest in any person;
- 2.2.4 To promptly inform Party A of any litigation, arbitration or administrative proceedings pending or threatened against its Target Equity;
- 2.2.5 To cause the shareholders' meeting to approve the transfer of the Target Equity under this Agreement;
- 2.2.6 To execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate claims or make all necessary and appropriate defenses against all claims in order to maintain its ownership over the Target Equity;
- 2.2.7 At Party A's request, to appoint the person nominated by Party A as the director of Party C;
- 2.2.8 Upon Party A's request as may be made from time to time, to transfer the Target Equity unconditionally and promptly to Party A and/or the Designee at any time and cause other Shareholders to waive the right of first refusal to the Target Equity;
- 2.2.9 To fully comply with the provisions of this Agreement and other agreements entered into by and among Shareholders, Party C and Party A, to perform all obligations under such agreements and not to do any act or omission that affects the validity and enforceability of such agreements.

3. Assignment of Agreement

- 3.1 The Shareholders and Party C shall not transfer any of their rights and obligations under this Agreement to any third party without Party A's prior written consent.
- 3.2 The Shareholders and Party C hereby agree that Party A may, when necessary, transfer all its rights and obligations under this Agreement to a third party without the consent of Shareholders and Party C. Party A shall only need to notify Shareholders and Party C when such transfers occur. No prior written consent of Shareholders and Party C is required.

4. Guaranty

If the Shareholders satisfy the relevant provisions of this Agreement, Party A agrees to act as Party C's performance guarantor in any contract, agreement or

transaction signed by Party C with any other third party with respect to Party C's business operations to provide a comprehensive performance guaranty for Party C to perform such contract, agreement or transaction. In addition, Party A agrees to provide the loans for Party C in the manner permitted by laws when necessary to meet Party C's business needs or solve Party C's possible difficulty in fund turnover.

5. Confidentiality

- 5.1 Both parties agreed that all information relating to this Agreement is confidential. Neither party shall disclose such information to any third party except its officers, directors, employees, agents and professional consultants, albeit that no consents are required from the opposite parties if disclosure of such information is mandated by law.
- 5.2 This article shall survive the change, cancellation or termination of this Agreement.

6. Defaulting Liabilities

Both parties have the obligation to fully perform this Agreement. Where either party fails to perform any of its obligations hereunder, or any of its representations or warranties hereunder is materially untrue or inaccurate, such party shall be deemed to default under this Agreement and shall be held liable for all the losses thus incurred to the other party.

7. Force Majeure

- 7.1 Force Majeure refers to objective situations that are not foreseeable, avoidable and surmountable. If either party becomes unable to perform this Agreement due to force majeure, its obligation may be waived partly or fully, depending on the impact of the force majeure. If the force majeure occurs after any delay of performance of obligations, the obligation shall not be waived.
- 7.2 Should either party be prevented from performing this Agreement due to force majeure, the prevented party shall without any delay notify the other party in order to mitigate any loss caused to the other party. The prevented party shall also provide written proof of the force majeure within 15 working days of the force majeure.

8. Annex

- 8.1 When the Target Equity is transferred, if the format of the equity transfer contract as set forth in Annex 1 to this Agreement needs to be amended in accordance with PRC laws and regulations until then, the Parties shall make relevant amendments in good faith and in accordance with the requirements of PRC laws and regulations.
- 8.2 The annex attached hereto shall form an integral part of this Agreement and have the same legal effect as the main body of this Agreement.

9. Governing Law

The execution, effectiveness, interpretation, performance, amendment, termination and dispute resolutions of this Agreement shall be governed by the law of the Peoples of Republic of China.

10. Dispute Resolution

Any dispute arising from the performance of this Agreement shall be solved by both parties through friendly negotiations. In case no resolution can be reached, such dispute shall be referred to Beijing Arbitration Commission for arbitration in accordance with its arbitration rules. Venue of arbitration shall be Beijing and arbitral award shall be final.

11. Supplementary Provisions

- 11.1 This Agreement shall go into effect as of the date of signing by the Parties. This Agreement shall be terminated after Party A exercises the call option over all Party C's equity pursuant to the provisions of this Agreement, unless prematurely terminated in accordance with the provisions of this Agreement or the other related agreement signed by the Parties.
- 11.2 Where Party A or Party C ceases to operate because its business term expires (including any extension thereof) or because of other reason within the time as set forth in Article 11.1, this Agreement shall be terminated simultaneously, unless Party A has transferred its rights and obligations pursuant to Article 3.2.
- 11.3 This Agreement is executed in four (4) originals in Chinese, one (1) original for each Party. All originals shall have the same legal effect.

[No text below]

Party A: AirMedia Technology (Beijing) Co., Ltd.

Authorized representative (signature): /s/ Guo Man

Name: Guo Man

Title:

Common seal: AirMedia Technology (Beijing) Co., Ltd. (Seal)

Party B:

Signature: /s/ Fong Zhonghua

Signature: /s/ Hong Tao

Party C: Beijing Yuehang Digital Media Advertising Co., Ltd.

Authorized representative (signature): /s/ Fong Zhonghua

Name:

Title:

Common seal: Beijing Yuehang Digital Media Advertising Co., Ltd. (Seal)

Equity Transfer Contract

This Equity Transfer Contract (“this Contract”) is entered into among the following parties in Beijing, China:

The Transferor: Fong Zhonghua

The Transferee: _____

Through friendly negotiations, it is hereby agreed by both parties with respect to equity transfer as follows:

1. The Transferor agrees to transfer its ___% equity in Beijing Yuehang Digital Media Advertising Co., Ltd. (“Target Equity”) to the Transferee, and the Transferee agrees to accept the Target Equity.
2. Upon completion of equity transfer, the Transferor will no longer have any right or obligation as a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd. with respect to the Target Equity, and the Transferee will have the rights and obligations as a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd. with respect to the Target Equity.
3. In case of anything not covered herein, both parties may sign a supplementary agreement.
4. This Contract shall become effective as of the date of signing by both parties.
5. This Contract is executed in quadruplicate, one (1) copy for each party and the other copies to be used to handle industrial and commercial changes.

The Transferor: Fong Zhonghua

The Transferee:

Signature:

Authorized representative (signature):

Date:

Name:

Title:

Common seal

Date:

Equity Transfer Contract

This Equity Transfer Contract (“this Contract”) is entered into among the following parties in Beijing, China:

The Transferor: Hong Tao

The Transferee: _____

Through friendly negotiations, it is hereby agreed by both parties with respect to equity transfer as follows:

1. The Transferor agrees to transfer its ___% equity in Beijing Yuehang Digital Media Advertising Co., Ltd. (“Target Equity”) to the Transferee, and the Transferee agrees to accept the Target Equity.
2. Upon completion of equity transfer, the Transferor will no longer have any right or obligation as a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd. with respect to the Target Equity, and the Transferee will have the rights and obligations as a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd. with respect to the Target Equity.
3. In case of anything not covered herein, both parties may sign a supplementary agreement.
4. This Contract shall become effective as of the date of signing by both parties.
5. This Contract is executed in quadruplicate, one (1) copy for each party and the other copies to be used to handle industrial and commercial changes.

The Transferor: Hong Tao

The Transferee:

Signature:

Authorized representative (signature):

Date:

Name:

Title:

Common seal

Date:

Letter of Consent

To: Beijing Yuehang Digital Media Advertising Co., Ltd.

As a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd., I hereby agree and acknowledge as follows:

1. Agree that the other shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. transfer their equities in Beijing Yuehang Digital Media Advertising Co., Ltd. to AirMedia Technology (Beijing) Co., Ltd. or a third party designated by it;
2. Agree to waive the right of first refusal when the other shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. transfer their equities in Beijing Yuehang Digital Media Advertising Co., Ltd. to AirMedia Technology (Beijing) Co., Ltd. or a third party designated by it;
3. Agree to execute or provide such documents as being necessary to handle equity transfer when the other shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. transfer their equities in Beijing Yuehang Digital Media Advertising Co., Ltd. to AirMedia Technology (Beijing) Co., Ltd. or a third party designated by it.

This Letter of Consent shall become effective as of its signing date.

Signature: Fong Zhonghua

Date:

To: Beijing Yuehang Digital Media Advertising Co., Ltd.

As a shareholder of Beijing Yuehang Digital Media Advertising Co., Ltd., I hereby agree and acknowledge as follows:

4. Agree that the other shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. transfer their equities in Beijing Yuehang Digital Media Advertising Co., Ltd. to AirMedia Technology (Beijing) Co., Ltd. or a third party designated by it;
5. Agree to waive the right of first refusal when the other shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. transfer their equities in Beijing Yuehang Digital Media Advertising Co., Ltd. to AirMedia Technology (Beijing) Co., Ltd. or a third party designated by it;
6. Agree to execute or provide such documents as being necessary to handle equity transfer when the other shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. transfer their equities in Beijing Yuehang Digital Media Advertising Co., Ltd. to AirMedia Technology (Beijing) Co., Ltd. or a third party designated by it.

This Letter of Consent shall become effective as of its signing date.

Signature: Hong Tao

Date:

SHARE PURCHASE AGREEMENT
AMONG
FIRST REACH HOLDINGS LIMITED
EXCEL LEAD INTERNATIONAL LIMITED
AND
AIRMEDIA GROUP INC.

dated as of
July 4, 2008

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SHARE PURCHASE AGREEMENT

This SHARE PURCHASE AGREEMENT, dated as of July 4, 2008 (the “Effective Date”), among **EXCEL LEAD INTERNATIONAL LIMITED**, a company incorporated under the laws of British Virgin Islands having its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the “Company”), **FIRST REACH HOLDINGS LIMITED**, a company incorporated under the laws of British Virgin Islands having its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the “Seller”), and **AIRMEDIA GROUP INC.**, a company incorporated under the laws of the Cayman Islands having its registered office at P.O. Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands (the “Purchaser”).

WHEREAS, the Seller, as of the First Closing Date, owns all issued and outstanding share capital of the Company, including without limitation, any options, warrants and convertible bonds convertible into ordinary shares of the Company (collectively, the “Shares”), representing 100% of the total issued and outstanding share capital of the Company;

WHEREAS, the Company conducts the Business (as defined below) through the Group Companies (as defined below);

WHEREAS, the Seller desires to sell, and the Purchaser desires to purchase, the Shares, upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“2008 Audited Financial Statements” means the audited consolidated financial statements of the Purchaser for the six-month period beginning on July 1, 2008 and ending six months thereafter, prepared in accordance with U.S. GAAP.

“2008 Consideration” means the 2008 Cash Consideration as defined in Section 2.2(b)(v).

“2008 Exchange Rate” means the average of the monthly average exchange rate, calculated using daily exchange rates during the relevant month, based on the noon buying rate in The City of New York for cable transfers of RMB as certified by a globally recognized source, for the twelve-month period covered by the 2008 Audited Financial Statements.

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“2008 Payment Exchange Rate” means the benchmark exchange rate (mid-point exchange rate) between the United States dollar and RMB quoted by the People’s Bank of China on a specific date when any payment is actually made in 2008.

“2008 Profit” means the after-tax profit of the Purchaser, expressed in RMB, attributable primarily to the Company’s business and/or services in the Gate Bridge Air Travel Industry for the six-month period starting from July 1, 2008 and ending six months thereafter in 2008, as reasonably determined by the Purchaser based on the 2008 Audited Financial Statements and in consultation with independent public accountants of internationally recognized standing selected by the Purchaser.

“2009 Audited Financial Statements” means the audited consolidated financial statements of the Purchaser for the twelve-month period ending on the one year anniversary of the Purchaser Year End, prepared in accordance with U.S. GAAP.

“2009 Consideration” means the aggregate of the 2009 Share Consideration and the 2009 Cash Consideration.

“2009 Exchange Rate” means the average of the monthly average exchange rate, calculated using daily exchange rates during the relevant month, based on the noon buying rate in The City of New York for cable transfers of RMB as certified by a globally recognized source, for the twelve-month period covered by the 2009 Audited Financial Statements.

“2009 Profit” means the after-tax profit of the Purchaser, expressed in RMB, attributable primarily to the Company’s business and/or services in the Gate Bridge Air Travel Industry for the twelve-month period ending on the one year anniversary of the Purchaser Year End, as reasonably determined by the Purchaser based on the 2009 Audited Financial Statements and in consultation with independent public accountants of internationally recognized standing selected by the Purchaser, subject to any further adjustment made according to Section 2.2(b).

“2010 Audited Financial Statements” means the audited financial statements of the Purchaser for the twelve-month period ending on the two year anniversary of the Purchaser Year End, prepared in accordance with U.S. GAAP.

“2010 Consideration” means the aggregate of the 2010 Share Consideration and the 2010 Cash Consideration.

“2010 Exchange Rate” means the average of the monthly average exchange rate, calculated using daily exchange rates during the relevant month, based on the noon buying rate in The City of New York for cable transfers of RMB as certified by a globally recognized source, for the twelve-month period covered by the 2010 Audited Financial Statements.

“2010 Profit” means the after-tax profit of the Purchaser, expressed in RMB, attributable primarily to the Company’s business and/or services in the Gate Bridge Air Travel Industry for the twelve-month period ending on the two year anniversary of the Purchaser Year End, as reasonably determined by the Purchaser based on the 2010 Audited Financial Statements and in consultation with independent public accountants of internationally recognized standing selected by the Purchaser, subject to any further adjustment made according to Section 2.2(b).

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“ADSs” means the American depositary shares of the Purchaser as listed on the Nasdaq Global Market.

“Affiliate” means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

“Affiliated Company” means any Group Company and its Affiliates in respect of which a majority of the equity is not directly held but controlled by the Company as of the date of this Agreement.

“Aggregate Consideration” means the aggregate of the Initial Cash Consideration, the 2008 Consideration, the 2009 Consideration, and the 2010 Consideration, provided that if the amount for any of the 2008 Consideration, the 2009 Consideration or the 2010 Consideration so determined produces a negative figure then no payment of any such Earnout Consideration shall be due to the Seller.

“Agreement” means this Share Purchase Agreement among the parties hereto, as amended, modified or supplemented from time to time.

“AM ADS” means the ADS of the Purchaser, each representing two AM Ordinary Shares.

“AM Ordinary Shares” means the ordinary shares, US\$0.001 par value per share, of the Purchaser.

“AMCN Share Price” is US\$8.097, which is the average of fifty percent of the closing prices of AM ADS as reported on the Nasdaq Global Market over the thirty (30)-day period ending four (4) days prior to the Effective Date.

“Ancillary Documents” means all other agreements, documents and instruments required to be delivered by any party pursuant to this Agreement, and any other agreements, documents or instruments entered into at or prior to the First Closing in connection with this Agreement or the transactions contemplated hereby.

“applicable Audited Financial Statements” means any of the 2008 Audited Financial Statements, the 2009 Audited Financial Statements or the 2010 Audited Financial Statements, as the context may require.

“applicable Earnout Share Consideration” means any of the 2009 Share Consideration or the 2010 Share Consideration, as the context may require.

“Business” means consulting services of the Group Companies, as currently operated or presently proposed to be operated.

“Business Day” means a day (other than a Saturday, Sunday or statutory holiday) on which banks are open for business in Hong Kong.

“Cause” means:

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- (i) an employee's gross negligence in the performance of his or her duties to the Group Companies;
- (ii) an employee's misappropriation of assets of, or embezzlement from, the Group Companies;
- (iii) willful breach by an employee of such employee's material obligations under the relevant employment agreement entered into by the employee; or
- (iv) fraud, malfeasance, willful violation of the Purchaser's Code of Business Conduct and Ethics or other written policies.

"Cash Consideration" means collectively, the aggregate of the Initial Cash Consideration, the 2008 Cash Consideration, the 2009 Cash Consideration and the 2010 Cash Consideration, and any adjustment so made according to this Agreement.

"Closing" means the First Closing or each Earnout Closing.

"Closing Date" means the First Closing Date or each Earnout Closing Date.

"Competing Business" means the Business.

"Contract" means any contract, agreement, arrangement or understanding, whether written or oral and whether express or implied.

"control" (including the terms "controlled by" and "under common control with"), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, by Contract or otherwise, including the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

"Disclosure Schedule" means the Disclosure Schedule attached to this Agreement as Schedule A, dated as of the Effective Date and the First Closing Date, delivered by the Seller to the Purchaser at the Effective Date and the First Closing Date, respectively, in connection with this Agreement.

"Encumbrance" means any security interest, pledge, mortgage, lien, charge, limitation, condition, equitable interest, option, easement, encroachment, right of first refusal, adverse claim or restriction of any kind, including any restriction on transfer or other assignment, as security or otherwise, of or relating to use, quiet enjoyment, voting, receipt of income or exercise of any other attribute of ownership. For the avoidance of doubt, software licenses entered into in the ordinary course of business shall not constitute Encumbrances.

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

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“Financing Lease” means (i) any lease of property, real or personal, the obligations under which are capitalized on the balance sheet of the Company and (ii) any other such lease to the extent that the then present value of the minimum rental commitment thereunder should, in accordance with U.S. GAAP, be capitalized on a balance sheet of the Company.

“Fixed Exchange Rate” means the exchange rate between the United States dollar and RMB at the rate of US\$1/RMB6.9467.

“Gate Bridge Air Travel Industry” means a segment of air travel advertising business dedicated to placing advertisements in or on gate bridges in the airports.

“Government Official” means any official, director, politician, employee or other similar Persons with a position at a Governmental Authority.

“Governmental Authority” means any government or governmental or regulatory body thereof, or political subdivision thereof, whether federal, state, municipal, local or foreign, or any agency, instrumentality or authority thereof, or any court or arbitrator (public or private).

“Governmental Order” means any order, writ, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Group Companies” means the Company, the Subsidiaries (including but not limited to Glorious Star Investment Limited, a company incorporated under the laws of Hong Kong having its registered office at 3/F New York House, 60 Connaught Road, Central, Hong Kong), the Affiliated Companies and any Person that is not a natural person and that is controlled by a Group Company.

“Indebtedness” of a Person, at a particular date, means the sum (without duplication) at such date of (i) indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable as obligor, (ii) indebtedness secured by any lien on any property or asset owned or held by such Person regardless of whether the indebtedness secured thereby shall have been assumed by or is a primary liability of such Person, (iii) obligations of such Person under Financing Leases, (iv) the face amount of all letters of credit issued for the account of such person and, without duplication, the unreimbursed amount of all drafts drawn thereunder, and (v) obligations (in the nature of principal or interest) of such Person in respect of acceptances or similar obligations issued or created for the account of such Person.

“Intellectual Property” means all rights under patent, copyright, trademark or trade secret Law or any other statutory provision or common law doctrine, including design rights.

“Judgments” means any and all judgments, orders, writs, directives, rulings, decisions, injunctions (preliminary or permanent), decrees, assessments, settlement agreements or awards of any Governmental Authority or arbitrator.

“Knowledge of the Seller” means, as to the Company, the actual and constructive knowledge that has been acquired after due inquiry of all the executives and directors of the Seller.

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“Law” means any statute, code, law, ordinance, regulation or rule or other legally binding requirement of any Governmental Authority.

“Legal Requirements” means any and all applicable (i) federal, territorial, state, municipal, local and foreign laws, ordinances and regulations, (ii) codes, standards, rules, regulations, requirements, orders, interpretations and criteria issued under any federal, territorial, state, local or foreign laws, ordinances or regulations, or by any Self-Regulatory Organization and (iii) Judgments.

“Lock-up Agreement” means the Lock-up Agreement in the form set forth in Exhibit A hereto, setting forth the terms and conditions concerning the restriction of any sale, transfer or encumbrance of AM Ordinary Shares issued as part of the Aggregate Consideration.

“Material Adverse Effect” or “Material Adverse Change” means any effect or change that would be or would reasonably be expected to be materially adverse (i) to the business, assets, condition (financial or otherwise), operating results, or operations of such entity and its subsidiaries and affiliated entities, taken as a whole, except (a) effects or changes (including general economic and political conditions) that do not have a materially disproportionate effect (relative to other industry participants) on such entity and generally affect the industry in which such entity operates; (b) effects or changes relating to loss of employees, suppliers, vendors, agents, customers or other business partners (including websites and portals) resulting primarily from the announcement or pendency of the transactions contemplated by this Agreement; and (c) any change or effect that results from any action taken at the request of the Purchaser or as required by the terms of this Agreement or the Ancillary Documents or (ii) to the ability of the Purchaser or of the Seller, as applicable, to timely consummate the transactions contemplated by this Agreement or by any of the Ancillary Documents.

“Permitted Encumbrances” means (i) Encumbrances for Taxes not yet payable or being contested in good faith, (ii) Encumbrances in respect of property or assets imposed by Law that were incurred in the ordinary course of business, such as carriers’, warehousemen’s, materialmen’s and mechanics’ liens and other similar liens, (iii) pledges or deposits made in the ordinary course of business to secure obligations under workers’ compensation laws or similar legislation or to secure public or statutory obligations, and (iv) survey exceptions, reciprocal easement agreements and other customary encumbrances on title to real property.

“Person” means any individual, partnership, firm, corporation, association, trust, unincorporated organization, joint venture, limited liability company or other entity.

“Purchaser Year End” means the end date of the six-month period following July 1, 2008.

“PRC” means the People’s Republic of China, for the sole purpose of this Agreement, excluding the Special Administrative Regions of Hong Kong and Macau and the territory of Taiwan.

“Related Party” means an Affiliate of the Company or the Seller.

“Release” has the meaning provided in 42 U.S.C. Section 9601(22).

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“RMB” means Renminbi, the lawful currency of the PRC.

“Securities Act” means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Self-Regulatory Organization” means any U.S. or foreign securities or commodities exchange, association, clearing agency or similar organization of which the relevant party is a member or that otherwise has jurisdiction over the activities of such party.

“Subsidiaries” means any and all corporations, partnerships, limited liability companies and other entities with respect to which the Company, directly or indirectly, owns more than fifty percent (50%) of the securities having the power to elect members of the board of directors or similar body governing the affairs of such entity.

“subsidiaries” means, with respect to any Person, any other Person fifty percent (50%) or more of the voting equity of which is owned, directly or indirectly, by such first Person.

“Tax” or “Taxes” means any taxes of any kind, including but not limited to those on or measured by or referred to as income, gross receipts, capital, sales, use, *ad valorem*, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, value added, property or windfall profits taxes, customs, duties or similar fees, assessments or charges of the same or similar nature, together with any interest, penalties or other additions to tax that may become payable in respect thereof, imposed by any Taxing Authority in accordance with applicable Law.

“Tax Return” means any return, report or statement required by applicable Law to be filed by any Group Company with any Taxing Authority, showing Taxes or used to pay Taxes, including any schedules or attachments thereto or amendment thereof.

“Taxing Authority” means, with respect to any Tax, the government entity or political subdivision thereof that imposes such Tax and the agency (if any) charged with the collection of such Tax for such entity or subdivision.

“US\$” or “U.S. dollars” means the lawful currency of the United States of America.

“U.S. GAAP” means United States generally accepted accounting principles and practices as in effect from time to time applied consistently throughout the periods involved.

“Value” in respect of the Aggregate Consideration means, subject to the provisions of Section 9.4 hereof, in the case of consideration payable in AM Ordinary Shares, the cash value of such Ordinary Shares calculated based on the AMCN Share Price.

Section 1.2 Other Defined Terms. The following terms shall have the meanings defined for such terms in the Sections set forth below:

<u>Term</u>	<u>Section</u>
2008 Cash Consideration	2.2(b)(v)
2009 Cash Consideration	2.2(c)(iv)

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Term	Section
2009 Share Consideration	2.2(c)(iv)
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Balance Sheet Date	3.6(a)
Bank Account	2.2(a)
Company	Preamble
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Currently Realizable	9.1(d)
Earnout Closing	2.4(a)
Earnout Closing Date	2.4(a)
Earnout Cash Consideration	2.2(d)
Earnout Consideration	2.2(d)
Effective Date	Preamble
Financial Statements	3.6(a)
First Closing	2.3(a)
First Closing Date	2.3(a)
HKIAC	10.14
Indemnifying Party	9.1(e)
Indemnity Claim	9.1(d)
Initial Cash Consideration	2.2(a)(i)
Land Use Rights	3.24(b)
Losses	9.1(a)
Material	10.3
Material Contract	3.17(a)
Previous Acquisition Agreements	3.19
Purchaser	Preamble
Purchaser Indemnified Persons	9.1(a)
Purchaser SEC Documents	4.4
Registration Rights Agreement	7.6
Related Party Accounts	5.6
Residual Payments	3.19
SEC	4.4
Seller	Preamble
Seller Indemnified Persons	9.1(b)
Shares	Recitals
Straddle Period	5.3(b)
Tax Benefit	9.1(d)

Section 1.3 Other Interpretive Provisions. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without

limitation.” The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE II PURCHASE AND SALE OF SHARES

Section 2.1 Transfer by the Seller to the Purchaser. (a) Subject to the terms and conditions set forth in this Agreement, (i) on the First Closing Date (as defined below), the Seller shall sell, assign and transfer to the Purchaser, all of the Seller’s right, title and interest in and to the Shares owned by the Seller free and clear of all Encumbrances, and (ii) on the First Closing Date, the Purchaser shall pay the Initial Cash Consideration to the Seller. The purchase and sale of the Shares pursuant to this Agreement shall be effective as of the close of business on the First Closing Date.

(b) On each Earnout Closing Date (as defined below) and subject to the terms and conditions set forth in this Agreement, the Purchaser shall issue and transfer to the Seller all of the Purchaser’s right, title and interest in and to the applicable Earnout Share Consideration (if any), free and clear of all Encumbrances.

Section 2.2 Consideration. Subject to any adjustment below, the Aggregate Consideration shall be paid as follows:

(a) Subject to the terms and conditions set forth in this Agreement, in reliance on the representations, warranties, covenants and agreements of the parties contained herein and in the Ancillary Documents and in consideration of the sale, assignment and transfer of the Shares, the Purchaser shall on the First Closing Date pay the Seller (i) a total amount of US dollars in the equivalent amount of RMB 2,240,000 (such amount, the “Initial Cash Consideration”) calculated at the 2008 Payment Exchange Rate, and (ii) subject to any adjustment made according to Section 2.2(b) below, a total amount of US dollars in the equivalent amount of RMB43,392,000 (such amount, the “Advance Payment”) calculated at the 2008 Payment Exchange Rate, by transfer to a bank account in the Seller’s name held in Hong Kong (the “Bank Account”), the details of which shall be notified by the Seller to the Purchaser three (3) Business Days before the First Closing Date.

(b) The Purchaser agrees to pay the Seller additional consideration to the Seller’s Bank Account within three (3) Business Days following the date on which the 2008 Audited Financial Statements are delivered to the Purchaser to its reasonable satisfaction, and the Seller agrees to deduct a portion from the 2009 Profit or the 2010 Profit when the 2009 Consideration or the 2010 Consideration is paid by the Purchaser to the Seller or to return a certain amount of cash to the Purchaser immediately after the availability of the 2010 Audited Financial Statements, as the case may be, on the basis of the 2008 Audited Financial Statements to the Purchaser’s reasonable satisfaction, in each case determined as follows:

- (i) if the 2008 Profit is less than RMB22,600,000, an amount equal to the product of (1) RMB22,600,000 *minus* (2) the 2008 Profit shall be deducted from the 2009 Profit or the 2010 Profit if the amount for the 2009 Consideration so determined produces a negative figure. The Seller

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shall return to the Purchaser an amount of US dollars calculated at the 2008 Exchange Rate in the equivalent sum of (1) the amount so calculated in the immediately preceding sentence, *multiplied by* (2) 1.92, and such return shall be made by the Seller to the Purchaser immediately after the availability of the 2010 Audited Financial Statements if the amount for the 2010 Consideration so determined produces a negative figure;

- (ii) if the 2008 Profit is greater than RMB22,600,000 but less than or equal to RMB32,600,000, the Purchaser shall pay the Seller as additional consideration an amount denominated in U.S. dollars calculated at the 2008 Exchange Rate equal to the sum of (1) an amount, equal to the product of (A) the 2008 Profit *minus* (B) RMB22,600,000, *multiplied by* (2) 1.92, in any event such amount shall be capped in U.S. dollars in the equivalent amount of RMB 19,200,000, calculated at 2008 Exchange Rate;
- (iv) if the 2008 Profit is greater than RMB32,600,000, the Purchaser shall pay the Seller as additional consideration in US dollars in the equivalent amount of RMB19,200,000 calculated at the 2008 Exchange Rate; and
- (v) the amount denominated in U.S. dollars in readily available funds determined pursuant to Sections 2.2(b)(ii) and 2.2(b)(iii) above, as applicable, is referred to herein as the “2008 Cash Consideration”.

(c) Subject to any adjustment made according to Section 2.2(b) above, the Purchaser shall within three (3) Business Days following the date on which the 2009 Audited Financial Statements are delivered to the Purchaser to its reasonable satisfaction, deliver to the Seller additional consideration, if any, by delivering a number of AM Ordinary Shares as specified in Section 2.4(b) and an amount denominated in U.S. dollars in readily available funds to the Bank Account, in each case determined as follows:

- (i) if the 2009 Profit is less than or equal to RMB39,000,000, (x) a number of AM Ordinary Shares equal to the quotient of (A) the product of (1) the 2009 Profit, translated into U.S. dollars using the Fixed Exchange Rate, *multiplied by* (2) 0.96, *divided by* (B) the AMCN Share Price and (y) an amount denominated in U.S. dollars in readily available funds equal to the product of (A) the 2009 Profit, translated into U.S. dollars using the 2009 Exchange Rate, *multiplied by* (B) 0.96, in the case of each (x) and (y), as adjusted pursuant to Section 2.2(e) below;
- (ii) if the 2009 Profit is greater than RMB39,000,000 but less than or equal to RMB49,000,000, (x) a number of AM Ordinary Shares equal to the quotient of (A) RMB37,440,000, translated into U.S. dollars using the Fixed Exchange Rate, *divided by* (B) the AMCN Share Price and (y) an amount denominated in U.S. dollars in readily available funds equal to the sum of (A) RMB37,440,000, translated into U.S. dollars using the 2009 Exchange Rate, and (B) the product of (1) an amount, equal to the 2009

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Profit *minus* RMB39,000,000, translated into U.S. dollars using the 2009 Exchange Rate, *multiplied by* (2) 1.92, in the case of each (x) and (y), as adjusted pursuant to Section 2.2(e) below;

- (iii) if the 2009 Profit is greater than RMB49,000,000, (x) a number of AM Ordinary Shares equal to the quotient of (A) RMB37,440,000, translated into U.S. dollars using the Fixed Exchange Rate, *divided by* (B) the AMCN Share Price and (y) an amount denominated in U.S. dollars in readily available funds equal to RMB56,640,000, translated into U.S. dollars using the 2009 Exchange Rate, in the case of each (x) and (y), as adjusted pursuant to Section 2.2(e) below; and
- (iv) the number of AM Ordinary Shares determined pursuant to Sections 2.2(c)(i)(x), 2.2(c)(ii)(x) and 2.2(c)(iii)(x) above, as applicable, is referred to herein as the “2009 Share Consideration”. The amount denominated in U.S. dollars in readily available funds determined pursuant to Sections 2.2(c)(i)(y), 2.2(c)(ii)(y) and 2.2(c)(iii)(y) above, as applicable, is referred to herein as the “2009 Cash Consideration”. In the Seller’s sole option, if the Seller chooses to receive cash only, the 2009 Consideration shall be an amount equal to the sum of (A) the product of (1) the 2009 Profit, subject to further adjustment made according to Section 2.2(b) above, *multiplied by* (2) 1.92, *divided by* (B) the 2009 Exchange Rate. In any event, the 2009 Consideration shall not exceed the sum of (A) RMB94,080,000 divided by (B) the 2009 Exchange Rate.

(d) Subject to any adjustment made according to Section 2.2(b), the Purchaser shall within three (3) Business Days following the date on which the 2010 Audited Financial Statements are delivered to the Purchaser to its reasonable satisfaction, deliver to the Seller additional consideration, if any, by delivering a number of AM Ordinary Shares as specified in Section 2.4(b) and an amount denominated in U.S. dollars in readily available funds to the Bank Account, in each case determined as follows:

- (i) if the 2010 Profit is less than or equal to RMB50,700,000, (x) a number of AM Ordinary Shares equal to the quotient of (A) the product of (1) the 2010 Profit, translated into U.S. dollars using the Fixed Exchange Rate, *multiplied by* (2) 0.96, *divided by* (B) the AMCN Share Price and (y) an amount denominated in U.S. dollars in readily available funds equal to the product of (A) the 2010 Profit, translated into U.S. dollars using the 2010 Exchange Rate, *multiplied by* (B) 0.96, in the case of each (x) and (y), as adjusted pursuant to Section 2.2(e) below;
- (ii) if the 2010 Profit is greater than RMB50,700,000 but less than or equal to RMB60,700,000, (x) a number of AM Ordinary Shares equal to the quotient of (A) RMB48,672,000, translated into U.S. dollars using the Fixed Exchange Rate, *divided by* (B) the AMCN Share Price and (y) an amount denominated in U.S. dollars in readily available funds equal to the sum of (A) RMB48,672,000, translated into U.S. dollars using the 2010

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Exchange Rate, and (B) the product of (1) an amount, equal to the 2010 Profit *minus* RMB50,700,000, translated into U.S. dollars using the 2010 Exchange Rate, *multiplied by* (2) 1.92, in the case of each (x) and (y), as adjusted pursuant to Section 2.2(e) below;

- (iii) if the 2010 Profit is greater than RMB60,700,000, (x) a number of AM Ordinary Shares equal to the quotient of (A) RMB48,672,000, translated into U.S. dollars using the Fixed Exchange Rate, *divided by* (B) the AMCN Share Price and (y) an amount denominated in U.S. dollars in readily available funds equal to RMB67,872,000, translated into U.S. dollars using the 2010 Exchange Rate, in the case of each (x) and (y), as adjusted pursuant to Section 2.2(e) below; and
- (iv) the number of AM Ordinary Shares determined pursuant to Sections 2.2(d)(i)(x), 2.2(d)(ii)(x) and 2.2(d)(iii)(x) above, as applicable, is referred to herein as the “2010 Share Consideration”. The amount denominated in U.S. dollars in readily available funds determined pursuant to Sections 2.2(d)(i)(y), 2.2(d)(ii)(y) and 2.2(d)(iii)(y) above, as applicable, is referred to herein as the “2010 Cash Consideration”. In the Seller’s sole option, if the Seller chooses to receive cash only, the 2010 Consideration shall be an amount equal to the sum of (A) the product of (1) the 2010 Profit, subject to further adjustment made according to Section 2.2(b) above, *multiplied by* (2) 1.92, *divided by* (B) the 2010 Exchange Rate. In any event, the 2010 Consideration shall not exceed the sum of (A) RMB116,544,000 divided by (B) the 2010 Exchange Rate.

(e) No fraction of a share of AM Ordinary Shares will be issued, and no certificates or scrip for any such fractional shares shall be issued. In lieu thereof, the Seller who would otherwise be entitled to receive a fraction of a share of AM Ordinary Shares (after aggregating all fractional shares of AM Ordinary Shares to be received by such holder) shall receive from the Purchaser an amount of cash (rounded to the nearest whole cent), without interest, equal to the product of (A) such fraction, *multiplied by* (B) the AMCN Share Price.

Section 2.3 First Closing.

(a) Subject to the terms and conditions set forth in this Agreement, the closing of the transactions contemplated by Section 2.1(a) of this Agreement (the “First Closing”) shall take place at the offices of Latham & Watkins LLP in Hong Kong on a date (the “First Closing Date”) as specified by the Purchaser in a notice to the Seller duly signed and delivered by the Purchaser as promptly as practicable but in any event within five (5) Business Days following the date of the satisfaction or waiver of all of the conditions set forth in Articles VI and VII hereof.

(b) At or prior to the First Closing, the Seller shall deliver to the Purchaser the following:

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- (i) all necessary documents, duly executed where so required, to enable title in all the Shares owned by the Seller to pass fully and effectively into the name of the Purchaser;
- (ii) share certificates evidencing the Shares to be sold by the Seller duly endorsed in blank, or accompanied by stock powers duly executed in blank and with any required stock transfer tax stamps affixed;
- (iii) all other previously undelivered documents required by this Agreement and the Ancillary Documents to be delivered by the Seller to the Purchaser at or prior to the First Closing Date in connection with the transactions contemplated hereby and thereby; and
- (iv) in respect of each Group Company, as the case may be, the certificates of incorporation, common seal (if it exists), share register and share certificate book (with any unissued share certificates) and all minute books and other statutory books or such equivalent items in the relevant jurisdiction as are kept by the relevant Group Company or are required by the Law of the jurisdiction where such Group Company is incorporated to be kept by such Group Company.

(c) At the First Closing, the Purchaser shall deliver to the Seller (i) the Initial Cash Consideration, and (ii) evidence that the Purchaser has irrevocably made such payment according to Section 2.2(a).

Section 2.4 Earnout Closings.

(a) Subject to the terms and conditions set forth in this Agreement, each of the closings of the transactions contemplated by Sections 2.2(b), 2.2(c) and 2.2(d) of this Agreement (each an "Earnout Closing" and collectively, the "Earnout Closings") shall take place at the place and on the date (each an "Earnout Closing Date") as specified by the Purchaser in a notice to the Seller duly signed and delivered by the Purchaser as promptly as practicable but in any event within five (5) Business Days following the delivery of the applicable Audited Financial Statements to the Purchaser.

(b) At or immediately after each Earnout Closing, the Purchaser shall deliver to the Seller true copies of the register of members of the Purchaser indicating the transfer to the Seller and registration in the name of the Seller in respect of the applicable Earnout Share Consideration as set forth opposite its name.

Section 2.5 Share Splits and Other Similar Events. Any number of shares to be delivered pursuant to or price per share referenced in this Article II shall be equitably adjusted in the event of any stock split, stock dividend, recapitalization or reorganization after the date hereof (for the avoidance of doubt no adjustment shall be made to account for additional issuances of shares by the Purchaser in connection with any capital raising transaction or acquisitions by the Purchaser).

**ARTICLE III
REPRESENTATIONS AND WARRANTIES
OF THE SELLER**

The Seller hereby represent and warrant to the Purchaser, as of the Effective Date and as of the First Closing Date, that each of the following representations and warranties including those as otherwise qualified or excepted as set forth in the Disclosure Schedule attached hereto is true and correct.

Section 3.1 Due Organization, Good Standing and Power.

(a) The Company is a company duly organized, validly existing and in good standing under the laws of British Virgin Islands. The Company (i) has the requisite power and authority (corporate and other) to own, lease and operate its assets and to conduct the business now being conducted by it and (ii) is duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification. The Company has all requisite power and authority to enter into this Agreement and the Ancillary Documents to which it is a party and to perform its obligations hereunder and thereunder.

(b) Except as set forth in Section 3.1(b)(1) of the Disclosure Schedule, the Company has no Liabilities or obligations and is not a party to any Contract, other than (i) this Agreement, the Ancillary Documents to which it is a party and such Contracts as are described in Section 3.1(b)(2) of the Disclosure Schedule, and (ii) any Liabilities or obligations relating solely to the transactions contemplated by this Agreement, by the Ancillary Documents or the Contracts described in Section 3.1(b)(2) of the Disclosure Schedule.

Section 3.2 Authorization, Enforceability. The Company is in good standing in its jurisdiction of incorporation and has the corporate power and authority to execute and deliver this Agreement and the Ancillary Documents to which it is a party and perform its obligations hereunder and thereunder. The execution and delivery of this Agreement and the Ancillary Documents to which the Company is a party and the performance by the Company of its obligations hereunder and thereunder have been duly authorized by all necessary corporate action on the part of the Company.

Section 3.3 Capitalization; Ownership and Transfer of Shares; Valid Issuance.

(a) Section 3.3 of the Disclosure Schedule hereto sets forth all outstanding ordinary shares, preferred shares and other equity interests of the Company, including without limitation, any options and warrants and convertible bonds convertible into ordinary shares of the Company, representing 100% of the Company's share capital. All of the Shares were duly authorized for issuance and are validly issued, fully paid (except as otherwise set forth in Section 3.3(a) of the Disclosure Schedule) and non-assessable.

(b) The Seller is the only record and beneficial owner of the Shares in the Company and has good and marketable title to such Shares, free and clear of any and all Encumbrances.

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(c) As of the date of this Agreement, the Seller owns 100%, and as of the First Closing Date will own 100%, of all issued and outstanding share capital of the Company on a fully-diluted and as-converted basis.

Section 3.4 Group Companies.

(a) Section 3.4 of the Disclosure Schedule sets forth for each of the Group Companies (other than the Company) (i) its jurisdiction of incorporation, formation or organization, as applicable, and (ii) the number of authorized, issued and outstanding shares of each class of its capital stock or other authorized, issued and outstanding equity interests, as applicable, the names of the holders thereof, and the number of shares or percentage interests, as applicable, held by each such holder, in each case representing 100% of such Group Company's equity capital. Each of the Group Companies (other than the Company) is duly incorporated or formed, as applicable, validly existing and, in good standing under the Laws of its jurisdiction of incorporation or formation, as applicable, has the requisite corporate or similar power and authority (corporate and other) to own, lease and operate its assets and to carry on its business now being conducted by it, and is duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification. All the issued and outstanding shares of capital stock or other equity interests of such Group Companies are owned of record, free and clear of any Encumbrances except as set forth in Section 3.4 of the Disclosure Schedule. All of such issued and outstanding shares of the Group Companies (other than the Company) have been validly issued, are fully paid and nonassessable and have not been issued in violation of any preemptive or similar rights. Except as set forth in Section 3.4 of the Disclosure Schedule, there is no existing option, warrant, call, right, commitment or other agreement of any character to which such Group Company is a party requiring, and there are no securities of any such Group Company outstanding which upon conversion or exchange would require, the issuance, sale or transfer or repurchase or redemption or other acquisition of any additional shares of capital stock, issued or unissued, or other equity securities of such Group Company or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase shares of capital stock or other equity securities of such Group Company or relating to dividends or voting rights. Except as set forth in Section 3.4 of the Disclosure Schedule, none of the Group Companies is a party to any voting trust, other voting agreement or Contract with respect to any of the Shares or to any agreement relating to the issuance, sale, redemption, transfer or other disposition of the capital stock of any of the Group Companies (other than the Company).

(b) No shares of capital stock or other equity or ownership interests of any Group Company have been issued in violation of any rights, agreements, arrangements or commitments under any provision of applicable Law, the certificate of incorporation or bylaws or comparable organizational documents of any Group Company or any Contract to which the Group Company is a party or by which the Group Company is bound.

Section 3.5 Corporate Records. The Company has made available to the Purchaser true, correct and complete copies of the certificates of incorporation, by-laws or comparable organizational documents and business licenses of each Group Company. Such certificates of incorporation, by-laws, or comparable organizational documents and business licenses are in full

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force and effect. None of the Group Companies is in violation of any of the provisions of its certificate of incorporation, bylaws or comparable organizational documents. The transfer books and minute books of each Group Company that have been made available for inspection by the Purchaser prior to the date hereof are true and complete.

Section 3.6 Financial Statements.

(a) Attached hereto as Section 3.6(a) of the Disclosure Schedule are copies of the unaudited consolidated financial statements of the Company and the Group Companies for five (5) months ended May 31, 2008. Such financial statements are collectively referred to herein as the "Financial Statements." The Financial Statements (i) are true, correct and complete and have been prepared in accordance with the books and records of the Company and the Group Companies, (ii) have been prepared in accordance with U.S. GAAP, applied on a consistent basis throughout the periods indicated therein, and (iii) fairly present, in all material respects, the financial condition and results of operations and cash flows of the business as of the Company and the Group Companies, as of and for the periods to which they relate, subject to normal adjustments in connection with audit, which will not be material in amount or significant in the aggregate. For the purposes hereof, the unaudited consolidated balance sheet of the Business, which is included in the Financial Statements, as of May 31, 2008, is referred to as the "Balance Sheet" and May 31, 2008 is referred to as the "Balance Sheet Date". The books of account and financial records of each Group Company are true and correct in all material respects and have been prepared and are maintained in accordance with sound accounting practice. None of the Group Companies has made any material changes in its accounting methods or practices since the Balance Sheet Date.

(b) Since the Balance Sheet Date, there has been no event the occurrence of which had a Material Adverse Effect on the Company or would reasonably be expected to have a Material Adverse Effect on the Company.

(c) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate actions are taken with respect to any differences; and (v) each of the Group Companies has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of financial statements in accordance with U.S. GAAP.

(d) The Group Companies have no liabilities of any kind whatsoever (whether absolute, accrued, contingent or otherwise, and whether due or to become due) that would be required to be reflected in, or disclosed in the notes to, financial statements prepared in accordance with U.S. GAAP, other than liabilities and obligations (i) reflected or reserved against the Balance Sheet or disclosed in the notes thereto, (ii) disclosed in Section 3.6(a) of the Disclosure Schedule or (iii) in excess of US\$5,000 individually or US\$10,000 in the aggregate not disclosed pursuant to clause (i) or (ii).

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(e) As of the First Closing Date, the aggregate cash balances of the Company will exceed the aggregate amount of all Indebtedness of the Company on a consolidated basis.

(f) None of the Group Companies is engaged in any trading activities involving commodity contracts or other trading contracts which are not currently traded on a securities or commodities exchange and for which the market value cannot be determined.

Section 3.7 No Approvals or Conflicts.

(a) Except as set forth in Section 3.7(a) of the Disclosure Schedule, the execution, delivery and performance by the Company of this Agreement and the Ancillary Documents to which it is a party and the consummation by the Company of the transactions contemplated hereby and thereby do not and will not (i) violate, conflict with or result in a breach by any Group Company of the organizational documents of such Group Company, (ii) violate, conflict with or result in a breach of, or constitute a default by any Group Company (or create an event which, with notice or lapse of time or both, would constitute a default) or give rise to any right of termination, cancellation or acceleration under, or result in the creation of any Encumbrance upon any of the properties of the Group Companies under, any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, lease, contract, agreement or other instrument to which the Group Companies or any of their respective properties may be bound, (iii) violate or result in a breach of any Governmental Order or Law applicable to the Group Companies or any of their respective properties or (iv) require any order, consent, approval or authorization of, or notice to, or declaration, filing, application, qualification or registration by such Group Company with, any Governmental Authority. No Governmental Authorizations are required for the execution, delivery and performance by the Group Companies of this Agreement and the Ancillary Documents and the consummation by the Group Companies of the transactions contemplated hereby and thereby.

Section 3.8 Licenses. Each of the Group Companies has obtained all licenses, franchises, concessions, consents, authorizations, approvals, orders, certificates and permits of and from, and has made all declarations and filings with, all Governmental Authorities necessary to own, lease, license and use its properties, assets and conduct its business in the manner and such licenses, consents, authorizations, approvals, orders, certificates or permits contain no materially burdensome restrictions or conditions. To the Knowledge of the Seller, no regulatory body is considering modifying, suspending or revoking any such licenses, consents, authorizations, approvals, orders, certificates or permits and each of the Group Companies is in compliance with the provisions of all such licenses, consents, authorizations, approvals, orders, certificates or permits.

Section 3.9 Litigation. There are no suits, actions, arbitrations, proceedings or investigations pending or, to the Knowledge of the Seller, threatened against any of the Group Companies.

Section 3.10 Absence of Certain Changes. Except as set forth in Section 3.10 of the Disclosure Schedule or as contemplated by this Agreement or any of the Ancillary Agreements, since the Balance Sheet Date through the Effective Date of this Agreement, the Business of the Group Companies has been conducted in the ordinary course consistent with past practice in all

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material respects. Without limiting the generality of the foregoing, except as set forth in Section 3.10 of the Disclosure Schedule and as otherwise contemplated by this Agreement or any of the Ancillary Agreements, since the Balance Sheet Date through the date of this Agreement, there has not been:

- (a) any damage, destruction or loss (whether or not covered by insurance), materially affecting the business or assets of the Group Companies;
- (b) any sale, purchase, option, subscription, warrant, call, commitment or agreement of any character granted or made by any of the Group Companies in respect of its capital stock or other equity interests (other than the issuance of Shares pursuant to outstanding options or warrants);
- (c) any declaration, setting aside or payment of any dividend or other distribution in respect of any shares of capital stock of any Group Company or any repurchase, redemption or other acquisition by any Group Company of any outstanding shares of capital stock or other securities of, or other ownership interest in, any Group Company;
- (d) any loans, advances or capital contributions to, or investments in, any Person or payment of any fees or expenses to any Affiliate of the Company or the Seller, in an amount exceeding US\$5,000;
- (e) any acquisition of assets or other disposition of assets by any of the Group Companies, excluding acquisitions of assets in the ordinary course of business and capital expenditures;
- (f) any merger or consolidation by any of the Group Companies with any Person;
- (g) capital expenditures by any of the Group Companies which in the aggregate exceed US\$5,000;
- (h) any incurrence, assumption or guarantee of any indebtedness for borrowed money by any of the Group Companies, and except as otherwise disclosed in the Disclosure Schedule attached hereto;
- (i) any Encumbrance of assets of any of the Group Companies, other than Permitted Encumbrances;
- (j) any increase in the compensation of employees of any of the Group Companies other than in the ordinary course of business;
- (k) any loan made by any of the Group Companies to any director, officer or other member of senior management of any of the Group Companies, except as otherwise disclosed in Section 3.10(k) of the Disclosure Schedule attached hereto;
- (l) any material change in the accounting methods or practices followed by any of the Group Companies (other than such changes that have been required by Law or U.S. GAAP); or

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(m) any agreement or commitment by any of the Group Companies to do any of the foregoing.

Section 3.11 Tax Matters. Except as set forth in Section 3.11 of the Disclosure Schedule:

(a) (i) All Tax Returns required to be filed by or on behalf of any Group Company have been accurately prepared in all respects and filed in a timely manner (within any applicable extension periods) and are true, correct and complete in all respects, (ii) all Taxes of the Group Companies have been timely paid in full or will be timely paid in full by the due date thereof if due prior to the First Closing Date, and the Group Companies have adequately provided for all Taxes in the Financial Statements for which they are required to provide, (iii) none of the Group Companies has liability for Taxes in excess of the accruals for Taxes reflected on the Financial Statements to the extent such Taxes are required to be accrued under U.S. GAAP and (iv) no unresolved claims have been asserted in writing by a Taxing Authority with respect to any Taxes of any of the Group Companies;

(b) Each of the Group Companies is and has been in compliance with all applicable Laws relating to the payment, withholding and exemptions of Taxes and has duly and timely withheld from employee salaries, wages and other compensation and has paid over to the appropriate Taxing Authorities all amounts required to be so withheld and paid over for all periods prior to the First Closing Date under all applicable Laws;

(c) The Company has made available to the Purchaser complete copies of (i) all Tax Returns of the Group Companies relating to the taxable periods ending after January 1, 2003, (ii) the portions of any written audit report issued by a Taxing Authority within the last five (5) years relating to any adjustments of any Group Company and (iii) all applications to qualify for Tax exemptions.

(d) No submissions made to any Taxing Authority in connection with obtaining Tax exemptions, Tax holidays or reduced Tax rates contained any misstatement or omission that would have affected the granting of such Tax exemptions, Tax holidays or reduced Tax rates;

(e) No written claim has been made by any Taxing Authority in any jurisdiction where a Group Company does not file Tax Returns that it is or may be subject to Tax by that jurisdiction. No extensions or waivers of statutes of limitations with respect to any Tax Returns have been given by or requested from any Group Company. There are no audits or investigations by any Taxing Authority of any of the Group Companies in progress or that have been proposed in writing nor, to the Knowledge of the Seller, does any Group Company have knowledge of any pending or threatened audit or investigation by any Taxing Authority;

(f) All deficiencies asserted or assessments made against any Group Company as a result of any examinations by any Taxing Authority have been fully paid in accordance with their stipulated due date;

(g) No Group Company is a party to any tax indemnity, tax allocation or tax sharing or similar agreement or arrangement (whether or not written) pursuant to which it could have any obligation to make any payments after the First Closing; and

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(h) Other than in respect of Taxes not yet due and payable, there are no Encumbrances for Taxes upon the assets of any Group Company.

Section 3.12 Dividends and Distributions.

(a) All dividends declared and payable on the equity interest of each Group Company out of its available retained earnings computed in accordance with U.S. GAAP and subject to all adjustments related thereto may under the laws and regulations of the U.S. as in effect on the date of this Agreement may be converted into U.S. dollars and freely transferred out of the PRC for payment to the Company, and as of the date of this Agreement all such dividends and other distributions will not be subject to withholding or other taxes under the laws and regulations of the PRC and are otherwise free and clear of any other tax, withholding or deduction in the PRC, and as of the date of this Agreement without the necessity of obtaining any Governmental Order in the PRC, provided such Group Company complies with all PRC foreign exchange control formalities and all according to PRC Law promulgated prior to the execution of this Agreement.

(b) No contractual and other payments by the Group Companies will be subject to withholding taxes under the laws and regulations of the PRC and are otherwise free and clear of any withholding tax in the PRC, and without the necessity of obtaining any Governmental Order in the PRC all according to PRC Law promulgated prior to the execution of this Agreement.

Section 3.13 Officers, Employees and Labor. Each of the Group Companies has complied in all material aspects with all applicable Laws relating to the employment of labor, including provisions thereof relating to wages, hours, social welfare, equal opportunity and collective bargaining. There is no organized labor strike, dispute, slowdown or claim pending, or to the Knowledge of the Company threatened, against or affecting any of the Group Companies. None of the Group Companies has any Contract with any labor union.

(a) Section 3.13(b) of the Disclosure Schedule sets forth a list of all officers of the Group Companies and all other employees and consultants whose current annual salary or rate of compensation (including bonuses, commissions and incentive compensation) is in excess of US\$100,000 (or equivalent in a different currency), together with their current job titles or relationship to the Group Companies.

(b) None of the employees of the Group Companies is obligated under any Contract to which any Group Company is a party, or subject to any Governmental Order to which any Group Company is subject, that would interfere with the use of his or her best efforts to promote the interests of the Group Companies, that would conflict with the Business as currently conducted or that would prevent such officers, employees or consultants from assigning to a Group Company inventions conceived or reduced to practice or copyrights for materials developed in connection with services rendered to the Group Company.

(c) None of the execution, delivery and performance of any of this Agreement and the Ancillary Documents will (either alone or upon the occurrence of any additional or subsequent event) constitute an event under any benefit plan or individual agreement to which the Company is a party that will or may result in any payment (whether of severance pay or

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otherwise), acceleration, vesting or increase in benefits with respect to any employee, former employee, consultant, agent or director of the Group Companies.

(d) Except as required by applicable Laws, none of the Group Companies has any obligation to provide retirement, death or disability benefits to any of the present or past employees of the Group Companies, or to any other Person.

(e) To the Knowledge of the Seller, (i) no labor dispute, work stoppage, slow down, strike or other conflict with the employees of any of the Group Companies exists or is threatened or contemplated, (ii) none of the Group Companies is engaged in any unfair labor practice, (iii) there is no unfair labor practice complaint pending or threatened against any of the Group Companies before any competent Governmental Authorities, and no grievance or arbitration proceeding arising out of or under collective bargaining agreements is pending or threatened, and (iv) there has been no violation of any laws, regulations, rules, orders, decrees, guidelines, judicial interpretations, notices or other legislation of the PRC, Hong Kong, the United States or any other jurisdiction applicable to any of the Group Companies relating to discrimination in the hiring of employees, social welfare benefits, equal opportunity, collective bargaining, promotion or pay of employees, applicable wage or hour laws, the payment or withholding of payroll or similar taxes for employees, or any other applicable law or regulation concerning the employees of the Group Companies.

Section 3.14 Loans. Except as set forth in Section 3.14 of the Disclosure Schedule, none of the Group Companies has, directly or indirectly: (A) extended credit, arranged to extend credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer of the Group Companies, or to or for any family member or Affiliate of any director or executive officer of the Seller or the Group Companies; or (B) made any modification, including any renewal thereof, to any term of any personal loan to any director or executive officer of the Seller or the Group Companies, or any family member or Affiliate of any such director or executive officer, which loan was outstanding as of the date hereof.

Section 3.15 Share Option and Other Plans. Except as set forth in Section 3.15 of the Disclosure Schedule, none of the Group Companies has any pension, profit sharing, stock option, employee stock purchase or other plan providing for incentives or other compensation to employees (aside from any salary payable in thereto in the ordinary course), or any other employee benefit plan. The Company has made available to the Purchaser true, correct and complete copies of all documents, summary plan descriptions, insurance Contracts, third party administration Contracts and all other documentation of the Group Companies created to embody all benefit plans, plus descriptions of any benefit plans that have not been reduced to writing. Except for required contributions or benefit accruals for the current plan year, no liability has been or is expected to be incurred by any of the Group Companies under or pursuant to any applicable Law relating to benefit plans and, to the Knowledge of the Seller, no event, transaction or condition has occurred or exists that could result in any such liability to any of the Group Companies. Each of the benefit plans listed in Section 3.15 of the Disclosure Schedule is and has at all times been in compliance with all applicable provisions of applicable Law.

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Section 3.16 Intellectual Property.

(a) The Group Companies exclusively own or have a valid right to use any and all Intellectual Property used in the Business. Intellectual Property owned or validly used by each Group Company includes all of the software and Intellectual Property necessary to enable such Group Company to conduct its Business in the manner in which such Business is currently being conducted.

(b) None of the Group Companies has taken any action or failed to take any action that could reasonably be expected to result in the abandonment, cancellation, forfeiture, relinquishment, invalidation or unenforceability of any of the registered Intellectual Property owned by the Group Companies (including the failure to pay any filing, examination, issuance, post registration and maintenance fees, annuities and the like and the failure to disclose any known prior art in connection with the prosecution of patent applications). Each Group Company has taken all reasonable steps in accordance with standard industry practices to protect its rights in its Intellectual Property and at all times has maintained the confidentiality of all information that constitutes or constituted a trade secret of each Group Company.

(c) All licenses licensed to any Group Company by a third party licensor are in full force and effect, and none of the Group Companies is in default under any of such licenses, and no Person who is a party to any of such licenses has exercised any termination rights with respect thereto.

(d) (i) No Group Company is a party to any pending legal proceedings which involve a claim of infringement, unauthorized use, or violation of any intellectual property right by any Person against such Group Company or challenging the ownership, use, validity or enforceability of, any Intellectual Property owned by or exclusively licensed to such Group Company, and (ii) no Group Company has received any notice or claim challenging a Group Company ownership of any of the Intellectual Property owned (in whole or in part), nor to the Knowledge of the Seller is there a reasonable basis for any claim that a Group Company does not so own any of such Intellectual Property. All of each Group Company's rights in and to Intellectual Property owned by such Group Company are valid and enforceable. No Intellectual Property owned by or to the Knowledge of the Seller licensed to the Group Companies is subject to any outstanding order, judgment, decree, stipulation or agreement restricting the use or licensing thereof by the Group Companies.

(e) To the Knowledge of the Seller, no Person is infringing, violating, misusing or misappropriating any Intellectual Property owned by any Group Company, and no written claims have been made against any Person by any Group Company.

(f) The consummation of the transactions contemplated hereby and thereby will not result in the loss or impairment of the Purchaser's right to own or use any of the Intellectual Property owned by any Group Company.

Section 3.17 Contracts.

(a) Except as set forth in Section 3.17(a) of the Disclosure Schedule, none of the Group Companies is as of the date of this Agreement bound by (i) any Contract which contains

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restrictions with respect to payment of dividends or any other distribution in respect of its capital stock, partnership interests or membership interests, (ii) any Contract requiring the applicable Group Company to make future capital expenditures in excess of US\$10,000 (either individually or in the aggregate), (iii) any Contract relating to indebtedness of the applicable Group Company in excess of US\$10,000, (iv) any loan or advance by a Group Company to, or investment by a Group Company in, any Person, in each case, which involves an amount in excess of US\$10,000, or any agreement, contract or commitment relating to the making of any such loan, advance or investment, (v) any Contract with a Group Company, or any management, service, consulting or any other similar type of Contract requiring payment of fees in excess of US\$10,000 per year, (vi) any Contract limiting the ability of any Group Company to engage in any line of business or to compete with any Person, (vii) any warranty, guaranty or similar undertaking with respect to contractual performance extended by any Group Company other than in the ordinary course of business, (viii) any Contract requiring any payment to or by any Group Company having a value in excess of US\$10,000 that cannot be terminated by the relevant Group Company without liability upon less than ninety (90) days notice, (ix) any collective bargaining agreement with any labor union or other representative of employees, (x) any Contract that governs any joint venture, partnership or other cooperative arrangement or any other relationship involving a sharing of profits, (xi) any Contract that would result in the merger with or into or consolidation into another Person, (xii) any Contract for the sale of any of the assets of any Group Company or for the grant to any Person of any preferential rights to purchase any of its assets for an amount in excess of US\$10,000, (xiii) any Contract that requires a consent to or otherwise contains a provision relating to a “change of control”, or that would prohibit or delay the consummation of the transactions contemplated by this Agreement or the Ancillary Documents, or (xiv) any amendment, modification or supplement in respect of any of the foregoing (each of (i)-(xiv), a “Material Contract”).

(b) True and correct copies (or, if oral, written summaries) of each of the Material Contracts have been made available to the Purchaser.

(c) Except as set forth in Section 3.17(c) of the Disclosure Schedule, each Material Contract is in full force and effect, and is a valid and binding agreement of the relevant Group Company and to Knowledge of the Seller each of the other parties thereto, enforceable against the Group Company in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors’ rights generally, general equitable principles (whether considered in a proceeding in equity or at Law) and an implied covenant of good faith and fair dealing. Except as set forth in Section 3.17(c) of the Disclosure Schedule, no condition exists or event has occurred that (whether with or without notice or lapse of time or both) would constitute a default by (x) any of the Group Companies under any Material Contract or (y) to the Knowledge of the Seller, any other party to any Material Contract.

Section 3.18 Certain Transactions. Except as otherwise set forth in Section 3.18 of the Disclosure Schedule, (i) none of the Group Companies is indebted, either directly or indirectly, to any Related Party in any amount whatsoever, other than for payment of salary for services rendered and reasonable expenses, (ii) no Related Party is indebted to any of the Group Companies or has any direct or indirect ownership interest (other than as a result of any ownership interest held in the Company) in any of the Group Companies, (iii) no Related Party

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has any direct or indirect ownership interest, or contractual relationship, with any Person with which any of Group Companies has a business relationship or any Person which, directly or indirectly, competes with any of the Group Companies, and (iv) no Related Party is, directly or indirectly, a party to or otherwise an interested party with respect to any Contract (or, to the Knowledge of the Seller, any oral Contract) with any Group Company.

Section 3.19 Prior Acquisitions.

(a) Section 3.19 of the Disclosure Schedule sets forth a list all of the companies, entities and businesses acquired by the Group Companies in the last two years involving the payment by the Group Companies of more than US\$100,000 (in stock and/or cash). The Company has made available to the Purchaser the agreements, Contracts and instruments entered into by the Group Companies in connection with such acquisitions (the "Previous Acquisition Agreements"). Except as described in Section 3.19 of the Disclosure Schedule, the payments required to be made by the Group Companies under the terms of the Previous Acquisition Agreements or any other acquisitions made by the Group Companies without regard to when such acquisitions were made (the "Residual Payments") do not exceed US\$100,000.

Section 3.20 Compliance with Laws.

(a) Each of the Group Companies is, and at all times since January 1, 2004 has been, in compliance with applicable Laws.

(b) No event has occurred or circumstance exists that (with or without notice or lapse of time) may constitute or result in a violation by any of the Group Companies of, or a failure on the part thereof to comply with, any applicable Law. None of the Group Companies has received any notice or other written communication from any Governmental Authority regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any applicable Law, or (B) any actual, alleged, or potential obligation on the part of any Group Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(c) None of the Group Companies or any director, officer, agent, employee, or any other Person associated with or acting for or on behalf of the foregoing, has offered, paid, promised to pay, or authorized the payment of any money, or offered, given a promise to give, or authorized the giving of anything of value, to any Government Official, to any political party or official thereof or to any candidate for political office (or to any Person where such Group Company, director, officer, agent, employee or other Person knew or was aware of a high probability that all or a portion of such money or thing of value would be offered, given or promised, directly or indirectly, to any Government Official, political party, party official, or candidate for political office) for the purposes of:

- (i) (x) influencing any act or decision of such Government Official, political party, party official, or candidate in his or its official capacity, (y) inducing such Government Official, political party, party official or candidate to do or omit to do any act in violation of the lawful duty of such Government Official, political party, party official or candidate, or (z) securing any improper advantage, or

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- (ii) inducing such Government Official, political party, party official, or candidate to use his or its influence with any Government Authority to affect or influence any act or decision of such Government Authority, in order to assist such Group Company in obtaining or retaining business for or with, or directing business to any Group Company.

(d) None of the Group Companies or any of the respective officers, employees, directors, representatives, or agents of the foregoing has, within the past five years, (i) taken any action in furtherance of any boycott not sanctioned by the United States; (ii) engaged in transactions with any Governmental Authority, agent, representative or resident of, or any entity based or resident in, any of the following countries: North Korea, Iraq, Libya, Cuba, Iran, Myanmar or Sudan; or (iii) otherwise engaged in transactions with any entity or person that is the target of U.S. economic sanctions, as designated by the U.S. Treasury Department Office of Foreign Assets Control on its list of Specially Designated Nationals and Blocked Persons; or (iv) received unlicensed donations or engaged in financial transactions with respect to which any of the Group Companies knows or has reasonable cause to believe that the financial transaction poses a risk of furthering terrorist attacks anywhere in the world.

(e) To the Knowledge of the Seller, none of the beneficial owners of any interest in any Group Company is a Government Official, official of any political party or candidate for political office.

Section 3.21 Insurance. Section 3.21 of the Disclosure Schedule lists all insurance policies held in the names of the Group Companies covering the assets, employees and operations of the Group Companies as of the date hereof. All such policies are in full force and effect, all premiums due thereon have been paid and, where applicable, the Group Companies have complied in all respects with the provisions of such policies and have not received any notice from any of its insurance brokers or carriers that such broker or carrier will not be willing or able to renew their existing coverage.

Section 3.22 Personal Property Assets.

(a) Each of the Group Companies has good title to, or holds by valid and existing lease or license, all the tangible personal property assets reflected as assets of the Company on the Balance Sheet or acquired after the Balance Sheet Date, free and clear of all Encumbrances except for Permitted Encumbrances.

(b) The Group Companies own, or have valid leasehold interests in, all tangible personal property assets necessary for the conduct of the Business as currently conducted and all such assets are in reasonably good maintenance, operating condition and repair, normal wear and tear excepted, other than machinery and equipment under repair or out of service in the ordinary course of business.

Section 3.23 Real Property.

(a) Leased Properties. Section 3.23 of the Disclosure Schedule lists all real property leased or subleased by any of the Group Companies. The Company has made available to the Purchaser correct and complete copies of the leases and subleases covering the properties listed

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in Section 3.23 of the Disclosure Schedule. With respect to each lease and sublease and except as otherwise specified in Section 3.23 of the Disclosure Schedule:

- (i) such lease or sublease is in full force and effect;
- (ii) (A) no party to the lease or sublease is in default and (B) none of the Group Companies has received a notice of default with respect to such lease or sublease; and
- (iii) no such lease or sublease has been mortgaged, deeded in trust or encumbered by the Group Companies.

(b) Land Use Rights. None of the Group Companies owns or has legal or equitable title or other right or interest in any real property other than the land use rights (the "Land Use Rights") held by the Group Companies as set forth in Section 3.23 of the Disclosure Schedule or as held pursuant to Lease. True and complete copies of the certificates evidencing the Land Use Rights have been delivered to Purchaser or its agents or professional advisers and any land grant premium required under applicable Law in connection with securing such Land Use Rights has been fully paid. None of the land with respect to which the Land Use Rights relate constitutes arable land that has been converted to other uses. The particulars of the Land Use Rights as set out in Section 3.24 of the Disclosure Schedule are true and complete.

Section 3.24 No State Assets. None of the assets of the Group Companies constitute state-owned assets and, inasmuch, are not required to undergo any form of valuation under applicable Law in the PRC governing the transfer of state-owned assets prior to the consummation of the transactions contemplated herein or in any of the Ancillary Documents.

Section 3.25 Brokers. Except as set forth in Section 3.25 of the Disclosure Schedule, no finder, broker, agent, financial advisor or other intermediary has acted on behalf of the Seller, the Group Companies or any of their respective Affiliates in connection with the negotiation or consummation of this Agreement or the Ancillary Documents, or any of the transactions contemplated hereby or thereby. All such negotiations or the consummation of this Agreement or the Ancillary Documents or any of the transactions contemplated hereby or thereby will not give rise to any valid claim against any Group Company or the Purchaser for any brokerage or finder's commission, fee or similar compensation.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Seller as follows:

Section 4.1 Organization. The Purchaser is a corporation duly incorporated, validly existing and in good standing under the Laws of the Cayman Islands. The Purchaser (i) has all requisite corporate power and authority to own its assets and to carry on its business as now being conducted by it and (ii) is duly qualified or licensed to do business and is in good standing in the jurisdictions in which the ownership of its property or the conduct of its business requires such qualification or license, except in the case of clause (ii) where the failure to be so qualified

or licensed would not reasonably be expected, in the aggregate, to have a Material Adverse Effect on the Purchaser.

Section 4.2 Authorization, Enforceability. The Purchaser has the corporate power and authority to execute and deliver this Agreement and the Ancillary Documents to which it is a party and perform its obligations hereunder and thereunder. The execution and delivery of this Agreement and the Ancillary Documents to which it is a party by the Purchaser and the performance by it of its obligations hereunder and thereunder have been duly authorized by all necessary corporate action on the part of the Purchaser and no other corporate or stockholder proceedings or actions are required to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Purchaser and, assuming due authorization, execution and delivery by the other parties thereto, constitutes a valid and binding agreement of the Purchaser, enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally and general equitable principles (whether considered in a proceeding in equity or at Law) and subject to the effect of public policy on the enforceability of the indemnification provisions set forth in the Registration Rights Agreement.

Section 4.3 No Approvals or Conflicts. The execution, delivery and performance by the Purchaser of this Agreement and the Ancillary Documents to which it is a party and the consummation by the Purchaser of the transactions contemplated hereby and thereby do not and will not (i) violate, conflict with or result in a breach by the Purchaser of the certificates of incorporation, by-laws or equivalent documents of the Purchaser, (ii) violate, conflict with or result in a breach of, or constitute a default by the Purchaser (or create an event which, with notice or lapse of time or both, would constitute a default) or give rise to any right of termination, cancellation or acceleration under, or result in the creation of any Encumbrance upon any of the properties of the Purchaser under, any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, lease, contract, agreement or other instrument to which the Purchaser or any of its properties may be bound, (iii) violate or result in a breach of any Governmental Order or Law applicable to the Purchaser or any of its properties or (iv) require any order, consent, approval or authorization of, or notice to, or declaration, filing, application, qualification or registration with, any Governmental Authority, except, with respect to the foregoing clauses (ii), (iii) and (iv) above, as would not, individually or in the aggregate, reasonably be likely to have a Material Adverse Effect on the Purchaser.

Section 4.4 Litigation. Other than as disclosed in any documents filed or furnished by the Purchaser with the U.S. Securities and Exchange Commission (the "SEC") (the "Purchaser SEC Documents"), there are no suits, legal actions, arbitrations, proceedings or investigations pending or, to the Knowledge of the Purchaser, threatened against the Purchaser that, if adversely determined against the Purchaser, would have a Material Adverse Effect on Purchaser.

Section 4.5 Validity of Share Consideration. The AM Ordinary Shares issuable as the Share Consideration will be duly authorized for issuance prior to each Earnout Closing (including any acceleration thereof) respectively and, when issued and delivered in accordance with the provisions of this Agreement, will be validly issued and fully paid and nonassessable and free from any Encumbrance; and the issuance of such AM Ordinary Shares will not be

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subject to preemptive or other similar rights and such delivery will convey to the Seller good and valid title to such AM Ordinary Shares, free and clear of any and all Encumbrances (other than any lock-up arrangements contemplated in the Lock-up Agreement and applicable securities laws).

Section 4.6 No Other Representations or Warranties. Except for the representations and warranties contained in this Article IV, neither the Purchaser nor any other Person makes any other express or implied representation or warranty to the Seller.

ARTICLE V COVENANTS AND AGREEMENTS

Section 5.1 Conduct of Business Prior to the First Closing.

(a) Without the written consent of the Purchaser, until the First Closing, the Group Companies (i) shall conduct the Business in all material respects in the ordinary course of business consistent with commercially reasonable practice, (ii) shall not expand or change the scope of the Business and (iii) shall use their commercially reasonable efforts to maintain satisfactory relationships with customers and others having material business relationships with them. Except as contemplated by this Agreement and except as set forth in Schedule 5.1, prior to the First Closing, the Group Companies shall not do any of the following without the prior written consent of the Purchaser:

- (i) except for purchases and sales by a Group Company to or from another Group Company, and except as otherwise disclosed in Schedule 5.1(a)(i), purchase, sell or issue any of their capital stock or other equity interests or grant or make any option, subscription, warrant, call, commitment or agreement of any character in respect of their capital stock or other equity interests, including without limitation, any sale in connection with a proposed initial public offering;
- (ii) except as otherwise set forth in Schedule 5.1(a)(ii), declare, set aside, issue or pay any dividends or other distribution in respect of any shares of capital stock of any Group Company or repurchase, redeem or acquire any outstanding shares of capital stock or other securities of, or other ownership interest in, any Group Company;
- (iii) conduct any split, recombination or reclassification or issuance of capital stock;
- (iv) sell or otherwise dispose of any assets with value in the aggregate in excess of US\$10,000 or that are otherwise material assets, excluding sales of assets in the ordinary course of business consistent with past practice;
- (v) acquire assets having an aggregate value exceeding US\$10,000, excluding (A) acquisitions in the ordinary course of business consistent with past practice and (B) capital expenditures permitted by clause (vii) below;

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- (vi) merge or consolidate with any Person;
- (vii) except as set forth in Schedule 5.1(a)(vii) hereto, make capital expenditures in excess of US\$10,000 in aggregate;
- (viii) incur, assume or guarantee any Indebtedness for borrowed money or make any payments or disbursements to any creditors other than in the ordinary course of business consistent with past practice;
- (ix) make any loan to any director, officer, or other member of senior management of any of the Group Companies;
- (x) incur any Encumbrance of material assets, other than Permitted Encumbrances;
- (xi) increase the compensation of employees of the Group Companies other than (A) in the ordinary course of business or (B) as required by any agreement in effect as of the date hereof or as required by Law;
- (xii) make any material change in the accounting methods or practices followed by any of the Group Companies (other than such changes that have been required by Law or U.S. GAAP);
- (xiii) enter into any contract that would be a Material Contract or that restricts the Group Companies from engaging in any line of business in any geographic area or competing with any Person that materially impairs the operation of the business of the Group Companies, individually or taken as a whole;
- (xiv) enter into any partnership, limited liability company or joint venture agreement;
- (xv) except as set forth in Schedule 5.1(a)(xv) hereto, grant any waiver or release under any confidentiality or similar agreement;
- (xvi) a change any method of Tax accounting, make or change any Tax election, file any amended Tax Return, settle or compromise any material Tax liability, agree to an extension or waiver of the statute of limitations with respect to the assessment or determination of Taxes, enter into any closing agreement with respect to any Tax or surrender any right to claim a Tax refund;
- (xvii) terminate, amend or make any material amendment to a Material Contract, other than amendments made to customer Contracts made in the ordinary course of business;
- (xviii) other than (A) in the ordinary course of business, (B) as required by any agreement in effect as of the date hereof, (C) as required by Law or (D) as

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set forth in Schedule 5.1(a)(xviii), enter into, adopt or amend any employment agreement or employee benefit plan with or for the benefit of any of its employees;

- (xix) enter into any collective bargaining agreements except for renewals for expired agreements;
- (xx) purchase, cancel or terminate any insurance policy naming any of the Group Companies as a beneficiary or a loss payee;
- (xxi) amend any of its organizational documents; or
- (xxii) agree or commit to do any of the foregoing.

(b) For purposes of this Agreement, the term “commercially reasonable efforts” shall not be deemed to require any Person to give any guarantee or other consideration of any nature, including in connection with obtaining any consent or waiver or to consent to any change in the terms of any agreement or arrangement.

(c) During the period commencing on the Effective Date and ending on the First Closing Date, the Seller will cause the Group Companies to afford the Purchaser and its counsel, accountants and other authorized representatives, during normal business hours, upon reasonable advance notice to the officers, directors, employees, accountants and other advisors and agents, properties, books, records and contracts of the Group Companies, provided that such access does not interfere with normal business operations. The parties hereto agree that the provisions of Section 5.9 hereof shall continue in full force and effect following the execution and delivery of this Agreement. All information obtained by the Purchaser and its counsel, accountants and representatives pursuant to this Section 5.1(c) shall be kept confidential in accordance with Section 5.9 hereof.

Section 5.2 Filings and Consents. Except as otherwise set forth in Schedule 5.2, (A) each of the Seller and the Group Companies, on the one hand, and the Purchaser, on the other hand, shall use commercially reasonable efforts to obtain and to cooperate in obtaining any consent, approval, authorization or order of, and in making any registration or filing with, any Governmental Authority or other Person required in connection with the execution, delivery or performance of this Agreement, including any filings pursuant to (i) any applicable competition regulation, (ii) the Securities Act and Exchange Act, and (iii) any other applicable filings or consents; and (B) the Company, the Seller and Purchaser each shall pay all filing fees required to be paid in connection with their respective filings to be made under each such foreign law or regulation.

Section 5.3 Tax Matters; Cooperation; Preparation of Returns; Tax Elections.

(a) The Company agrees to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information and assistance relating to any of the Group Companies (including access to books and records, employees, contractors and representatives) as is reasonably necessary for the filing of all Tax Returns, the making of any election related to Taxes, the preparation for any audit by any Taxing Authority, and the prosecution or defense of

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any claim, suit or proceeding relating to any Tax Return for any taxable year ending on or before the First Closing Date. The Company shall retain all books and records with respect to Taxes pertaining to the Group Companies until the expiration of all relevant statutes of limitations (and, to the extent notified by the Purchaser, any extensions thereof). At the end of such period, each party shall provide the other with at least ten days prior written notice before destroying any such books and records, during which period the party receiving such notice can elect to take possession, at its own expense, of such books and records.

(b) The Company shall prepare, or cause to be prepared, and file all Tax Returns in respect of any of the Group Companies for any taxable year ending on or before the First Closing Date. The Company shall timely pay to the relevant Taxing Authority all Taxes due in connection with any such Tax Returns.

(c) The Seller shall pay for all transfer, documentary, sales, use, registration and other such transfer Taxes and related fees (including any penalties, interest, additions to Tax) incurred in connection with this Agreement and the Ancillary Documents and the transactions contemplated hereby and thereby.

Section 5.4 Tax Indemnity. Subject to the limitations on liability set forth in Section 9.1(a) and without duplication, the Seller indemnifies the Purchaser and its Affiliates and each of their respective officers, directors, employees and agents and hold them harmless against (i) all liability for Taxes of the Group Companies for all taxable periods (or portions thereof) ending on or before the First Closing Date and (ii) all Taxes of any Person (other than any Group Company) for which a Group Company is liable as a transferee, successor, by contract or otherwise provided, however, the indemnity for Tax liabilities provided under this Section 5.4 and any indemnity in Section 9 of this Agreement relating to Taxes or Tax liabilities shall not under any circumstances cover any Taxes or Tax liabilities: (a) relating to any Group Company for any period after the First Closing Date, (b) resulting from any act, transaction, omission or election of the Purchaser, a Group Company, any Affiliates, or transferees thereof made or occurring after the First Closing Date (other than the filing of any Tax Return in a manner consistent with past practice or consistent with Law, any reasonable settlement of a Tax audit or proceeding, or any actions expressly required by Law or expressly contemplated by this Agreement or that are in the ordinary course of business), or (c) that are provided for in the Financial Statements or disclosed in Section 3.11 of the Disclosure Schedule, further provided that the amount of any damages for which indemnification is provided under this Section 5.4 shall be reduced to take into account any net Tax benefit actually realized by the indemnified party as a result of the payment of such damages. The Seller shall have the right to control at its own expense any Tax audit or administrative or court proceeding relating to any Tax indemnity covered by this Section 5.4 and make all decisions taken in connection with them including the selection of counsel, the decision to pursue or forego any and all administrative appeals, proceedings, hearings and conferences with any Taxing Authority, pay the Tax claimed and sue for a refund where applicable Law permits such refund suits or contest the Tax claim in any permissible manner, to the extent such audit or proceeding relates to a period ending on or before the First Closing Date; provided, that if such audit or claim could reasonably be expected to have a material adverse effect on the Purchaser, the Company, the Purchaser and the Seller shall jointly control such audit or proceeding (and share costs and expenses accordingly) and there shall be no settlement without the consent of the other party. If a claim is made by any Taxing

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Authority, which, if successful, might result in an indemnity payment to the Purchaser or its Affiliates under this Section 5.4 the Purchaser shall give notice to the Seller in writing of such claim to provide the Seller to reasonably enjoy its rights described in the preceding sentence.

Section 5.5 Employees; Benefit Plans. Nothing herein expressed or implied shall confer upon any of the employees of the Seller, the Purchaser, the Group Companies, or any of their Affiliates, any additional rights or remedies, including any additional right to employment, or continued employment for any specified period, of any nature or kind whatsoever under or by reason of this Agreement and the Ancillary Documents.

Section 5.6 Related Party Accounts. Except as set forth in the Schedule 5.6, prior to the First Closing, all Related Party Accounts shall be cash-settled or extinguished, such that upon the First Closing there will be no related party accounts outstanding. As used herein, “Related Party Accounts” shall mean with respect to each Group Company (i) all related party receivables due to such Group Company from the Affiliates of the Company, the Seller and/or its Affiliates (other than the Group Companies), other than receivables for goods and services incurred in the ordinary course of business, and (ii) all related party payables of such Group Company to the Affiliates of the Company, the Seller and/or its Affiliates (other than the Group Companies), other than payables for goods and services incurred in the ordinary course of business.

Section 5.7 Obligations of the Group Companies. Each of the Company and the Seller agrees to take any and all actions necessary (including prepayment of the terms of any indebtedness of the Group Companies) and cause its Affiliates other than the Group Companies to be absolutely and unconditionally relieved on or prior to the First Closing Date of all liabilities and obligations, direct or indirect, primary or secondary, for the payment of money or otherwise, including purchase or indemnification obligations, guarantees or performance bonds in respect of any outstanding Indebtedness of the Group Companies.

Section 5.8 Non-Violation. Prior to the First Closing, neither the Seller nor any Group Company will, without the prior written consent of the Purchaser, take any action which would result in any of the covenants contained in this Agreement and in the Ancillary Documents becoming incapable of performance. The Seller will promptly advise the Purchaser of any action or event of which the Seller becomes aware which would have the effect of making incorrect in any material respect any such representations or warranties if given with reference to facts and circumstances then existing or which has the effect of rendering any such covenants incapable of performance. Up to the First Closing Date, the Seller agrees to notify the Purchaser of any information or matter that comes to the Seller’s attention that would render any of the representations and warranties given in Article III, respectively, untrue in any material respect.

Section 5.9 Confidentiality. Each party hereto shall keep confidential, and shall cause its officers, directors, and employees to keep confidential, the terms and conditions hereof and of any Ancillary Document (collectively, the “Confidential Information”) except as the Purchaser and the Seller mutually agree otherwise; provided that any party may disclose Confidential Information (i) to the extent advised by competent legal advisors that such disclosure is required by applicable Law and so long as, where such disclosure is to a Governmental Authority, such party shall use all reasonable efforts to obtain confidential treatment of the Confidential Information so disclosed, (ii) to the extent required by the rules of any stock exchange, (iii) to its

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officers, directors, employees and professional advisors as necessary to the performance of its obligations in connection herewith and with the Ancillary Documents so long as such party advises each Person to whom the Confidential Information is so disclosed as to the confidential nature thereof, and (iv) to its investors and any Person otherwise providing substantial debt or equity financing to such party so long as the party advises each Person to whom the Confidential Information is so disclosed as to the confidential nature thereof.

Section 5.10 Further Actions. Each of the parties hereto shall use commercially reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under applicable Law, and execute and deliver such documents and other papers, as may be required to consummate the transactions contemplated by this Agreement and by the Ancillary Documents.

Section 5.11 No Transfer by the Seller. Except as otherwise set forth in Schedule 5.13, from the date hereof through the First Closing, in no event shall the Seller transfer or encumber, directly or indirectly, any interest in the Company or the entity through which it holds its interest in the Company without the approval of the Purchaser; *provided that* to its limited partners, its Affiliates (including to any person to whom such Affiliate would be allowed to transfer such Affiliate's shares pursuant to this Section), or to any successor to the Seller as the result of any merger, consolidation or other reorganization; provided further that any transferee in relation to any transfer pursuant to any of the foregoing exceptions shall enter into an agreement or instrument prior to the transfer thereof and prior to the First Closing Date pursuant to which such transferee shall agree to be bound by the terms and conditions of this Agreement and the Ancillary Documents to which the transferor is a party.

Section 5.12 No 338(g) Election. The Purchaser, on behalf of itself and all of its Affiliates, agrees not to make a 338(g) election under the United States Internal Revenue Code of 1986, as amended, with respect to the interests in the Company, any Group Company and any Affiliated Company acquired pursuant hereto.

ARTICLE VI CONDITIONS TO THE SELLER'S OBLIGATIONS

The obligation of the Seller to effect the First Closing under this Agreement is subject to the satisfaction, at or prior to the First Closing Date, of each of the following conditions, unless validly waived in writing by the Seller.

Section 6.1 Representations and Warranties. The representations and warranties made by the Purchaser in this Agreement disregarding all qualifications and exceptions as materiality and Material Adverse Effect on the Purchaser, shall be true and correct as of the First Closing Date as though such representations and warranties were made at such date (except that any representations and warranties that are made as of a specified date shall be true and correct as of such specified date), with only such exceptions as would not in the aggregate have or reasonably be expected to have a Material Adverse Effect on the Purchaser; *provided, however*, that the effect of such exceptions shall not be applicable to any of the representations and warranties contained in Sections 4.1 and 4.2, which shall be true and correct as of the First Closing Date.

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Section 6.2 Performance. The Purchaser shall have performed and complied in all material respects with all agreements and obligations required by this Agreement to be so performed or complied with by it prior to the First Closing.

Section 6.3 Officer's Certificates. The Purchaser shall have delivered to the Seller a certificate, dated as of the First Closing Date and executed by an executive officer of the Purchaser, certifying to the fulfillment of the conditions specified in Sections 6.1 and 6.2 hereof.

Section 6.4 Injunctions. At the First Closing there shall not be in effect any Law or Governmental Order directing that the transactions provided for herein not be consummated as provided herein or which has the effect of rendering it impossible to consummate such transactions.

Section 6.5 Adverse Market Change. After the date hereof and prior to the First Closing Date, there shall not have occurred a suspension or material limitation in trading in the Purchaser's securities on the Nasdaq Global Market which occurrence is still outstanding as of the First Closing Date, if the effect of any such event in the reasonable judgment of the Company makes it impracticable or inadvisable to proceed with the transactions contemplated in this Agreement and the Ancillary Agreements.

ARTICLE VII CONDITIONS TO THE PURCHASER'S OBLIGATIONS

The obligation of the Purchaser to effect the First Closing or the applicable Earnout Closing, as the case may be, under this Agreement is subject to the satisfaction, at or prior to the First Closing Date or the applicable Earnout Closing, as the case may be, of each of the following conditions, unless waived in writing by the Purchaser.

Section 7.1 Representations and Warranties. The representations and warranties made by the Seller in this Agreement, that are qualified by materiality or Material Adverse Effect shall be true and correct in all respects, and the representations and warranties made by the Seller in this Agreement that are not so qualified shall be true and correct in all material respects, in each case, at and as of the First Closing Date as if such representations and warranties were made at and as of the First Closing Date (except for representations and warranties made as of a certain date, which shall be true and correct in all material respects as of such date).

Section 7.2 Performance.

(a) Covenant Compliance. The Seller shall have performed and complied in all material respects with all agreements and obligations required by this Agreement to be performed or complied with by them prior to the First Closing.

(b) Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the First Closing, and all documents incident thereto, shall be in form and substance reasonably satisfactory to the Purchaser, and the Purchaser shall have received all such counterpart original and certified or other copies of such documents as the Purchaser may reasonably request, including but not limited to the following:

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- (i) duly executed transfers in respect of the Shares in favor of the Purchaser;
- (ii) the share certificates for the Shares;
- (iii) if required, such waivers, consents and other documents as the Purchaser may require to enable the Purchaser, or such other person as the Purchaser may nominate, to be registered as holder of the Shares in accordance with the provisions of Section 2.1;
- (iv) copy of the board resolutions of the Seller authorizing the execution of this Agreement;
- (v) a certified copy of the board resolutions of the Company and copy of the board resolutions of any other Group Companies, as applicable, providing for the following:
 - (1) in the case of the Company, the approval of the sale of the Shares to the Purchaser and a resolution that the transfer of the Shares shall be approved for registration and (subject only to the transfers being duly stamped, if necessary) the transferee entered into the register of members;
 - (2) new directors, legal representatives and supervisors of the Group Companies (if any) shall be appointed in accordance with the Purchaser's nominations;
 - (3) the resignations of the directors referred to in Section 7.2(b)(viii) below shall be tendered and accepted with effect from the First Closing; and
 - (4) all existing mandates to banks shall be revoked and authority shall be given to such persons as the Purchaser may nominate to operate the relevant bank accounts with effect from the First Closing.
- (vi) the statutory books (written up to but not including the First Closing Date), certificates of incorporation (including all certificates of incorporation on change of name (if any), business license, finance chop, contract chop and common seal (if any) of the Group Companies;
- (vii) the personal bank signatory chops of those individuals with authority to operate bank accounts of the Group Companies; and
- (viii) copies of written resignations in the agreed terms to take effect from the First Closing of all the directors of the Group Companies in each case executed as a deed and relinquishing any right (past, present or future) against the Company or, as appropriate, any other Group Company for loss of office (whether contractual, statutory or otherwise).

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(c) Qualifications. The consents, waivers, approvals or other authorizations listed in Schedule 7.2(c) shall have been obtained or otherwise satisfied and shall continue to be in effect.

(d) No Material Adverse Change. There shall not have occurred since the Balance Sheet Date a Material Adverse Change in respect of the Group Companies.

Section 7.3 No Indebtedness. The Seller and the Company will have taken such action, or have caused the Group Companies to take such action, such that, and have provided to the Purchaser documentation satisfactory to the Purchaser evidencing that, none of the Group Companies has any outstanding indebtedness for borrowed money, other than any liabilities incurred in ordinary course of business of the Group Companies consistent with past practices.

Section 7.4 Compliance/Officer's Certificate. The Company shall have delivered to the Purchaser a certificate, dated as of the First Closing Date and executed by an executive officer of the Company, certifying to the fulfillment of the conditions specified in Sections 7.1, 7.2 and 7.3 hereof.

Section 7.5 Lock-up Agreement. The Seller shall have entered into a Lock-up Agreement in substantially the form attached hereto as Exhibit A and each such agreement shall be in full force and effect.

Section 7.6 Registration Rights Agreement. As of the First Closing, the Seller shall have entered into the Registration Rights Agreement in form and substance substantially as set forth in Exhibit B (the "Registration Rights Agreement").

Section 7.7 Consulting Service Agreements. The Company shall procure the signing of a consulting service agreement, in substantially the form attached hereto as Exhibit C, with each of the consultants agreeable to the Purchaser at or prior to the First Closing Date.

Section 7.8 Corporate Matters. On or prior to the First Closing Date, all outstanding options and warrants of the Company shall have been cancelled. The Seller shall have provided evidence of such cancellation to the Purchaser's reasonable satisfaction and of such option and warrant holders' consent to such cancellation.

Section 7.9 Legal Opinions. The Purchaser shall have received from the British Virgin Islands counsel to the Seller written opinion with respect to the Seller and the Company, dated and delivered as of the First Closing Date, in form and substance attached hereto as Exhibit D.

Section 7.10 Acquisition Opportunities. The Company shall have used its best efforts to facilitate the introduction of the Purchaser to potential merger and acquisition opportunities.

Section 7.11 Due Diligence. The Purchaser shall have completed its legal, financial and business due diligence investigation of the Company to its satisfaction.

**ARTICLE VIII
TERMINATION**

Section 8.1 Termination. This Agreement may be terminated at any time prior to the First Closing Date:

(a) by the mutual written consent of the Seller and the Purchaser;

(b) by either the Seller, on one hand, or the Purchaser, on the other hand, if any Governmental Authority of competent jurisdiction shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated hereby and such order, decree or ruling or other action shall have become final and nonappealable;

(c) by the Purchaser, if the Seller breaches or fails to perform in any respect any of their representations, warranties or covenants contained in this Agreement or any Ancillary Document and such breach or failure to perform (A) would give rise to the failure of a condition set forth in Section 7.1 or Section 7.2 of Article VII, (B) cannot be or has not been cured within fifteen (15) days following written notice of such breach or failure to perform and (C) has not been waived by the Purchaser;

(d) by the Seller, if the Purchaser breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in this Agreement or any Ancillary Document and such breach or failure to perform (A) would give rise to the failure of a condition set forth in Sections 6.1 or 6.2 of Article VI, (B) cannot be or has not been cured within fifteen (15) days following written notice of such breach or failure to perform and (C) has not been waived by the Seller; or

(e) by either the Seller, on one hand, or the Purchaser, on the other hand, if the First Closing Date shall not have occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before June 30, 2008.

Section 8.2 Procedure and Effect of Termination. In the event of the termination of this Agreement and the abandonment of the transactions contemplated hereby pursuant to Section 8.1 hereof, written notice thereof shall forthwith be given to all other parties. If this Agreement is terminated and the transactions contemplated by this Agreement are abandoned as provided herein:

(a) The Purchaser will upon request return to the Seller or destroy all documents, due diligence materials, accounting working papers, transaction work papers, draft registration statements of the Company and other material of the Company or the Seller relating to the transactions contemplated hereby or obtained in connection with the transactions contemplated hereby, including any reports, summaries, studies or memorandums based on the foregoing material, whether so obtained before or after the execution hereof (provided that the legal counsel of the Purchaser may keep a copy of all such materials for evidentiary purposes only);

(b) The provisions in Section 5.9 shall continue in full force and effect; and

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(c) No party to this Agreement will have any liability under this Agreement to any other except that nothing herein shall relieve any party from any liability for any willful breach of this Agreement.

ARTICLE IX INDEMNIFICATION

Section 9.1 Indemnification.

(a) Indemnification by Seller.

Subject to the limits set forth in this Section 9.1, from and after the First Closing, the Seller agrees to indemnify, defend and hold the Purchaser, its Affiliates (including, after the First Closing, the Group Companies) and their respective officers, directors, stockholders, employees, agents and representatives (the "Purchaser Indemnified Persons") harmless from and in respect of any and all losses, damages, costs and reasonable expenses (including reasonable fees and expenses of counsel) (collectively, "Losses"), that they may incur arising out of or due to any breach of any representation or warranty, covenant or other agreement of the Seller contained in this Agreement and in the Ancillary Documents. The representations and warranties given by the Seller set forth in Article III of this Agreement shall survive for a period of four (4) years immediately following the First Closing Date, *provided, however*, that (i) the representations and warranties set forth in Sections 3.2, 3.3 and 3.4(a) shall survive for five (5) years and (ii) the representations and warranties set forth in Section 3.11 (Tax Matters) shall survive the First Closing until ninety (90) days after the expiration of the applicable statute of limitations. Anything to the contrary notwithstanding, other than in the case of the representations and warranties set forth in Sections 3.2, 3.3 and 3.4(a).

(b) Indemnification by the Purchaser. Subject to the limits set forth in this Section 9.1, from and after the First Closing, the Purchaser agrees to indemnify, defend and hold the Seller and its Affiliates and its respective officers, directors, employees, agents and representatives (the "Seller Indemnified Persons") harmless from and in respect of any and all Losses that they may incur arising out of or due to any breach of any representation or warranty, covenant or other agreement of the Purchaser contained in this Agreement and Taxes resulting from any action taken by the Purchaser directly related to and primarily for Tax purposes; provided that, with respect to all Losses indemnifiable pursuant to this paragraph (b) arising from the failure of a representation or warranty herein by the Purchaser to be true and correct, the Seller Indemnified Persons shall not be entitled to recover more than the Initial Cash Consideration. The representations and warranties of the Purchaser set forth in Article IV of this Agreement shall survive for a period of one year immediately following the First Closing Date.

(c) Indemnification as Exclusive Remedy. The indemnification provided in this Article IX, subject to the limitations set forth herein, shall be the exclusive post-Closing remedy available to any party in connection with any Losses arising out of or resulting from this Agreement and the transactions contemplated hereby. Each party hereto shall take all reasonable steps to mitigate its Losses after becoming aware of any event which could reasonably be expected to give rise to any Losses. None of the parties hereto shall be liable under any

provision of Section 9.1 of this Agreement for any consequential or punitive damages (other than consequential or punitive damages payable to a third party).

(d) Indemnification Calculations. The amount of any Losses for which indemnification is provided under this Article IX shall be computed net of any insurance proceeds received by the indemnified party in connection with such Losses. If an indemnified party receives insurance proceeds in connection with Losses for which it has received indemnification hereunder, such party shall refund to the indemnifying party the amount of such insurance proceeds when received, up to the amount of indemnification received. Each indemnified party agrees to use all reasonable best efforts to seek all available insurance reimbursements in connection with matters that are the subject of indemnification hereunder. If the amount with respect to which any claim is made under this Article IX or under Section 5.4 (an "Indemnity Claim") gives rise to a currently realizable Tax Benefit (as defined below) to the party making the claim, the indemnity payment shall be reduced by the amount of such Tax Benefit available to the party making the claim. For purposes of this Section 9.1(d), a "Tax Benefit" to a party means an amount by which the tax liability of such party (or group of Affiliates including such party) is actually reduced as a result of Losses incurred by the indemnified party for which the indemnification payment is being made. Where a party has other losses, deductions, credits or items available to it, the Tax Benefit from any Losses, deductions, credits or items relating to the Indemnity Claim shall be deemed to be realized after any other losses, deductions, credits or items. For purposes of this Section 9.1(d), a Tax Benefit is "currently realizable" to the extent that such Tax Benefit can be realized in the taxable period or year in which the indemnity payment is made or in any Tax Return with respect thereto (including through a carryback to a prior taxable period) or in any taxable period or year prior to the date of the Indemnity Claim. In the event that there should be a determination disallowing the Tax Benefit, the indemnifying party shall be liable to refund to the indemnified party the amount of any related reduction previously allowed or payments previously made to the indemnifying party pursuant to this Section. The amount of the refunded reduction or payment shall be deemed a payment under this Section and thus shall be paid subject to any applicable reductions under this Section. The parties agree that any indemnification payments made pursuant to this Agreement shall be treated for tax purposes as an adjustment to the Aggregate Consideration, unless otherwise required by applicable Law.

(e) Notice and Opportunity to Defend. If there occurs an event which a party asserts is an indemnifiable event pursuant to Section 9.1(a) or 9.1(b), the party or parties seeking indemnification shall notify the other party or parties obligated to provide indemnification (the "Indemnifying Party") promptly. If such event involves any claim or the commencement of any action or proceeding by a third person, the party seeking indemnification will give such Indemnifying Party prompt written notice of such claim or the commencement of such action or proceeding; *provided, however*, that the failure to provide prompt notice as provided herein will relieve the Indemnifying Party of its obligations hereunder only to the extent that such failure prejudices the Indemnifying Party hereunder. In case any such action shall be brought against any party seeking indemnification and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to assume the defense thereof, with counsel selected by the Indemnifying Party and, after notice from the Indemnifying Party to such party or parties seeking indemnification of such election so to assume the defense thereof, the Indemnifying Party shall not be liable to the party or parties seeking indemnification

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hereunder for any legal expenses of other counsel or any other expenses subsequently incurred by such party or parties in connection with the defense thereof. The Indemnifying Party and the party seeking indemnification agree to cooperate fully with each other and their respective counsel in connection with the defense, negotiation or settlement of any such action or asserted liability. The party or parties seeking indemnification shall have the right to participate at their own expense in the defense of such action or asserted liability. If the Indemnifying Party assumes the defense of an action no settlement or compromise thereof may be effected (i) by the Indemnifying Party without the written consent of the indemnified party (which consent shall not be unreasonably withheld or delayed) unless all relief provided is paid or satisfied in full by the Indemnifying Party or (ii) by the indemnified party without the consent of the Indemnifying Party. In no event shall an Indemnifying Party be liable for any settlement effected without its written consent.

Section 9.2 Limitation on Indemnification. No claim may be asserted against either party for breach of any representation, warranty, covenant or agreement contained herein, unless written notice of such claim or action is received by such party describing in reasonable detail the facts and circumstances with respect to the subject matter of such claim on or prior to the date on which the representation, warranty, covenant or agreement on which such claim is based ceases to survive as set forth in Section 9.1 irrespective of whether the subject matter of such claim shall have occurred before or after such date.

Section 9.3 Payment in Kind. Any indemnity payable by the Seller, may, at its option, be paid with AM Ordinary Shares received by the Seller pursuant to this Agreement. For the purposes of calculating the number of AM Ordinary Shares to be paid to satisfy any such indemnity, the value of each AM Ordinary Share shall be an amount equal to forty percent (40%) (as appropriately adjusted for any stock split, stock dividend, recapitalization or reorganization) of the closing price per AM ADS on the date one (1) Business Day prior to the payment of any such indemnity.

ARTICLE X MISCELLANEOUS

Section 10.1 Fees and Expenses. Except as otherwise provided in this Agreement, the Seller, the Company, and the Purchaser shall bear their own fees and expenses in connection with the preparation and negotiation of this Agreement and the Ancillary Documents and the consummation of the transactions contemplated hereby and thereby, including without limitation, legal and other professional fees and expenses; *provided that*:

(a) all legal and other professional fees and expenses which were incurred by the Seller relating or leading to the consummation of the transactions contemplated in this Agreement and the Ancillary Documents shall be borne by the Seller and paid in full at the First Closing;

(b) any auditing or accounting fees and expenses incurred in connection with the preparation by the auditors of a special acquisition report or by the independent public accountants for the purpose of calculating 2008 Profit, 2009 Profit and 2010 Profit shall be borne by the Seller.

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Section 10.2 Governing Law. This Agreement shall be construed under and governed by the Laws of the State of New York, without regard to the conflicts of law principles.

Section 10.3 Materiality. As used in this Agreement, unless the context would require otherwise, the terms “material” and the concept of the “Material” nature of an effect upon the Group Companies or the Purchaser shall be measured relative to the entire business of the Group Companies, taken as a whole, and the Purchaser and its subsidiaries and affiliated companies, taken as a whole. There have been, however, included in the Disclosure Schedule or other schedules attached hereto and may be included elsewhere in this Agreement items which are not “Material” within the meaning of the immediately preceding sentence in order to avoid any misunderstanding, and such inclusion shall not be deemed to be an agreement by the Seller or the Purchaser, as applicable, that such items are “material” or to further define the meaning of such term for purposes of this Agreement.

Section 10.4 Amendment. This Agreement may not be amended, modified or supplemented except upon the execution and delivery of a written agreement executed by the Purchaser, the Company, and the Seller.

Section 10.5 No Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto without the prior written consent of (i) the Purchaser, in the case of assignment by the Seller, or (ii) the Seller, in the case of any assignment by the Purchaser; provided that the Purchaser may assign its rights to acquire and hold the Shares acquired hereunder but the Purchaser shall remain liable in all other respects for the performance of the payment and other obligations hereunder.

Section 10.6 Waiver. Any of the terms or conditions of this Agreement which may be lawfully waived may be waived in writing at any time by the Purchaser or the Seller each party which is entitled to the benefits thereof. Any waiver of any of the provisions of this Agreement by any party hereto shall be binding only if set forth in an instrument in writing signed on behalf of such party. No failure to enforce any provision of this Agreement shall be deemed to or shall constitute a waiver of such provision and no waiver of any of the provisions of this Agreement shall be deemed to or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 10.7 Notices. Any notice, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served for all purposes if (i) personally delivered, (ii) sent by a nationally recognized overnight courier service to the recipient at the address below indicated or (iii) delivered by facsimile which is confirmed in writing by sending a copy of such facsimile to the recipient thereof pursuant to clause (i) or (ii) above:

If to the Purchaser:

AirMedia Group Inc.
17/F, Sky Plaza
No. 46 Dongzhimenwai Street
Dongcheng District

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Beijing 100027
PRC
Attn: Fang Xin
Tel: 86-10-8438-6868
Fax: 86-10-8460-8658

If to the Seller:

First Reach Holdings Limited
P.O. Box 957
Offshore Incorporations Centre
Road Town, Tortola
British Virgin Islands
Attn: Li Na
Tel: 86-10-6709-2117
Fax: 86-10-6709-2107

or to such other address as any party hereto may, from time to time, designate in a written notice given in like manner.

Except as otherwise provided herein, any notice under this Agreement will be deemed to have been given (x) on the date such notice is personally delivered or delivered by facsimile or (y) the next succeeding Business Day after the date such notice is delivered to the overnight courier service if sent by overnight courier; *provided that*, in each case notices received after 4:00 p.m. (local time of the recipient) shall be deemed to have been duly given on the next Business Day.

Section 10.8 Complete Agreement. This Agreement, the Ancillary Documents and the other documents and writings referred to herein or delivered pursuant hereto contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and thereof. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 10.9 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

Section 10.10 Publicity. The Seller and the Purchaser will consult with each other and will mutually agree upon any publication or press release of any nature with respect to this Agreement or the transactions contemplated hereby and shall not issue any such publication or press release prior to such consultation and agreement except as may be required by applicable Law or by obligations pursuant to any listing agreement with any securities exchange or any securities exchange regulation, in which case the party proposing to issue such publication or press release shall make all reasonable efforts to consult in good faith with the other party or parties before issuing any such publication or press release and shall provide a copy thereof to the other party or parties prior to such issuance.

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Section 10.11 Headings. The headings contained in this Agreement are for reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 10.12 Severability. Any provision of this Agreement which is invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provision of this Agreement invalid, illegal or unenforceable in any other jurisdiction.

Section 10.13 Third Parties. Nothing herein expressed or implied is intended or shall be construed to confer upon or give to any Person or corporation, other than the parties hereto and their permitted successors or assigns, any rights or remedies under or by reason of this Agreement.

Section 10.14 Dispute Resolution. (a) Any dispute, controversy or claim arising out of or relating to this Agreement, or the interpretation, breach, termination or validity hereof, shall be resolved through consultation. Such consultation shall begin immediately after one party hereto has delivered to any other party hereto a written request for such consultation. If within thirty (30) days following the date on which such notice is given the dispute cannot be resolved, the dispute shall be submitted to arbitration upon the request of any party to such dispute with notice to the others.

(b) The arbitration shall be conducted in Hong Kong under the auspices of the Hong Kong International Arbitration Centre (the "HKIAC"). There shall be three (3) arbitrators. Each opposing party to a dispute shall be entitled to appoint one arbitrator, and the third arbitrator shall be jointly appointed by the disputing parties or, failing such agreement by thirty (30) days after the appointment by each party of its arbitrator, the HKIAC shall appoint the third arbitrator. At least one (1) arbitrator shall be qualified to practice New York law.

(c) The arbitration proceedings shall be conducted in English. The arbitration tribunal shall apply the UNCITRAL Arbitration Rules as administered by the HKIAC at the time of the arbitration.

(d) The arbitrators shall decide any dispute submitted by the parties to the arbitration strictly in accordance with the substantive laws of New York and shall not apply any other substantive law.

(e) Each party hereto shall cooperate with the other in making full disclosure of and providing complete access to all information and documents requested by the others in connection with such arbitration proceedings, subject only to any confidentiality obligations binding on such party.

(f) The award of the arbitration tribunal shall be final and binding upon the disputing parties, and the prevailing party or parties may apply to a court of competent jurisdiction for enforcement of such award.

(g) Any party shall be entitled to seek preliminary injunctive relief from any court of competent jurisdiction pending the constitution of the arbitral tribunal.

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IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized officer, in each case as of the date first above written.

AIRMEDIA GROUP INC.

By: /s/ Guo Man
Name: Guo Man
Title: Chief Executive Office

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IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized officer, in each case as of the date first above written.

EXCEL LEAD INTERNATIONAL LIMITED

By: /s/ Fung Wai Jun

Name: Fung Wai Jun

Title: Director

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IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized officer, in each case as of the date first above written.

FIRST REACH HOLDINGS LIMITED

By: /s/ Fung Wai Jun

Name: Fung Wai Jun

Title: Director

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Schedules

Schedule A	Disclosure Schedule
Schedule 5.1	Conduct of Business
Schedule 5.2	Filings and Consents
Schedule 5.6	Related Party Accounts
Schedule 5.11	Transfer by Seller
Schedule 7.2(c)	Qualifications

Exhibits

Exhibit A	Form of Lock-up Agreement
Exhibit B	Form of Registration Rights Agreement
Exhibit C	Form of Consulting Service Agreement
Exhibit D	Form of Seller and the Company British Virgin Islands Legal Opinions

List of Subsidiaries

Wholly-Owned Subsidiaries

	Place of Incorporation
1. Broad Cosmos Enterprises Ltd.	British Virgin Islands
2. Air Media International Ltd.	British Virgin Islands
3. Excel Lead International Limited	British Virgin Islands
4. Air Media (China) Limited	Hong Kong
5. Royal Mart Limited	Hong Kong
6. Glorious Star Investment Limited	Hong Kong
7. AirMedia Technology (Beijing) Co., Ltd.	PRC
8. Shenzhen AirMedia Information Technology Co., Ltd.	PRC
9. Xi'an AirMedia Chuangyi Technology Co., Ltd.	PRC

Affiliated Entities Consolidated in the Registrant's Financial Statement

	Place of Incorporation
10. Beijing Shengshi Lianhe Advertising Co., Ltd.	PRC
11. Beijing AirMedia Advertising Co., Ltd.	PRC
12. Beijing AirMedia UC Advertising Co., Ltd.	PRC
13. Beijing Yuehang Digital Media Advertising Co., Ltd.	PRC
14. Wenzhou AirMedia Advertising Co., Ltd.	PRC
15. Beijing Eastern Media Corporation, Ltd.	PRC
16. AirTV United Media & Culture Co., Ltd.	PRC
17. Beijing AirMedia Film & TV Culture Co., Ltd.	PRC
18. Flying Dragon Media Advertising Co., Ltd.	PRC

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Herman Man Guo, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2009

By: /s/ Herman Man Guo
Name: Herman Man Guo
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Conor Chiahung Yang, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2009

By: /s/ Conor Chiahung Yang

Name: Conor Chiahung Yang

Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of AirMedia Group Inc. (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Herman Man Guo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2009

By: /s/ Herman Man Guo

Name: Herman Man Guo

Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of AirMedia Group Inc. (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Conor Chiahung Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2009

By: /s/ Conor Chiahung Yang
Name: Conor Chiahung Yang
Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-148352, on Form S-8 of our reports dated April 28, 2009, relating to the consolidated financial statements and financial statement schedule of AirMedia Group Inc., its subsidiaries, its variable interest entities (the "VIE") and its VIEs' subsidiaries (collectively, the "Group") and the effectiveness of the Group's internal control over financial reporting, appearing in this Annual Report on Form 20-F of AirMedia Group Inc. for the year ended December 31, 2008.

/s/ Deloitte Touche Tohmatsu CPA Ltd.
Beijing, the People's Republic of China
April 28, 2009

[Letterhead of Commerce & Finance Law Offices]

April 28, 2009

AirMedia Group Inc.
17/F, Sky Plaza, No. 46 Dongzhimenwai Street
Dongcheng District
Beijing, 100027
People's Republic of China

Dear Sirs,

We hereby consent to the reference to our firm under the heading "Item 4. Information on the Company—B. Business Overview," insofar as they purport to describe the provisions of PRC laws and regulations, in AirMedia Group Inc.'s Annual Report on Form 20-F for the year ended December 31, 2008 (the "Annual Report") filed with the Securities and Exchange Commission (the "SEC") on April 28, 2009. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Sincerely Yours,

/s/ Commerce & Finance Law Offices

Commerce & Finance Law Offices

[Letterhead of Sinomonitor International Co., Ltd.]

April 23, 2009

AirMedia Group Inc.
17/F, Sky Plaza, No. 46 Dongzhimenwai Street
Dongcheng District
Beijing 100027
People's Republic of China

Dear Sirs:

We hereby consent to the use of our name, the reference to our August 2007 report commissioned by AirMedia Group Inc. (the "**Report**") and the inclusion of statistical data from the Report under the headings "Forward-Looking Statements" and "Item 4. Information on the Company—B. Business Overview" in AirMedia Group Inc.'s Annual Report on Form 20-F for the year ended December 31, 2008 filed with the Securities and Exchange Commission (the "SEC") on April 28, 2009. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Sincerely yours,

/s/ Mingchao Xiao

Sinomonitor International Co., Ltd.
(seal of Sinomonitor International Co., Ltd.)

15/F.North Wing.The Central Office Tower Of Beijing Junefield Plaza.No.10
Xuanwumenwai Street
Beijing 100052 ,China

Our ref BNM\629535\3234498v2
Direct tel +852 2971 3004
E-mail barry.mitchell@maplesandcalder.com

AirMedia Group Inc.
17/F, Sky Plaza, No. 46 Dongzhimenwai Street
Dongcheng District
Beijing, 100027
People's Republic of China

28 April 2009

Dear Sirs

AirMedia Group Inc.

We have acted as legal advisors as to the laws of the Cayman Islands to AirMedia Group Inc., an exempted limited liability company incorporated in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2008 (the "**Annual Report**").

We hereby consent to the reference of our name under the heading "Item 16G Corporate Governance" in the Form 20-F. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours faithfully

/s/ Maples & Calder
Maples and Calder