

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 20-F**

**(Mark One)**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2011**

**OR**

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

**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 \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **001-33765**

**AIRMEDIA GROUP INC.**

*(Exact name of Registrant as specified in its charter)*

**Not Applicable**

*(Translation of Registrant's name into English)*

**Cayman Islands**

*(Jurisdiction of incorporation or organization)*

**17/E, Sky Plaza**

**No. 46 Dongzhimenwai Street  
Dongcheng District, Beijing 100027**

**The People's Republic of China**  
*(Address of principal executive offices)*

**Ping Sun**

**AirMedia Group Inc.**

**17/E, Sky Plaza**

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**Phone: +86 10 8438 6868**

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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	Name of each exchange on which registered
<b>Ordinary shares, par value \$0.001 per share*</b> <b>American Depositary Shares, each representing two ordinary shares</b>	<b>The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)</b>

\* Not for trading, but only in connection with the listing on the NASDAQ Global Market of American Depositary Shares, each representing two ordinary shares.

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: 127,662,057 shares issued and 125,247,597 shares outstanding, par value \$0.001 per share, as of December 31, 2011.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

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 [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer [ ] Accelerated Filer [X] 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 [X] 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 [X]

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**AIRMEDIA GROUP INC.****Annual Report on Form 20-F  
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## USE OF CERTAIN DEFINED TERMS

Except as otherwise indicated by the context, in this annual report:

- “ADS” refers to our American depositary shares, each of which represents two ordinary shares;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan;
- “ordinary shares” refers to our ordinary shares, par value US\$0.001 per share;
- “preferred shares” refers 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” or “Renminbi” refers to the legal currency of China;
- “U.S. dollars”, “\$”, “US\$” or “dollars” refers to the legal currency of the United States; and
- “we”, “us”, “our”, the “Company” or “AirMedia” refers to the combined business of AirMedia Group Inc. , its consolidated subsidiaries, its variable interest entities (“VIEs”) and VIEs’ subsidiaries.

Although AirMedia does not directly or indirectly own any equity interests in its consolidated variable interest entities or their subsidiaries, AirMedia is the primary beneficiary of and effectively controls these entities through a series of contractual arrangements with these entities 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., or U.S. GAAP. 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 INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. 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 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 but are not limited to:

- our 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;
- our plans to expand our advertising network into other out-of-home advertising platforms such as billboards and light boxes located at gas stations and large LED screens at selected airports;
- 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.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this annual report. You should read this annual report and the documents that we referred and filed as exhibits to this report in their entirety and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

## 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 years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements, which are included in this annual report. The selected consolidated statement of operations data for the years ended December 31, 2007 and 2008 have been derived from our audited financial statements for the relevant periods, which are not included in this annual report. The selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 have been derived from our audited financial statements for the relevant periods, which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

In the following table, the “billboards on gate bridges in airports” category and part of the original “other displays” category traditionally used in our revenue presentation in our annual report on Form 20-F for the year ended December 31, 2008 were combined and reclassified as one category, “traditional media in airports,” which includes revenues from all traditional forms of media in airports, such as billboards, light boxes and gate bridges in airport advertising. The remaining part of the original “other displays” category, mainly consisting of revenues from advertising displays on digital TV screens on airport shuttle buses and logos for various display equipment in airports, is now reclassified as the “other revenues in air travel” category. The “gas station media network” category consists of advertising platforms such as billboards and light boxes located in some gas stations of China Petroleum & Chemical Corporation Limited, or Sinopec. Revenues now also include a new “other media” category, which represents primarily revenues from AirMedia City (Beijing) Outdoor Advertising Co., Ltd., a PRC company, or AM Outdoor, acquired by our variable interest entity, AirMedia Group Co., Ltd., formerly known as Beijing AirMedia Advertising Co., Ltd., a PRC company, or AM Advertising, in January 2010, which operates unipole signs and other outdoor media.

These selected consolidated financial data below 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.

**Year Ended December 31,**

	2007	2008	2009	2010	2011
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(In thousands of U.S. Dollars, except share, per share and per ADS data)

**Consolidated Statement of Operations Data:**

Revenues:

**Air Travel Media Network**

Digital frames in airports	\$ 1,263	\$ 45,011	\$ 66,255	\$ 113,196	\$ 126,539
Digital TV screens in airports	26,921	47,591	37,260	28,905	21,937
Digital TV screens on airplanes	11,093	19,227	17,082	27,564	26,734
Traditional media in airports	1,872	6,490	27,192	48,418	73,535
Other revenues in air travel	2,462	7,221	4,639	4,063	6,416
<b>Gas Station Media Network</b>	—	—	102	3,664	12,873
<b>Other Media</b>	—	—	—	10,650	9,787
<b>Total revenues</b>	43,611	125,540	152,530	236,460	277,821

Business tax and other sales tax	(1,983)	(6,107)	(3,102)	(5,955)	(7,197)
Net revenues	41,628	119,433	149,428	230,505	270,624
Cost of revenues	(21,365)	(70,995)	(147,541)	(197,908)	(244,470)
Gross profit	20,263	48,438	1,887	32,597	26,154
Operating expenses:					
Selling and marketing (including share-based compensation of \$274, \$1,158, \$1,540, \$2,424 and \$1,422 in 2007, 2008, 2009, 2010 and 2011, respectively)	(4,813)	(10,171)	(13,439)	(18,112)	(18,238)
General and administrative (including share-based compensation of \$18,831, \$3,805, \$4,226, \$5,547 and \$3,192 in 2007, 2008, 2009, 2010 and 2011, respectively)	(21,982)	(14,374)	(34,936)	(24,646)	(22,004)
Impairment of goodwill					(1,003)
Impairment of intangible assets	-	-	-	(1,000)	(656)
Total operating expenses	(26,795)	(24,545)	(48,375)	(43,758)	(41,901)
(Loss)/Income from operations	(6,532)	23,893	(46,488)	(11,161)	(15,747)
Interest income	1,745	5,379	2,025	694	1,242
Gain on remeasurement of fair value of cost and equity method investments (net)	—	—	—	919	
Other income, net	—	1,135	1,239	940	1,848
(Loss)/Income before income taxes	(4,787)	30,407	(43,224)	(8,608)	(12,657)
Income tax benefits (expenses)	195	498	6,032	735	(266)
(Loss)/Income before share of income/(loss) on equity method investments	(4,592)	30,905	(37,192)	(7,873)	(12,923)
Share of (loss)/income on equity method investments	(520)	(325)	164	290	243
Net (loss)/income	(5,112)	30,580	(37,028)	(7,583)	(12,680)
Less: Net (loss)/income attributable to noncontrolling interests	(2)	382	211	(2,666)	(3,084)
Net (loss)/income attributable to AirMedia Group Inc.'s shareholders	\$ (5,110)	\$ 30,198	\$ (37,239)	\$ (4,917)	\$ (9,596)
Net (loss)/income attributable to AirMedia Group Inc.'s shareholders per ordinary share—basic	\$ (0.12)	\$ 0.23	\$ (0.28)	\$ (0.04)	\$ (0.07)
Net (loss)/income attributable to AirMedia Group Inc.'s shareholders per ordinary share—diluted	\$ (0.12)	\$ 0.22	\$ (0.28)	\$ (0.04)	\$ (0.07)
Net (loss)/income attributable to AirMedia Group Inc.'s shareholders per ADS—basic <sup>(1)</sup>	\$ (0.23)	\$ 0.45	\$ (0.57)	\$ (0.07)	\$ (0.15)
Net (loss)/income attributable to AirMedia Group Inc.'s shareholders per ADS—diluted <sup>(1)</sup>	\$ (0.23)	\$ 0.44	\$ (0.57)	\$ (0.07)	\$ (0.15)
Weighted average shares used in calculating net (loss)/income per ordinary share—basic	73,469,589	133,603,419	131,320,730	131,252,115	129,537,955
Weighted average shares used in calculating net (loss)/income per ordinary share—diluted	73,469,589	137,782,135	131,320,730	131,252,115	129,537,955

(1) Each ADS represents two ordinary shares.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2007, 2008, 2009, 2010 and 2011:

	<b>As of December 31,</b>				
	(In thousands of U.S. Dollars)				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Balance Sheet Data:</b>					
Cash	\$ 210,915	\$ 161,534	\$ 123,754	\$ 106,505	\$ 112,734
Total assets	266,859	329,891	316,651	347,186	361,468
Total liabilities	9,257	28,208	50,372	70,470	91,410
Total AirMedia Group Inc.'s shareholders' equity	257,605	300,730	263,042	275,668	272,148
Noncontrolling interests	(3)	953	3,237	1,048	(2,090)
Total equity	\$ 257,602	\$ 301,683	\$ 266,279	\$ 276,716	\$ 270,058

### ***Exchange Rate Information***

Our reporting and financial statements are expressed in the U.S. dollar, which is the reporting and functional currency of our Cayman Islands parent company. However, substantially all of the revenues and expenses of our consolidated operating subsidiaries and variable interest entities are denominated in RMB. 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 RMB6.2939 to US\$1.00, the noon buying rate in effect as of December 30, 2011. 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. On April 6, 2012, the noon buying rate was RMB6.3052 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.



Period	Noon Buying Rate <sup>(1)</sup>		
	Average <sup>(2)</sup>	Low	High
	(RMB per US\$1.00)		
2007	7.5806		
2008	6.9459		
2009	6.8307		
2010	6.7603		
2011	6.4475		
October 2011		6.3534	6.3825
November 2011		6.3400	6.3839
December 2011		6.2939	6.3733
January 2012		6.2940	6.3330
February 2012		6.2935	6.3120
March 2012		6.2975	6.3315

(1) For periods prior to January 1, 2009, the exchange rates reflect the noon buying rates as reported by the Federal Reserve Bank of New York. For periods after January 1, 2009, the exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages are calculated from the average of the exchange rates on the last day of each month during the period.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

***An investment in our capital stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this annual report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our capital stock could decline, and you may lose all or part of your investment.***

### RISKS RELATED TO OUR BUSINESS

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

We have incurred net losses for certain periods in the past. We pay concession fees to airports for placing and operating our digital displays, to airlines for placing our programs on their digital TV screens, and to airports and gas stations for placing and operating our advertisements on traditional media platforms such as light boxes and billboards. These fees constitute a significant part of our cost of revenues and are mostly fixed under the concession rights contracts with an escalation clause; payments are usually due three or six months in advance. However, our revenues may fluctuate significantly from period to period for various reasons. For instance, when new concession rights contracts are signed during a period, additional concession fees are incurred immediately, but it may take some time for us to create revenues from these concession rights contracts because it takes time to find advertisers for the time slots and locations made available under these new contracts. If our revenues decrease in a given period, we may be unable to reduce our cost of revenues as a significant part of our cost of revenues is fixed, which could materially and adversely affect our business and results of operations and lead to a net loss for that period.

***We have a limited operating history, which may make it difficult for you to evaluate our business and prospects.***

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 their ability to address future challenges to our business. Because of 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 on commercially advantageous terms or at all;
- retain existing and acquire new advertisers and third party content providers;
- secure a sufficient number of low-cost digital frames and digital TV screens from our suppliers;
- manage our expanding operations, including effectively integrating acquired businesses;
- successfully expand into other advertising media platforms, including traditional media platforms in airports, gas station media platforms and outdoor media platforms;
- 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 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 business and results of operations could be materially and adversely 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 advertisers and their interest in this medium as a part of their advertising strategies. In this annual report, the term “advertisers” refer to the ultimate brand-owners whose brands and products are being publicized by our advertisements, including both advertisers that purchase advertisements directly from us and advertisers that do so through third-party advertising agencies. Our advertisers may elect not to use our services if they believe that consumers are not receptive to our media network or that our network is not a sufficiently effective advertising medium. If consumers find our network to be disruptive or intrusive, airports and airplane companies may refuse to allow us to operate our air travel advertising network in airports or to place our programs on airplanes, and our advertisers may reduce spending on our network.

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 track 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 advertisers to help us generate demand and determine pricing. Without improved market research, advertisers 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 the effectiveness of advertisements.

Demand for our advertising services and the resulting advertising spending by our advertisers may fluctuate from time to time, and our advertisers may reduce the money they spend to advertise on our network for any number of reasons. If a substantial number of our advertisers lose interest in advertising on our media network for these or other reasons or become unwilling to purchase advertising time slots or locations on our network, we will be unable to generate sufficient revenues and cash flow to operate our business, and our business and results of operations could be materially and adversely affected.

***We may be adversely affected by a significant or prolonged economic downturn in the level of consumer spending in the industries and markets served by our customers.***

Our business is affected by the demand for our advertising time slots from our customers, which is determined by the level of business activity and economic condition of our customers. The level of business activity of our customers is in turn determined by the level of consumer spending in the markets our customers serve. Therefore, our businesses and earnings are affected by general business and economic conditions in China and abroad.

In 2011, the top three industries that advertise on our network were automobile, finance and high-end food and beverages, based on revenues derived from advertisers in these industries. Any significant or prolonged slowdown or decline of the PRC and global economy will affect consumers' disposable income and consumer spending in these industries, and lead to a decrease in demand for our services. On March 11, 2011, Japan experienced a severe earthquake, followed by deadly tsunamis that severely crippled a key nuclear plant and led to the release of dangerous levels of radiation. These events devastated large parts of Japan and negatively affected its economy, including its automobile industry and the extended supply chain. Our business was heavily impacted in the second quarter of 2011 due to the fact that the automobile industry was, and remains, one of our major advertising markets.

In 2012, China is expected to grow at a lower rate than in previous years. This may have a negative impact on the overall media industry in China, and makes it more difficult for middle and small sized companies to maintain their profit levels in the future. Globally, the financial crisis in Europe and the United States had a negative impact on our stock prices in 2011, and this impact may continue in 2012.

***We derive a significant portion of our revenues from the provision of air travel advertising services. A contraction in the air travel advertising industry in China may materially and adversely affect our business and results of operations.***

Substantially all of our historical revenues have been and a significant portion of our expected future revenues 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. Most of our traditional advertising media platforms, such as billboards and painted advertisements on gate bridges and light boxes, and other displays, such as logo displays and shuttle bus displays, are located in or near airports. A contraction in air travel advertising industry in China could have a material adverse effect on our business and results of operations.

***If we are unable to carry out our operations as specified in existing concession rights contracts, retain or renew existing concession rights contracts or to 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 for the display of advertisements. However, we cannot assure you that we will be able to carry out our operations as specified in our concession rights contracts, and any failure to perform may damage our relationships with advertisers and advertising agencies and materially and negatively affect our business.

We may also be unable to retain or renew concession rights contracts when they expire. Most of our concession rights contracts to operate advertising media in airports and on airplanes typically have terms ranging from one to five years, with no automatic renewal provisions. As of December 31, 2011, we had in total approximately 40 concession rights contracts to be renewed in the next twelve months, with aggregated concession fees of approximately \$49 million. We cannot assure you that we will be able to renew any or all of these contracts when they expire, and the terms of any renewal may not be commercially advantageous to us. The concession fees that we incur under our concession rights contracts comprise a significant portion of our cost of revenues, but airports and airlines tend to increase concession fees over time, so as some of our concession rights contracts terminate, we may experience a significant increase in our costs of revenues when we renew these contracts. If we cannot pass increased concession costs onto our advertisers through rate increases, our earnings and our results of operations could be materially and adversely affected. In addition, many of our concession rights contracts to operate in airports and on airplanes contain provisions granting us certain exclusive concession rights. We cannot assure you that we will be able to retain these exclusivity provisions when we renew these contracts. If we were to lose exclusivity, our advertisers may decide to advertise with our competitors or otherwise reduce their spending on our network and we may lose market share.

Certain concession rights contracts allow the airports to terminate the contracts unilaterally without any compensation in certain circumstances. 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 such challenges or revocations occur, our revenues and results of operations could be materially and adversely affected.

If we fail to perform under 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.

***A significant portion of our revenues has been derived from the six 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 a significant portion of our total revenues in 2011 from the six largest airports in China: Beijing Capital International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao Airport, Chengdu Shuangliu International Airport, and Shenzhen Bao'an International Airport. A material business disruption, major construction or renovation or natural disaster affecting any of the airports in our network could negatively affect our advertising media in such airport or materially limit where we can place our advertising media.

In addition, we derived a significant portion of our advertising revenues in 2011 from the three largest domestic airlines in China: Air China, China Southern Airlines, and China Eastern Airlines. 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 advertisers may decide to spend less on our advertising network.

We expect these six 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 lose a substantial amount 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 materially and adversely affect our business and results of operations.***

The programs on the majority of our digital TV screens include both advertising and non-advertising content. Third-party content providers such as Shanghai Media Group, Travel Channel, Jiangsu TV and various other television stations and television production companies have contracts with us to provide the majority of the non-advertising content played over our network, particularly on TV screens on aircrafts. In November 2010, we entered into a strategic partnership with China Central Television International Mobile Media Ltd., or CCTV Mobile Media, a subsidiary of China Central Television, to operate a TV channel of CCTV Mobile Media, or CCTV Air Channel, to broadcast TV programs in our digital TV screens located in airports. The partnership agreement has a term of 15 years until November 28, 2025. 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 or locations on our network, which would materially and adversely affect our business and results of operations.

***One or more of our advertising agencies could engage in activities that are harmful to our reputation in the industry and to our business.***

We engage third-party advertising agencies to help source advertisers from time to time. These third-party advertising agencies assist us in identifying and introducing advertisers to us. In return, we pay fees to these advertising agencies if they generate advertising revenues for us. Fees that we paid to these third-party agencies are calculated based on a pre-set percentage of revenues generated from the advertisers introduced to us by the third-party agencies and are paid when payments are received from the advertisers. Our contractual arrangements with these advertising agencies do not provide us with control or oversight over their everyday business activities, and one or more of these agencies may engage in activities that violate PRC laws and regulations governing the advertising industry and related non-advertising content, or other laws and regulations. If our agencies violate PRC advertising or other laws or regulations, it could harm our reputation in the industry and have detrimental effects on our business operations.

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

We believe our 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, digital TV screens, light boxes and billboards and the attractiveness of our network content. The fees we charge for advertisements on our network depend on the size and quality of our network and advertiser demand. 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.

***When our current advertising network of digital frames, digital TV screens, light boxes, billboards and gate bridges becomes saturated in the major airports, airlines and other locations where we operate, we may be unable to offer additional time slots or locations 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, digital TV screens, light boxes, billboards and gate bridges becomes saturated in any particular airport, airline and other locations where we operate, we may be unable to offer additional advertising time slots or locations to satisfy all of our advertisers' needs. We would need to increase our advertising rates for advertising in such airports, airlines or other locations 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 and locations in the six largest airports and on the three largest airlines in China are higher than those in other network airports or on other airlines, and saturation or oversaturation 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 advertising network by building new air travel 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.***

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

We intend to continue increasing the number of our digital frames in the near future mainly through our newly acquired concession rights. We could incur significant costs in installing new digital frames or in continuing to upgrade or replace some of our existing digital frame displays. As part of our strategic efforts to become a one-stop provider for advertising, we may continue to expand in the traditional media area as opportunities present themselves and we could also incur significant costs in installing new billboards or light boxes or maintaining existing ones.

In addition, we intend to build a nationwide advertising platform of large LED screens in selected airports in China, which may require a significant amount of capital spending on equipment and installations.

A large amount of our concession rights contracts contain exclusive concession rights that grant us exclusivity with respect to digital frames and digital TV screens. By entering and expanding into traditional advertising media platforms inside airports, 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. 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 materially and adversely affect our business and results of operations.

***If we do not succeed in our expansion into the business of outdoor media advertising, our future results of operations and growth prospects may be materially and adversely affected.***

Our growth strategy also includes expansion into other media outside of airports. In April 2009, we entered into an exclusive concession rights contract with Sinopec which allows us to operate media platforms in Sinopec gas stations throughout China. Our variable interest entity, AM Advertising, now holds 100% of AM Outdoor which operates out-of-home advertising media in urban locations in Beijing.

As we are relatively new in the gas station media advertising and outdoor media advertising market, it may take us an extended period of time to ramp up revenue from these new businesses. However, under all of our existing concession rights agreements regarding our gas station and outdoor media displays, we are required to pay periodic, fixed concession fees for the media platforms regardless of revenue.

We may also incur significant costs in maintaining and upgrading the gas station and outdoor traditional media platforms such as billboards, which are more vulnerable to weather and other accidental damages than indoor displays.

For the gas station media platforms that are covered under the Sinopec concession rights contract, there are approvals required from various levels of local governments for the operation of each outdoor media format. However, there are significant uncertainties regarding which local government agencies or which sets of local laws and regulations govern our gas station media platforms in specific locations. There have been incidents when some local government agencies attempted to exercise their authority that caused disruption in advertisement placements. Although most of these incidents were subsequently resolved without significant delays, despite the lack of consistency of government administrative procedures from location to location, some remain outstanding and others may arise from time to time in the future.

Although we are using best efforts to comply with all relevant laws and regulations and to obtain all necessary certificates, registrations and approvals for the advertising media platforms we operate, including actively consulting with every relevant local government authority in every city in which we operate to ascertain the legal requirements for our business operations in the area and continually monitoring local government announcements for any relevant updates in such requirements, due to the complexity of local laws and regulations across China governing outdoor media advertising platforms, there can be no assurance that we will be able to obtain or have all of the necessary approvals which we do not currently hold in a timely manner, or at all. Any delay or failure in obtaining the necessary approvals may materially and adversely affect the expansion into the business of outdoor media advertising.

Our concession rights contract with Sinopec also sets forth a schedule which states that we must develop and begin operating a number of gas station media platforms by certain dates, subject to various exemptions. We cannot assure you that we can fulfill this schedule as anticipated under this concession rights agreement, and failure to fulfill the schedule may lead to termination of the relevant concession rights agreement by the other party.

We began to implement changes in the sales management team for our gas station advertising business in mid-year 2011. The business achieved significant revenues growth in the second half of 2011. However, we can make no assurance that such growth is indicative of future results. We also began to implement changes in the operational model and structure of the gas station advertising business in the second half of 2011 with the intention to accelerate growth and profitability. We may experience significant obstacles and challenges as we move forward with our strategy.

For each new business into which we enter, we may face competition from existing leading providers in that business; the same applies in the cases of gas station media advertising and outdoor media advertising markets. If we cannot successfully address the foregoing new challenges and compete effectively against the existing leading players in the field of gas station and outdoor media advertising, we may not be able to develop a sufficiently large advertiser base, recover costs incurred for developing and marketing our new business, and eventually achieve profitability from these businesses, and our future results of operations and growth prospects may be materially and adversely affected.

***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.***

Applicable PRC regulations promulgated by the State Administration for Industry and Commerce, or the SAIC, specify that advertisements placed inside or outside of the “departure halls” of airports are considered outdoor advertisements and must be registered with local SAIC offices by “advertising distributors.” Failure to comply with such requirements may result in forfeiture of the relevant advertising income, administrative fines of up to RMB 30,000 and an order to register the advertisements within a set period. If we fail to register these advertisements within the required timeframe, the relevant local SAIC office may require us to discontinue the relevant advertisements where the required advertising registration is not obtained. We intend to register with the relevant local SAIC offices if we are required to do so, but we cannot assure you that we will obtain all applicable registration certificates in compliance with the outdoor advertisement provisions due to the uncertainty in the implementation and enforcement of the regulations promulgated by the SAIC.

***If we fail to obtain approvals for the inclusion of non-advertising content in our programs broadcast in digital TV screens in airlines, 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.***

Most of the digital TV screens in our network include programs that consist of both advertising content and non-advertising content. The State Administration of Radio, Film and Television, or the SARFT, issued a circular which stated that 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 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 this circular. We intend to obtain such approval for our non-advertising content, but we cannot assure you that we will be able to obtain such approval in compliance with this circular, or at all. In November 2010, we entered into a strategic partnership with CCTV Mobile Media to operate the CCTV Air Channel to broadcast TV programs to air travelers in China. Under the arrangement, CCTV Mobile Media will be responsible for program planning, production and broadcasting. The Company will operate exclusively the advertising business of CCTV Air TV Channel. According to the terms of the cooperation arrangement with CCTV Mobile Media, during the cooperation period from November 29, 2010 to November 28, 2025, CCTV Mobile Media shall obtain and, from time to time, be responsible for obtaining any approval, license and consent regarding the regulation of broadcasting and television from relevant authorities. We believe that CCTV Mobile Media has obtained the necessary approvals, licenses and consents. However, there is no assurance that CCTV Mobile Media will be able to maintain the requisite approval or we will be able to renew the contract with CCTV Mobile Media when it expires. If the requisite approval is not obtained, we will be required to eliminate non-advertising content from the programs displayed on our digital TV screens and advertisers may find our network less attractive and be unwilling to purchase advertising time slots and locations on our network, which may in turn cause our revenues to decline and our business and prospects to deteriorate.

***Because we rely on third-party advertising agencies to help obtain advertisers, if we fail to maintain stable business relations with key third-party agencies or to attract additional agencies on competitive terms, our business and results of operations could be materially and adversely affected.***

We engage third-party advertising agencies to help obtain advertisers from time to time. We do not have long-term or exclusive agreements with these advertising agencies, including our key third-party advertising agencies, and cannot assure you that we will continue to maintain stable business relations with them. Furthermore, the fees we pay to these third-party advertising agencies constitute a significant portion of our cost of revenues. If we fail to retain key third-party advertising agencies or to attract additional advertising agencies, we may not be able to retain existing advertisers or attract new advertisers or advertising agencies, or the fees we pay them may have to significantly increase. If any of the above happens, our business and results of operations could be materially and adversely affected.

***A limited number of advertisers have historically accounted 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 advertisers or delays in payments from these advertisers.***

A limited number of advertisers historically accounted for a significant portion of our revenues. Our top five advertisers collectively accounted for approximately 21.3%, 20.6% and 20.3% of our total revenues in the years ended December 31, 2009, 2010 and 2011, respectively. Our largest advertisers have changed from year to year primarily because of our limited operating history and rapid growth, broadened advertiser base and increased sales. However, given our limited operating history and the rapid growth of our competition, we cannot assure you that we will not be dependent on a small number of advertisers in the future.

If we fail to sell our services to one or more of our major advertisers in any particular period, or if a major advertiser purchases fewer of our services, fails to purchase additional advertising time on our network, or cancels some or all of its purchase orders with us, our revenues could decline and our operating results could be adversely affected. The dependence on a small number of advertisers could leave us more vulnerable to payment delays from these advertisers. We are required under some of our concession rights contracts to make prepayments and although we do receive some prepayments from advertisers, there is typically a lag between the time of our prepayment of concession fees and the time that we receive payments from our advertisers. As our business expands and revenues grow, we have experienced and may continue to experience an increase in our accounts receivable. If any of our major advertisers are significantly delinquent with its payments, our liquidity and financial conditions 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 and results of operations.***

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. We currently play advertisements on digital frames through wireless networks, on digital TV screens in our network airports through closed-circuit television systems and on digital TV screens on our network airplanes mostly through video tapes. We may be required to incur development and acquisition costs 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. We may also fail to respond to changing technology needs altogether.

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 additional 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 ensure that we are reaching the leading advertisers and are responsive to the needs of both the advertising agencies and the advertisers.

If we fail to define, develop and introduce 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 advertisers, which may materially and adversely affect our business and results of operations.

***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 profits may be reduced.***

We face significant competition in the PRC advertising industry. We compete for advertisers primarily on the basis of network size and coverage, location, price, program quality, the range of services offered and brand recognition. We compete for advertising dollars spent in the air travel advertising industry. We also compete for overall advertising spending with other alternative advertising media, such as Internet, street facilities, billboard and public transport advertising, and with traditional advertising media such as newspapers, television, magazines and radio. While we enjoy a large share of the market of the digital frames and digital TV screens located in airports and on airplanes, we compete and will continue to compete with other media advertising platforms for which we do not have exclusivity, including billboards and light boxes. 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 lead to a loss of market share. Some of our existing and potential competitors may have competitive advantages such as significantly greater brand recognition, a longer history in the out-of-home advertising industry and 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 than we are to downturns in particular advertising 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 focus. We cannot assure you that we will be able to successfully compete against new or existing competitors, and failure to compete may reduce for existing market share and profits.

***Our results of operations are subject to fluctuations in the demand for air travel. A decrease in the demand for air travel may make it difficult for us to sell our advertising time slots and locations.***

Our results of operations are directly linked to the demand for air travel, which fluctuates greatly from period to period, and is subject to seasonality due to holiday travel and weather conditions as well as many other factors, including the following:

- *Downturns in the economy.* Business travel is one of the primary drivers of the air travel industry and it tends to increase in times of economic growth and decrease in times of economic slowdown. A decrease in air passengers in China could lead to lower advertiser spending on our air travel advertising network.
- *Terrorist attacks or fear of such attacks.* The terrorist attacks of September 11, 2001 in the U.S. involving commercial aircraft severely and adversely affected the air travel industry throughout the world. 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 reduce the demand for air travel.
- *Additional security measures regarding air travel.* Terrorist attacks have led to significantly increased security costs and associated passenger inconvenience. Since September 11, 2001, relevant authorities in the U.S., China and other countries have implemented numerous security measures that affect airport and airline operations and costs. These increasingly stringent security measures have led to higher costs for airports and airlines and may cause some air travelers to consider other travel options, which may in turn lead to higher concession fees and reduced advertising demand for us.
- *Plane crashes or other accidents.* 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 reduce 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 sell our advertising time slots or locations or charge premium prices.

***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 advertisers.***

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 operations to meet the demands of advertisers for broader 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, gas stations and other locations where we have concession rights to displays and third-party non-advertising content providers. We must add sales and marketing offices and personnel to service relationships with new airports, gas stations and other locations 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, and incur 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 advertisers.

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

We have acquired and may continue to acquire businesses, technologies, services or products which are complementary to our core air travel advertising network business in the future. 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; or
- failure to achieve the intended objectives of our acquisitions.

Any of these potential risks 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 or sell additional equity securities to make future acquisitions. The raising of additional debt funding by us, if required, would increase debt service obligations and may lead to additional operating and financing covenants, or liens on our assets, that would restrict our operations. The sale of additional equity securities could cause additional dilution to our shareholders.

Our acquisition strategy also depends on our ability to obtain necessary government approvals. See “– Risks Related to Doing Business in China – The M&A Rule sets forth complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions.”

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

We have experienced significant growth in revenues in recent years. Our net revenues increased from 2007 to 2011, while the number of our network airports and the number of digital frames in these airports had increased from 2007 to 2011. We may be unable to maintain or achieve growth in revenues or the number of airports or digital frames in our network in the future. In addition, the number of our digital TV screens in airports increased from 2007 to 2008 but experienced a decline from 2009 to 2011. There may be declines in the number of our digital TV screens in airports in the future.

***Our quarterly and annual operating results are difficult to predict and have fluctuated and may continue to fluctuate significantly from period to period.***

Our quarterly and annual operating results are difficult to predict and have fluctuated and may continue to fluctuate significantly from period to period based on the seasonality of air travel, consumer spending and corresponding advertising trends in China. Air travel and advertising spending in China generally tend to increase during major national holidays in October and tend to decrease during the first quarter of each year. Air travel and advertising spending in China is also affected by certain special events 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. 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. 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, and it 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 other key employees, 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. We rely on their industry expertise, their experience in business operations and sales and marketing, and their working relationships with our advertisers, airports and airlines, and relevant government authorities.

If one or more of our senior executives and other key employees 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 and other key employees joins a competitor or forms a competing company, we may lose advertisers, suppliers, key professionals and staff members. Each of our executive officers and other key employees has entered into an employment agreement with us which contains non-competition provisions. However, if any dispute arises between any of our executive officers and other key employees and us, we cannot assure you the extent to which any of these agreements could be enforced in China, where most of these executive officers and other key employees 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 you and us.”

***Failure to maintain an effective system of internal control over financial reporting and effective disclosure controls and procedures 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 laws. 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. SEC rules also require every public company to include a management report containing management's assessment of the effectiveness of such company's disclosure controls and procedures in its annual report.

Our management has concluded that our internal control over financial reporting and disclosure controls and procedures were not effective as of December 31, 2011. In this regard, our management has identified a material weakness in our internal controls as described under Item 15. “Management's Annual Report on Internal Control Over Financial Reporting” in this annual report. Our independent registered public accounting firm has issued an adverse opinion on the effectiveness of internal control over financial reporting as of December 31, 2011; see Item 15. “Attestation Report of the Independent Registered Public Accounting Firm”.

As described in Item 15. “Management's Annual Report on Internal Control Over Financial Reporting,” we have taken and or plan to take steps to address this material weakness and we believe that we have made significant progress. However, we can make no assurances that we can fully address our material weakness or address additional material weaknesses or significant deficiencies that may subsequently arise. If we are unable to enact changes to our internal controls to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, our registered independent public accounting firm may issue an adverse opinion report in future periods. Our failure to achieve and maintain effective internal control over financial reporting and disclosure controls and procedures may result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations, result in material misstatements in our financial statements, restatement of financial statements, sanctions or investigations by regulatory authorities, and loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs.

***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 resources 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 market;
- our future results of operations, financial condition and cash flows; and
- PRC governmental regulation of foreign investment in advertising services companies in China.

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.

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

As an air travel advertising service provider, we are obligated under PRC laws and regulations to monitor the advertising content shown on our network for 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 offending advertisements and orders to publish advertisements correcting the misleading information. In case of serious violations, the PRC authorities may revoke our license for advertising business operations. 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 by such networks, but we are still required to independently review and verify these advertisements for content compliance before displaying them. In addition, if a special government review is required for certain product advertisements before they are shown to the public, we are required to confirm that such review has been performed and approval obtained. 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 review of operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filing with local authorities.

We endeavor to comply with such requirements through means such as requesting relevant documents from the advertisers. However, we cannot assure you that each advertisement that an advertiser provides to us and which we include in our network programs is in full compliance with all relevant PRC advertising laws and regulations or that such supporting documentation and government approvals provided to us 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 those in more developed countries such as the U.S. and we cannot assure you that we will always be able to properly review all advertising content to comply with the PRC standards imposed on us with certainty.

***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 advertising network.***

Because of the nature and content of the information displayed on our network, civil claims may be filed against us for fraud, defamation, subversion, negligence, copyright or trademark infringement or other violations. 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. If consumers find the content displayed on our network to be offensive, airports, airlines or gas stations where we have our media may seek to hold us responsible for any consumer claims or may terminate their relationships with us.

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 advertisers 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 and adversely affect our business.***

Our commercial success depends to a large extent on our ability to operate without infringing the intellectual property rights of third parties. We cannot assure you that our displays or other aspects of our business do not or will not infringe 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, 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 affect our business.

## **RISKS RELATED TO OUR CORPORATE 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, our business could be materially and adversely affected.***

Substantially all of our operations are conducted through contractual arrangements with our consolidated variable interest entities, or VIEs, in China, AM Advertising, Beijing Shengshi Lianhe Advertising Co., Ltd., or Shengshi Lianhe, AirMedia UC, and Beijing Yuehang Digital Media Advertising Co., Ltd., or AM Yuehang. Although PRC regulations currently permit 100% foreign ownership of companies that provide advertising services, subject to approval by relevant PRC government authorities, 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 television program content. Our wholly owned Hong Kong subsidiary AM China, the 100% shareholder of AM Technology and Xi'an AM, has been operating an advertising business in Hong Kong since 2008. We are in the process of establishing a wholly-owned subsidiary to provide advertising services in China through it directly. However, we can make no assurance as to the specific time when this wholly-owned subsidiary shall be established. Once this subsidiary is put into operation, we intend to gradually shift our advertising business to this subsidiary, and thus to gradually reduce the reliance on the current VIE structure. Our advertising business is primarily provided through our contractual arrangements with our four consolidated variable interest entities in China. These entities directly operate our advertising network, enter into concession rights contracts and sell advertising time slots and locations to our advertisers. We have contractual arrangements with these variable interest entities pursuant to which we, through AM Technology, provide technical support and consulting services to these entities. We also have agreements with our variable interest entities and each of their shareholders that provide us with the substantial ability to control these entities. For a description of these contractual arrangements, see Item 4, "Information on the Company—Organizational Structure" and Item 7, "Major Shareholders and Related Party Transactions—Related Party Transactions—Contractual Arrangements."

We believe that the VIE arrangements are in compliance with PRC law and are legally enforceable. The shareholders of the VIEs are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so.

The Company's ability to control the VIEs also depends on the power of attorney AM Technology has to vote on all matters requiring shareholder approval in the VIEs. As noted above, we believe this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the PRC government were to find that the VIE arrangements do not comply with PRC governmental restrictions on foreign investment in the advertising industry and in the operating of non-advertising content, or if the legal structure and contractual arrangements were found to be in violation of any other existing PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Company's PRC subsidiaries and affiliates;
- discontinue or restrict the Company's PRC subsidiaries' and affiliates' operations;
- impose conditions or requirements with which the Company or its PRC subsidiaries and affiliates may not be able to comply;  
or
- require the Company or its PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations.

While the Company does not believe that any penalties imposed or actions taken by the PRC government would result in the liquidation of the Company, AM Technology, or the VIEs, the imposition of any of these penalties may result in a material and adverse effect on the Company's ability to conduct the Company's business. In addition, if the imposition of any of these penalties causes the Company to lose the power to direct the activities of the VIEs (and VIEs' subsidiaries) that most significantly impact the VIEs' (and VIEs' subsidiaries') economic performance or the right to receive substantially all of the benefits from the VIEs (and VIEs' subsidiaries), the Company would no longer be able to consolidate the VIEs (and VIEs' subsidiaries).

***We rely on contractual arrangements with our consolidated variable interest entities 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 arrangements, see Item 4, "Information on the Company—Organizational Structure" and Item 7, "Major Shareholders and Related Party Transactions—Related Party Transactions—Contractual Arrangements." These contractual arrangements may not be as effective as direct ownership in providing control over our variable interest entities. Under these contractual arrangements, if our variable interest entities or their shareholders fail to perform their respective obligations, 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, and we may not be successful.

Many of these contractual arrangements are governed by PRC law and provide for disputes to be resolved through arbitration or litigation in the PRC. 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 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 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 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 incurs debt on its own behalf in the future, the instruments governing the debt may restrict the ability of these entities 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 accumulated profits, if any, as 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 at least 10% of after-tax income based on PRC accounting standards each year to their general reserves until the accumulative amount of such reserves reaches 50% of their respective registered capital.

The registered capital of AM Technology, Shenzhen AM and Xi'an AM is \$45.0 million, RMB700 million (approximately \$96.4 million) and \$50.0 million, respectively. AM Technology and Xi'an AM have made the applicable annual appropriations required under PRC law. Shenzhen AM is not currently required to fund any statutory surplus reserve because it still has accumulated losses. Any direct or indirect limitation on the ability of our PRC subsidiaries to distribute dividends and other distributions to us could materially and adversely limit our ability to make investments or acquisitions at the holding company level, pay dividends or otherwise fund and conduct our business.

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.

## **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 China's economic, political and legal developments. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement and the level and growth rate of economic development.

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. PRC legislation and regulations afford significant protections to various forms of foreign investments in China, but 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. The PRC government has permitted the Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Since reaching a high against the U.S. dollar in July 2008, the Renminbi has traded within a narrow band against 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 are denominated in Renminbi and substantially all of our costs and expenses are 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, depreciation 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 Renminbi 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 Renminbi. 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, AM Technology, Shenzhen AM and Xi'an AM are able to pay dividends in foreign currencies, without prior approval from the State Administration of Foreign Exchange, or the 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 subsidiaries 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 by or registered with certain government authorities including the SAFE, the Ministry of Commerce or their local counterparts. These limitations could affect the ability of our subsidiaries and variable interest entities in China to exchange the foreign currencies obtained 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.***

Regulations promulgated by the SAFE require PRC residents and PRC corporate entities to register with local branches of the 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.

On February 15, 2012, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employee Share Incentive Plan of an Overseas-Listed Company (which replaced the old Circular 78, "Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in an Employee Stock Holding Plan or Stock Option Plan of an Overseas-Listed Company" promulgated on March 28, 2007), or the New Share Incentive Rule. Under the New Share Incentive Rule, PRC citizens who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. All such participants need to retain a PRC agent through a PRC subsidiary to register with SAFE and handle foreign exchange matters such as opening accounts, transferring and settlement of the relevant proceeds. The New Share Incentive Rule further requires that an offshore agent should also be designated to handle matters in connection with the exercise or sale of share options and proceeds transferring for the share incentive plan participants.

We and our PRC employees who have been granted stock options are subject to the New Share Incentive Rule. If we or our PRC employees fail to comply with the New Share Incentive Rule, we and/or our PRC employees may face sanctions imposed by the foreign exchange authority or any other PRC government authorities.

In addition, the State 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.

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 the SAFE, with respect to that offshore company, any material change involving its round-trip investment and capital variation. The PRC subsidiaries of that offshore company are required to urge the PRC resident shareholders to make such updates. 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 monetary penalties against us. We cannot assure you 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 these SAFE registration procedures may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to or obtain foreign-exchange-dominated loans from 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.

Certain measures promulgated by the People's Bank of China on foreign exchange for individuals set forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. Implementing rules for these measures were promulgated by the SAFE 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. The SAFE also promulgated rules under which 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 the SAFE and complete certain other procedures. We and our PRC employees who have been granted stock options are subject to these rules. 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 M&A Rule sets forth complex procedures for acquisitions conducted by foreign investors which could make it more difficult to pursue growth through acquisitions.***

The PRC Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, sets forth complex procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Part of our growth strategy includes acquiring complementary businesses or assets. Complying with the requirements of the 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 M&A Rule and were found not to be in compliance with the requirements of the 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 materially and adversely affect our business and results of operations.

***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 and results of operations.***

There are no existing PRC laws or regulations that specifically define or regulate air travel advertising. Our subsidiaries Shenzhen AM, AM Technology and Xi'an AM all have current business licenses, as such licenses are required for all PRC incorporated entities to conduct active business operations in the PRC. The scopes of the business licenses for these three entities include the development of electronic, computer and media-related technologies and products and do not include advertising, due to certain restrictions on foreign ownership of advertising enterprises under PRC law. 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 and 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.

***Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.***

In connection with the EIT Law, the Ministry of Finance and the State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008.

By promulgating and implementing these circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. The PRC tax authorities have the discretion under Circular 59 and Circular 698 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. If we are considered a "non-resident enterprise" under the EIT Law and if the PRC tax authorities make adjustments under Circular 59 or Circular 698, our income tax costs associated with such potential acquisitions will be increased.

***The enforcement of the Labor Contract Law and other labor-related regulations in China may adversely affect our business and our results of operations.***

The Labor Contract Law, which came into effect January 1, 2008, established more restrictions and increased costs for employers to dismiss employees under certain circumstances, including specific provisions relating to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. Under the Labor Contract Law, unless otherwise provided by law, an employer is obligated to sign a labor contract with a non-fixed term with an employee, if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts, or if the employee has worked for the employer for 10 consecutive years. Severance pay is required if a labor contract expires and is not renewed because of the employer's refusal to renew or seeking to renew with less favorable terms. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation for five to 15 days, depending on the employee's number of years of employment. Employees who waive such vacation at the request of employers are entitled to compensation that equals to three times their regular daily salary for each waived vacation day. As a result of these new labor protection measures, our labor costs are expected to increase, which may adversely affect our business and our results of operations. It is also possible that the PRC government may enact additional labor-related legislations in the future, which would further increase our labor costs and affect our operations.

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

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 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.

***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.***

The PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008, imposes a uniform income tax rate of 25% on most domestic enterprises and foreign investment enterprises. Under this law, entities that qualify as "high and new technology enterprises strongly supported by the state," or HNTE, are entitled to the preferential Enterprise Income Tax, or EIT, rate of 15%. A company's status as a HNTE is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential EIT rate. In addition, according to relevant guidelines, "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.

AirMedia Technology (Beijing) Co., Ltd., one of our PRC subsidiaries, or AM Technology, was recognized as a HNTE under the new rules and therefore, it is entitled to enjoy a preferential EIT rate of 15%. It was also eligible for a 50% tax reduction from 2009 to 2011 under the applicable tax laws and regulations that were in effect before January 1, 2008, the date the EIT Law came into effect. As a result, AM Technology was subject to an EIT rate of 7.5% in 2009, 2010 and 2011. In September 2011, AM Technology received a new HNTE certificate. As a result, AM Technology is expected to be subject to an EIT rate of 15% from 2012 if it maintains its status as a HNTE.

Xi'an AirMedia Chuangyi Technology Co., Ltd., one of our PRC subsidiaries, or Xi'an AM, qualified as a "new software enterprise" in August 2008 by the Technology Information Bureau of Shaanxi Province and has received a written approval from Xi'an local tax bureau that it is 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. As Xi'an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoys the preferential income tax rate of 12.5% from 2011 to 2013.

Shenzhen AirMedia Information Technology Co., Ltd., one of our PRC subsidiaries, or Shenzhen AM, was subject to a 15% preferential EIT rate in 2007 as it is located in Shenzhen and then was subject to EIT on its taxable income from 2008 at the gradual rate as set out in Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives, or “Circular 39.” Since Shenzhen AM is also qualified as a “manufacturing foreign-invested enterprise” incorporated prior to the effectiveness of the EIT Law, it is further entitled to a two-year exemption from EIT for years 2008 and 2009 and preferential rates of 11%, 12% and 12.5% for the years 2010, 2011 and 2012, respectively.

Hainan Jinhui Guangming Media Advertising Co., Ltd., one of our VIEs’ PRC subsidiaries, or Hainan Jinhui, is subject to EIT on the taxable income at the gradual rate, which was 18% in 2008, 20% in 2009, 22% in 2010 and 24% in 2011, and will be 25% in 2012 at the gradual rate as set out in Circular 39.

We cannot assure you 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 materially and adversely affect our business and results 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 more PRC withholding taxes under PRC tax law.***

Under the EIT Law and related regulations, 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, or BVI, where Broad Cosmos Enterprises Ltd., or Broad Cosmos, 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, or AM China, the 100% shareholder of AM Technology and Xi’an AM, 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 between China and Hong Kong 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). However, under recently implemented PRC regulations, now our Hong Kong subsidiary must obtain approval from the competent local branch of the State Administration of Taxation in accordance with the double-taxation agreement among the PRC and Hong Kong in order to enjoy the 5% preferential withholding tax rate. In February 2009, the State Administration of Taxation issued Notice No. 81. According to Notice No. 81, in order to enjoy the preferential treatment on dividend withholding tax rates, an enterprise must be the “beneficial owner” of the relevant dividend income, and no enterprise is entitled to enjoy preferential treatment pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. In October 2009, the State Administration of Taxation issued another notice on this matter, or Notice No. 601, to provide guidance on the criteria to determine whether an enterprise qualifies as the “beneficial owner” of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. Pursuant to Notice No. 601, the PRC tax authorities will review and grant tax preferential treatment on a case-by-case basis and adopt the “substance over form” principle in the review. Notice 601 specifies that a beneficial owner should generally carry out substantial business activities and own and have control over the income, the assets or other rights generating the income. Therefore, an agent or a conduit company will not be regarded as a beneficial owner of such income. Since the two notices were issued, it has remained unclear how the PRC tax authorities will implement them in practice and to what extent they will affect the dividend withholding tax rates for dividends distributed by our subsidiaries in China to our Hong Kong subsidiary. If the relevant tax authority determines that our Hong Kong subsidiary is a conduit company and does not qualify as the “beneficial owner” of the dividend income it receives from our PRC subsidiaries, the higher 10% withholding tax rate may apply to such dividends.

Under the EIT Law and EIT Implementation Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a PRC resident enterprise and is subject to the EIT at the rate of 25% on its worldwide income. The EIT Implementation Rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The SAT issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, on April 22, 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled overseas-incorporated enterprise is located in China.

In addition, the SAT issued a bulletin on July 27, 2011 to provide more guidance on the implementation of SAT Circular 82 with an effective date to be September 1, 2011. The bulletin made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. It also specifies that when provided with a copy of the Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise. Although both SAT Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises, not to those that, like our company, are controlled by PRC individuals, the determination criteria set forth in SAT Circular 82 and administration clarification made in the bulletin may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and the administration measures that should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

After consulting with our PRC counsel, we do not believe that our holding company and other overseas subsidiaries should be deemed PRC resident enterprises as, among other things, certain of our company's key assets and records, including register of members, board resolutions and shareholder resolutions, are located and maintained outside of the PRC, and we also hold our board and board committee meetings outside of the PRC from time to time. However, we have been advised by our PRC counsel, Commerce & Finance Law Offices, that because there remains uncertainty regarding the interpretation and implementation of the EIT Law and EIT Implementation Rules, it is uncertain whether we will be deemed a PRC resident enterprise. If the PRC authorities were to subsequently determine, or any further regulations provide, that we should be treated as a PRC resident enterprise, we would be subject to a 25% enterprise income tax on our global income. To the extent our holding company earns income outside of China, a 25% enterprise income tax on our global income may increase our tax burden and could adversely affect our financial condition and results of operations.

If we are regarded as a PRC resident enterprise, dividends distributed from our PRC subsidiaries to us could be exempt from the PRC dividend withholding tax, since such income is exempt under the EIT Law and the EIT Implementation Rules to the extent such dividends are deemed “dividends among qualified PRC resident enterprises.” If we are considered a resident enterprise for enterprise income tax purposes, dividends we pay with respect to our ADSs or ordinary shares may be considered income derived from sources within the PRC and subject to PRC withholding tax of 10%. In addition, non-PRC shareholders may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that we are considered as a PRC resident enterprise.

With the 10% PRC dividend withholding tax, we will incur an incremental PRC tax cost when we distribute our PRC profits to our ultimate shareholders if we are deemed not to be a PRC resident enterprise. On the other hand, if we are determined to be a PRC resident enterprise under the EIT Law 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 EIT Law.

Moreover, under the EIT 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 we are classified as a PRC resident enterprise and such income is deemed to be sourced from within the PRC. Although we are incorporated in the Cayman Islands, it is unclear whether the dividends payable by us or the gains our foreign ADS holders may realize on disposition 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.

***If we become directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.***

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our Company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation will be costly and time consuming and distract our management from growing our company.

***The audit report included in this annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the US Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States) (“the “PCAOB”), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples’ Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

## **RISKS RELATED TO THE MARKET FOR OUR ADSs**

***The trading price of our ADSs has been and may continue to be volatile.***

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. During the year of 2011, the trading prices of our ADSs on the NASDAQ Global Select Market ranged from \$2.21 to \$7.41 per ADS and the closing sale price on April 27, 2012 was \$2.90 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors including, changes in the economic performance or market valuations of other advertising companies, conditions in the air travel advertising industry and the 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 unrelated to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

Additional sales of our ordinary shares in the public market, or the perception that these sales could occur, could also cause the market 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.***

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 U.S. Securities Act of 1933, as amended, or the Securities Act, or an exemption from the registration requirements is available. Under the deposit agreement, the depositary 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 depositary 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 depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary 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 depositary 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 depositary. However, the depositary 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 depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary 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 substantially all of our operations in China and most of our directors and officers reside outside the United States.***

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our subsidiaries and variable interest entities. Most 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 for you to effect service of process within the United States and bring an action against us or against these individuals in a U.S. court if 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 (2011 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 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.

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. The following provisions in our articles 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.
- 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 shareholders 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 March 31, 2012, our principal shareholder, Herman Man Guo, beneficially owned approximately 32.4% of our outstanding ordinary shares. He 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.

***We are a “foreign private issuer,” and have disclosure obligations that are different than those of U.S. domestic reporting companies so you should not expect to receive the same information about us at the same time as a U.S. domestic reporting company may provide.***



We are a foreign private issuer and, as a result, we are not subject to certain of the requirements imposed upon U.S. domestic issuers by the SEC. For example, we are not required by the SEC or the federal securities laws to issue quarterly reports or proxy statements with the SEC. We are required to file our annual report within four months of our fiscal year end. We are not required to disclose certain detailed information regarding executive compensation that is required from U.S. domestic issuers. Further, our directors and executive officers are not required to report equity holdings under Section 16 of the Securities Act. We are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. We are, however, still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5. Since many of the disclosure obligations required of us as a foreign private issuer are different than those required by other U.S. domestic reporting companies, our shareholders should not expect to receive information about us in the same amount and at the same time as information is received from, or provided by, other U.S. domestic reporting companies. We are liable for violations of the rules and regulations of the SEC which do apply to us as a foreign private issuer. Violations of these rules could affect our business, results of operations and financial condition.

***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.***

Depending upon the value of our assets based on the market value of our ordinary shares and ADSs and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Based on the market price of our ADSs and ordinary shares and the composition of our income and assets, we believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2011. However, we believe that there is a significant risk that we will be a PFIC for our taxable year ending December 31, 2012.

Although the law in this regard is unclear, we treat the consolidated variable interest entities and their subsidiaries as being owned by us for U.S. federal income tax purposes, because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate these entities' operating results in our consolidated financial statements. If it were determined, however, that we are not the owner of the consolidated variable interest entities and their subsidiaries for U.S. federal income tax purposes, we would likely be treated as a PFIC for our taxable year ended on December 31, 2011 and any subsequent taxable year. Because 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), we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2012 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, 2012 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 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 (as defined in Item 10, "Additional Information—Taxation—United States Federal Income Taxation") held our ADSs, or ordinary shares, 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 on the sale of our ADSs or ordinary shares and certain distributions, and will become subject to burdensome reporting requirements. Further, if we were a PFIC for any year during which a U.S. Holder held our ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. Holder held our ADSs or ordinary shares. See Item 10, "Additional Information—Taxation—U.S. 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. Later, we established additional PRC consolidated variable interest entities to conduct our operations in China.

Substantially all of our current operations are conducted through contractual arrangements with these entities. On November 7, 2007, we listed our ADSs on the Nasdaq Global Market under the symbol “AMCN”. We and certain of our then shareholders completed the initial public offering of 17,250,000 ADSs, representing 34,500,000 of our ordinary shares, on November 13, 2007. Our ADSs were subsequently transferred to the NASDAQ Global Select Market.

In 2008, one of our variable interest entities, AM Advertising, acquired an airport gate bridge advertising business through purchasing 80% equity interest in Flying Dragon Media Advertising Co., Ltd., a PRC company, or Flying Dragon. Concurrently with the Flying Dragon acquisition, we also directly acquired all of the equity interest in Excel Lead International Limited, a BVI company, or Excel Lead. Part of the consideration for the Excel Lead acquisition is a contingent consideration to be determined based on the performance of Excel Lead through 2010, in an aggregate amount of up to US\$27.3 million in cash and 1,530,950 of our ordinary shares, or up to \$39.7 million in cash only at the sellers’ option.

In 2009 and 2010, we also added various additional media resources to our advertising network, including outdoors media in gas stations and urban locations. During 2009, we directly acquired 100% equity interests in Dominant City Ltd., a BVI company. Concurrently with this acquisition, one of our variable interest entities, AM Advertising, acquired 100% equity interest in Beijing Youtong Hezhong Advertising Media Co. Ltd., a PRC company, which operates media resources in a number of airports including Guangzhou and Hangzhou airports. The total consideration for the acquisition of Dominant City Ltd. and Beijing Youtong Hezhong Advertising Media Co., Ltd. was \$7.8 million. In 2009, AM Advertising, which is majority-owned by our variable interest entity, AirMedia UC, entered into an exclusive concession rights contract under which it will develop and operate outdoor advertising platforms such as billboards at Sinopec gas stations. In January 2010, we acquired 100% of the equity interest in Easy Shop Ltd., a BVI company, and concurrently, our variable interest entity, AM Advertising, acquired 90% of the equity interest in AM Outdoor on top of the 10% of AM Outdoor it already owned prior to the transaction. The total consideration for both transactions was \$13.9 million. As a result of these transactions, our variable interest entity, AM Advertising, now holds 100% equity interest in AM Outdoor and operates unipole signs and other outdoor media. In February 2010, our variable interest entity, AirMedia UC, acquired 45% equity interest in Dongding, which has exclusive rights to build and operate billboards that display both public service content and commercial advertising throughout Beijing in locations such as shopping malls and parking lots. AirMedia UC held 30% equity interest in Dongding prior to the transaction and, as a result of these transactions, now holds 75% equity interest in Dongding.

In April 2011, we formed Beijing Weimei Shengjing Advertising Co., Ltd., a PRC company, as a wholly-owned subsidiary of our consolidated variable interest entity, AirMedia UC, with a registered capital of RMB 1.0 million, and Beijing AirMedia Jinsheng Advertising Co., Ltd., a PRC company, as a wholly-owned subsidiary of Beijing AirMedia Jinshi Advertising Co., Ltd., a PRC company and a majority-owned subsidiary of AirMedia UC, with a registered capital of RMB 5.0 million. We also de-registered a former subsidiary, Royal Mart Limited, a Hong Kong company, and a former subsidiary of a consolidated variable interest entity, Beijing Weimei Shengshi Advertising Co., Ltd., a PRC company. We also changed the name of Beijing Union of Friendship Advertising Media Co. Ltd. to Beijing Youtong Hezhong Advertising Media Co., Ltd., a subsidiary of AM Advertising, and the name of AM Advertising itself as described above. Our wholly owned Hong Kong subsidiary AM China has been operating an advertising business in Hong Kong since 2008 and its operation experience is currently more than three years. We are in the process of establishing a wholly-owned subsidiary to provide advertising services in China through it directly. However, we can make no assurance as to the specific time when this wholly-owned subsidiary shall be established. Once this subsidiary is put into operation, we intend to gradually shift our advertising business to this subsidiary, and thus to gradually reduce the reliance on the current VIE structure.

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 PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

## Business Overview

### General

We are a leading operator of out-of-home advertising platforms in China targeting mid-to-high-end consumers. As of March 1, 2012, we operated digital frames in 34 airports in China and digital TV screens in 36 airports, including the six largest airports in China: Beijing Capital International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao International Airport, Chengdu Shuangliu International Airport, and Shenzhen Bao'an International Airport. In addition, we had contractual concession rights to place our programs on the routes operated by nine airlines, including the four leading airlines in China, Air China, China Southern Airlines, China Eastern Airlines and Hainan Airlines.

In July 2008, we expanded into the traditional air travel advertising market through the acquisition of Flying Dragon. We believe we are a leader in the traditional air travel advertising market in three major airports: Beijing Capital International Airport, Shenzhen International Airport, and Wenzhou Yongqiang Airport. We currently hold contractual concession rights to operate light boxes and billboards primarily in Beijing Capital International Airport, Shenzhen International Airport and Wenzhou Yongqiang Airport. In addition, we currently hold contractual concession rights to place advertisements on gate bridges located in seven major airports in China. These advertisements include billboard advertisements and painted advertisements on the interior and exterior walls of gate bridges.

We started operating advertising media platforms at gas stations owned by Sinopec in 2009 and now also hold concession rights to operate various traditional advertising media including billboards, light boxes and other media platforms out of the air travel sector. In addition to holding exclusive concession rights to develop and operate advertising media platforms at China's leading network of gas stations owned by Sinopec, we also hold rights to build and operate billboards that display both public service content and commercial advertising, and the right to operate unipole signs and other outdoor media.

Air travel advertising in China has grown significantly in recent years because of growth in China's advertising market and air travel sector. By focusing on air travel advertising, we enable our advertisers to target air travelers in China, whom we believe are an attractive demographic for advertisers due to the fact that they have higher-than-average disposable income compared to the rest of China's population. We strategically place our digital frames, digital TV screens and traditional media displays in high-traffic locations inside 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. The digital TV screens on our network airplanes are located in highly visible locations in passenger compartments and on the backs of passenger seats. Furthermore, gate bridges on which we have coverage connect terminal gates with airplanes and 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 weather, sports and comedy clips, in our digital TV screen programs. We have contracts with many Chinese TV stations such as Dragon TV, the Travel Channel and CCTV-5, to show video clips of their programs in airports and on airplanes. We also obtain TV programs such as documentaries and "hidden camera" type reality shows from other third-party content providers. In addition, in November 2010, we entered into a strategic partnership with CCTV Mobile Media to operate the CCTV Air Channel to broadcast TV programs in digital TV screens in airports and on airplanes to air travelers in China. CCTV Mobile Media will be responsible for program planning, production, and broadcasting and we will operate exclusively the advertising business of CCTV Air Channel. We believe non-advertising program content make air travelers more receptive to the advertisements included in our programs and ultimately make our programs more effective for our advertisers. Starting in 2010, our standard programs in airports typically include 20 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 and locations on our network to our advertisers, including both direct advertisers and advertising agencies. In the short term, we will focus on selling our current media resources and improve the utilization rates of our existing product lines. Before we obtain a higher level of profitability in our operations, we expect that we would not obtain significantly more media resources either inside or outside the air travel advertising sector. In the long term, however, we will continue to acquire new media platforms to provide a broader range of advertising services for our advertisers and to become a one-stop provider for air travel as well as other forms of advertising.

### ***Advertising Network and Services***

We primarily generate revenues from advertising services at the following platforms: digital frames in airports, digital TV screens in airports and on airplanes, traditional media in airports such as light boxes, billboards and painted advertisements and gas station media displays and other outdoor media displays outside of the air travel advertising sector.

#### *Digital Frames in Airports*

We 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 amounts of time waiting. Our digital frames are high-definition liquid crystal display, or LCD, screens that typically change digital picture displays approximately every 12 seconds, with certain exceptions of 5 to 15 seconds in limited airports. Our digital frames include standalone digital frames and TV-attached digital frames. Standalone digital frames display advertisements on vertical or horizontal display panels ranging in size from 40 to 108 inches. TV-attached digital frames consist of a vertical digital frame beneath a digital TV screen and are typically in sizes ranging from 47 to 55 inches. In response to advertiser advertising needs, we also own and operate digital frames of a larger size, up to 108 inches, in the airports of Beijing, Guangzhou and Nanjing. In both international and domestic arrival halls of Terminals 2 and 3 of the Beijing International Airport, we operate 44 sets of 108-inch LCD screens that measure four square meters (or 43.1 square feet) each; we also operate 12 sets of 108-inch LCD screens in departure halls, security checkpoints, luggage pickup and subway entrance areas inside Guangzhou Baiyun International Airport. In Guangzhou Baiyun International Airport, we have four large light emitting diode, or LED, screens, each measuring 76.0 square meters (or 818.4 square feet), above all of the domestic security check areas in Guangzhou Baiyun International Airport, forming a leading security checkpoint digital media display platform in China in terms of screen size. In Nanjing Lukou International Airport, we have three large LED screens, one measuring 36 square meters (387.5 square feet) and the other two measuring 15 square meters (161.5 square feet), which are connected together above the domestic security check area in full view of the airport's domestic travelers. These three large LED screens in Nanjing Lukou International Airport started operation on February 1, 2011. Two newer LED screens, each measuring 55.3 square meters (or 595 square feet) and 89.95 square meters (or 968 square feet), respectively, started operation in Changsha Huanghua International Airport in July 2011.

As of March 1, 2012, we operated approximately 3,368 digital frames in 34 airports, 1,367 of which were standalone digital frames, including 108-inch LCD display screens and large LED screens, and 2,001 of which were TV-attached digital frames. These 34 airports accounted for approximately 84% of the total air travelers in China in 2011, according to the General Administration of Civil Aviation of China. Our digital frames play advertising content repeatedly mainly in ten-minute cycles.

We believe digital frames provide an effective advertising platform to our advertisers. We sell our advertisements on digital frames in one-week units which affords scheduling flexibility and cost-effectiveness to our advertisers. In addition, as our digital frames are located in both domestic and international terminals in a number of airports, our advertisers 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 advertisers 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 Baiyun International Airport, we have some digital frames in sets of two or three screens together as a group, and in Shenzhen International Airport we put five screens together as a group. An advertisement can be displayed in one picture on multiple screens to better attract air travelers' attention.

### *Digital TV Screens in Airports*

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 LCDs. As of March 1, 2012, we operated approximately 2,690 digital TV screens in 36 airports in China under various concession rights contracts. These 36 airports accounted for approximately 81% of the total air travelers in China in 2011, according to the General Administration of Civil Aviation of China.

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, 20 minutes of the program consists of advertising content provided to us by our advertisers 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 separate advertising messages or videos, which are updated weekly, we promote the brand names of our advertisers by naming our programs after their brand names. The non-advertising content consists of humor clips such as hidden camera shows and funny home videos, sports clips such as soccer, snooker and extreme sports, movie previews and interviews with celebrities, as well as the latest world fashion shows. These programs are generally updated monthly, with the programs in Shanghai Pudong and Hongqiao airports updated weekly.

### *Digital TV Screens on Airplanes*

As of March 1, 2012, our programs were placed on digital TV screens on routes operated by nine 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 9 inches to 50 inches in size, while the display screens on the back of passenger seats typically range from seven inches to nine inches in size. There are approximately 10 to 280 on an airplane. The TV system installed on each plane differs from one another according to the requirements of each specific airline. For instance, if the airline chooses to implement audio-video on demand, or AVOD, systems and personal TV, or PTV, systems, then it would have to install TV screens on the back of each and every seat on the airplane.

Our airplane display programs are played once for approximately 45 minutes to an hour per flight. Approximately five to 15 minutes of each program consist of advertising content provided to us by our advertisers and the rest of the program consists of non-advertising content. The non-advertising content on these planes includes travel shows, documentaries, sports and other content similar to that shown on our airport programs. We also promote brand names of our advertisers 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 to play popular 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 player, passengers are not typically given a selection of channels and thus viewership of our programs is generally high.

### *Traditional Media in Airports*

Our traditional media in airports currently includes light boxes and billboards in airports and billboards and painted advertisements on gate bridges in airports. As of March 1, 2012, we operated 434 light boxes and billboards mainly in four airports, including Beijing Capital International Airport, Shenzhen International Airport, Chengdu Airport and Wenzhou Yongqiang Airport. As of March 1, 2012, we operated billboards on gate bridges mainly located in seven airports, including Beijing Capital International Airport and Guangzhou Baiyun International Airport.

Light box advertisements are static poster advertisements illuminated with back lighting and billboard advertisements are only static poster advertisements. The advertisements on gate bridges in airports include billboard and painted advertisements on interior or exterior walls of gate bridges.

### *Other Media in Air Travel*

We have logos for various display equipment in airports prominently displayed on this equipment, for which logos we charge advertising fees. As of March 1, 2012, we also operate 98 sets of 17-inch crystal TV screens on shuttle buses in Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.

### *Gas Station Media Network*

In April 2009, we entered into an exclusive contract with Sinopec under which we obtained the concession right to develop and operate outdoor advertising platforms at all Sinopec gas stations located throughout China until December 31, 2014, with limited exceptions. This network consists of outdoor advertising platforms strategically placed in Sinopec gas stations where there is high visibility and significant waiting time. These outdoor advertising platforms consist of traditional advertising formats such as light boxes and billboards, and display advertising content in month-long slots.

### *Other Media Network*

We have access to build and operate billboards that display both public service content and commercial advertising throughout Beijing in locations such as shopping malls and parking lots. We also currently operate approximately 30 unipole signs and other outdoor media in locations throughout Beijing.

We believe our recently developed outdoor media network provides an alternative advertising platform to our advertisers in addition to our existing air travel media network. We generally sell advertisements on outdoor media platforms in units of approximately one month long. We currently plan to focus on improving the utilization rates of our existing outdoor media network resources.

### ***Our Sales Contracts***

We typically offer advertisers 12-second time slots for advertising on our digital frames, though, in some airports, we occasionally offer time slots of 5, 7.5 and 10 seconds. With respect to our digital TV screens, we offer advertising time slots of 5, 15 and 30 seconds. Sales are made pursuant to written contracts with commitments ranging from one week to two years. These digital frames and digital TV screens sales contracts typically fix the duration, time and frequency of advertisements. For billboards and light boxes, we offer advertisers spaces on a monthly basis or a year-long basis; sales are made pursuant to written contracts with commitments ranging from one month to one year. These billboards and light boxes sales contracts typically fix the commencement date and duration of such advertisements.

Payments under certain sales contracts are subject to our advertisers' receipt of monitoring reports which verify the proper display of the advertisements and payment terms mutually agreed by both parties. We generally require our advertisers to submit advertising content at least 10 working days for digital media and 14 working days for traditional media prior to the campaign start date, and reserve the right to refuse to display advertisements not in compliance with content requirements under PRC laws and regulations.

### ***Our Concession Rights Contracts***

#### *Airports*

As of December 31, 2011, our major concession rights contracts that will expire in the next 12 months include traditional media assets and digital media assets in Beijing Capital International Airports, digital frames and digital TV screens media assets in Shanghai Hongqiao International Airport and Shanghai Pudong International Airport.

As of March 1, 2012, we had 141 concession rights contracts to operate our digital frames, digital TV screens, other displays in our air travel network and traditional media in 40 airports, including 30 of the major airports in China. 44 of these 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 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.

From March 2009, we have had a concession rights contract with Beijing Capital International Airport to operate traditional advertising formats including billboards, light boxes and other formats at Terminals 1, 2, and 3 of Beijing Capital International Airport. We renewed these concession rights, which now expire on March 31, 2015. We also entered into a concession rights contract with Shenzhen International Airport to operate the light boxes in the arrival walkways of Terminals A and B of Shenzhen International Airport from April 1, 2009 to December 31, 2011, extended to December 31, 2012 upon renewal of our contract. We began operating these traditional media on April 1, 2009. In the same contract, we also obtained concession rights to operate digital frames in the baggage claim areas in all of the three terminals of Beijing Capital International Airport from April 1, 2009 to March 31, 2012, which have been extended by renewal to March 31, 2015. During 2011, we also obtained concession rights through two contracts to operate advertisements inside and outside 59 gate bridges located at Terminal 3 of Beijing Capital International Airport from May 7, 2011 to May 6, 2013, and from July 8, 2011 to July 7, 2013, respectively, and each contract permits us to operate an advertisement for two years from the date that the advertisement's operation begins during the respective contract's term. In addition, in February 2012, we obtained a concession rights contract to operate 53 digital frames, 97 digital TV screens, and four large LED screens at the newly built Terminal 2 of Chengdu Shuangliu International Airport, or Chengdu Airport, from April 1, 2012 to March 31, 2017. We also obtained concession rights to operate six light boxes at the departure aisle and one other traditional advertising format at Terminal 2 of Chengdu Airport from April 1, 2012 to March 31, 2015. Chengdu Airport surpassed Shenzhen Bao'an International Airport in 2011 in terms of air traveler volume to become the fifth largest airport in mainland China.

Most concession fees are fixed under our concession rights contracts with escalation clauses attached, meaning the fees undergo fixed levels of increases over each year of the agreement. Payments under concession rights contracts are usually due three months in advance, but payments under a few material concession rights contracts are due six months or one year in advance. The concession fees that we pay for our networks in each airport vary by each airport's passenger volume and depend on the city where the airport is located. A majority of our concession rights contracts for our digital frames, digital TV screens and traditional media in airports have terms ranging from three to five years without any automatic renewal provisions. However, we can opt to renew the agreements three or five months before the expiration of certain concession rights contracts, on the condition that if another third party offers to enter into concession rights contracts in relation to the same media platforms, we shall have first right of refusal to renew our existing concession rights contracts on similar terms as those proposed by such third party. As of March 1, 2012, 36 out of our 141 concession rights contracts to operate in airports would be subject to renewal by the end of 2012. The number of displays and placement locations are explicitly specified in the majority of our concession rights contracts.

### *Airlines*

Our programs are currently placed on digital TV screens located on routes operated by the following nine airlines:

- China Southern Airlines;
- China Eastern Airlines;
- Air China;
- Hainan Airlines;
- Shanghai Airlines;
- Shenzhen Airlines;
- Air Macau;
- Chengdu Airlines; and
- Okay Airways.

As of March 1, 2012, we had nine concession rights contracts to place our programs on these network airlines, seven of which 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. Most of the concession fees are fixed by escalation clauses under the relevant concession rights contracts, and their amounts vary 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 March 1, 2012, four out of nine of our concession rights contracts to operate on airlines are subject to renewal by the end of 2012.

We hold 49% of the equity interests in a joint venture, Beijing Eastern Media Corporation, Ltd., or BEMC. BEMC is formed in partnership 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, which holds 51% equity interests in BEMC. 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. We believe this innovative strategic partnership further strengthened our relationship with China Eastern Group and we renewed our concession rights contract on February 20, 2010 with China Eastern Airlines to operate digital TV screens on China Eastern Airlines on an exclusive basis until December 31, 2020. As of December 31, 2011, BEMC also obtained media resources other than digital TV screens, 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.

### *Gas Station Media*

In April 2009, we entered into a concession rights agreement with Sinopec under which we hold the right to exclusively operate all of the outdoor advertising media at Sinopec gas stations throughout China until December 31, 2014, except for those stations in a limited number of cities whose media platforms have previously been leased by Sinopec to third parties. For stations with existing media platform lease agreements with third parties, Sinopec will not renew the contracts with third parties when the contracts expire, and will deliver these media platforms to us within a reasonable period. The concession fee is based on the actual number of developed gas stations and associated standard annual concession fee for each developed gas station. The concession rights agreement also includes fixed minimum concession fee payments for the years 2009, 2010 and 2011.

### ***Advertisers, Sales and Marketing***

#### *Our Advertisers*

Our advertisers purchase advertising time slots and locations on our advertising network either directly from us or through advertising agencies. Many advertisers negotiate the terms of the advertising purchase agreements directly with us, however we also rely on advertising agencies for a significant portion of our sales.

We have a broad base of international and domestic advertisers in various industries. The top three industries that advertise on our network were automobile, finance and high-end food and beverages, based on revenues derived from advertisers in these industries which accounted for approximately 26.1%, 20.8% and 12.4% of our total revenues in 2009, respectively, approximately 33.8%, 18.7% and 10.3% of our total revenues in 2010, respectively, and approximately 34.6%, 18.1% and 8.3% of our total revenues in 2011, respectively. No single customer accounted for more than 10% of our total revenues for 2009, 2010 and 2011.

#### *Sales and Marketing*

We provide a number of services in connection with each advertiser's advertising campaign. We rely on our experienced sales team to assist advertisers in structuring advertising campaigns by analyzing advertisers' target audiences and the form and contents of the advertisement they may be interested in, as well as 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 use third-party market research firms from time to time to obtain the relevant market study data, and at the same time hire such research firms to evaluate the effects of our advertising, so as to evaluate the effectiveness of our network for our advertisers and to illustrate to our advertisers our ability to reach targeted demographic groups effectively.



Our experienced advertising sales team is organized by region and city with a presence in 21 cities as of March 31, 2012. We provide in-house education and training to our sales force to ensure they provide our current and prospective advertisers 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 market our advertising services by displaying our name and logo on all of our digital frames, digital TV screens, light boxes and billboards in airports and gas stations and by placing advertisements on third-party media from time to time, including China Central Television. We also engage third-party advertising agencies to help source advertisers.

### ***Pricing***

The listing prices of our air travel advertising services depend on the traffic flow of each airport, the gross domestic product, or GDP, average income level, average commercial advertising budgets of major companies in the city in which each airport is located, the customer flow of each airline, the needs of each airport and airline, the number of time slots and display locations purchased, the cost of the relevant media assets, our costs for the relevant concession rights, and competition. The listing prices of our advertising network in Sinopec gas stations depend on economic conditions, GDP, average discretionary income, average income levels and advertising trends in the cities in which the gas stations are located, taking into account the mainstream media advertising pricing and costs (including local news stations, newspapers, bus stop light boxes and outdoor signs) in each city as well as our own display equipment and resource costs for setting up such advertising network. Similar considerations apply to our outdoor media platforms. Going forward, we intend to review our listing prices periodically and make adjustments as necessary in light of market conditions.

Prices for advertisements on our network are fixed under our sales contracts with advertisers or advertising agencies, typically at a discount to our listing prices.

### ***Programming***

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

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 5-, 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 airplanes, respectively. We create this list by first fixing the schedule for advertising content according to the respective sales contracts with our advertisers to guarantee the agreed duration, time and frequency of advertisements for each advertiser, then adding the non-advertising content to achieve an optimal blend of advertising and non-advertising content.

Substantially all of the advertisements on our network are provided by our advertisers. All of the advertising content displayed on our advertising network is reviewed by us 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 frames and digital TV screens in our network airports and airplanes on a weekly and monthly basis, respectively. Substantially all of the non-advertising content played on our network is provided by third-party content providers such as Dragon TV, the Travel Channel and various satellite and cable television stations and television production companies. In November 2010, we entered into a strategic partnership with CCTV Mobile Media to operate the CCTV Air Channel to broadcast TV programs to air travelers in China. Under the arrangement, CCTV Mobile Media will be responsible for program planning, production and broadcasting. The Company will operate exclusively the advertising business of CCTV Air TV Channel.

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

### ***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 digital TV screens consist of plasma display panels 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 in 2009 were Samsung, SHARP, Haier, HPC and Hitachi, which collectively provided 93.1% of our total digital frames; the top five suppliers of our digital frames in 2010 were Samsung, SHARP, Haier, HPC and Hitachi, which collectively provided approximately 93.6% of our total digital frames; and the top three suppliers of our digital frames in 2011 were Xinyi, Guanzhong, and Shuangqi, which collectively provided approximately 100% of our total digital frames. The top five suppliers of our digital TV screens in 2009 were Hitachi, Haier, Philips, TCL and Konka, which collectively provided 83.6% of our total digital TV screens; and the top five suppliers of our digital TV screens in 2010 were Hitachi, Haier, Philips, TCL and Konka, which collectively provided approximately 93.6% of our total digital TV screens. We did not purchase digital TV screens in 2011. 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.

Our service team cleans, maintains and monitors digital frames, digital TV screens and other displays in our network airports on a daily basis. We typically engage 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.

For our traditional media platforms in airports, the primary hardware was already established when we purchased the traditional media from airports, and we do not incur significant maintenance costs in relation to these platforms. For our gas stations media network and outdoors media network, where the primary hardware consist of basic display equipment such as light boxes and billboards, such hardware will generally be established upon the time of our entering into the relevant concession rights agreements; we may incur construction and maintenance costs in relation to this equipment.

### ***Customer Service***

Our customer service team is responsible for contacting third-party research firms to compile evaluation reports based on selective sampling of the status of advertising on our network and providing advertisers with monthly monitoring reports once the relevant advertising campaign is launched on our network. At the same time, we also provide our advertisers with monthly reports prepared by third parties that verify the proper functioning of our displays and the proper dissemination of the advertisement when required by our advertisers; such reports are done through online survey to analyze the effectiveness of and public reaction to the advertisements. In addition, our network airports and airlines as well as gas stations are also actively involved in the monitoring process.

### ***Competition***



We compete primarily with several different groups of competitors:

- advertising companies that operate airport advertising networks, such as JC Decaux;
- in-house advertising companies of airports and airlines that may operate their own advertising networks; and
- other advertising media companies for advertising budgets, such as Internet, street facility 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 and some of which may advertise in the gas stations and other areas where we have our displays.

We compete for advertisers primarily on the basis of network size and coverage, location, price, program quality, range of services offered and brand recognition. See Item 3, “Key Information — D. Risk Factors — Risks Related to Our Business — 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 profits may be reduced.”

### **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 have registered six

trademarks in China, including “”, “”, “AIRMEDIA”, “AirMedia” and “AirTV”. We 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 have registered our domain name [www.AirMedia.net.cn](http://www.AirMedia.net.cn) with the Internet Corporation for Assigned Names and Numbers. We were granted one patent relating to Patent No. ZL2007 30288196.X in April 2009. We hold no copyrights.

### **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 *Foreign Investment Industrial Guidance Catalogue*, and relevant provisions provide that 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 are considered permitted foreign investment projects and are not 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 such foreign investors are required to be a company with advertising as its main business and to 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.

Currently, our advertising business is mainly conducted through 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:

- 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—Organizational Structure” and Item 7, “Major Shareholders and Related Party Transactions—Related Party Transactions—Contractual Arrangements.”

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; and

- 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.

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—Risk Factors—Risks Related to Our Corporate 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, our business could be materially and adversely affected.”

#### *Regulation of Advertising Services*

##### Business License for Advertising Companies

Under applicable regulations governing advertising businesses in China, 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.

Each of Shenzhen AM, AM Technology and Xi’an AM has valid business license as of the date of this report. The business scope of these three entities as set forth in their business licenses include the development of electronic, computer and media-related technologies and products and do not include advertising, due to certain restrictions on foreign ownership of advertising enterprises under PRC law,

##### 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 prohibited. The dissemination of tobacco advertisements via media is also prohibited as well as the display of tobacco advertisements in public areas. 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 any media, together with any other advertisements subject to censorship by administrative authorities under 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 items 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 the legal rights and interests of third parties in the course of their advertising business.

### Outdoor Advertising

The PRC 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 at or above county level from having outdoor advertisements.

In addition to the Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations to govern 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 an application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue a certificate approving such advertisement. The content, format, specifications, periods and locations of dissemination of the outdoor advertisement must be filed with the local SAIC. See Item 3, "Key Information—Risk Factors—Risks Related to Our Business—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."

In addition, according to a relevant 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. See Item 3, "Key Information—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*

The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended (2008). Under these Rules, RMB is freely convertible for current account items, such as trade and service-related foreign exchange transactions, but not for capital account items, such as direct investment, loan or investment in securities outside China unless the prior approval of, and/or registration with, SAFE or its local counterparts (as the case may be) is obtained.

Pursuant to the Foreign Currency Administration Rules, foreign invested enterprises, or FIEs, in China may purchase foreign currency without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, if a foreign company acquires a company in China, the acquired company will also become an FIE. However, the relevant PRC government authorities may limit or eliminate the ability of FIEs to purchase and retain foreign currencies in the future. They may also conduct examination of past foreign exchange transactions. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside China are still subject to limitations and require approvals from, and/or registration with, SAFE.

## *Regulations on Dividend Distribution*

Under applicable PRC 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 and regulations. Additionally, these wholly foreign-owned companies are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until their cumulative total reserve funds have reached 50% of the companies' registered capitals. 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 except in the event of liquidation and cannot be used for working capital purposes.

In addition, under the EIT Law, dividends generated after January 1, 2008 and payable by a FIE 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. BVI, where Broad Cosmos, our wholly owned subsidiary and the 100% shareholder of Shenzhen AM, is incorporated, does not have such a tax treaty with China. AM China, the 100% shareholder of AM Technology and Xi'an AM, 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). In August 2009, the State Administration of Taxation released the Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (Trial Implementation), which took effect on October 1, 2009. Under these measures, our Hong Kong subsidiary needs to obtain approval from the competent local branch of the State Administration of Taxation in order to enjoy the preferential withholding tax rate of 5% in accordance with the Double Taxation Arrangement. In February 2009, the State Administration of Taxation issued Notice No. 81. According to Notice No. 81, in order to enjoy the preferential treatment on dividend withholding tax rates, an enterprise must be the "beneficial owner" of the relevant dividend income, and no enterprise is entitled to enjoy preferential treatment pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. In October 2009, the State Administration of Taxation issued another notice on this matter, or Notice No. 601, to provide guidance on the criteria to determine whether an enterprise qualifies as the "beneficial owner" of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. Pursuant to Notice No. 601, the PRC tax authorities will review and grant tax preferential treatment on a case-by-case basis and adopt the "substance over form" principle in the review. Notice 601 specifies that a beneficial owner should generally carry out substantial business activities and own and have control over the income, the assets or other rights generating the income. Therefore, an agent or a conduit company will not be regarded as a beneficial owner of such income. Since the two notices were issued, it has remained unclear how the PRC tax authorities will implement them in practice and to what extent they will affect the dividend withholding tax rates for dividends distributed by our subsidiaries in China to our Hong Kong subsidiary. If the relevant tax authority determines that our Hong Kong subsidiary is a conduit company and does not qualify as the "beneficial owner" of the dividend income it receives from our PRC subsidiaries, the higher 10% withholding tax rate may apply to such dividends.

The EIT Law provides, however, that dividends distributed between qualified resident enterprises are exempted from the withholding tax. According to the Implementation Regulations of the EIT Law, the qualified dividend and profit distribution from equity investment between resident enterprises shall refer to investment income derived by a resident enterprise from its direct investment in other resident enterprises, except 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 AM Technology, Shenzhen AM and Xi’an AM to their direct shareholders would be regarded as dividends distributed between qualified resident enterprises and be exempted from the withholding tax.

Under the EIT Law and related regulations, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a PRC resident enterprise and is subject to the EIT at the rate of 25% on its worldwide income. The related regulations define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The SAT issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, on April 22, 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled overseas-incorporated enterprise is located in China. In addition, the SAT issued a bulletin on July 27, 2011 to provide more guidance on the implementation of SAT Circular 82 with an effective date to be September 1, 2011. The bulletin provided clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. It also specifies that when provided with a copy of a Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise. Although both SAT Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises, not to those that, like our company, are controlled by PRC individuals, the determination criteria set forth in SAT Circular 82 and administration clarification made in the bulletin may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and the administration measures that should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

Moreover, under the EIT Law, if we are classified as a PRC resident enterprise and such income is deemed to be sourced from within the PRC, 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.

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 PRC tax law.”

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

In October 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Notice 75, which became effective as of November 1, 2005. SAFE Notice 75 suspends the implementation of two prior regulations promulgated in January and April of 2005 by the SAFE. SAFE Notice 75 states that PRC residents, whether natural or legal persons, must register with the relevant local SAFE branch prior to establishing or taking control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them. The term “PRC legal person residents” as used in SAFE Notice 75 refers to those entities with legal person status or other economic organizations established within the territory of the PRC. The term “PRC natural person residents” as used in SAFE Notice 75 includes all PRC citizens and all other natural persons, including foreigners, who habitually reside in the PRC for economic benefit. The SAFE implementation notice of November 24, 2005 further clarifies that the term “PRC natural person residents” as used under SAFE Notice 75 refers to those “PRC natural person residents” defined under the relevant PRC tax laws and those natural persons who hold any interests in domestic entities that are classified as “domestic-funding” interests.

PRC residents are required to complete amended registrations with the local SAFE branch upon: (i) injection of equity interests or assets of an onshore enterprise to the offshore entity, or (ii) subsequent overseas equity financing by such offshore entity. PRC residents are also required to complete amended registrations or filing with the local SAFE branch within 30 days of any material change in the shareholding or capital of the offshore entity, such as changes in share capital, share transfers, long-term equity or debt investments, and granting security interests. PRC residents who have already incorporated or gained control of offshore entities that have made onshore investment in the PRC before SAFE Notice 75 was promulgated must register their shareholding in the offshore entities with the local SAFE branch on or before March 31, 2006.

On May 20, 2011, the SAFE promulgated the Implementation Guidelines for Foreign Exchange Administration of Financings and Return Investment by Onshore Residents Utilizing Offshore Special Purpose Companies (or the Guidelines), which took active on July 1, 2011, clarifying certain implementation questions of SAFE Notice 75.

Under SAFE Notice 75, PRC residents are further required to repatriate into the PRC all of their dividends, profits or capital gains obtained from their shareholdings in the offshore entity within 180 days of their receipt of such dividends, profits or capital gains. The registration and filing procedures under SAFE Notice 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

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, the 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 February 15, 2012, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employee Share Incentive Plan of an Overseas-Listed Company (which replaced the old Circular 78, “Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in an Employee Stock Holding Plan or Stock Option Plan of an Overseas-Listed Company” promulgated on March 28, 2007), or the New Share Incentive Rule. Under the New Share Incentive Rule, PRC citizens who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. All such participants need to retain a PRC agent through a PRC subsidiary to register with SAFE and handle foreign exchange matters such as opening accounts and transferring and settlement of the relevant proceeds. The New Share Incentive Rule further requires that an offshore agent should also be designated to handle matters in connection with the exercise or sale of share options and proceeds transferring for the share incentive plan participants.



We and our PRC employees who have been granted stock options are subject to the New Share Incentive Rule. If we or our PRC employees fail to comply with the New Share Incentive Rule, we and/or our PRC employees may face sanctions imposed by the foreign exchange authority or any other PRC government authorities.

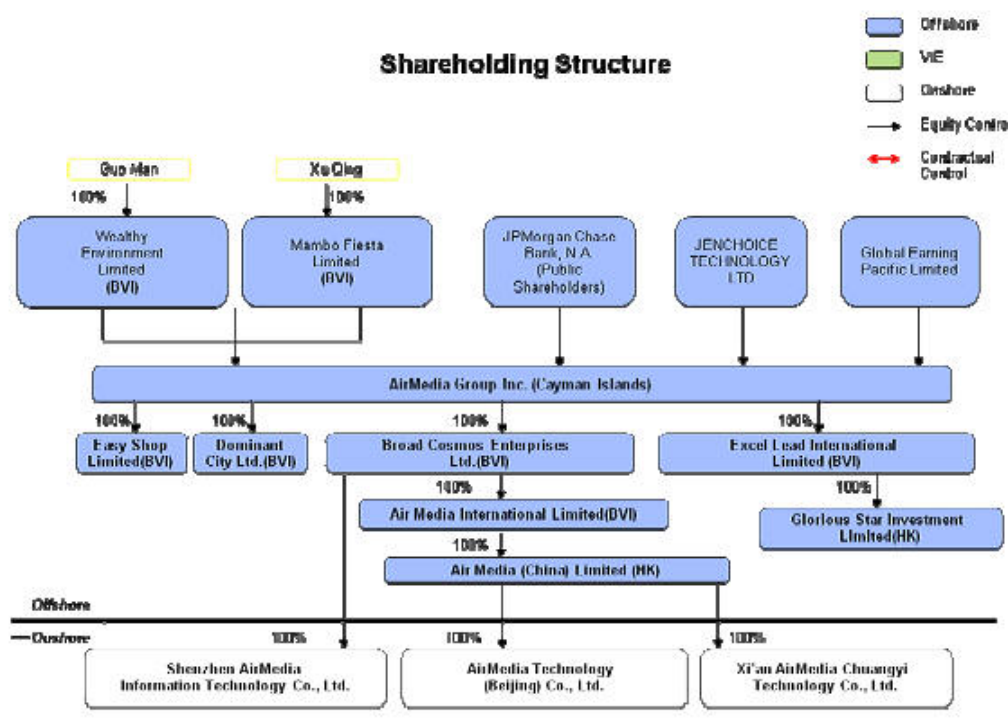
In addition, the State Administration of Taxation has issued a few circulars concerning employee stock options. Under these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related 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.

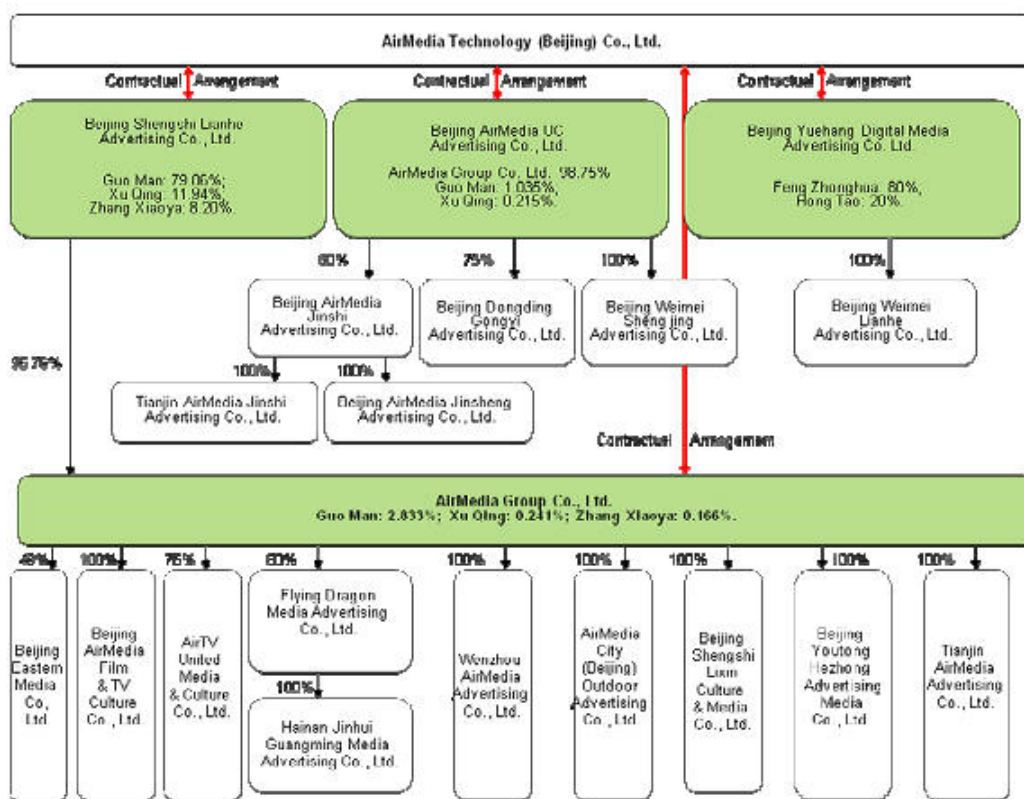
**Seasonality**

Our operating results and operating cash flows historically have been subject to seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

**C. Organizational Structure**

The following diagram illustrates our corporate structure as of March 31, 2012:





Substantially all of our operations are conducted through contractual arrangements with our consolidated variable interest entities in China, AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang. We do not have any equity interests in our variable interest entities, but instead enjoy the economic benefits derived from them through a series of contractual arrangements. See Item 7, “Major Shareholders and Related Party Transactions—Related Party Transactions—Contractual Arrangements” for a description of these arrangements.

#### D. Property, Plants and Equipment

Our headquarters are located in Beijing, China, where we lease approximately 4,393 square meters (approximately 47,281 square feet) of office space. Our branch offices lease approximately 5,890 square meters (approximately 63,748 square feet) of office space in approximately 35 other locations.

In addition, we own approximately 405 square meters (approximately 4,359 square feet) of office space in China.

#### 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 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. Our actual results may differ materially from those anticipated in these forward-looking statements because 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. See “Forward-looking Information.”*

## A. Operating Results

### *Important Factors Affecting our Results of Operations*

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

#### *Demand for Our Advertising Time Slots and Locations*

The demand for our advertising time slots and locations for each of the last three fiscal years was directly related to the demand for air travel and advertising spending in China. The demand for air travel was 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 was 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 locations and the price we charge for our advertising time slots and locations.

#### *Service Offerings*

During each of the past three fiscal years, our advertising network primarily consisted of standard digital frames, traditional media in airports such as billboards and light boxes, digital screens on airplanes, digital TV screens in airports, unipole signs and other outdoor media, and various traditional advertising formats in gas stations. We believe our broad range of service offerings provided our advertisers with diverse choices in selecting and combining different air travel and other advertising platforms that best suit their advertising needs and preferences, maximized the consumer reach of the advertisements shown on our network and allowed us to cross-sell different advertising services. Ultimately, we believe our broad range of service offerings will increase and diversify the sources of revenues we can generate from our advertising network.

#### *Number of Our Advertising Time Slots and Locations 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 in a given airport by the number of weeks during the period presented when we had operations in such 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 month for a given airline by the number of months during the period presented when we had operations on such airline and then calculating the sum of all the time slots for each of our network airlines. The number of locations available for sale in traditional media in airports is defined as the sum of (a) the number of light boxes and billboards in Beijing, Shenzhen, Wenzhou and certain other airports and (b) the number of gate bridges in airports where we have concession rights to place advertisements on gate bridges. The number of locations available for sale for our light boxes and billboards in gas stations and other outdoor locations is defined as the number of light boxes and billboards we operated in Sinopec gas stations and in various outdoor locations throughout Beijing.

By increasing the number of airports, airlines and gas stations in our network, we can increase the number of advertising time slots and locations that we have available to sell. In addition, the length of our advertising cycle for our digital frames and digital TV screens 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. In addition, by increasing the number of light boxes, billboards and gate bridges in our network, we can increase the number of advertising spaces and locations that we have available to sell. See Item 3, “Key Information — D. Risk Factors — Risks Related to our Business — When our current advertising network of digital frames, digital TV screens, light boxes, billboards and gate bridges becomes saturated in the major airports, airlines and other locations where we operate, we may be unable to offer additional time slots or locations 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 for our advertising time slots is generally calculated by dividing our advertising revenues from these time slots 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. The average selling price for our traditional media spaces and locations in airports is calculated by dividing the revenues derived from all the locations sold by the number of locations sold during the period presented, and we use a similar method to calculate average selling price for our gas station and outdoor media locations. The primary factors that affect the effective price we charge advertisers for time slots and locations on our network and our utilization rate include the attractiveness of our network to advertisers, which depends on the number of displays and locations, the number and scale of airports and airplanes in our network, the level of demand for time slots and locations, and the perceived effectiveness by advertisers of their advertising campaigns placed on our network. We may increase the selling prices of our advertising time slots and locations from time to time depending on the demand for our advertising time slots, spaces and locations.

During the past three fiscal years, a significant percentage of the programs played on our digital TV screens in airports and on airplanes included non-advertising content such as TV programs or public service announcements. We did not directly generate revenues from non-advertising content, but instead obtained such content from third party content providers. We believe that the combination of non-advertising content with advertising content makes people 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 advertiser demand to optimize our ability to generate revenues for each program cycle.

#### *Utilization Rate*

The utilization rate of our advertising time slots 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 the utilization rate of our advertising time slots, we generally normalize our time slots into 12- second units for digital frames in different 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. The utilization rate of our advertising locations for traditional media in airports, gas stations and outdoor media is the total number of locations sold as a percentage of the total number of locations available during the relevant period. Our overall utilization rate was primarily affected by the demand for our advertising time slots and locations and our ability to increase the sales of our advertising time slots and locations, especially those advertising time slots and locations on our network airports. We plan to strengthen our sales efforts in these cities by building local sales teams to increase our direct sales of advertising time slots and locations in these cities and ultimately improve our utilization rate.

#### *Network Coverage and Concession Fees*

During the past three fiscal years, the demand for our advertising time slots and locations and the effective price we charged advertisers for time slots and locations on our network depended on the attractiveness and effectiveness of our network as viewed by our advertisers which, in turn, was related to the breadth of our network coverage, including significant coverage in 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 traditional media 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. In addition, our future results of operations will also be affected by our network coverage beyond airports and airlines, including gas stations.

Concession fees constituted a significant portion of our cost of revenues. Concession fees tend to increase 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 and locations on our advertising network.

(All amounts are in thousands of U.S. dollars, except percentages)

	Fiscal Year Ended December 31,					
	2009		2010		2011	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
<b>Air Travel Media Network</b>						
Digital frames in airports	\$ 66,255	43.4%	\$ 113,196	47.9%	\$ 126,539	45.5%
Digital TV screens in airports	37,260	24.4%	28,905	12.2%	21,937	7.9%
Digital TV screens on airplanes	17,082	11.2%	27,564	11.7%	26,734	9.6%
Traditional media in airports	27,192	17.8%	48,418	20.5%	73,535	26.5%
Other revenues in air travel	4,639	3.1%	4,063	1.7%	6,416	2.4%
<b>Gas station Media Network</b>	102	0.1%	3,664	1.5%	12,873	4.6%
<b>Other Media</b>	—	—	10,650	4.5%	9,787	3.5%
Total revenues	152,530	100.0%	236,460	100.0%	277,821	100.0%
Business tax and other sales tax	(3,102)	(2.0%)	(5,955)	(2.5%)	(7,197)	(2.6%)
Net revenues	\$ 149,428	98.0%	\$ 230,505	97.5%	\$ 270,624	97.4%

#### *Revenues from Air Travel Media Network*

Revenues from our digital frames in airports accounted for 43.4%, 47.9% and 45.5% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively. During the three years ended December 31, 2011, we expanded the number of digital frames in our network. We operated a total of 3,056 digital frames in 31 airports, 3,466 digital frames in 34 airports, and 3,092 digital frames in 34 airports as of December 31, 2009, 2010, and 2011, respectively.

Revenues from our digital TV screens in airports accounted for 24.4%, 12.2% and 7.9% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively. We operated 2,231 digital TV screens in 40 airports, 2,215 digital TV screens in 38 airports, and 2,104 digital TV screens in 36 airports as of December 31, 2009, 2010 and 2011, respectively. In 2009, we replaced a number of less profitable digital TV screens in certain airports with more profitable digital frames and terminated operations of digital TV screens in certain airports whose operations were not sufficiently profitable. After we became the operator of CCTV's Air Channel, we shortened advertising time within each one-hour program to 20 minutes from 25 minutes to better attract air travelers' attention.

Revenues from our digital TV screens on airplanes accounted for 11.2%, 11.7% and 9.6% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively. Our network operating digital TV screens consisted of nine airlines as of December 31, 2009, 2010 and 2011.

Revenues from traditional media in airports, consisting of billboards and light boxes in airports and billboards and painted advertisements on gate bridges, accounted for 17.8%, 20.5% and 26.5% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively. We have offered light box displays since the commencement of our operations.

Other revenues in air travel, mainly generated from shuttle bus displays and equipment logos displayed on advertising equipment such as digital TV screens, accounted for 3.1%, 1.7% and 2.4% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively.

#### *Revenues from Gas Station Media Network*

Our gas station media network was started during 2009, when we gained concession rights to develop and operate an outdoor advertising network in Sinopec gas stations throughout China. Revenues from our gas station media network, consisting of outdoor advertising platforms such as billboards and light boxes at Sinopec gas stations in China, accounted for 0.1%, 1.5% and 4.6% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively. We expect the growth to continue in 2012.

#### *Revenues from Other Media*

Revenues from other media were primarily revenues from AM Outdoor, a company our variable interest entity AM

Advertising acquired in January 2010, which operates unipole signs and other outdoor media. Revenues from our other media accounted for zero, 4.5% and 3.5% of our total revenues for the years ended December 31, 2009, 2010 and 2011, respectively.

### *Business Tax and Other Sales Related Tax*

Our PRC subsidiaries and consolidated variable interest entities were 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. For purposes of calculating the amount of business and other sales tax, concession fees were permitted to be deducted from total revenues under applicable PRC tax law.

We deducted these business taxes and other sales taxes from revenues to arrive at net revenues.

### *Cost of Revenues*

During the periods covered by this report, our cost of revenues consisted primarily of concession fees, agency fees and other costs, including digital frames and digital TV screen depreciation costs, operating 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.

(All amounts are in thousands of U.S. Dollars, except percentages)

	Fiscal Year Ended December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 149,428	100.0%	\$ 230,505	100.0%	\$ 270,624	100%
Cost of revenues						
Concession fees	(110,075)	(73.7%)	(134,294)	(58.3%)	(160,199)	(59.2%)
Agency fees	(21,356)	(14.2%)	(40,153)	(17.4%)	(54,824)	(20.2%)
Others	(16,110)	(10.8%)	(23,461)	(10.2%)	(29,447)	(10.9%)
Total cost of revenues	\$ (147,541)	(98.7%)	\$ (197,908)	(85.9%)	\$ (244,470)	(90.3%)

### *Concession Fees*

We incurred concession fees to airports for placing and/or operating our digital frames, digital TV screens and other traditional media displays, to airlines for placing our programs on their digital TV screens and to gas stations for operating our traditional media displays such as light boxes and billboards. These fees constitute a significant portion of our cost of revenues and equaled approximately 73.7%, 58.3% and 59.2% of our net revenues and were \$110.1 million, \$134.3 million and \$160.2 million in the years ended December 31, 2009, 2010 and 2011, respectively. Most of the concession fees paid to airports and airlines were fixed under the relevant concession rights contracts with escalation clauses, which required fixed fee increases over each year of the relevant contract, and payments were usually due three or six months in advance. The concession fees paid to Sinopec were based on the actual number of developed gas stations and associated standard annual concession fees for each developed gas station. The Sinopec concession rights agreement also included fixed minimum concession fee payments for 2009, 2010 and 2011.

Concession fees increased significantly from 2009 to 2011 because we significantly expanded our media resources with an additional number of concession rights contracts entered into over the years and, while concession fee payments under these additional concession rights contracts began almost immediately after signing and were paid on a fixed schedule, it took a while for us to ramp up sales of advertising time slots and locations and build up revenues from these newly signed concession rights contracts. The concession fees that we incur under concession rights contracts for our digital frames and digital TV screens in airports vary depending on the airport's passenger flow, the city where the airport is located and the profiles of air passengers. The concession fees that we incur under concession rights contracts for our programs on airlines vary depending on the number of routes and airplanes, types 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 during the period from 2009 to 2011, including the ones with digital frame network, traditional media in Beijing and Shenzhen airports, Sinopec gas stations and billboard and painted advertisements on interior or exterior walls of gate bridges at Terminal 3 of Beijing Capital International Airport... As some of our concession rights contracts are subject to renewal in the next several years, we may experience an increase in our concession fees in order to retain these concession rights contracts.

## Agency Fees

We engaged third-party advertising agencies to help source advertisers from time to time. These third-party advertising agencies assisted us in identifying and introducing advertisers to us. In return, we paid fees to these advertisers if they generated advertising revenues for us. Fees that we paid to these third-party agencies were calculated based on a pre-set percentage of revenues generated from the advertisers introduced to us by the third-party agencies and were paid when payments were received from the advertisers. We recorded these agency fees as cost of revenues ratably over the period in which the related advertisements were displayed. Agency fees were equal to 14.2%, 17.4% and 20.2% of our net revenues for the years ended December 31, 2009, 2010 and 2011, respectively. We expect to continue using these third-party advertising agencies in the near future.

## Others

Our other cost of revenues represented 10.8%, 10.2% and 10.9% of our net revenues for the years ended December 31, 2009, 2010 and 2011, respectively, and included the following:

- *Display Equipment Depreciation.* Generally, we capitalized the cost of our digital frames, digital TV screens, light boxes and billboards and related equipment in the gas station media network and recognized 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 were 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 consisted 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 was 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.* The programs on the majority of our digital TV screens combine advertising content with non-advertising content, such as weather, sports and comedy clips. Our standard programs in airports currently include 40 minutes of non-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 to 60 minutes per flight, approximately 40 to 47 minutes of which consist of non- advertising content. We believe that the non-advertising program content makes air travelers more receptive to the advertisements included in our programs and ultimately make our program more effective for our advertisers. This in turn allows us to charge a higher price for each advertising time slot. We also promoted the brand names of our advertisers through our program content by naming our programs after their brand names or displaying their logos on the corner of the digital TV screens during the programs. We did not produce or create any of the non-advertising content shown on our network. The non-advertising content broadcast on our network was provided by third-party content providers such as Shanghai Media Group and various local television stations and television production companies. In November 2010, we entered into a strategic partnership with CCTV Mobile Media to operate the CCTV Air Channel to broadcast TV programs to air travelers in China. Under the arrangement, CCTV Mobile Media is responsible for program planning, production and broadcasting. We pay a fixed price for some content. Other content is provided free to us and the provider of the content benefits by having its logo shown on the content in addition to experiencing greater exposure to a wider audience. These providers of free content receive no benefit from us and do not place advertising with us. We do not directly generate revenues from these non-exchange transactions. 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

During the periods covered by this report, our operating expenses consisted 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.

(All amounts are in thousands of U.S. Dollars, except percentages)

	Fiscal Year Ended December 31,					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 149,428	100.0%	\$ 230,505	100.0%	\$ 270,624	100%
Operating expenses						
General and administrative expenses	(34,936)	(23.4%)	(24,646)	(10.7%)	(22,004)	(8.1%)
Selling and marketing expenses	(13,439)	(9.0%)	(18,112)	(7.9%)	(18,238)	(6.7%)
Impairment of goodwill	-	-	-	-	(1,003)	(0.4%)
Impairment of intangible assets	-	-	(1,000)	(0.4%)	(656)	(0.2%)
Total operating expenses	<u>\$ (48,375)</u>	<u>(32.4%)</u>	<u>\$ (43,758)</u>	<u>(19.0%)</u>	<u>\$ (41,901)</u>	<u>(15.4%)</u>

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 were equal to 23.4%, 10.7% and 8.1% of our net revenues for the years ended December 31, 2009, 2010 and 2011, respectively. Our general and administrative expenses included share-based compensation expenses of \$4.2 million, \$5.5 million and \$3.2 million in the fiscal years ended December 31, 2009, 2010 and 2011, respectively. General and administrative expenses consisted primarily of office and utility expenses, salaries and benefits for general management, finance and administrative personnel, bad debt provisions, depreciation of office equipment, public relations related expenses and other administration related expenses. We expect that our general and administrative expenses will increase in the near term as we incur additional costs in connection with the expansion of our business.

### Selling and Marketing Expenses

Selling and marketing expenses accounted for 9.0%, 7.9% and 6.7% of our net revenues for the years ended December 31, 2009, 2010 and 2011, respectively. Our selling and marketing expenses consisted primarily of salaries and benefits for our sales and marketing personnel, office and utility expenses related to our selling and marketing activities, travel 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 advertising network.

### Impairment of goodwill

For purposes of evaluating goodwill impairment, we have four reporting units: the advertising media in air travel areas, the advertising media in gas station, the outdoor advertising media and the fire station advertising media, and have determined to perform the annual impairment tests on December 31 of each year. We recognized nil, nil and \$1.0 million for impairment of goodwill for the fire station advertising media reporting unit for the years ended December 31, 2009, 2010 and 2011, respectively, because our fire station advertising business was expected to generate negative operating cash flow for the foreseeable future.

### Impairment of intangible assets

We evaluate the recoverability of our long-lived assets, including intangible assets with definite life, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable and have determined to perform the annual impairment tests on December 31 of each year. We recognized nil, \$1.0 million and \$0.7 million for impairment of intangible assets for the years ended December 31, 2009, 2010 and 2011, respectively, because our fire station advertising business was expected to generate negative operating cash flow for the foreseeable future.



## Taxation

*Cayman Islands.* We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

*Hong Kong.* We did not record any Hong Kong profits tax for the years ended December 31, 2009, 2010 and 2011 on the basis that our Hong Kong subsidiaries did not have any assessable profits arising in or derived from Hong Kong for 2009, 2010 and 2011. Dividends from our Hong Kong subsidiary to us are exempt from withholding tax.

*PRC.* Prior to the effective date of the new EIT Law on January 1, 2008, enterprises in China were generally subject to an enterprise income tax at a statutory rate of 33% unless they qualified for certain preferential treatment. Effective as of January 1, 2008, the EIT Law applies a uniform enterprise income tax rate of 25% to all domestic enterprises and foreign-invested enterprises and defines new tax incentives for qualifying entities. Under the EIT Law, entities that qualify as HNTE are entitled to the preferential income tax rate of 15%. A company's status as a HNTE 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 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 a 15% tax rate prior to the effectiveness of the EIT Law are 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 related regulations.

AM Technology was recognized as a HNTE under the new rules and therefore, it is entitled to enjoy a preferential EIT rate of 15%. It was also eligible for a 50% tax reduction from 2009 to 2011 under the applicable tax laws and regulations that were in effect before January 1, 2008, the date the EIT Law came into effect. In September 14, 2011, AM Technology received a new HNTE certificate. As a result, AM Technology was subject to an EIT rate of 7.5% in 2011 and is expected to be subject to an EIT rate of 15% from 2012 as long as it maintains its tax status as a HNTE.

Xi'an AM was designated as a "new software enterprise" in August 2008 by the Technology Information Bureau of Shaanxi 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. As Xi'an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and will enjoy the preferential income tax rate of 12.5% from 2011 to 2013.

Shenzhen AM was subject to a 15% preferential tax EIT rate in 2007 as it is located in Shenzhen and then was subject to EIT on its taxable income from 2008 at the gradual rate as set out in Circular 39. Since Shenzhen AM is also qualified as a "manufacturing foreign-invested enterprise" incorporated prior to the effectiveness of the EIT Law, it is further entitled to a two-year exemption from EIT for years 2008 and 2009 and preferential rates of 11%, 12% and 12.5% for the years 2010, 2011 and 2012, respectively.

Hainan Jinhui is subject to EIT on the taxable income at the gradual rate, which is 18% in 2008, 20% in 2009, 22% in 2010, and 24% in 2011, and will be 25% in 2012, respectively, according to Circular 39.

Furthermore, under the EIT Law, a “resident enterprise,” which includes an enterprise established outside of China with “de facto management bodies” located in China, is subject to PRC income tax. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, on April 22, 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled overseas-incorporated enterprise is located in China.

In addition, the SAT issued a bulletin on July 27, 2011 to provide more guidance on the implementation of SAT Circular 82 with an effective date to be September 1, 2011. The bulletin made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. It also specifies that when provided with a copy of the Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise. Although both SAT Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises, not to those that, like our company, are controlled by PRC individuals, the determination criteria set forth in SAT Circular 82 and administration clarification made in the bulletin may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

We do not believe we and our subsidiaries established outside of the PRC are PRC resident enterprises. However, if the PRC tax authorities subsequently determine that we and our subsidiaries established outside of China should be deemed as a resident enterprise, we and our subsidiaries established outside of China will be subject to PRC income tax at a rate of 25%. In addition, under the EIT 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 BVI, where Broad Cosmos, our wholly owned subsidiary and the 100% shareholder of Shenzhen AM, is incorporated, does not have such a tax treaty with China. AM China, the 100% shareholder of AM Technology and Xi'an AM, 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). However, if the Hong Kong company is not considered to be the beneficial owner of dividends paid to it by its PRC subsidiaries under a tax notice promulgated on October 27, 2009, such dividends would be subject to withholding tax at a rate of 10%. 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 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.

### *Business Combinations*

Business combinations are recorded using the acquisition method of accounting. For acquisitions that occurred after January 1, 2009, the assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. For acquisitions that occurred before January 1, 2009, any non-controlling interest was reflected at historical cost. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. For shares issued in a business combination, the Group has estimated the fair value as of the date of acquisition.

Where the consideration in an acquisition includes contingent consideration, the payment of which depends on the achievement of certain specified conditions post-acquisition, from January 1, 2009 the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings. For periods prior to January 1, 2009 contingent consideration was not recorded until the contingency was resolved.

### *Revenue Recognition*

Our revenues are derived from selling advertising time slots on our advertising networks, primarily air travel advertising network. For the years ended December 31, 2009, 2010 and 2011, the advertising revenues were generated from digital frames in airports, digital TV screens in airports, digital TV screens on airlines, traditional media in airports, gas station media network and other media.

We typically sign standard contracts with our advertising customers, who require our company to run the advertiser's advertisements on our network in specified locations 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.

We also wholesale the advertising platforms such as scrolling light boxes and billboards in the gas stations located in some major cities, except Beijing, Shanghai and Shenzhen, to advertising agents, and sign fixed fee contracts with the agents for a specified period. The revenue is recognized on a straight-line basis over the specified period.

### *Deferred Revenue*

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

### *Non-monetary Exchanges*

We occasionally exchange advertising time slots and locations with other entities for assets or services, such as equipment and other assets. The amount of assets and revenue recognized is based on the fair value of the advertising provided or the fair value of the transferred assets, whichever is more readily determinable. The amounts of revenues recognized for nonmonetary transactions were \$739,000, \$1,244,000 and \$2,823,000 for the years ended December 31, 2009, 2010 and 2011, respectively. No direct costs are attributable to the revenues.

### *Concession Fees*

We enter concession right agreements with vendors such as airports, airlines and a petroleum company, under which we obtain the right to use the spaces or equipment of the vendors to display the advertisements. The concession right agreements are treated as operating lease arrangements.

Fees under concession right agreements are usually due every three, six or twelve months. Payments made are recorded as current assets and current liabilities according to the respective payment terms. Most of the concession fees with airports and airlines are fixed with escalation, which means fixed increase over each year of the agreements. The total concession fee under the concession right agreements with airports and airlines 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.

The fee structure of the concession right agreement with the petroleum company is based on the actual number of developed gas stations and associated standard annual concession fee for each developed gas station. Each gas station has its specific lease term starting from the time when it is actually put into operation. The calculation of rental payments is based on how many months the gas stations are actually put into operation during the year and the standard annual concession fee determined based on the location of the gas station. Accordingly, each gas station is treated as a separate lease and rental payments are recognized on a straight-line basis over its lease term. The amount of annual concession fee to-be-paid is determined by an actual incurred concession fee or a fixed minimum payment.

#### *Agency Fees*

We pay fees to advertising agencies based on certain percentage of revenues made through the advertising agencies upon receipt of payment from advertisers. The agency fees are charged to cost of revenues in the consolidated statements of operations 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.

#### *Allowance for Doubtful Accounts*

We conduct credit evaluations of clients and generally do not require collateral or other security from clients. We establish an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific clients, and utilize both specific identification and a general reserve. The amount of receivables ultimately not collected by us has generally been consistent with expectations and the allowance established for doubtful accounts. If the frequency and amount of customer defaults change due to the clients' financial condition or general economic conditions, the allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and adjust allowances for accounts where collection may be in doubt.

#### *Impairment of Goodwill*

We annually, or more frequently if we believe indicators of impairment exist, review the carrying value of goodwill to determine whether impairment may exist.

Specifically, goodwill impairment is determined using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit.

We have four reporting units: the advertising media in air travel areas, the advertising media in gas station, the outdoor advertising media and the fire station advertising media. We perform the annual impairment tests on December 31 of each year.

We incurred impairment loss on goodwill of nil, nil and \$1,003 for the years ended December 31, 2009, 2010 and 2011, respectively.

#### *Impairment of Long-lived Assets and Intangible Assets with Definite Life*

We evaluate the recoverability of our long-lived assets, including intangible assets with definite life, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure 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, we would recognize an impairment loss based on the excess of carrying amount over the fair value of the assets.

We have determined to perform the annual impairment tests on December 31 of each year.

#### *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 us as enacted by the relevant tax authorities.

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 authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, we classify the interest and penalties, if any, as a component of the income tax position.

#### *Share-based Compensation*

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument issued, and recognized as compensation expenses over the requisite service periods based on a straight-line method, with a corresponding impact reflected in additional paid-in capital.

We use the Black-Scholes option pricing model to measure the fair value of options granted to employees at each grant date or modification date.

Under this model, we made a number of assumptions regarding the fair value of the options, including:

- the expected future volatility of our ordinary share price;
- the risk-free interest rate;
- the expected term of options;
- the expected dividend yield;
- the exercise price; and
- the estimated fair value of our ordinary shares

The fair value of our ordinary share on the grant date is determined by the closing trade price of our ADSs representing our ordinary shares on the grant date. The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of our ordinary shares and listed shares of comparable companies over a period comparable to the expected term of the options. From March 2011, the volatility was estimated based on the historical volatility of our share price as we have accumulated sufficient history of stock price for a period comparable to the expected term of the options.

A change in any of the terms or conditions of share options will be accounted for as a modification of the plan. Consequently, we calculate incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, we would recognize incremental compensation cost in the period of the modification occurred. For unvested options, we would recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

### ***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.

(All amounts in thousands of U.S. Dollars, except share, per share and per ADS data)

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Consolidated Statement of Operations Data:</b>			
Revenues:			
<b><i>Air Travel Media Network</i></b>			
Digital frames in airports	\$ 66,255	\$ 113,196	\$ 126,539
Digital TV screens in airports	37,260	28,905	21,937
Digital TV screens on airplanes	17,082	27,564	26,734
Traditional media in airports	27,192	48,418	73,535
Other revenues in air travel	4,639	4,063	6,416
<b><i>Gas Station Media Network</i></b>	<b>102</b>	<b>3,664</b>	<b>12,873</b>
<b><i>Other Media</i></b>	<b>—</b>	<b>10,650</b>	<b>9,787</b>
Total revenues	152,530	236,460	277,821
Business tax and other sales tax	(3,102)	(5,955)	(7,197)
Net revenues	149,428	230,505	270,624
Cost of revenues	(147,541)	(197,908)	(244,470)
Gross profit	1,887	32,597	26,154
Operating expenses:			
Selling and marketing (including share-based compensation of \$1,540, \$2,424 and \$1,422 in 2009, 2010 and 2011, respectively)	(13,439)	(18,112)	(18,238)
General and administrative (including share-based compensation of \$4,226, \$5,547 and \$3,192 in 2009, 2010 and 2011, respectively)	(34,936)	(24,646)	(22,004)
Impairment of goodwill	-	-	(1,003)
Impairment of intangible assets	-	(1,000)	(656)
Total operating expenses	(48,375)	(43,758)	(41,901)
(Loss)/income from operations	(46,488)	(11,161)	(15,747)
Interest income	2,025	694	1,242
Gain on remeasurement of fair value of cost and equity method investments (net)	-	919	-
Other income, net	1,239	940	1,848
Income tax benefits (expenses)	6,032	735	(266)
Net income/(loss) attributable to noncontrolling interests	211	(2,666)	(3,084)
Share of income on equity method investments	164	290	243
Net loss attributable to AirMedia Group Inc.'s shareholders	<u>\$ (37,239)</u>	<u>\$ (4,917)</u>	<u>\$ (9,596)</u>

The following table presents selected operating data for the years ended December 31, 2009, 2010 and 2011, respectively.

	Year Ended December 31,		
	2009	2010	2011
<b>Selected Operating Data:</b>			
<b>Digital frames in airports</b>			
Number of airports in operation	31	34	34
Number of digital frames in our network airports as of year end	3,056	3,466	3,092
Number of time slots available for sale <sup>(1)</sup>	109,455	132,340	139,252
Number of time slots sold <sup>(2)</sup>	26,983	46,887	46,399
Utilization rate <sup>(3)</sup>	24.7%	35.4%	33.3%
Average advertising revenue per time slot sold <sup>(4)</sup>	\$ 2,455	\$ 2,414	\$ 2,727
<b>Digital TV screens in airports</b>			
Number of airports in operation	40	38	36
Number of screens in our network airports as of year end	2,231	2,215	2,104
Number of time slots available for sale <sup>(5)</sup>	102,322	94,050	74,028
Number of time slots sold <sup>(2)</sup>	23,911	26,216	14,439
Utilization rate <sup>(3)</sup>	23.4%	27.9%	19.5%
Average advertising revenue per time slot sold <sup>(4)</sup>	\$ 1,558	\$ 1,103	\$ 1,519
<b>Digital TV screens on airplanes</b>			
Number of airlines in operation	9	9	9
Number of time slots available for sale <sup>(5)</sup>	1,908	1,646	1,656
Number of time slots sold <sup>(2)</sup>	838	1,203	896
Utilization rate <sup>(3)</sup>	43.9%	73.1%	54.1%
Average advertising revenue per time slot sold <sup>(4)</sup>	\$ 20,384	\$ 22,913	\$ 29,837
<b>Traditional media in airports</b>			
Numbers of locations available for sale <sup>(6)</sup>	3,564	2,887	3,621
Numbers of locations sold <sup>(7)</sup>	1,271	1,833	2,559
Utilization rate <sup>(8)</sup>	35.7%	63.5%	70.7%
Average advertising revenue per location <sup>(9)</sup>	\$ 21,394	\$ 26,415	\$ 28,736

- (1) We define a time slot for digital frames as a 12-second equivalent advertising time unit for digital frames in airports, which is shown during each standard advertising cycle on a weekly basis in a given airport. Our standard 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 length of time slot and advertising program cycle of some digital frames in several airports are different from the standard ones. The number of time slots available for our digital frames in airports during the period presented is calculated by multiplying the number of 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 for digital frames, digital TV screens in airports or digital TV screens on airplanes sold refers to the number of 12-second equivalent advertising time units for digital frames in airports or 30-second equivalent advertising time units for digital TV screens in airports and digital TV screens on airplanes sold during the period presented.
- (3) Utilization rate refers to total time slots for digital frames in airports, digital TV screens in airports and digital TV screens on airplanes 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 frames in airports, digital TV screens in airports and digital TV screens on airplanes by its own number of time slots sold, respectively.
- (5) We define a time slot for digital TV screens 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 number of 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.
- (6) We define the number of locations available for sale in traditional media as the sum of (1) the number of light boxes and billboards in Beijing, Shenzhen, Wenzhou and certain other airports, and (2) the number of gate bridges in airports where we have concession rights to place advertisements on gate bridges.
- (7) Number of locations sold is defined as the sum of (1) the number of light boxes and billboards sold and (2) the number of gate bridges sold. To calculate the number of light boxes and billboards sold in a given airport, we first calculate the “utilization rates of light boxes and billboards” in such airport by dividing the “total value of light boxes and billboards sold” in such airport by the “total value of light boxes and billboards” in such airport. The “total value of light boxes and billboards sold” in a given airport is calculated as the respective daily listing prices of light boxes and billboards sold multiplied by their respective number of days sold during the period presented. The “total value of light boxes and billboards” in a given airport is calculated as the sum of listing prices of all the light boxes and billboards during the period presented. The number of light boxes and billboards sold in a given airport is then calculated as the number of light boxes and billboards available for sale in such airport multiplied by the utilization rates of light boxes and billboards in such airport. The number of gate bridges sold in a given airport is counted based on the contracts.
- (8) Utilization rate for traditional media in airports refers to total locations sold as a percentage of total locations available for sale during the period presented.
- (9) Average advertising revenue per location sold is calculated by dividing the revenues derived from all the locations sold by the number of locations sold during the period presented.



Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

*Net Revenues.* Our net revenues increased by 17.4% from \$230.5 million in 2010 to \$270.6 million in 2011. The increase was primarily due to an increase in revenue from several of our business sections including digital frames in airports, traditional media in airports, and our gas station media network.

Revenues from digital frames in airports: Revenues from digital frames in airports for fiscal year 2011 increased by 11.8 % from \$113.2 million in 2010 to \$126.5 million in 2011 due to an increase in the average selling price of digital frames in airports.

We operated our digital frames in 34 airports as of December 31, 2010 which remained unchanged during fiscal year 2011. However, the number of digital frames advertising time slots available for sale in airports increased by 5.2% from 132,340 in 2010 to 139,252 in 2011, while the number of time slots sold decreased slightly by 1.0% from 46,887 in 2010 to 46,399 in 2011 due to the increase in the average selling prices of digital frames. Our utilization rate for digital frames in airports decreased from 35.4% in 2010 to 33.3% in 2011 due to the increase in the number of time slots available for sale and the decrease in the number of time slots sold. The average advertising revenue of digital frames increased by 13.0% from \$2,414 in 2010 to \$2,727 in 2011 due to an increase in the listing prices of our digital frames in some airports in January 2011 and lower discounts offered in fiscal year 2011 than in fiscal year 2010.

**Revenues from digital TV screens in airports:** Revenues from digital TV screens in airports decreased by 24.1% to \$21.9 million in 2011 from \$28.9 million in 2010 due to a decrease in the number of time slots sold which was partially offset by an increase in the average selling price of digital TV screens in airports.

The number of time slots sold for 2011 decreased by 44.9% year-over-year to 14,439 time slots primarily due to a drop in demand caused by an increase in the average selling prices of digital TV screens in airports. The number of time slots available for sale for 2011 decreased by 21.3% year-over-year to 74,028 time slots in 2011 primarily due to the fact that after we became the operator of CCTV's Air Channel, we shortened advertising time within each one-hour program to 20 minutes from 25 minutes to better attract air travelers' attention. Utilization rate of digital TV screens in airports for fiscal year 2011 decreased to 19.5% from 27.9% in 2010 primarily due to the decrease in the number of time slots sold which was partially offset by the decrease in the time slots available for sale. The average selling price of digital TV screens in airports increased by 37.7% to \$1,519 in 2011 from \$1,103 in 2010 primarily due to lower discounts offered in fiscal year 2011 than in fiscal year 2010, and a change in the mix of time slots sold. The number of time slots sold in the top three airports, which have significantly higher average selling prices than those sold in other airports, accounted for a higher percentage of total number of time slots sold in fiscal year 2011 than in fiscal year 2010.

**Revenues from digital TV screens on airplanes:** Revenues from digital TV screens on airplanes decreased by 3.0% to \$26.7 million in 2011 from \$27.6 million, primarily due to a decrease in the number of time slots sold, which was partially offset by an increase in the average selling price of digital TV screens on airplanes.

The number of time slots sold decreased by 25.5% to 896 time slots in 2011 from 1,203 time slots in 2010 due to a drop in demand caused by an increase in the average selling price of digital TV screens on airplanes in fiscal year 2011 than in fiscal year 2010. The number of time slots available for sale increased slightly by 0.6% to 1,656 time slots in 2011 from 1,646 time slots in 2010. Utilization rate decreased to 54.1% in 2011 from 73.1% in 2010 primarily due to the decrease in the number of time slots sold. The average selling price of digital TV screens on airplanes increased by 30.2% to \$29,837 in 2011 from \$22,913 in 2010 primarily due to an increase in the listing prices of digital TV screens on the airplanes operated by Air China and China Southern Airlines in January 2011 and lower discounts offered in fiscal year 2011 than in fiscal year 2010.

**Revenues from traditional media in airports:** Revenues from traditional media in airports increased by 51.9% to \$73.5 million in 2011 from \$48.4 million in 2010. The increase was primarily due to increases in both the number of locations sold and the average selling price of traditional media in airports.

The number of locations sold increased by 39.6% to 2,559 locations in 2011 from 1,833 in 2010 due to our sales efforts in 2011. The number of locations available increased by 25.4% to 3,621 locations in 2011 from 2,887 in 2010, primarily due to the newly signed contracts for billboards and light boxes on the gate bridges at Terminal 3 of Beijing Capital International Airport, in Wenzhou Yongqiang Airport, and in some other airports. The utilization rate of traditional media increased by 7.2% to 70.7% in 2011 from 63.5% in 2010 due to the increase in the number of locations sold, which was partially offset by the increase in the number of locations available for sale. The average selling price of traditional media in airports increased by 8.8% to \$28,736 in 2011 from \$26,415 due to lower discounts offered in 2011 than in 2010 and more locations with higher listing prices sold in 2011 than in 2010.

**Revenues from the gas station media network:** Revenues from the gas station media network increased by 251.3% to \$12.9 million due to continued sales efforts and growing acceptance of AirMedia's gas station media network.

**Revenues from other media:** Revenues from other media were primarily revenues from AM Outdoor which was acquired by our variable interest entity, AM Advertising, in January 2010, which operates unipole signs and other outdoor media across Beijing. Revenues from other media for fiscal year 2011 decreased by 8.1% year-over-year to \$9.8 million, primarily due to the decrease in revenues from real estate advertisers due to government policies that reduced the growth of China's real estate market.

**Cost of Revenues.** Our cost of revenues increased by 23.5% from \$197.9 million in 2010 to \$244.5 million in 2011, primarily due to the increase in concession fees and other components of cost of revenues. Our cost of revenues as a percentage of our net revenues increased from 85.9% in 2010 to 90.3% in 2011. Concession fees increased 19.3% from \$134.3 million in 2010 to \$160.2 million in 2011, primarily due to additional new concession contracts signed in 2011. Concession fees as a percentage of net revenues increased from 58.3% in 2010 to 59.2% in 2011 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.

*Operating Expenses.* Our operating expenses decreased by 4.2% from \$43.8 million in 2010 to \$41.9 million in 2011. Our total operating expenses in 2010 included share-based compensation expenses of \$8.0 million while our total operating expenses in 2011 included share-based compensation expenses of \$4.6 million.

- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 0.7% from \$18.1 million in 2010 (including \$2.4 million of share-based compensation expenses) to \$18.2 million in 2011 (including \$1.4 million of share-based compensation expenses).
- *General and Administrative Expenses.* Our general and administrative expenses decreased by 10.7% from \$24.6 million (including \$5.5 million of share-based compensation expenses) in 2010 to \$22.0 million (including \$3.2 million of share-based compensation expenses) in 2011, primarily due to a decrease in share-based compensation expenses of \$2.4 million.
- *Impairment for goodwill.* We perform the annual impairment tests on December 31 of each year. An impairment loss on goodwill of \$1.0 million incurred for the year ended December 31, 2011, because our fire station advertising business was expected to generate negative operating cash flow for the foreseeable future.
- *Impairment of intangible assets.* We perform the annual impairment tests on December 31 of each year. We incurred impairment loss of \$1.0 million and \$0.7 million on intangible assets with definite life of our fire station advertising business for the years ended December 31, 2011 and 2010, respectively, because our fire station advertising business was expected to generate negative operating cash flow for the foreseeable future.

*Loss from Operations.* We recorded a net loss from operations of \$15.7 million in 2011, as compared to a net loss from operations of \$11.2 million in 2010 as a cumulative result of the above factors.

*Other income, net.* We recorded \$1.8 million of other income net in 2011 as compared to \$0.9 million in 2010. The increase was primarily due to the increase of the gain of short-term investments.

*Income Taxes.* We recorded \$266,000 of income tax expenses in 2011 as compared to income tax benefits of \$735,000 in 2010. Our effective income tax rate changed to -2.1% in 2011 from 8.5% in 2010 because the accumulated net operating loss carryforwards of one of our PRC subsidiaries may not be realized in the future, which caused a higher valuation allowance to be recognized in 2011 as compared to 2010.

*Net Loss Attributable to Noncontrolling Interests.* We recorded \$3.1 million in net loss attributable to noncontrolling interests in 2011, as compared to \$2.7 million in net loss attributable to noncontrolling interests in 2010. The non-controlling interest primarily refers to other shareholders' minority equity interests in Flying Dragon, Beijing AirMedia Jinshi Advertising Co., Ltd., and Dongding, each majority owned by one of our variable interest entities.

*Net Loss Attributable to AirMedia's Shareholders.* As a result of the foregoing, we had net loss attributable to our shareholders of \$9.6 million in 2011, as compared to \$4.9 million in 2010.

#### Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

*Net Revenues.* Our net revenues increased by 54.3% from \$149.4 million in 2009 to \$230.5 million in 2010. The increase was primarily due to revenue increase in all business sections. In addition, AM Outdoor, which was acquired by our variable interest entity AM Advertising in January 2010, contributed \$13.9 million in 2010.

Revenues from digital frames in airports: Revenues from digital frames in airports for fiscal year 2010 increased by 70.8% from \$66.3 million in 2009 to \$113.2 million in 2010 due to an increase in the number of time slots sold.

We expanded our digital frame network coverage from 31 airports as of December 31, 2009 to 34 airports as of December 31, 2010. As a result, the number of digital frames advertising time slots available for sale in airports increased by 20.9% from 109,455 in 2009 to 132,340 in 2010, and the number of time slots sold increased by 73.8% from 26,983 in 2009 to 46,887 in 2010 due to continued sales efforts and growing acceptance of our digital frames by advertisers. Our utilization rate for digital frames in airports increased from 24.7% in 2009 to 35.4% in 2010 due to the increase in the number of time slots sold, which was offset by the increase in the number of time slots available for sale. The average selling price of digital frames, however, decreased by 1.7% from \$2,455 in 2009 to \$2,414 in 2010 due to changes in the mix of time slots sold. The number of time slots sold in the airports other than the Beijing Capital International Airport, which have significantly lower average selling price than those sold in the Beijing Capital International Airport, accounted for a higher percentage of the total number of time slots sold in 2010 than in 2009 due to sales ramp-up in other airports.

Revenues from digital TV screens in airports: Revenues from digital TV screens in airports decreased by 22.4% to \$28.9 million in 2010 from \$37.3 million in 2009 due to a decrease in the average selling price of digital TV screens in airports, which was partially offset by an increase in the number of time slots sold.

The number of time slots sold for 2010 increased by 9.6% to 26,216 time slots primarily due to continued sales efforts. The number of time slots available for sale for 2010 decreased by 8.1% year-over-year to 94,050 time slots in 2010 due to the termination of operation of digital TV screens in certain second-tier and third-tier airports. Utilization rate of digital TV screens in airports for fiscal year 2010 increased to 27.9% from 23.4% in 2009 primarily due to the decrease in the number of time slots available for sale and the increase in the number of time slots sold. The average selling price of digital TV screens in airports decreased by 29.2% to \$1,103 in 2010 from \$1,558 in 2009 primarily due to higher discounts offered in 2010.

Revenues from digital TV screens on airplanes: Revenues from digital TV screens on airplanes increased by 61.4% to \$27.6 million in 2010 from \$17.1 million primarily due to increases in both the number of time slots sold and the average selling price of digital TV screens on airplanes.

The number of time slots sold increased by 43.6% to 1,203 time slots in 2010 from 838 time slots in 2009 due to continued sales efforts. The number of time slots available for sale decreased by 13.7% to 1,646 time slots in 2010 from 1,908 time slots in 2009 primarily due to the termination of our operation of digital TV screens on the airplanes of China United Airlines and less advertising time on Air China's airplanes. Utilization rate increased to 73.1% in 2010 from 43.9% in 2009 due to the increase in the number of time slots sold and the decrease in the number of time slots available for sale. The average selling price of digital TV screens on airplanes increased by 12.4% to \$22,913 in 2010 from \$20,384 in 2009 due to lower discounts offered and the increase in the listing prices of digital TV screens on Air China's airplanes.

Revenues from traditional media in airports: Revenues from traditional media in airports increased by 78.1% to \$48.4 million in 2010 from \$27.2 million in 2009. The increase was primarily due to increases in both the number of locations sold and the average selling price of traditional media in airports.

The number of locations sold increased by 44.2% to 1,833 locations in 2010 from 1,271 in 2009. The number of locations available decreased by 19.0% to 2,887 locations in 2010 from 3,564 in 2009 because AirMedia terminated the operation of certain unprofitable traditional media in Beijing Capital International Airport as well as billboards and painted advertisements on gate bridges in certain airports in the first quarter of 2010. The utilization rate of traditional media increased to 63.5% in 2010 from 35.7% in 2009 mainly due to the increase in the number of locations sold and the decrease in the number of locations available for sale. The average selling price of traditional media in airports increased by 23.5% to \$26,415 in 2010 from \$21,394 due to lower discounts offered in 2010 than in 2009 and more locations with higher listing prices sold in 2010 than in 2009.

Revenues from the gas station media network: Revenues from the gas station media network increased by 3,492.2% to \$3.7 million. The increase was primarily due to the growing acceptance of our gas station media network by our advertisers and our continued sales efforts.

Revenues from other media: Revenues from other media were primarily revenues from AM Outdoor which was acquired by our variable interest entity, AM Advertising, in January 2010. Revenues from other media for fiscal year 2010 were \$10.7 million.

*Cost of Revenues.* Our cost of revenues increased by 34.1% from \$147.5 million in 2009 to \$197.9 million in 2010. 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 decreased from 98.7% in 2009 to 85.9% in 2010. Concession fees increased 22.0% from \$110.1 million in 2009 to \$134.3 million in 2010 due to additional new concession contracts signed in 2010. Concession fees as a percentage of net revenues decreased from 73.7% in 2009 to 58.3% in 2010 primarily due to the fact that revenues continued to ramp up while incremental concession fees grew at a slower pace than revenue growth.

*Operating Expenses.* Our operating expenses decreased by 9.5% from \$48.4 million in 2009 to \$43.8 million in 2010. Our total operating expenses in 2009 included share-based compensation expenses of \$5.8 million while our total operating expenses in 2010 included share-based compensation expenses of \$8.0 million.

- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 34.8% from \$13.4 million (including \$1.5 million of share-based compensation expenses) in 2009 to \$18.1 million in 2010 (including \$2.4 million of share-based compensation expenses). This increase was primarily due to higher expenses related to expansion of the direct sales force, increased share-based compensation expenses and higher expenses related to the expansion of the gas station media network.
- *General and Administrative Expenses.* Our general and administrative expenses decreased by 29.5% from \$34.9 million (including \$4.2 million of share-based compensation expenses) in 2009 to \$24.6 million (including \$5.5 million of share-based compensation expenses) in 2010, primarily due to lower bad-debt provisions in fiscal year 2010 than in fiscal year 2009. We recorded a \$2.2 million bad-debt provision in 2010 as compared to \$13.6 million in 2009. In response to significant budget cuts by multinational corporation advertisers in 2009, we provided services to some new, smaller domestic advertising agencies in 2009, which resulted in significant increase in our doubtful accounts.

*Loss from Operations.* We recorded a net loss from operations of \$11.2 million in 2010, as compared to a net loss from operations of \$46.5 million in 2009 as a cumulative result of the above factors.

*Income Taxes.* We recorded \$735,000 of income tax benefits in 2010 as compared to income tax benefits of \$6.0 million in 2009. We had \$6.0 million of tax benefit in 2009 largely resulting from net operating losses incurred in 2009. Since some of our subsidiaries started to become profitable from the second half of 2010, some of net operating losses were utilized, which resulted that less deferred tax assets were recognized at December 31, 2010 and led to the decrease of income tax benefits in 2010. Our effective income tax rate decreased to 8.5% in 2010 from 14% in 2009.

*Net (Loss Attributable to Noncontrolling Interests.* We recorded \$2.7 million in net loss attributable to noncontrolling interests in 2010, as compared to \$211,000 in net income attributable to noncontrolling interests in 2009. The non-controlling interest primarily refers to other shareholders' minority equity interests in Flying Dragon, Beijing AirMedia Jinshi Advertising Co., Ltd., and Dongding, each majority owned by one of our variable interest entities.

*Net Loss Attributable to AirMedia's Shareholders.* As a result of the foregoing, we had net loss attributable to our shareholders of \$4.9 million in 2010, as compared to \$37.2 million in 2009.

### ***Share-based Compensation.***

On July 2, 2007, our Board of Directors adopted the AirMedia Group Inc. 2007 Share Incentive Plan (the "2007 Option Plan"), which allows the Company to grant up to 12,000,000 restricted shares or options and other awards to purchase up to 12,000,000 ordinary shares of the Company to its employees and directors subject to vesting requirements. On December 29, 2008, our Board of Directors amended the 2007 Option Plan to allow the Company to grant options to its employees and directors to purchase up to 17,000,000 ordinary shares. On July 2, 2007, we awarded options to our 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, respectively, with a contractual term of 10 years, at an exercise price of \$2.00 per share. One twelfth of the Senior Executive Options vests each quarter until July 2, 2010.

On July 20, 2007, our Board of Directors decided to remove the vesting clause that the vesting of the Employee Options is subject to management's determination on whether the grantee passes the evaluation of the performance of each vesting period. After this modification, the vesting of these Employee Options is only subject to continuing services and one twelfth of the Employee Options vested each quarter until July 20, 2010. As a result, July 20, 2007 was treated as the grant date of these Employee Options.

On July 20, 2007, our 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 term of these options is 10 years. The Consultant Options have the same vesting schedule with the Employee Options.

On November 29, 2007, our Board of Directors granted options to our non-employee directors (the "November 2007 Options"), 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. The term of these options is 5 years. One twelfth of the November 2007 Options vested each quarter until November 29, 2010.

On December 10, 2008, our Board of Directors voted to adjust the exercise price of the November 2007 Options 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 the Black-Scholes model based on the closing market price of our ordinary shares on that date. The incremental compensation cost of the re-priced options was \$1.7 million, with a total of \$0.6 million recognized as compensation cost during 2008, and \$1.1 million recognized as expense over the remaining vesting period.

On July 10, 2009, our Board of Directors granted options to our non-employee directors, employees and consultants (the "2009 Options") to purchase an aggregate of 5,434,500 ordinary shares of the Company, at an exercise price of \$2.69 per share. The term of these options is of 5 years. One twelfth of the Options will vest each quarter until July 10, 2012.

On June 30, 2010, our Board of Directors voted to adjust the exercise price of the stock options which were granted on July 2, 2007, July 20, 2007, November 29, 2007 and July 10, 2009 from \$2.00, \$2.00, \$2.98 and \$2.69 per share, respectively, to \$1.57 per share. The fair value of the options on June 30, 2010, the modification date, was \$0.47, \$0.47, \$0.51, \$0.70 per option, respectively, calculated using the Black-Scholes model based on the closing market price of our ordinary shares on that date. The incremental compensation cost of the re-priced options was \$2.7 million, with a total of \$2.0 million recognized as compensation cost during 2010, and \$0.7 million to be recognized as expense over the remaining vesting period.

On March 18, 2011, the Board of Directors adopted a new share incentive plan, the AirMedia Group Inc. 2011 Share Incentive Plan (the "2011 Option Plan"), which allows the Company to grant up to 2,000,000 restricted shares or options and other awards to purchase up to 2,000,000 ordinary shares of the Company to its employees and directors subject to vesting requirements.

On March 22, 2011, the Board of Directors granted options to non-employee directors, employees and consultants to purchase an aggregate of 2,180,000 ordinary shares of the Company, at an exercise price of \$2.30 per share. The contractual term of the option is of 5 or 10 years. One twelfth of the Options will vest each quarter until March 22, 2014.

On June 7, 2011, the Board of Directors voted to adjust the exercise price of the stock options which were granted on March 22, 2011 from \$2.30 per share to \$1.57 per share. The fair value of the options on June 7, 2011, the modification date, was \$0.75 per option, calculated using the Black-Scholes model based on the closing market price of the ordinary shares of the Company on that date. The incremental compensation cost of the re-priced options was \$0.3 million with totalling \$0.1 million recognized as compensation cost during 2011, and \$0.2 million to be recognized as expense over the remaining vesting period.

On August 23, 2011, the Board of Directors voted to adjust the exercise price of certain stock options which were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011 from \$1.57 per share respectively to \$1.15 per share. The fair value of the options on August 23, 2011, the modification date, was \$0.21, \$0.21, \$0.26, \$0.39 and \$0.53 per option, respectively, calculated using the 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 \$1.3 million, with totalling \$1.1 million recognized as compensation cost during 2011, and \$0.2 million to be recognized as expense over the remaining vesting period.

The fair value of each option granted was estimated on the date of grant/modification using the Black-Scholes option pricing model.

We recorded share-based compensation of \$5.8 million, \$8.0 million and \$4.6 million for the years ended December 31, 2009, 2010 and 2011, respectively.

### ***Inflation***

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 -0.7%, 3.3% and 5.4% in the years 2009, 2010 and 2011, respectively. In 2011, China's inflation has been regarded as relatively high.

The higher inflation in 2011 has caused an increase in our operation expenses due to an increase in employee salaries and benefits. Although it has not materially impacted our results of operations in 2011, we can provide no assurance that we will not be affected in the future by potentially higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

### **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 initial public offering. As of December 31, 2011, we had approximately \$112.7 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 principal uses of cash primarily include capital expenditures, contractual concession fees, business acquisitions, share repurchases, and other investments 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. We may also use additional cash to fund strategic acquisitions.

### ***Cash Flow***

The following table shows our cash flows with respect to operating activities, investing activities and financing activities for the years ended December 31, 2009, 2010 and 2011:

(In thousands of U.S. Dollars)

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Net cash provided by operating activities	\$ 8,858	\$ 10,626	\$ 17,932
Net cash used in investing activities	(42,644)	(30,368)	(5,192)
Net cash (used in) provided by financing activities	(3,913)	72	(10,919)
Effect of exchange rate changes	(81)	2,421	4,408
Net (decrease)/increase in cash	(37,780)	(19,670)	6,229
Cash at the beginning of the period	161,534	123,754	106,505
Cash at the end of the period	123,754	106,505	112,734

### *Operating Activities*

Net cash provided by operating activities was \$17.9 million for the year ended December 31, 2011. This was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$25.1 million, loss on disposal of property and equipment of \$4.4 million, allowance for doubtful accounts of \$2.0 million and share-based compensation of \$4.6 million, (2) an increase of \$18.7 million in accounts payable, and (3) a decrease of \$10.2 million in prepaid concession fees. The foregoing was partly offset by (1) an increase of \$28.7 million in accounts receivable and (2) an increase of \$3.7 million in other current assets.

Net cash provided by operating activities was \$10.6 million for the year ended December 31, 2010. This was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$23.5 million, allowance for doubtful accounts of \$2.2 million and share-based compensation of \$8.0 million, (2) a decrease of \$21.1 million in accounts receivable, and (3) a decrease of \$3.9 million in prepaid concession fees under our concession rights contracts with the airports and airlines.

Net cash provided by operating activities was \$8.9 million for the year ended December 31, 2009. This was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$16.5 million, allowance for doubtful accounts of \$13.6 million and share-based compensation of \$5.8 million, (2) a decrease of \$17.2 million in prepaid concession fees under our concession rights contracts with the airports and airlines, (3) an increase of \$14.2 million in accounts payable primarily consisting of the concession fees payable under our concession rights contracts due to the expansion of our network coverage and increased number of concession rights contracts, and (4) an increase of \$6.5 million in deferred revenue primarily due to the strengthening of controls for advances received before offering advertisements to our new and renewal advertisers. The foregoing was partly offset by (1) a net loss of \$37.0 million and (2) an increase of \$18.2 million in accounts receivable from our advertisers due to our increased sales.

### *Investing Activities*

Net cash used in investing activities for the year ended December 31, 2011 amounted to \$5.2 million, mainly as a result of our purchase of equipment and gas station construction for \$4.2 million and a payment of \$3.0 million for contingent consideration in connection with a business combination, which was partially offset by (1) \$0.7 million contributed from the restricted cash, (2) proceeds from short-term investments of \$1.0 million, and (3) \$0.2 million of proceeds from disposal of property and equipment.

Net cash used in investing activities for the year ended December 31, 2010 amounted to \$30.4 million, mainly as a result of (1) \$17.2 million for business acquisition, (2) \$5.3 million for investment restricted cash, and (3) our purchase of equipment and gas station construction for \$8.9 million.

Net cash used in investing activities for the year ended December 31, 2009 amounted to \$42.6 million, mainly as a result of (1) our purchases of equipment, primarily digital frames and digital TV screens for \$28.7 million, (2) \$6.2 million for business acquisition and purchase of intangible assets, (3) \$5.6 million for loan to AM Outdoor, a company our variable interest entity AM Advertising acquired in the first quarter of 2010 and (4) \$1.4 million for investment restricted cash, which are payment deposits to banks as a condition for helping us guarantee our performance of maintenance tasks as required under our concession rights agreements with certain airports.

### *Financing Activities*

Net cash used in financing activities amounted to \$10.9 million for the year ended December 31, 2011, as a result of \$11.1 million used for repurchased shares, which was offset by \$0.2 million in proceeds from stock option exercises.

Net cash provided by financing activities amounted to \$72,000 for the year ended December 31, 2010, as a result of \$1.1 million for dividend payment to former shareholder of AM Outdoor, which was offset by \$1.2 million in proceeds from stock option exercise.



Net cash used in financing activities amounted to \$3.9 million for the year ended December 31, 2009, as a result of (1) \$7.4 million for share repurchases, offset by (1) \$2.2 million in proceeds from capital contribution from noncontrolling interests in the incorporation of Beijing AirMedia Jinshi Advertising Co., Ltd. and (2) \$1.3 million in proceeds from stock option exercise.

### *Intra-Company Transfers*

Transfers of cash between our PRC operating subsidiaries and our non-PRC entities are regulated by certain PRC laws. For a description of these laws and the effect that they may have on our ability to meet cash obligations, please refer to “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 more PRC withholding taxes under PRC tax law.,” “Item 3. Key Information — D. Risk Factors — Risks Related to our Corporate Structure — 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.,” “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Restrictions on currency exchange may limit our ability to receive and use our revenues or financing effectively.,” “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — 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.,” “Item 4. Information on the Company — A. History and Development of the Company — Regulations on Dividend Distribution,” “Item 4. Information on the Company — A. History and Development of the Company — Business Overview — Regulation — SAFE Regulations on Offshore Investment by PRC Residents and Employee Stock Options”. None of these regulations have had a material effect on our ability to meet our cash obligations.

### *Capital Expenditures*

Our capital expenditures were made primarily to purchase digital TV screens, digital frames and associated equipment for our network, including network construction for our gas station media network. We also exchange advertising time slots with other entities for digital TV screens and other equipment through barter transactions.

Our capital expenditures were \$8.9 million and \$4.2 million in 2010 and 2011, respectively. We expect to incur higher capital expenditures in 2012 primarily to construct our LED media network and to purchase additional digital frames and install more light boxes and billboards.

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 May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

- Highest-and-best-use and valuation-premise concepts for nonfinancial assets: The guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
- Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk: The guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.
- Premiums or discounts in fair value measure: The guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.
- Fair value of an instrument classified in a reporting entity's stockholders' equity: The guidance prescribes a model for measuring the fair value of an instrument classified in stockholders' equity; this model is consistent with the guidance on measuring the fair value of liabilities.
- Disclosures about fair value measurements: The guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:
  - (i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.
  - (ii) The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011, for public entities. Early application by public entities is not permitted. We will adopt this pronouncement effective January 1, 2012, which will not have a significant impact on our consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before update the pronouncement issued in June 2011. We will adopt this pronouncement effective January 1, 2012, which will not have a significant impact on our consolidated financial statements.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. We will adopt this pronouncement effective January 1, 2012, which will not have a significant impact on our consolidated financial statements.

In December 2011, the FASB has issued an authoritative pronouncement related to Disclosures about Offsetting Assets and Liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. We are in the process of evaluating the effect of adoption of this guidance on its consolidated financial statements.

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

#### *Research and Development*

We have been developing certain technologies for broadcasting purposes. However, our financial commitment to development of these technologies has been limited. During the past three years, we have not incurred a significant amount of research and development expense. While we are interested in and may experiment with new technologies from time to time, we do not intend to materially increase our research and development spending in the foreseeable future.

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

### **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 2015 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, 2011:

	Payments Due by Period				
	Total	2012 (in thousands of U.S. Dollars)	2013-2014	2015-2016	2017 and thereafter
Operating lease agreements	\$ 3,708	\$ 2,565	\$ 1,091	\$ 52	\$ -
Concession rights contracts	383,593	165,703	116,896	53,458	47,536
Purchase obligations	5,772	5,704	16	-	52
Total	<u>\$ 393,073</u>	<u>\$ 173,972</u>	<u>\$ 118,003</u>	<u>\$ 53,510</u>	<u>\$ 47,588</u>

## G. Safe Harbor

See the section headed “Forward-Looking Information.”

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. Directors and Senior Management

The following table sets forth certain information regarding our directors and executive officers as of February 1, 2012.

NAME	AGE	POSITION
Herman Man Guo	48	Chairman and Chief Executive Officer
James Zhonghua Feng	41	President and Director
Ping Sun	45	Chief Financial Officer
Qing Xu	50	Director and Executive President
Shichong Shan	80	Independent Director
Donglin Xia	51	Independent Director
Junjie Ding	47	Independent Director
Songzuo Xiang	47	Independent Director
Wei He	36	Chief Public Relations Officer

*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 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 from 1988 to 1990. Mr. Guo received his bachelor’s degree in applied mathematics from People’s Liberation Army Information Engineering University in China in 1983 and an Executive MBA degree from Peking University in China in 2011.

*Mr. James Zhonghua Feng* has served as our president and director since May 2011. Prior to that, he served as chief operating officer since our inception and with respect to certain of our pre-existing affiliated entities 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 an Executive MBA degree from Peking University in China in 2009.

*Ms. Ping Sun* has served as our chief financial officer since February 1, 2011. Prior to joining our company, Ms. Sun founded Orilily LLC, an e-commerce company, and served as its managing director from January 2007 to January 2011. Prior to that, Ms. Sun was a finance director of Kodak (China) Investment Company Limited for Digital Capture & Home Printing, Greater Asia Region from January 2005 to December 2006. Prior to that, Ms. Sun worked in the United States as a financial reporting director and financial analyst of Eastman Kodak Company from 1999 to 2004. Ms. Sun also worked at various positions at China National Machine Tool Corporation from 1992 to 1997. Ms. Sun received an MBA from University of Rochester in New York and a Bachelor of Engineering from Tsinghua University in Beijing, China.

*Mr. Qing Xu* has served as our director since our inception and as our executive president since June 2010. From October 2005 to our inception, Mr. Xu served as a director of certain of our pre-existing affiliated entities. 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 the General Administration of Civil Aviation of China. Mr. Shan attended the college program at the Eastern China Military and Politics Institute in China.

*Dr. Donglin Xia* has served as our independent director since October 2007. Dr. 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. Dr. Xia currently serves on the board of Shenzhen Development Bank, a bank based in China and listed on the Shenzhen Stock Exchange; UFIDA Software Co., Ltd., a software company based in China and listed on the Shanghai Stock Exchange; and Beyondsoft Corp., a software company based in China and listed on the Shenzhen Stock Exchange. Previously, Dr. Xia served on the board of Huaneng Power International, Inc., 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 construction 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. Dr. Xia received his Ph.D. degree in economics from the Research Institute of Fiscal Science of the Ministry of Finance in China in 1994.

*Dr. Junjie Ding* has served as our independent director since November 2008. Dr. 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. Dr. Ding is a vice president of the Communication University of China and the deputy officer of the China Advertising Association of Commerce. With nearly 20 years of experience in the media and advertisement industry, Dr. 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 China Digital TV Co. Ltd., a NYSE-listed company providing conditional access systems to China's digital television market. From March 2009 to October 2009 and from July 2000 to July 2009, Dr. Xiang served as chief executive officer and director, respectively, of Ku6 Media Co., Ltd., a NASDAQ-listed company. He 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.

Ms. *Wei He* has served as our chief public relations officer since our inception in April 2007 and for certain of our pre-existing affiliated entities since April 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 Hong Kong 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.

No family relationship exists between any of our directors and executive officers. There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person referred to above was selected as a director or member of senior management.

### ***Employment Agreements***

We have entered into employment agreements with all of our senior executive officers, namely Herman Man Guo, Ping Sun and James Zhonghua Feng. Under these employment agreements, each of our 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 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**

In 2011, the aggregate cash compensation to our executive officers was approximately \$553,000 and the aggregate cash compensation to our non-executive directors was approximately \$90,500. Our PRC subsidiaries and consolidated variable interest entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned pension insurance mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company except as required under applicable PRC law.

## Share Options

In July 2007, we adopted the 2007 Option Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. In December 2009, we amended the 2007 Option Plan by increasing the maximum aggregate number of shares issuable under the plan from 12 million to 17 million. In March 2011, our board of directors authorized the issuance of 2 million ordinary shares under the 2011 Option Plan with the same aim as the 2007 Option Plan. As of December 31, 2011, options to purchase a total of 18,009,500 of our ordinary shares have been granted and 15,438,722 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 December 31, 2011, the outstanding options granted to our executive officers, directors and to other individuals as a group under our 2007 Option Plan, as amended, and 2011 Option Plan.

Name	Ordinary Shares Underlying Options	Exercise Price (US\$/Share) (1)	Date of Grant	Expiration Date
Herman Man Guo	2,000,000	1.15	July 2, 2007	July 2, 2017
Qing Xu	*	1.15	March 22, 2011	March 22, 2021
Ping Sun	*	1.15	March 22, 2011	March 22, 2021
Shichong Shan	*	1.15	July 20, 2007	July 20, 2017
Donglin Xia	*	1.15	November 29, 2007	November 29, 2012
Junjie Ding	*	1.15	July 10, 2009	July 10, 2014
Songzuo Xiang	*	1.15	July 10, 2009	July 10, 2014
James Zhonghua Feng	625,514	1.15	July 2, 2007	July 2, 2017
	150,000	1.15	July 20, 2007	July 20, 2017
	110,000	1.15	November 29, 2007	November 29, 2012
	840,000	1.15	July 10, 2009	July 10, 2014
Wei He	*	1.15	July 20, 2007	July 20, 2017
	*	1.15	July 10, 2009	July 10, 2014
	*	1.15	March 15, 2011	March 22, 2021
Other individuals as a group	1,435,728	1.15	July 2, 2007	July 20, 2017
Other individuals as a group	988,608	1.15	July 20, 2007	July 20, 2017
Other individuals as a group	388,459	1.15	November 29, 2007	November 29, 2012
Other individuals as a group	1,822,793	1.15	July 10, 2009	July 10, 2014
Other individuals as a group	190,000	1.15	March 22, 2011	March 22, 2021
Other individuals as a group	900,000	1.15	March 22, 2011	March 22, 2016
Other individuals as a group	500,000	1.57	July 2, 2007	July 2, 2017
Other individuals as a group	342,400	1.57	July 20, 2007	July 20, 2017
Other individuals as a group	472,000	1.57	November 29, 2007	November 29, 2012
Other individuals as a group	682,390	1.57	July 10, 2009	July 10, 2014

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

- (1) On August 23, 2011, the company decided to provide better incentive to our employees, our board of directors approved an exercise price of the stock option adjustment to partial optionees previously granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011. The adjusted option exercise price for certain optionees are \$1.15 per ordinary share and unadjusted portion will remain the same at \$1.57 per ordinary share.

The following paragraphs summarize the terms of our 2007 Option Plan, as amended, and 2011 Option Plan:

*Plan Administration.* Our board of directors, or a committee designated by our board or directors, will administer the plans. 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 plans 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 Securities 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.

*Exercise Price and Terms of the Options.* The exercise price per share subject to an option may be amended or adjusted in the absolute discretion of the compensation committee, the determination of which shall be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a re-pricing of options mentioned in the preceding sentence shall be effective without the approval of our shareholders or the approval of the optionees. Notwithstanding the foregoing, the exercise price per share subject to an option may not be increased without the approval of the affected optionees. If we grant an option to an individual who, at the date of grant, possesses more than ten percent of the total combined voting power of all classes of our shares, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The compensation committee shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting, and shall determine any conditions, if any, that must be satisfied before all or part of an option may be exercised. 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 2007 Option Plan will expire and no further awards may be granted under it after July 2017, and our 2011 Option Plan will expire and no further awards may be granted under it after March 2021. 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.

### *Board Committees*

We have established three committees under the board of directors: an audit committee, a compensation committee, and a compliance 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 reelected. 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. A majority of our board of directors are independent directors. We have adopted a charter for each of the board committees. Each committee's members and responsibilities are described below.

*Audit Committee.* Our audit committee consists of Messrs. Songzuo Xiang, Shichong Shan and Donglin Xia. Our board of directors has 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 the rules and regulations of the NASDAQ Stock Market LLC. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting 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 on an ongoing basis;
- 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;
- other matters 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.

*Compensation Committee.* Our compensation committee consists of Messrs. Junjie Ding, Shichong Shan and Donglin Xia. Our board of directors has determined that Messrs. Junjie Ding, Shichong Shan and Donglin Xia satisfy the "independence" requirements of the rules and regulations of the NASDAQ Stock Market LLC. 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 is 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.

*Compliance Committee.* Our compliance committee consists of Messrs. Qing Xu, Songzuo Xiang and Junjie Ding. Mr. Xu is the chairperson. Our compliance committee assists the board in overseeing the Company's compliance with the laws and regulations applicable to the Company's business, and compliance with the Company's code of business conduct and ethics and related policies by employees, officers, directors and other agents and associates of the Company. The compliance committee is responsible for, among other things:

- establishing and revising project and purchase control policies;
- establishing and revising administration and business supervision policies;
- accepting, investigating, and settling any comments, complaints, and reports from employees;
- investigating and settling any matters delegated from the board of directors; and
- monitoring the status of implementation of company policies.

### ***Duties of Directors***

Under Cayman Islands law, our directors have a fiduciary duty of loyalty to act honestly, in good faith and 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, as amended and restated from time to time.

### ***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 795, 737 and 723 employees as of December 31, 2009, 2010 and 2011, respectively. The following table sets forth the number of our employees by area of business as of December 31, 2009, 2010 and 2011:

	2009		As of December 31, 2010		2011	
	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
Sales and Marketing Department	370	46.5	333	45.2	319	44.1
Quality Control and Technology Department	164	20.6	173	23.5	173	23.9
Programming Department	36	4.5	28	3.8	31	4.3
Resources Development Department	58	7.3	62	8.4	57	7.9
General Administrative and Accounting	167	21.1	141	19.1	143	19.8
Total	795	100.0	737	100.0	723	100.0

The following table sets forth the breakdown of employees by geographic location as of December 31, 2011:

City	Number of Employees	% of Total
Beijing	432	59.8%
Shanghai	68	9.4%
Guangzhou	34	4.7%
Shenzhen	50	6.9%
Chengdu	22	3.0%
Wenzhou	18	2.5%
Others	99	13.7%
Total	723	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 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 their employment with us terminates.

Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good.

#### **E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2012, unless otherwise noted, by (i) each person who is known by us to beneficially own more than 5% of our ordinary shares; (ii) by each of our officers and directors; and (iii) by all of our officers and directors as a group. Unless otherwise indicated, the address of each of the persons set forth below is in care of the Company, 17/F, Sky Plaza, No. 46 Dongzhimenwai Street, Dongcheng District, Beijing 100027, People's Republic of China.

<u>Name and Address of Beneficial Owner</u>	<u>Office, if any</u>	<u>Title of Class</u>	<u>Amount and Nature of Beneficial Ownership</u> <sup>(1)</sup>	<u>% of Class</u> <sup>(2)</sup>
<b>Officers and Directors</b>				
Herman Man Guo <sup>(3)</sup>	Chairman and CEO	Ordinary Shares (some or all in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	41,274,480	32.4%
Qing Xu <sup>(4)</sup>	Director & Executive President	Ordinary Shares	5,750,560	4.6%
Ping Sun	CFO	Ordinary Shares	*	*
Shichong Shan	Independent Director	Ordinary Shares	*	*
Donglin Xia	Independent Director	Ordinary Shares	*	*
Junjie Ding	Independent Director	Ordinary Shares	*	*
Songzuo Xiang	Independent Director	Ordinary Shares	*	*
James Zhonghua Feng <sup>(5)</sup>	President and Director	Ordinary Shares	2,183,669	1.7%
Wei He	Chief Public Relations Officer	Ordinary Shares	*	*
All officers and directors as a group (9 persons named above)		Ordinary Shares	49,850,307	38.4%
<b>5% Security Holders</b>				
Herman Man Guo <sup>(3)</sup>	Chairman and CEO	Ordinary Shares (some or all in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	41,274,480	32.4%
Wealthy Environment Limited <sup>(6)</sup> P.O. Box 173, Kingston Chambers, Road Town, Tortola British Virgin Islands		Ordinary Shares (some or all in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	29,274,480	23.4%
Global Gateway Investments Limited <sup>(7)</sup> c/o CDH Investment Advisory Private Limited One Temasek Avenue #18-02, Millenia Tower Singapore 039192		Ordinary Shares (in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	22,045,506	17.6%

CDH China Growth Capital Fund II, L.P. <sup>(7)</sup> c/o CDH Investment Advisory Private Limited One Temasek Avenue #18-02, Millenia Tower Singapore 039192		Ordinary Shares (in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	22,045,506	17.6%
CDH China Growth Capital Holdings Company Limited <sup>(7)</sup> c/o CDH Investment Advisory Private Limited One Temasek Avenue #18-02, Millenia Tower Singapore 039192		Ordinary Shares (in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	22,045,506	17.6%
FMR LLC <sup>(8)</sup> 82 Devonshire Street Boston, Massachusetts 02109		Ordinary Shares (some or all in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	8,069,766	6.4%
Edward C. Johnson 3d <sup>(8)</sup> 82 Devonshire Street Boston, Massachusetts 02109		Ordinary Shares (some or all in the form of American Depositary Shares, each representing two ordinary shares of the issuer)	8,069,766	6.4%
Global Earning Pacific Limited <sup>(9)</sup> OMCChambers Wickham Cay 1 Road Town, Tortola British Virgin Islands		Ordinary Shares	10,000,000	8.0%
Dan Shao <sup>(9)</sup> c/o Global Earning Pacific Limited OMCChambers Wickham Cay 1 Road Town, Tortola British Virgin Islands		Ordinary Shares	10,000,000	8.0%

\* Less than 1%.

- (1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as otherwise indicated, each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to our ordinary shares.
- (2) A total of 125,247,597 of our ordinary shares as of March 31, 2012 are outstanding pursuant to SEC Rule 13d- 3(d)(1). Ordinary shares that may be acquired by an individual or group within 60 days of such date, pursuant to the exercise of warrants or options, are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the above table.
- (3) Includes (i) 27,874,480 ordinary shares held by Wealthy Environment Limited, a BVI company wholly owned by Mr. Guo, (ii) 1,400,000 ordinary shares represented by American Depositary Shares held by Wealthy Environment Limited, (iii) 2,000,000 ordinary shares issuable upon exercise of options held by Mr. Guo that are exercisable within 60 days, and (iv) 10,000,000 ordinary shares held by Global Earnings Pacific Limited, a BVI company wholly owned and controlled by Dan Shao, Mr. Guo's wife. Mr. Guo disclaims beneficial ownership of the ordinary shares held by Global Earnings Pacific Limited. Mr. Guo has previously reported beneficially owning 23.7%, 24.6%, 38.4%, 41.3%, and 41.1% of our ordinary shares as of December 31, 2011, 2010, 2009, 2008, and 2007, respectively.
- (4) Includes (i) 4,000,000 ordinary shares held by Mambo Fiesta Limited, a BVI company wholly owned by Mr. Xu, (ii) 1,550,560 ordinary shares held by Mambo Fiesta Limited, in the form of ADSs and (iii) 200,000 ordinary shares issuable upon exercise of options held by Mr. Xu that are exercisable within 60 days.
- (5) Includes 1,585,514 ordinary shares issuable upon exercise of options held by Mr. Feng that are exercisable within 60 days.
- (6) Wealthy Environment Limited, a company incorporated in BVI, is wholly owned and controlled by Herman Man Guo.

Wealthy Environment Limited has previously reported beneficially owning 22.2%, 23.0%, 37.1%, 41.3%, and 41.1% of our ordinary shares as of December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

- (7) The information provided with respect to these beneficial owners is as of December 31, 2011 and is derived from Schedules 13G/A jointly filed with the SEC on February 8, 2012, February 11, 2011, February 3, 2010, and February 6, 2008 by the beneficial owners.

Global Gateway Investments Limited is the record holder of 22,045,506 ordinary shares in the form of American Depositary Shares, each representing two ordinary shares of the issuer. CDH China Growth Capital Fund II, L.P. ("CDH Fund II") owns 100% of the total outstanding shares of Global Gateway Investments Limited. CDH China Growth Capital Holdings Company Limited ("CDH Growth Capital Holdings") 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. Each of Global Gateway Investments Limited, CDH Fund II and CDH Growth Capital Holdings may be deemed to have sole voting and dispositive power with respect to the shares.

The investment committee of CDH Growth Capital Holdings comprises Shangzhi Wu, Shuge Jiao and Xinlai Liu. 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 (i) an affiliate of Capital Z Partners, (ii) an affiliate of the Government of Singapore Investment Corporation, and (iii) China Diamond Holdings II, L.P., a British Virgin Islands limited partnership controlled by senior members of the CDH Fund II investment team. Pursuant to Section 13(d) of the Exchange Act, and the rules promulgated thereunder, Shangzhi Wu, Shuge Jiao and Xinlai Liu may be deemed to have beneficial ownership of the ordinary shares directly held by Global Gateway Investments Limited. Each of Shangzhi Wu, Shuge Jiao and Xinlai Liu disclaims the beneficial ownership of any of the shares of the Company directly held by Global Gateway Investments Limited except to the extent of each of their pecuniary interests therein.

These beneficial owners have previously reported beneficially owning 17.3%, 19.9%, 17.3%, 19.4%, and 19.6% of our ordinary shares as of December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

- (8) The information provided with respect to these beneficial owners is as of December 31, 2011 and is derived from Schedules 13G/A jointly filed with the SEC on February 14, 2012, February 14, 2011, and February 16, 2010 by the beneficial owners. Further information regarding these beneficial owners may be obtained from these filings. The percentage of beneficial ownership of our ordinary shares as previously reported by FMR LLC and Edward C. Johnson 3d was 6.1%, 7.8%, and 10.0%, as of December 31, 2011, 2010, and 2009, respectively.
- (9) Global Earning Pacific Limited, a company incorporated in BVI, is wholly owned and controlled by Dan Shao, Mr. Herman Man Guo's wife. The information provided below with respect to these beneficial owners is as of December 31, 2011 and is derived from a Schedule 13G/A jointly filed with the SEC on June 9, 2010 by the beneficial owners.

The percentage of beneficial ownership of our ordinary shares previously reported by these beneficial owners was 7.6% as of each of December 31, 2011 and 2010, respectively.

Other than as otherwise disclosed in this report, we are not directly or indirectly owned or controlled by another corporation), by any foreign government or by any other natural or legal person severally or jointly. None of our major 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 March 31, 2012, 127,662,057 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 67% of our total outstanding ordinary shares as of March 7, 2012. 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 — Share Options.”

## **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. Prior to 2011, although AM China, our subsidiary and the 100% shareholder of AM Technology and Xi'an AM, has been operating its advertising business in Hong Kong since 2008, its operation experience was less than three years and was not qualified under the PRC regulations to own a PRC advertising company. Accordingly, our domestic PRC subsidiaries, AM Technology, Shenzhen AM and Xi'an AM, which are considered foreign-invested enterprises, were ineligible to operate a business with advertising as a part of their business scope 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. Since the beginning of 2012, we believe that AM China's operation experience has been more than three years. We are in the process of establishing a wholly-owned subsidiary to provide advertising services in China through it directly. However, we can make no assurance as to the specific time when this wholly-owned subsidiary shall be established. Once this subsidiary is put into operation, we intend to gradually shift our advertising business to this subsidiary, and thus to gradually reduce the reliance on the current VIE structure. Our consolidated variable interest entities directly operate our advertising network, enter into concession rights contracts and sell advertising time slots and advertising locations to our advertisers. We have been and expect 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 provides exclusive technology support and service and technology development services in exchange for payments from them. The payments to AM Technology amounted to RMB 137.9 million, RMB92.6 million and RMB 107.9 million in the years ended December 31, 2009, 2010 and 2011, respectively. 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:** AM Technology provides exclusive technology supports and consulting services to our VIEs and the 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. The technology support and service agreements are effective for ten years and such term can be automatically renewed upon their expiry.
- **Technology development agreement:** Our 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. The technology development agreements are effective for ten years and such term can be automatically renewed upon their expiry.
- **Call option agreement:** Under the call option agreements, the shareholders of our VIEs irrevocably granted AM Technology or its designated third party an exclusive option to purchase from the 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 the VIEs in all operation related contracts, agreements and transactions and commit to provide loans to support the business development needs of the VIEs or when the VIEs are suffering operating difficulties. The term of the call option agreement is ten years and such term may be renewed upon expiry at AM Technology's sole discretion.



- **Equity pledge agreement:** Under the equity pledge agreements, 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. If the VIEs fail to perform its obligations set forth in the technology support and service agreement, AM Technology shall be entitled to exercise all the remedies and powers set forth in the provisions of the equity pledge agreement. The agreement is effective for as long as the technology support and service agreements and technology development agreement are effective.
- **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. The authorization is effective for ten years and such term is renewed upon its expiry at AM Technology's sole discretion.

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. Accordingly, the Group has consolidated the VIEs because it believe, through the contractual arrangements, (1) the AM Technology could direct the activities of the VIEs that most significantly affect its economic performance and (2) the AM Technology could receive substantially all of the benefits that could be potentially significant to the VIEs. 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 re-charged to the VIEs.

Shenzhen AM has signed contractual agreements with one of our VIEs in China, AM Yuehang, pursuant to which Shenzhen AM provides exclusive technology support services including the research and development of technologies related to AM Yuehang's business operation, the maintenance and monitoring of displays and programming systems, research on the solution of technical problems, and other related technical support and services in exchange for payments from AM Yuehang, which constitute Shenzhen AM's primary source of revenue.

Xi'an AM is a software company which primarily derives revenues from selling software it developed to AM Technology. AM Technology uses the software it purchases from Xi'an AM to provide technology development and support services to other companies.

#### ***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, 2011, we had \$443,000 due to BEMC as the deposits received for publishing advertisement.

#### ***Amounts Due from BEMC***

As of December 31, 2011, we had \$148,000 due from BEMC as the uncollected advertising revenue earned from BEMC.

#### ***Transactions with BEMC and Zhangshangtong Air Service (Beijing) Co., Ltd. ("Zhangshangtong")***

In 2011, we earned \$179,000 and \$27,000 of advertising revenue from BEMC and Zhangshangtong respectively.

#### ***Share Options***

See Item 6, "Directors, Senior Management and Employees — B. Compensation — Share Options."

## **C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. Consolidated Statements and Other Financial Information**

#### ***Financial Statements***

We have appended consolidated financial statements filed as part of this annual report. See Item 18, "Financial Statements."

#### ***Legal Proceedings***

Our PRC subsidiaries and variable interest entities have engaged in and may be subject to various legal proceedings relating to commercial arrangements and other matters in the ordinary course of our business. In September 2011, Zhejiang Xinghui Display and Design Co., Ltd. ("Xinghui"), an equipment supplier, filed an application to the Beijing Arbitration Commission ("BAC") against AM Jinshi and TJ Jinshi, which are two of our PRC operating entities, claiming for total unpaid amount of RMB26.78 million for equipment provided. In September 2011 and January 2012, AM Jinshi and TJ Jinshi filed counterclaims for a total amount of RMB18.27 million for the dissatisfied and malfunctioned equipment delivered by Xinghui. As the relevant arbitration actions are currently pending review by the BAC, we cannot estimate the range of loss (if any) as of December 31, 2011.

#### ***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 change since the date of our audited consolidated financial statements filed as part of this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

Our ADSs, each representing two of our ordinary shares, were listed on the NASDAQ Global Market on November 7, 2007 and were subsequently transferred to the NASDAQ Global Select Market. Our ADSs trade under the symbol "AMCN." The following table provides the high and low trading prices for our ADSs for the periods noted.

	<u>High</u>	<u>Low</u>
<b>Annual Market Prices</b>		
Year 2007 (from November 7, 2007)	\$ 25.15	\$ 15.60
Year 2008	26.51	3.85
Year 2009	9.26	3.80
Year 2010	8.90	2.83
Year 2011	7.60	2.10

**Quarterly Market Prices**

First Quarter 2010	8.90	5.62
Second Quarter 2010	6.61	3.12
Third Quarter 2010	5.99	2.83
Fourth Quarter 2010	8.24	5.21
First Quarter 2011	7.60	4.37
Second Quarter 2011	5.64	2.99
Third Quarter 2011	3.32	2.10
Fourth Quarter 2011	3.91	2.20
First Quarter 2012	4.01	2.58

**Monthly Market Prices**

October 2011	2.97	2.20
November 2011	3.45	2.30
December 2011	3.91	3.17
January 2012	4.01	3.39
February 2012	3.52	2.71
March 2012	3.55	2.58

**B. Plan of Distribution**

Not applicable.

**C. Markets**

See our disclosures above under “Offer and Listing Details.”

**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**

The following are summaries of material terms and provisions of our amended and restated memorandum and articles of association and the Companies Law (2011 Revision) of the Cayman Islands, or the Companies Law, insofar as they relate to the material terms of our ordinary shares. This summary is not complete, and you should read our amended and restated memorandum and articles of association, which has been filed as Exhibit 99.3 to our Form 6-K (File No. 001-33765) filed with the SEC on December 9, 2009.

## ***General***

All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

## ***Dividend Rights***

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

## ***Voting Rights***

Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by one or more shareholders holding together at least ten percent of the shares given a right to vote at the meeting, present in person or by proxy.

A quorum required for a meeting of shareholders consists of shareholders holding not less than an aggregate of one-third of all voting share capital of the Company in issue present in person or by proxy and entitled to vote. Shareholders' meetings may be held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of our voting share capital. Advance notice of at least fourteen days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast in a general meeting. A special resolution is required for important matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including increasing the amount of our authorized share capital, consolidating or dividing all or any of our share capital into shares of larger amount than our existing shares, and canceling any shares that are authorized but unissued.

## ***Transfer of Shares***

Subject to the restrictions of our articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and executed by or on behalf of the transferor, accompanied by the certificates of such shares and such other evidence as the Directors may reasonably require to show the right of the shareholder to make the transfer.

## ***Repurchase of Shares***

Subject to the provisions of the Companies Law and our articles of association, our board of directors may authorize repurchase of our shares in accordance with the manner of purchase specified in our articles of association without seeking shareholder approval. Once the shares have been repurchased, they may be cancelled or held in the name of the company as treasury shares.

## ***Liquidation***

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

## ***Variations of Rights of Shares***

All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

## **Inspection of Books and Records**

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements.

See “— H. Documents on Display.”

## **C. Material Contracts**

In June 2011, we entered into a framework cooperation agreement with Beijing Super TV Co., Ltd, or Super TV, for the establishment of two joint ventures. In January 2012, we entered into a supplemental agreement with Super TV and Beijing N-S Digital TV Co., Ltd, or N-S Digital TV, to modify the framework cooperation agreement and to transfer all the rights and obligations of Super TV under the framework cooperation agreement to N-S Digital TV. Pursuant to the framework cooperation agreement and the supplemental agreement, AirMedia and N-S Digital TV established Beijing Xinghe Union Media Co., Ltd, or Xinghe Union, and Beijing Shibo Movie Technology Co., Ltd, or Shibo Movie. The registered capitals of Xinghe Union and Shibo Movie are RMB 10 million each. AirMedia and N-S Digital TV each contributed in cash RMB 5.0 million, representing 50% of the equity interest, in each of Xinghe Union and Shibo Movie. AirMedia appointed three directors of Xinghe Union and two directors of Shibo Movie and N-S Digital TV appointed the remaining two directors of Xinghe Union and three directors of Shibo Movie. Xinghe Union and Shibo Movie were formally established on March 13, 2012 and February 15, 2012, respectively. Xinghe Union will mainly engage in movie and TV series investment and publishing, and advertisement design and production, and Shibo Movie will mainly engage in technology development, and technology consulting services. Through the newly established companies, AirMedia and N-S Digital TV plan to develop home theatre businesses together. This description is qualified in its entirety by reference to these agreements, which are attached as Exhibits 4.47 and 4.48 to this report.

## **D. Exchange Controls**

There are no material exchange controls restrictions on payment of dividends, interest or other payments to the holders of our ordinary shares or on the conduct of our operations in the Cayman Islands, where we were incorporated. Cayman Islands law and our memorandum and articles of association do not impose any material limitations on the right of nonresidents or foreign owners to hold or vote our ordinary shares.

See Item 4, “Information on the Company — B. Business Overview — Regulation — Regulations on Foreign Exchange” for a description of PRC regulations on foreign exchange.

## **E. Taxation**

*The following is a general summary of certain material Cayman Islands and U.S. federal income tax considerations. 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. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective shareholder. The discussion is based on laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change or different interpretations, possibly with retroactive effect.*

### **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 that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### ***PRC Taxation***

Under the EIT 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 we are classified as a PRC resident enterprise and such income is regarded as income from “sources within the PRC.” Given the fact that whether we would be regarded as “resident enterprise” is not clear, it is uncertain whether 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 PRC tax law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders and ADS holders or if any gains of the transfer of their shares or ADSs are subject to PRC tax, such holders’ investment in our ADSs or ordinary shares may be materially and adversely affected.

### ***U.S. Federal Income Taxation***

The following is a discussion of certain material U.S. federal tax consequences of the ownership of our ordinary shares and ADSs by U.S. Holders (as described below). This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, and can change on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s situation. The discussion applies to investors in ADSs or ordinary shares that hold the ADSs or ordinary shares as capital assets (generally property held for investment) within the meaning of Section 1221 of the Code and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

- financial institutions;
- brokers;
- certain former U.S. citizens or long-term residents;
- regulated investment companies or real estate investment trusts;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding ADSs or ordinary shares as part of a constructive sale, hedge, straddle, conversion or integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;
- persons holding ADSs or ordinary shares that own or are deemed to own 10% or more of our voting stock;
- persons who hold the ADSs or ordinary shares in connection with a trade or business outside the United States;
- persons who are not United States persons within the meaning of Section 7701(a)(30) of the Code; or
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee stock option or otherwise as compensation.

**U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF ADS OR ORDINARY SHARES.**

For purposes of this discussion, a “U.S. Holder” means a beneficial owner of ADSs or ordinary shares that, for U.S. federal income tax purposes, is: a citizen or resident of the United States; a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or a trust that (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person. This discussion assumes that we are not, and will not become, a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes, as described below.

If you are a partner in a partnership or other entity taxable as a partnership that holds ADSs or ordinary shares, your tax treatment generally will depend on your status and the activities of the partnership. If you are a partnership or other entity taxable as a partnership (or a partner in such a partnership or other entity) that holds ADSs or ordinary shares, you should consult your own tax advisors.

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 their terms. If you hold ADSs, you generally will be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. Exchanges of ordinary shares for ADSs and ADSs for ordinary shares generally will not be subject to U.S. federal income tax.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws and other tax considerations of an investment in our ADSs or ordinary shares. We have not sought, and will not seek, a ruling from the Internal Revenue Service, or the IRS, or an opinion as to any U.S. federal income tax consequence described herein. The IRS may disagree with the discussion herein, and its determination may be upheld by a court.

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

Subject to the discussion under “—Passive Foreign Investment Company” below, the gross amount of any distributions paid with respect to the ADSs or ordinary shares generally will be included in your gross income as foreign source dividend income on the date of actual or constructive receipt by the depository, 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). The dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code in respect of dividends received from other U.S. corporations.

If you are a non-corporate U.S. Holder, subject to applicable limitations, you may be eligible to be taxed at a maximum rate of 15% in respect of dividends received in taxable years beginning before January 1, 2013 if we are treated as a qualified foreign corporation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs represented by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs (which are listed on NASDAQ), but not our ordinary shares, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our ordinary shares that are represented by ADSs, but not on our ordinary shares that are not represented by ADSs, currently meet such conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a “PRC resident enterprise” under PRC tax law (see discussion under “PRC Taxation” above), we may be eligible for the benefits of the income tax treaty between the United States and the PRC, (the “Treaty”) and, if we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such ordinary shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-corporate U.S. Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Please consult your tax advisors to determine whether you are subject to any special rules that limit your ability to be taxed at this favorable rate.

Non-corporate U.S. Holders will not be eligible for the reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a passive foreign investment company, or PFIC, in the taxable year in which such dividends are paid or in the preceding taxable year.

In the event that we are deemed to be a “PRC resident enterprise” under PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or ordinary shares. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or ordinary shares will be treated as income from sources outside the United States and will generally constitute passive category income, but could, in certain circumstances, be general category income. The rules governing the foreign tax credit are complex. You should consult your tax advisors regarding the availability of the foreign tax credit in light of your particular circumstances.

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits for a taxable year, as 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. However, we do not intend to calculate our earnings and profits in accordance with U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend (as discussed above).

#### *Taxation of Dispositions of ADSs or Ordinary Shares*

Subject to the discussion under “—Passive Foreign Investment Company” below, upon sale or other taxable disposition of the ADSs or ordinary shares, a U.S. Holder will generally recognize taxable gain or loss for U.S. federal income tax purposes in an amount equal to the difference between such holder’s tax basis in the ADSs or ordinary shares sold or disposed of and the amount realized on the sale or other taxable disposition. The gain or loss generally will be capital gain or loss. Such gain or loss will be long-term capital gain or loss if the U.S. Holder has held the ADSs or ordinary shares for more than one year at the time of disposition. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you may be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be U.S. source gain or loss for foreign tax credit purposes, subject to exceptions and limitations. However, in the event we are deemed to be a “PRC resident enterprise” under PRC tax law, we may be eligible for the benefits of the Treaty. 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 Treaty may elect to treat such gain as PRC source income. U.S. Holders should consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

#### *Passive Foreign Investment Company*

Based on the market 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 U.S. federal income tax purposes for our taxable year ended December 31, 2011. 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, 2012 or any future taxable year. In particular, we believe that there is a risk that we will be a PFIC for our taxable year ending December 31, 2012 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.

Although the law in this regard is unclear, we treat the consolidated variable interest entities and their subsidiaries as being owned by us for U.S. federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate these entities' operating results in our consolidated, financial statements prepared under U.S. GAAP. If it were determined, however, that we are not the owner of the consolidated variable interest entities and their subsidiaries for U.S. federal income tax purposes, we would likely be treated as a PFIC for our taxable year ended on December 31, 2011 and any subsequent taxable year.

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, if it were determined, that we are not the owner of the consolidated variable interest entities and their subsidiaries for U.S. federal income tax purposes, we would likely be treated as a PFIC. Assuming that we are the owner of the consolidated variable entities for U.S. federal income tax purposes, because the total value of our assets for purposes of the asset test will generally 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 a U.S. Holder holds our ADSs or ordinary shares, we will generally continue to be treated as a PFIC for all succeeding years during which the U.S. Holder holds ADSs or ordinary shares, absent a special election. For instance, if we cease to be a PFIC, a U.S. Holder can avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to our 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. U.S. Holders are urged to consult their tax advisors about the application of the PFIC rules to any of our subsidiaries.

Furthermore, because there are uncertainties in the application of the relevant rules, it is possible that the IRS may challenge our classification of certain income and assets as non-passive or our valuation of our tangible and intangible assets, each of which may result in our company becoming classified as a PFIC for the current or subsequent taxable years. Because PFIC status is a fact-intensive determination made on an annual basis and will depend upon the composition of our assets and income and the value of our tangible and intangible assets from time to time, no assurance can be given that we are not or will not become classified as a PFIC.

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. Holder hold our ADSs or ordinary shares and will be subject to special tax rules with respect to any "excess distribution" that he or she receives and any gain the U.S. Holder realizes from a sale or other disposition (including a pledge) of our ADSs or ordinary shares, unless the U.S. Holder makes a "mark-to-market" election as discussed below. Distributions a U.S. Holder receives in a taxable year that are greater than 125% of the average annual distributions the U.S. Holder received during the shorter of the three preceding taxable years or the U.S. Holder's 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 the U.S. Holder's 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 the U.S. Holder holds our 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 a U.S. Holder makes a mark-to-market election for the ADSs or ordinary shares, the U.S. Holder 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 his or her taxable year over the U.S. Holder’s adjusted basis in such ADSs or ordinary shares. A U.S. Holder is 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. Such deductions, however, are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in the U.S. Holder’s income for prior taxable years. Amounts included in the U.S. Holder’s 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. The U.S. Holder’s basis in our ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If the U.S. Holder makes 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 and, consequently, to the extent that our ADSs are regularly traded on the NASDAQ, the mark-to-market election would be available to a U.S. Holder if we were 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, a U.S. Holder can make a qualified electing fund election with respect to his or her ADSs or ordinary shares only if we agree to furnish the U.S. Holder annually with certain tax information, and we do not intend to prepare or provide such information.

If a U.S. Holder holds ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file IRS Form 8621 regarding distributions received on our ADSs or ordinary shares and any gain realized on the disposition of our ADSs or ordinary shares. U.S. shareholders of PFICs may also be required to furnish certain information to be specified by the IRS on an annual basis even in the absence of any such distributions, dispositions or elections.

You should 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 paid to you within the United States (and in certain cases, outside the United States) may be subject to information reporting to the IRS, unless you are an exempt recipient such as a corporation. However, 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 generally must provide such certification on IRS Form W-9. You are urged to consult your 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 may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

U.S. Holders that hold certain foreign financial assets (which may include our ADSs or ordinary shares) are required to report information related to such assets, subject to certain exceptions. You should consult your tax advisor regarding the effect, if any, of this requirement on your ownership and disposition of our ADSs or ordinary shares.

#### *New Legislation Regarding Medicare Tax*

For taxable years beginning after December 31, 2012, certain U.S. Holders that are individuals, estates or trusts will be subject to a 3.8% tax on all or a portion of their "net investment income," which may include all or a portion of their dividends and net gains from the sale or other disposition of ordinary shares. If you are a U.S. Holder that is an individual, estate or trust, you should consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in our ordinary shares.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Expert**

Not applicable.

#### **H. Documents on Display**

We are subject to the periodic reporting and other informational requirements of 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 within four months after the end of each fiscal year. 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 SEC 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](http://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.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at <http://www.airmedia.net.cn>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

#### **I. Subsidiary Information**

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### ***Interest Rate Risk***

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 and RMB because the value of the business of our operating subsidiaries and variable interest entities is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

The value of RMB 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 RMB to the U.S. dollar. Under the revised policy, RMB was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. 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.

To the extent that we need to convert our U.S. dollar-denominated assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on RMB amount we receive from the conversion. A hypothetical 10% decrease in the exchange rate of the U.S. dollar against RMB would have resulted in a decrease of \$414,000 in the value of our U.S. dollar-denominated financial assets at December 31, 2011. Conversely, if we decide to convert our RMB-denominated cash amounts into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to us.

### ***Inflation***

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

#### *Fees and Charges Our ADS holders May Have to Pay*

JPMorgan Chase Bank, N.A., the depository of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

<b>Persons depositing or withdrawing shares must pay:</b>	<b>For:</b>
\$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$0.05 (or less) per ADS	Any cash distribution to registered ADS holders
A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs \$0.05 (or less) per ADSs per calendar year (if the depository has not collected any cash distribution fee during that year)	Distribution of securities distributed to holders of deposited securities which are distributed by the depository to registered ADS holders
Expenses of the depository	Depository services
Registration or transfer fees	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); converting foreign currency to U.S. dollars
Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares
Any charges incurred by the depository or its agents for servicing the deposited securities	As necessary
	As necessary

#### *Fees and Other Payments Made by the Depository to Us*

The depository has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depository has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depository will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depository collects from investors. We recognize the reimbursable amounts in other income on our consolidated statements of operations on a straight-line basis over the contract term with the depository.

For the year ended December 31, 2011, we received nil from the depository as reimbursement for our expenses incurred and recognized \$539,000 as other income in our consolidated statements of operations, and the depository waived an estimated \$163,000 in servicing fees for ongoing program maintenance.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITIES 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 \$187.0 million from our initial public offering.

As of December 31, 2011, the net proceeds from our initial public offering have been used as follows:

- approximately \$83.7 million for the purchase of digital displays and other equipment and the construction of gas station media platforms;
- approximately \$29.7 million for business acquisitions and the purchase of intangible assets;
- approximately \$18.5 million for share repurchases; and
- approximately \$2.1 million for the purchase of long-term investments.

In 2012, we expect to use the net proceeds received from our initial public offering as follows:

- approximately \$5.7 million to fund capital expenditure.

### ITEM 15. CONTROLS AND PROCEDURES

#### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) at December 31, 2011. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures required by paragraph (b) of Rules 13a-15 or 15d-15 were not effective due to the material weaknesses described in the “Management’s Report on Internal Control Over Financial Reporting.”

#### **Management’s Annual 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 Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our 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 in the United States of America (“U.S. GAAP”). 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 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, internal control over financial reporting may not prevent or detect misstatements. 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.

Our management, including our chief executive officer and chief financial officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Management's assessment identified a control deficiency related to the lack of accounting personnel with sufficient knowledge of U.S. GAAP that constitutes a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Based on our assessment, and because of the material weakness described above, we have concluded that our internal control over financial reporting was not effective at December 31, 2011.

We have taken and/or plan to take measures to address the material weakness identified above. We continue to actively recruit for qualified individuals with experience with U.S. GAAP and SEC reporting to build and support our financial reporting department. We will continue to attend training seminars to stay current with U.S. GAAP and SEC reporting requirements. Additionally, we will design and implement more robust financial reporting and management controls over the accounting for complex and unusual transactions.

The effectiveness of our internal control over financial reporting has been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, as stated in their report which is included herein.

### **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, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group’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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified and included in management's assessment relates to the lack of accounting personnel with sufficient knowledge of accounting principles generally accepted in the United States of America ("U.S. GAAP"). This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statement and financial statement schedule as of and for the year ended December 31, 2011, of the Group and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Group has not maintained effective internal control over financial reporting as of December 31, 2011, 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, 2011 of the Group and our report dated April 30, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

Deloitte Touche Tohmatsu CPA Ltd.  
Beijing, the People's Republic of China  
April 30, 2012

### **Changes in Internal Control over Financial Reporting**

The material weakness described above resulted from high turnover in our accounting and financial reporting department. During the year ended December 31, 2011, we experienced turnover in the chief financial officer, the financial controller, and the financial reporting director and other key positions within the accounting and financial reporting department.

There were no other changes in our internal control over financial reporting that occurred during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control 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 the rules and regulations of the NASDAQ Stock Market LLC and under Rule 10A-3 under 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, presidents, 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.

	Fiscal Year Ended December 31,	
	2010	2011
Audit Fees	\$ 1,014,586	\$ 965,889
Audit-Related Fees	—	-
Tax Fees	—	-
All Other Fees	18,883	21,001
<b>TOTAL</b>	<b>\$ 1,033,469</b>	<b>\$ 986,890</b>

“Audit Fees” consisted of the aggregate fees billed for professional services rendered for the audit of our annual financial statements or quarterly review services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

“Audit Related Fees” consisted of the aggregate fees billed for professional services rendered for assurance and related services that were reasonably related to the performance of the audit or review of our regulatory filings and were not otherwise included in Audit Fees.

“Tax Fees” consisted of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. Included in such Tax Fees were fees for preparation of our tax returns and consultancy and advice on other tax planning matters.

“All Other Fees” consisted of the aggregate fees billed for products and services provided and not otherwise included in Audit Fees, Audit Related Fees or Tax Fees.

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**

We have not asked for nor have we been granted an exemption from the applicable listing standards for our audit committee.

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2011 to January 31, 2011	-	-	-	20,000,000
February 1, 2011 to February 28, 2011	-	-	-	20,000,000
March 1, 2011 to March 31, 2011	100,940	2.47	100,940	19,750,272
April 1, 2011 to April 30, 2011	361,426	2.48	361,426	18,852,176
May 1, 2011 to May 31, 2011	1,172,559 (2)	2.02	1,072,820	16,852,172
June 1, 2011 to June 30, 2011	1,470,681(2)	2.10	1,148,296	14,852,166
July 1, 2011 to July 31, 2011	-	-	-	14,852,166
August 1, 2011 to August 31, 2011	96,188 (2)	2.45	-	14,852,166
September 1, 2011 to September 30, 2011	1,763,790 (2)	1.36	1,697,888	12,626,900
October 1, 2011 to October 31, 2011	636,940	1.22	636,940	11,852,167
November 1, 2011 to November 30, 2011	386,774	1.43	386,774	11,299,229
December 1, 2011 to December 31, 2011	1,390,746	1.76	1,390,746	8,852,164

(1) As announced in our press release dated May 9, 2011, on March 21, 2011, our board of directors authorized the repurchase of up to \$20 million of our outstanding ADSs within two years from March 21, 2011.

(2) During the periods May 1, 2011 to May 31, 2011, June 1, 2011 to June 30, 2011, August 1, 2011 to August 31, 2011, and September 1, 2011 to September 30, 2011, Dan Shao, the wife of Mr. Herman Man Guo, purchased 99,739, 322,385, 96,188, and 65,902 ordinary shares in one or more open-market transactions not pursuant to a plan or program.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

**ITEM 16G. CORPORATE GOVERNANCE**

The NASDAQ Stock Market rules require each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year end. They also require each issuer to seek shareholder approval for any establishment of or material amendment to the issuer's equity compensation plans, including any amendment effecting a repricing of outstanding options or increasing the amount of shares authorized under such plans. However, the rules permit foreign private issuers like us to follow "home country practice" in certain corporate governance matters.

Maples and Calder, our Cayman Islands counsel, 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 held an annual meeting in 2009. No annual meeting was held in 2010 and 2011. We may hold additional annual shareholder meetings in the future if there are significant issues that require shareholder approval.

Maples and Calder has also provided letters to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to seek shareholder approval for the establishment of or any material amendments to our equity compensation plans. In 2008, we followed home country practice with respect to our 2007 Option Plan by amending it to permit repricings of options without seeking shareholder approval. In 2011, we followed home country practice with respect to our 2011 Option Plan by establishing it without seeking shareholder approval.

We have relied on and intend to continue to rely on the above home country practice under Cayman Islands law. Other than the above, we have followed and intend to continue to follow the applicable corporate governance standards under the rules and regulations of the NASDAQ Stock Market.

We will post this annual report on Form 20-F on our company website [www.airmedia.net.cn](http://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.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

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

**ITEM 18. FINANCIAL STATEMENTS**

The full text of our audited consolidated financial statements begins on page F-1 of this annual report.

**ITEM 19. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.3 to Form 6-K filed on December 10, 2009)
2.1	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
2.2	Form of Deposit Agreement among the Company, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed 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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.1	Amended and Restated 2007 Share Incentive Plan (incorporated by reference to Exhibit 99.2 to Form 6-K filed on December 10, 2009)
4.2	Form of Indemnification Agreement with the Company's directors and officers (incorporated by reference to Exhibit 10.2 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)

<b>Exhibit No.</b>	<b>Description</b>
4.3	Form of Employment Agreement between the Company and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed 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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.5	English Translation of Business Cooperation Agreement dated June 14, 2007 between Beijing Shengshi Lianhe Advertising Co., Ltd. and AirTV United Media & Culture Co., Ltd. (incorporated by reference to Exhibit 10.9 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.6	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.7	English Translation of Amended Power of Attorneys dated November 28, 2008 from each of the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.11 to Annual Report on Form 20-F filed on April 28, 2009)
4.8	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.9	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.10	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.11	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.12	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.13	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. (incorporated by reference to Exhibit 4.17 to Annual Report on Form 20-F filed on April 28, 2009)

<b>Exhibit No.</b>	<b>Description</b>
4.14	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.15	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. (incorporated by reference to Exhibit 4.19 to Annual Report on Form 20-F filed on April 28, 2009)
4.16	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.20 to Annual Report on Form 20-F filed on April 28, 2009)
4.17	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.18	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.19	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.20	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.21	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.22	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. (incorporated by reference to Exhibit 4.26 to Annual Report on Form 20-F filed on April 28, 2009)
4.23	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. (incorporated by reference to Exhibit 4.27 to Annual Report on Form 20-F filed on April 28, 2009)
4.24	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)

<b>Exhibit No.</b>	<b>Description</b>
4.25	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. (incorporated by reference to Exhibit 4.29 to Annual Report on Form 20-F filed on April 28, 2009)
4.26	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. (incorporated by reference to Exhibit 4.30 to Annual Report on Form 20-F filed on April 28, 2009)
4.27	English Translation of Supplementary Agreement dated November 28, 2008 to the Loan Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd. and Guo Man, a shareholder of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.31 to Annual Report on Form 20-F filed on April 28, 2009)
4.28	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.32 to Annual Report on Form 20-F filed on April 28, 2009)
4.29	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.30	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 Advertising Co., Ltd. (incorporated by reference to Exhibit 10.5 to Annual Report on Form 20-F filed on April 30, 2008)
4.31	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.32	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.33	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.34	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. (incorporated by reference to Exhibit 4.38 to Annual Report on Form 20-F filed on April 28, 2009)
4.35	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)

<b>Exhibit No.</b>	<b>Description</b>
4.36	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. (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on April 28, 2009)
4.37	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 (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on April 28, 2009)
4.38	English Translation of Power of Attorneys dated April 1, 2008 from each of the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.42 to Annual Report on Form 20-F filed on April 28, 2009)
4.39	English Translation of Technology Development Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.43 to Annual Report on Form 20-F filed on April 28, 2009)
4.40	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. (incorporated by reference to Exhibit 4.44 to Annual Report on Form 20-F filed on April 28, 2009)
4.41	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. (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on April 28, 2009)
4.42	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. (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on April 28, 2009)
4.43	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. (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on April 28, 2009)
4.44	Share Purchase Agreement dated July 4, 2008 among the Registrant, First Reach Holdings Limited and Excel Lead International Limited (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20-F filed on April 28, 2009)
4.45	English Translation of Supplementary Agreement No. 2 to Call Option Agreement dated May 27, 2010 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 4.45 to Annual Report on Form 20-F filed on May 28, 2010)
4.46	English Translation of Supplementary Agreement No. 2 to the Equity Pledge Agreement dated May 27, 2010 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 4.46 to Annual Report on Form 20-F filed on May 28, 2010)
<u>4.47*</u>	<u><a href="#">Framework Cooperation Agreement (English summary), by and between AirMedia Group Co., Ltd. and Beijing Super TV Co., Ltd</a></u>

<b>Exhibit No.</b>	<b>Description</b>
<a href="#"><u>4.48*</u></a>	<a href="#"><u>Supplementary Agreement to Framework Cooperation Agreement (English summary), by and among AirMedia Group Co., Ltd., Beijing Super TV Co., Ltd and Beijing N-S Digital TV Co., Ltd.</u></a>
<a href="#"><u>4.49*</u></a>	<a href="#"><u>2011 Share Incentive Plan</u></a>
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
<a href="#"><u>8.1*</u></a>	<a href="#"><u>List of the Company's subsidiaries</u></a>
<a href="#"><u>12.1*</u></a>	<a href="#"><u>Certifications of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)</u></a>
<a href="#"><u>12.2*</u></a>	<a href="#"><u>Certifications of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)</u></a>
<a href="#"><u>13.1*</u></a>	<a href="#"><u>Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>13.2*</u></a>	<a href="#"><u>Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>15.1*</u></a>	<a href="#"><u>Consent of Deloitte Touche Tohmatsu CPA Ltd.</u></a>
<a href="#"><u>15.2*</u></a>	<a href="#"><u>Consent of Commerce &amp; Finance Law Offices</u></a>
<a href="#"><u>15.3*</u></a>	<a href="#"><u>Consent of Maples and Calder</u></a>

\*Filed herewith.



## SIGNATURE

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.

Date: April 30, 2012

**AIRMEDIA GROUP INC.**

/s/ Herman Man Guo  
Herman Man Guo  
Chairman and Chief Executive Officer

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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, 2010 and 2011 and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2011 and related financial statement schedule included in Schedule I. These consolidated financial statements and financial statement schedule are the responsibility of the Group'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, 2010 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, 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 30, 2012 expressed an adverse opinion on the Group's internal control over financial reporting.

Deloitte Touche Tohmatsu CPA Ltd.  
Beijing, the People's Republic of China  
April 30, 2012

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

	As of December 31,	
	<u>2010</u>	<u>2011</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 106,505	\$ 112,734
Restricted cash	6,798	6,363
Accounts receivable, net of allowance for doubtful accounts of \$17,646 and \$3,288 as of December 31, 2010 and 2011	62,455	92,823
Prepaid concession fees	31,787	22,909
Amount due from related parties	306	148
Other current assets	2,713	6,627
Deferred tax assets - current	5,050	6,061
<b>Total current assets</b>	<b>215,614</b>	<b>247,665</b>
Property and equipment, net	71,720	56,429
Long-term investments	1,714	2,047
Long term deposits	13,874	15,042
Deferred tax assets - non-current	6,032	5,763
Acquired intangible assets, net	17,496	13,788
Goodwill	20,736	20,734
<b>TOTAL ASSETS</b>	<b>347,186</b>	<b>361,468</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$38,286 and \$61,697 as of December 31, 2010 and 2011, respectively)	39,020	63,577
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$7,078 and \$9,585 as of December 31, 2010 and 2011, respectively)	12,253	11,276
Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$12,751 and \$11,516 as of December 31, 2010 and 2011, respectively)	12,751	11,522
Income tax payable (including income tax payable of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$911 and \$332 as of December 31, 2010 and 2011, respectively)	1,263	792
Amounts due to related parties (including amounts due to related parties of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$422 and \$443 as of December 31, 2010 and 2011, respectively)	422	443
<b>Total current liabilities</b>	<b>65,709</b>	<b>87,610</b>
<b>Non-current liabilities:</b>		
Deferred tax liabilities - non-current (including deferred tax liabilities - non-current of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$4,761 and \$3,800 as of December 31, 2010 and 2011, respectively)	4,761	3,800
<b>Total liabilities</b>	<b>70,470</b>	<b>91,410</b>
<b>Commitments and contingencies (Note 20 and Note 21)</b>		
<b>Equity</b>		
Ordinary shares (\$0.001 par value; 900,000,000 shares authorized in 2010 and 2011; 131,905,011 shares and 127,662,057 shares issued as of December 31, 2010 and 2011, respectively ;131,905,011 shares and 125,247,597 shares outstanding as of December 31, 2010 and 2011, respectively)	132	128
Additional paid-in capital	277,676	275,150
Treasury stock (nil and 2,414,460 shares as of December 31, 2010 and 2011, respectively)	-	(3,775)
Statutory reserves	7,671	8,049
Accumulated deficits	(28,164)	(38,138)
Accumulated other comprehensive income	18,353	30,734
<b>Total AirMedia Group Inc.'s shareholders' equity</b>	<b>275,668</b>	<b>272,148</b>
Noncontrolling interests	1,048	(2,090)
<b>Total equity</b>	<b>276,716</b>	<b>270,058</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 347,186</b>	<b>\$ 361,468</b>

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

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

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues	\$ 152,530	\$ 236,460	\$ 277,821
Business tax and other sales tax	(3,102)	(5,955)	(7,197)
Net revenues	149,428	230,505	270,624
Cost of revenues	147,541	197,908	244,470
Gross profit	1,887	32,597	26,154
Operating expenses:			
Selling and marketing (including share-based compensation of \$1,540, \$2,424 and \$1,422 in 2009, 2010 and 2011, respectively)	13,439	18,112	18,238
General and administrative (including share-based compensation of \$4,226, \$5,547 and \$3,192 in 2009, 2010 and 2011, respectively)	34,936	24,646	22,004
Impairment of intangible assets	-	1,000	656
Impairment of goodwill	-	-	1,003
Total operating expenses	48,375	43,758	41,901
Loss from operations	(46,488)	(11,161)	(15,747)
Interest income	2,025	694	1,242
Gain on remeasurement of fair value of cost and equity method investments (net)	-	919	-
Other income, net	1,239	940	1,848
Loss before income taxes and share of income on equity method investments	(43,224)	(8,608)	(12,657)
Income tax benefits(expenses)	6,032	735	(266)
Loss before share of income on equity method investments	(37,192)	(7,873)	(12,923)
Share of income on equity method investments	164	290	243
Net loss	(37,028)	(7,583)	(12,680)
Less: Net income/(loss) attributable to noncontrolling interests	211	(2,666)	(3,084)
Net loss attributable to AirMedia Group Inc.'s shareholders	(37,239)	(4,917)	(9,596)
Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share - basic	\$ (0.28)	\$ (0.04)	\$ (0.07)
Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share - diluted	\$ (0.28)	\$ (0.04)	\$ (0.07)
Weighted average shares used in calculating net loss per ordinary share - basic	131,320,730	131,252,115	129,537,955
Weighted average shares used in calculating net loss per ordinary share - diluted	131,320,730	131,252,115	129,537,955

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
AND COMPREHENSIVE INCOME (LOSS)  
(In U.S. dollars in thousands, except share data)**

	AirMedia Group Inc's. shareholder's equity										
	Ordinary shares		Additional paid-in capital	Treasury stock	Statutory reserves	Retained earnings (Accumulated deficits)	Accumulated other comprehensive income	Total AirMedia Group Inc.'s shareholders' equity	Noncontrolling interests	Total equity	Comprehensive income (loss) for the year
	Shares	Amount									
Balance as of January 1, 2009	134,425,925	\$ 134	\$ 268,881	\$ -	\$ 5,593	\$ 16,070	\$ 10,052	\$ 300,730	\$ 953	\$ 301,683	
Ordinary shares issued for share based compensation	46,566	1	1,279	-	-	-	-	1,280	-	1,280	
Share repurchase	(3,293,004)	(3)	(7,384)	-	-	-	-	(7,387)	-	(7,387)	
Provision for statutory reserve	-	-	-	-	1,319	(1,319)	-	-	-	-	
Share-based compensation	-	-	5,766	-	-	-	-	5,766	-	5,766	
Foreign currency translation adjustment	-	-	-	-	-	-	(108)	(108)	2	(106)	\$ (106)
Net income/(loss)	-	-	-	-	-	(37,239)	-	(37,239)	211	(37,028)	\$ (37,028)
Dividend declaration of a VIE's subsidiary	-	-	-	-	-	-	-	-	(124)	(124)	
Incorporation of AM Jinshi, a majority-owned subsidiary	-	-	-	-	-	-	-	-	2,195	2,195	
Balance as of December 31, 2009	131,179,487	132	268,542	-	6,912	(22,488)	9,944	263,042	3,237	266,279	(37,134)
Ordinary shares issued for share based compensation	725,524	-	1,163	-	-	-	-	1,163	-	1,163	
Provision for statutory reserve	-	-	-	-	759	(759)	-	-	-	-	
Share-based compensation	-	-	7,971	-	-	-	-	7,971	-	7,971	
Foreign currency translation adjustment	-	-	-	-	-	-	8,409	8,409	62	8,471	8,471
Net loss	-	-	-	-	-	(4,917)	-	(4,917)	(2,666)	(7,583)	(7,583)
Noncontrolling interest acquired in business combination of Dongding	-	-	-	-	-	-	-	-	415	415	
Balance as of December 31, 2010	131,905,011	132	277,676	-	7,671	(28,164)	18,353	275,668	1,048	276,716	888
Ordinary shares issued for share based compensation	138,416	-	229	-	-	-	-	229	-	229	
Share repurchase	(4,381,370)	(4)	(7,369)	-	-	-	-	(7,373)	-	(7,373)	
Treasury stock	(2,414,460)	-	-	(3,775)	-	-	-	(3,775)	-	(3,775)	
Provision for statutory reserve	-	-	-	-	378	(378)	-	-	-	-	
Share-based compensation	-	-	4,614	-	-	-	-	4,614	-	4,614	
Foreign currency translation adjustment	-	-	-	-	-	-	12,381	12,381	(54)	12,327	12,327
Net loss	-	-	-	-	-	(9,596)	-	(9,596)	(3,084)	(12,680)	(12,680)
Balance as of December 31, 2011	125,247,597	\$ 128	\$ 275,150	\$ (3,775)	\$ 8,049	\$ (38,138)	\$ 30,734	\$ 272,148	\$ (2,090)	\$ 270,058	\$ (353)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In U.S. dollars in thousands)

	For the years ended December 31,		
	2009	2010	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (37,028)	\$ (7,583)	\$ (12,680)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Allowance for doubtful accounts	13,573	2,223	2,044
Depreciation and amortization	16,513	23,479	25,138
Share-based compensation	5,766	7,971	4,614
Share of income on equity method investments	(164)	(290)	(243)
Loss on disposal of property and equipment	1,097	518	4,380
Gain on sale/maturity of short-term investments	(360)	(511)	(1,040)
Gain on remeasurement of fair value of cost and equity method investment (net)	-	(919)	-
Impairment of intangible assets	-	1,000	656
Impairment of goodwill	-	-	1,003
Changes in assets and liabilities			
Accounts receivable	(18,154)	(21,089)	(28,728)
Prepaid concession fees	17,246	(3,894)	10,178
Other current assets	(1,431)	4,540	(3,705)
Long term deposits	(1,086)	2,815	(499)
Amount due from related parties	-	(302)	169
Accounts payable	14,209	5,534	18,734
Accrued expenses and other current liabilities	(101)	262	1,555
Deferred revenue	6,530	(702)	(1,805)
Deferred tax assets (liabilities), net	(6,953)	(3,526)	(1,319)
Income tax payable	(799)	1,100	(520)
<b>Net cash provided by operating activities</b>	<b>8,858</b>	<b>10,626</b>	<b>17,932</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments for acquisition of business (net of cash acquired of \$1,759, \$212 and nil in 2009, 2010 and 2011, respectively)	(6,070)	(14,758)	-
Payment for contingent consideration in connection with a business combination	-	(2,415)	(2,966)
Purchase of property and equipment	(28,702)	(8,910)	(4,186)
Proceeds from disposal of property and equipment	72	137	172
Purchase of intangible assets	(146)	-	-
Net amount (paid) received upon settlement of short-term investment	(190)	1,226	1,040
Loan to related party	(5,575)	-	-
Restricted cash	(1,447)	(5,281)	748
Purchase of long-term investments	(586)	(367)	-
<b>Net cash used in investing activities</b>	<b>(42,644)</b>	<b>(30,368)</b>	<b>(5,192)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Share repurchase	(7,387)	-	(7,373)
Treasury stock	-	-	(3,775)
Capital contribution from noncontrolling interest in the incorporation of AM Jinshi	2,195	-	-
Dividend paid to former shareholder of subsidiaries	-	(1,091)	-
Proceed from exercises of stock options	1,279	1,163	229
<b>Net cash (used in) provided by financing activities</b>	<b>(3,913)</b>	<b>72</b>	<b>(10,919)</b>
Effect of exchange rate changes	(81)	2,421	4,408
<b>Net (decrease)/increase in cash</b>	<b>(37,780)</b>	<b>(19,670)</b>	<b>6,229</b>
Cash, at beginning of year	161,534	123,754	106,505
<b>Cash, at end of year</b>	<b>\$ 123,754</b>	<b>\$ 106,505</b>	<b>\$ 112,734</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid	\$ 197	\$ -	\$ -
Income tax paid	\$ 1,721	\$ 1,941	\$ 2,105
Fair value of property, equipment and other assets acquired in exchange of advertising services rendered	\$ 1,280	\$ 262	\$ 2,823

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
(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 the "Group") operate its out-of-home advertising network, primarily air travel advertising network, in the People's Republic of China (the "PRC").

As of December 31, 2011, details of the Company's subsidiaries, VIEs and VIE's subsidiaries are as follows:

<u>Name</u>	<u>Date of incorporation/ acquisition</u>	<u>Place of incorporation</u>	<u>Percentage of economic ownership</u>
<b>Intermediate Holding Company:</b>			
Broad Cosmos Enterprises Ltd.	June 26, 2006	British Virgin Islands ("BVI")	100%
AirMedia International Limited ("AM International")	July 14, 2007	BVI	100%
AirMedia (China) Limited ("AM China")	August 5, 2005	Hong Kong	100%
Excel Lead International Limited ("Excel Lead")	August 1, 2008	BVI	100%
Dominant City Ltd. ("Dominant City")	July 1, 2009	BVI	100%
Easy Shop Ltd. ("Easy Shop")	January 1, 2010	BVI	100%
<b>Subsidiaries:</b>			
AirMedia Technology (Beijing) Co., Ltd. ("AM Technology")	September 19, 2005	the PRC	100%
Shenzhen AirMedia Information Technology Co., Ltd. ("Shenzhen AM")	June 6, 2006	the PRC	100%
Xi'an AirMedia Chuangyi Technology Co., Ltd. ("Xi'an AM")	December 31, 2007	the PRC	100%
Glorious Star Investment Limited ("Glorious Star")	August 1, 2008	Hong Kong	100%
<b>VIEs:</b>			
Beijing Shengshi Lianhe Advertising Co., Ltd. ("Shengshi Lianhe")	August 7, 2005	the PRC	100%
AirMedia Advertising Group Co., Ltd. (Formerly 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%



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
(In U.S. dollars in thousands, except share data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*Introduction of the Group - continued*

<u>Name</u>	<u>Date of incorporation/ acquisition</u>	<u>Place of incorporation</u>	<u>Percentage of economic ownership</u>
<b>VIE's subsidiaries:</b>			
AirTV United Media & Culture Co., Ltd. ("AirTV United")	October 10, 2006	the PRC	75%
Beijing AirMedia Film & TV 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%
Beijing Weimei Lianhe Advertising Co., Ltd. ("Weimei Lianhe")	March 10, 2009	the PRC	100%
Beijing Shengshi Lixin Culture & Media Co., Ltd. ("Shengshi Lixin")	June 1, 2009	the PRC	100%
Hainan Jinhui Guangming Media Advertising Co., Ltd. ("Hainan Jinhui")	June 23, 2009	the PRC	100%
Beijing Youtong Hezhong Advertising Media Co. Ltd. (Formerly Beijing Union of Friendship Advertising Media Co., Ltd.) ("Youtong")	July 1, 2009	the PRC	100%
Beijing AirMedia Jinshi Advertising Co., Ltd. ("AM Jinshi")	July 7, 2009	the PRC	80%
Tianjin AirMedia Jinshi Advertising Co., Ltd. ("TJ Jinshi")	September 8, 2009	the PRC	100%
Tianjin AirMedia Advertising Co., Ltd. ("TJ AM")	September 21, 2009	the PRC	100%
AirMedia City (Beijing) Outdoor Advertising Co., Ltd. ("AM Outdoor")	January 1, 2010	the PRC	100%
Beijing Dongding Gongyi Advertising Co., Ltd. ("Dongding")	February 1, 2010	the PRC	75%
Beijing Weimei Shengjing Advertising Co., Ltd. ("Weimei Shengjing")	April 28, 2011	the PRC	100%
Beijing AirMedia Jinsheng Advertising Co., Ltd. ("AM Jinsheng")	April 28, 2011	the PRC	100%

*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 100% interest in PRC advertising companies if the foreign investor has at least three years of direct operations of advertising business outside of the PRC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
**(In U.S. dollars in thousands, except share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*The VIE arrangements - continued*

The Group therefore conducts substantially all of its activities through the VIEs, i.e. Shengshi Lianhe, AM Advertising, AirMedia UC and AM Yuehang, 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. The technology support and service agreements are effective for ten years and such term is automatically renewed upon its expiry.
- **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. The technology development agreements are effective for ten years and such terms is automatically renewed upon its expiry.
- **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. The term of call option agreement is ten years and such terms will be renewed upon expiry at AM Technology's sole discretion.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
**(In U.S. dollars in thousands, except share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*The VIE arrangements - continued*

- **Equity pledge agreement:** Under the equity pledge agreements, 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. The agreement is effective for as long as the technology support and service agreements and technology development agreement are effective.
- **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. The authorization is effective for ten years and such term is renewed upon its expiry at AM Technology's sole discretion.

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. Accordingly, the Group has consolidated the VIEs because, through AM Technology, it has (1) the power to direct the activities of the VIEs that most significantly affect its economic performance and (2) the right to receive substantially all of the benefits that could be potentially significant to the VIEs. 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.

One of the Company's subsidiaries, AM China, the 100% shareholder of AM Technology and Xi'an AM, has been engaged in the advertising business in Hong Kong since September 2008. Since it has operated as an advertising business for more than three years, AM China and its subsidiaries may apply for the required licenses to provide advertising services in China.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
**(In U.S. dollars in thousands, except share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*Risks in relation to the VIE structure*

The Group believes that the VIE arrangements are in compliance with PRC law and are legally enforceable. The shareholders of the VIEs are also shareholders of the Group and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Group's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Group, their interests may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so.

The Group's ability to control the VIEs also depends on the authorization letters that AM Technology has to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Group believes the rights granted by the authorization letters is legally enforceable but may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

- revoking the business and operating licenses of the Group's PRC subsidiaries and affiliates;
- discontinuing or restricting the Group's PRC subsidiaries' and affiliates' operations;
- imposing conditions or requirements with which the Group or its PRC subsidiaries and affiliates may not be able to comply; or
- requiring the Group or its PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations;

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of the VIEs and its subsidiaries or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIEs. The Group does not believe that any penalties imposed or actions taken by the PRC Government would result in the liquidation of the Group, AM Technology, or the VIEs.

There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
(In U.S. dollars in thousands, except share data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*Risks in relation to the VIE structure - continued*

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

	As of December 31,	
	2010	2011
Total current assets	\$ 151,286	\$ 184,788
Total non-current assets	64,835	63,187
Total assets	216,121	247,975
Total current liabilities	59,448	83,573
Total non-current liabilities	4,761	3,800
Total liabilities	\$ 64,209	\$ 87,373

	For the years ended December 31,		
	2009	2010	2011
Net revenues	\$ 148,868	\$ 229,989	\$ 268,866
Net (loss)/income	(34,425)	7,425	(2,543)
Net cash provided by (used in) operating activities	11,361	(1,445)	5,251
Net cash used in investing activities	(14,265)	(11,664)	(538)
Net cash provided by (used in) financing activities	2,195	(1,091)	-

**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 VIEs' subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

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

**(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 property and equipment and intangible assets, impairment of long-term investments, impairment of goodwill, impairment of long-lived assets, stock-based compensation, purchase price allocation for business acquisition 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; 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)** *Fair value*

Fair value is 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.

Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

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

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

**(e)** *Fair value - continued*

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.

**(f)** *Fair value of financial instruments*

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, 2010 and 2011.

The Group's financial assets and liabilities measured at fair value on a non-recurring basis include acquired assets and liabilities based on level 3 inputs in connection with business combinations.

The Group's financial instruments include cash, restricted cash, accounts receivable, accounts payable, amounts due to related parties, and amounts due from related parties, the carrying amounts of which approximate their fair values due to their short-term maturity.

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

**(g)** *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and highly liquid deposits which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

**(h)** *Restricted cash*

Restricted cash represents the bank deposits in escrow accounts as the performance security for certain concession right agreements.

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

**(i) Property and equipment, net**

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

Digital display network equipment	5 years
Gas station display network equipment	5 years
Furniture and fixture	5 years
Computer and office equipment	3-5 years
Vehicle	5 years
Software	5 years
Property	50 years
Leasehold improvement	Shorter of the term of the lease or the estimated useful lives of the assets

**(j) Impairment of long-lived assets and intangible assets with definite life**

The Group evaluates the recoverability of its long-lived assets, including intangible assets with definite life, 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 excess of carrying amount over the fair value of the assets.

The Group performs its annual impairment tests on December 31 of each year.



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

**(k) Impairment of goodwill**

The Group annually, or more frequently if the Group believes indicators of impairment exist, reviews the carrying value of goodwill to determine whether impairment may exist.

Specifically, goodwill impairment is determined using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow.

The Group has four reporting units: the advertising media in air travel areas, the advertising media in gas station, the outdoor advertising media and the fire station advertising media. The Group performs its annual impairment tests on December 31 of each year.

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

**(l)** *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.

**(m)** *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.

**(n)** *Business combinations*

Business combinations are recorded using the acquisition method of accounting. For acquisitions that occurred after January 1, 2009, the assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. For acquisitions that occurred before January 1, 2009, any non-controlling interest was reflected at historical cost. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. For shares issued in a business combination, the Group has estimated the fair value as of the date of acquisition.

Where the consideration in an acquisition includes contingent consideration, the payment of which depends on the achievement of certain specified conditions post-acquisition, from January 1, 2009 the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings. For periods prior to January 1, 2009 contingent consideration was not recorded until the contingency was resolved.

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

**(o) Acquired intangible assets**

Acquired intangible assets with finite lives are carried at cost less accumulated amortization. Customer relationship intangible asset is amortized using the estimated attrition pattern of the acquired customers. Amortization of other finite-lived intangible assets is computed using the straight-line method over the following estimated economic lives:

TV program license	20 years
Audio-vision programming & broadcasting qualification	19.5 years
Customer relationships	3-3.4 years
Contract backlog	1.2-3 years
Concession agreements	3.8-10 years
Non-compete agreements	4.4 years

**(p) Revenue recognition**

The Group's revenues are derived from selling advertising time slots on the Group's advertising networks, primarily air travel advertising network. For the years ended December 31, 2009, 2010 and 2011, the advertising revenues were generated from digital frames in airports, digital TV screens in airports, digital TV screens on airlines, traditional media in airports, gas station media network and other media.

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 locations 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.

The Group also wholesales the advertising platforms such as scrolling light boxes and billboards in the gas stations located in some major cities, except Beijing, Shanghai and Shenzhen, to advertising agents, and signs fixed fee contracts with the agents for a specified period. The revenue is recognized on a straight-line basis over the specified period.

Deferred revenue

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

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

**(p)** *Revenue recognition - continued*

Non-monetary exchanges

The Group occasionally exchanges advertising time slots and locations with other entities for assets or services, such as equipment and other assets. The amount of assets and revenue recognized is based on the fair value of the advertising provided or the fair value of the transferred assets, whichever is more readily determinable. The amounts of revenues recognized for nonmonetary transactions were \$739, \$1,244 and \$2,823 for the years ended December 31, 2009, 2010 and 2011, respectively. No direct costs are attributable to the revenues.

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

The Group's PRC subsidiaries, VIEs and VIEs' subsidiaries 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.

**(r)** *Concession fees*

The Group enters concession right agreements with vendors such as airports, airlines and a petroleum company, under which the Group obtains the right to use the spaces or equipment of the vendors to display the advertisements. The concession right agreements are treated as operating lease arrangements.

Fees under concession right agreements are usually due every three, six or twelve months. Payments made are recorded as current assets and current liabilities according to the respective payment terms. Most of the concession fees with airports and airlines are fixed with escalation, which means fixed increase over each year of the agreements. The total concession fee under the concession right agreements with airports and airlines 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.

The fee structure of the concession right agreement with the petroleum company is based on the actual number of developed gas stations and associated standard annual concession fee for each developed gas station. Each gas station has its specific lease term starting from the time when it is actually put into operation. The calculation of rental payments is based on how many months the gas stations are actually put into operation during the year and the standard annual concession fee determined based on the location of the gas station. Accordingly, each gas station is treated as a separate lease and rental payments are recognized on a straight-line basis over its lease term. The amount of annual concession fee to-be-paid is determined by an actual incurred concession fee or a fixed minimum payment.

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

**(s)** *Agency fees*

The Group pays fees to advertising agencies based on certain percentage of revenues made through the advertising agencies upon receipt of payment from advertisers. The agency fees are charged to cost of revenues in the consolidated statements of operations 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.

**(t)** *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.

**(u)** *Advertising costs*

The Group expenses advertising costs as incurred. Total advertising expenses were \$1,142, \$558 and \$288 for the years ended December 31, 2009, 2010 and 2011, respectively, and have been included as part of selling and marketing expenses.

**(v)** *Payment by depositary*

The depositary of the Company's American Depositary Shares ("ADS") has agreed to reimburse the Group for certain qualified expenses incurred. There are limits on the amount to be reimbursed to the Group, but the amount of reimbursement available to the Group is not necessarily tied to the amount of fees the depositary collects from investors. The Group recognizes the reimbursable amounts in other income on the consolidated statements of operations on a straight-line basis over the contract term with the depositary. The Group has recorded \$539, \$539 and \$539 in other income for the years ended December 31, 2009, 2010 and 2011, respectively.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(w)** *Foreign currency translation*

The functional and reporting currency of the Company and the Company's subsidiaries domiciled in BVI and Hong Kong are the United States dollar ("U.S. dollar"). The financial records of the Company's other subsidiaries, VIEs and VIEs' subsidiaries located in the PRC are maintained in their local currency, the Renminbi ("RMB"), which are the functional currency of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the statements of operations.

The Group's entities with functional currency of RMB translate their operating results and financial position into the U.S. dollar, the Company's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Revenues, expenses, gains and losses are translated using the average rate for the year. Retained earnings and equity are translated using the historical rate. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income.

**(x)** *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 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 authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the Group classifies the interest and penalties, if any, as a component of the income tax position.

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

**(y)** *Share based payments*

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument issued, and recognized as compensation expenses over the requisite service periods based on a straight-line method, with a corresponding impact reflected in additional paid-in capital.

**(z)** *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.

**(aa)** *Allowance of doubtful accounts*

The Group conducts credit evaluations of clients and generally do not require collateral or other security from clients. The Group establishes an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific clients and utilizes both specific identification and a general reserve to calculate allowance for doubtful accounts. The amount of receivables ultimately not collected by the Group has generally been consistent with expectations and the allowance established for doubtful accounts. If the frequency and amount of customer defaults change due to the clients' financial condition or general economic conditions, the allowance for uncollectible accounts may require adjustment. As a result, the Group continuously monitors outstanding receivables and adjusts allowances for accounts where collection may be in doubt.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(bb)** *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 rating 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, 2009, 2010 and 2011, respectively and there was no customer accounting for 10% or more of accounts receivable as of December 31, 2010 and 2011, respectively.

**(cc)** *Net loss per share*

Basic net loss per share are computed by dividing net loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted net loss reflects the potential dilution that could occur if securities or other contracts to issue ordinary 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 loss per share computation are excluded in periods of losses from continuing operations, as their effect would be antidilutive.

**(dd)** *Government subsidies*

The Group primarily receives tax refund and development supporting bonus from tax bureau and local government without any condition or restriction. The government subsidies are recorded in other income on the consolidated statements of operations in the period in which the amounts of such subsidies are received. The recognized government subsidies as other income are \$220, \$256 and \$268 for the years ended December 31, 2009, 2010 and 2011, respectively.



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

*(ee) Recently issued accounting pronouncements*

In May 2011, the Financial Accounting Standards Board (the "FASB") issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

- Highest-and-best-use and valuation-premise concepts for nonfinancial assets-the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
- Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk-the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.
- Premiums or discounts in fair value measure-the guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.
- Fair value of an instrument classified in a reporting entity's stockholders' equity-the guidance prescribes a model for measuring the fair value of an instrument classified in stockholders' equity; this model is consistent with the guidance on measuring the fair value of liabilities.
- Disclosures about fair value measurements-the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:
  - (i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.
  - (ii) The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

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

*(ee) Recently issued accounting pronouncements - continued*

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011. Early application is not permitted. The Group will adopt this pronouncement effective January 1, 2012, which will not have a significant impact on its consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before update the pronouncement issued in June 2011. The Group will adopt this pronouncement effective January 1, 2012, which will not have a significant impact on its consolidated financial statements.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. The Group will adopt this pronouncement effective January 1, 2012, which will not have a significant impact on its consolidated financial statements.

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

*(ee) Recently issued accounting pronouncements - continued*

In December 2011, the FASB has issued an authoritative pronouncement related to Disclosures about Offsetting Assets and Liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Group is in the process of evaluating the effect of adoption of this guidance on its consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**3. SEGMENT INFORMATION AND REVENUE ANALYSIS**

The Group is mainly engaged in selling advertising time slots on their network, primarily air travel advertising network, throughout PRC.

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.

Geographic information

The Group primarily operates in the PRC and substantially all of the Group's long-lived assets are located in the PRC.

Revenue by service categories

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues:			
Air Travel Media Network:			
Digital frames in airports	\$ 66,255	\$ 113,196	\$ 126,539
Digital TV screens in airports	37,260	28,905	21,937
Digital TV screens on airplanes	17,082	27,564	26,734
Traditional media in airports	27,192	48,418	73,535
Other revenues in air travel	4,639	4,063	6,416
Gas Station Media Network	102	3,664	12,873
Other Media	-	10,650	9,787
	<u>\$ 152,530</u>	<u>\$ 236,460</u>	<u>\$ 277,821</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**4. BUSINESS ACQUISITION**

**(a) Acquisition of Dominant City and Youtong**

In July 2009, the Group acquired 100% of the equity interests in Dominant City and Youtong, which operate various media resources in a number of airports including Guangzhou and Hangzhou airports in the PRC, with a cash consideration of \$7,829. The transaction further expanded the concession rights of the Group, and expanded the Group's air travel advertising network in more airports in the PRC.

The transaction was considered as an acquisition of a business and accordingly the acquisition method of accounting has been applied. The acquired net assets were recorded at their estimated fair values on the acquisition date. The acquired goodwill is not deductible for tax purposes.

The purchase price for the acquisitions was allocated as follows:

		Amortization period
Cash acquired	\$ 1,759	
Other current assets	82	
Property and equipment	217	
Intangible assets:		
Concession agreements	4,525	5 years
Deferred revenue	(15)	
Other current liabilities	(1,988)	
Deferred tax liabilities	(1,131)	
Goodwill	4,380	
<b>Total consideration</b>	<b>\$ 7,829</b>	

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2009 of the Group as if the acquisition had occurred on January 1, 2009. 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 period indicated, nor is it indicative of future operating results:

	For the years ended December 31, 2009 (unaudited)
Pro forma revenues	\$ 152,551
Pro forma net loss	(38,045)
Pro forma net loss per ordinary share-basic	(0.29)
Pro forma net loss per ordinary share-diluted	(0.29)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**4. BUSINESS ACQUISITION - continued**

**(b) Acquisition of Easy Shop and AM Outdoor**

In January 2010, the Group acquired 100% of the equity interest in Easy Shop Ltd. and the additional 90% of the equity interest in AM Outdoor, with cash considerations of \$13,935. The fair value of the acquired entities was of \$15,223. The Group held 10% equity interest in AM Outdoor before the transaction.

The transaction was considered as a business acquisition achieved in stages and accordingly the acquisition method of accounting has been applied. The acquired net assets were recorded at their estimated fair values on the acquisition date. The acquired goodwill is not deductible for tax purposes.

The purchase price for the acquisitions was allocated as follows:

		<u>Amortization period</u>
Cash acquired	\$ 209	
Other current assets	16,559	
Property and equipment	67	
Intangible assets:		
Contract backlog	340	3 years
Customer relationship	677	3 years
Concession agreements	7,646	7 years
Current liabilities	(15,299)	
Deferred tax liabilities	(2,166)	
Goodwill	7,190	
	<hr/>	
Total	15,223	
Represented by:		
Cash consideration	13,935	
Remeasurement of fair value of previously held 10% interest	1,288	
	<hr/>	
Total	\$ 15,223	

The fair value of the total equity interests of AM Outdoor, including the existing 10% and the newly acquired 90% interest on the acquisition date was evaluated. The remeasurement of fair value of previously held 10% interest was \$1,288, resulting in a gain of \$1,139 in the statements of operations for the year ended December 31, 2010.

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**4. BUSINESS ACQUISITION - continued**

**(b) Acquisition of Easy Shop and AM Outdoor - continued**

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2009 and 2010 of the Group as if the acquisition had occurred on January 1, 2009 and 2010, respectively. 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 period indicated, nor is it indicative of future operating results:

	For the years ended December 31,	
	<u>2009</u> (unaudited)	<u>2010</u> (unaudited)
Pro forma revenues	\$ 158,988	\$ 236,460
Pro forma net loss	(37,053)	(4,917)
Pro forma net loss per ordinary share-basic	(0.28)	(0.04)
Pro forma net loss per ordinary share-diluted	(0.28)	(0.04)

**(c) Acquisition of Dongding**

In February 2010, the Group acquired an additional 45% of the equity interest in Dongding, with cash considerations of \$899. The fair value of the acquired entity was of \$1,811. The Group held 30% equity interest in the entity before the transaction.

The transaction was considered as a business acquisition achieved in stages and accordingly the acquisition method of accounting has been applied. The acquired net assets were recorded at their estimated fair values on the acquisition date. The acquired goodwill is not deductible for tax purposes.

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**4. BUSINESS ACQUISITION - continued**

(c) **Acquisition of Dongding** - continued The purchase price was allocated as follows:

		Amortization period
Cash acquired	\$ 3	
Other current assets	36	
Property and equipment	102	
Intangible assets:		
Concession agreements	1,798	10 years
Current liabilities	(611)	
Deferred tax liabilities	(449)	
Goodwill	932	
<b>Total</b>	<b>1,811</b>	
Represented by:		
Cash consideration	498	
Remeasurement of fair value of previously held 30% interest	899	
Fair value of 25% noncontrolling interest	414	
<b>Total</b>	<b>\$ 1,811</b>	

The fair value of the total equity interests of Dongding, including the existing 30% and the newly acquired 45% interest and the 25% non-controlling interest on the acquisition date were evaluated. The remeasurement of fair value of previously held 30% interest was \$498, resulting in a loss of \$220 in the statements of operations for the year ended December 31, 2010.

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2009 and 2010 of the Group as if the acquisition had occurred on January 1, 2009 and 2010, respectively. 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 period indicated, nor is it indicative of future operating results:

	For the years ended December 31,	
	<u>2009</u> (unaudited)	<u>2010</u> (unaudited)
Pro forma revenues	\$ 153,304	\$ 236,491
Pro forma net loss	(37,449)	(4,956)
Pro forma net loss per ordinary share-basic	(0.29)	(0.04)
Pro forma net loss per ordinary share-diluted	(0.29)	(0.04)



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5. **LONG-TERM INVESTMENTS**

(a) **Equity method investments**

The Group had the following equity method investments:

<u>Name of company</u>	As of December 31,			
	2010		2011	
	<u>Percentage</u> %	<u>Carrying</u> <u>value</u>	<u>Percentage</u> %	<u>Carrying</u> <u>value</u>
Beijing Eastern Media Corporation, Ltd. ("BEMC") (1)	49	\$ 1,335	49	\$ 1,650
		<u>\$ 1,335</u>		<u>\$ 1,650</u>

- (1) 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 in the PRC with China Eastern Media Corporation and the Group holding 51% and 49% equity interest, respectively. BEMC obtained concession rights of certain media resources from China Eastern Group, 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 the equity method of accounting as the Group has the ability to exercise the significant influence to the operation of BEMC.

	As of and for the years ended December 31,	
	<u>2010</u>	<u>2011</u>
Total current assets	\$ 3,373	\$ 4,832
Total assets	3,434	4,877
Total current liabilities	708	1,510
Total liabilities	708	1,510
Total net revenue	10,635	11,224
Net income	<u>370</u>	<u>526</u>

The Group shared income of \$164, \$290 and \$243 from the equity method investments for the years ended December 31, 2009, 2010 and 2011, respectively.

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5. **LONG-TERM INVESTMENTS - continued**

(b) **Cost method investment**

In June 2010, the Group invested in Zhangshangtong Air Service (Beijing) Co., Ltd. ("Zhangshangtong") for its 20% equity interest, with a cash contribution of \$367. The investment was accounted for using the cost method of accounting as the Group has no ability to exercise significant influence over the operation of Zhangshangtong.

6. **ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, consists of the following:

	As of December 31,	
	2010	2011
Billed receivable	\$ 32,576	\$ 52,555
Unbilled receivable	29,879	40,268
	\$ 62,455	\$ 92,823

Unbilled receivable represents amounts earned under the 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
2009	\$ 1,521	13,573	(252)	1	\$ 14,843
2010	\$ 14,843	2,223	-	580	\$ 17,646
2011	\$ 17,646	2,044	(17,279)	877	\$ 3,288

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**7. OTHER CURRENT ASSETS**

Other current assets consist of the follows:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Short-term deposits	\$ 1,203	\$ 1,858
Other assets from non-monetary transactions	319	3,142
Interest receivable	82	248
Advances to employees	340	347
Prepaid agency fees	300	395
VAT refund receivable	119	-
Other prepaid expenses	350	637
	\$ 2,713	\$ 6,627

Short-term deposits primarily consist of prepaid deposit for leasing office space and bidding for concession rights. Other assets from non-monetary transactions primarily consist of exchanged golf membership cards and rights to receive condominium units in Hainan province related to exchanging for advertising services. The Group intends to sell these assets within the next 12 months.

**8. LONG-TERM DEPOSITS**

Long term deposits consist of the follows:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Concession fee deposits	\$ 13,338	\$ 14,505
Office rental deposits	536	537
	\$ 13,874	\$ 15,042

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 the accounting guidance regarding 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.

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**9. ACQUIRED INTANGIBLE ASSETS, NET**

Acquired intangible assets, net, consist of the following:

	2010			As of December 31,				2011		
	Gross carrying amount	Accumulated amortization	Impairment(1)	Net carrying amount	Gross carrying amount	Accumulated amortization	Impairment(1)	Net carrying amount		
TV program license	\$ 5,845	\$ (1,235)	\$ -	\$ 4,610	\$ 6,129	\$ (1,601)	\$ -	\$ 4,528		
Audio-vision programming and broadcasting qualification	210	(17)	-	193	221	(30)	-	191		
Intangible assets arising from business combinations:										
- Customer relationships	1,425	(749)	-	676	1,494	(1,249)	-	245		
- Contract backlog	1,867	(1,632)	-	235	1,957	(1,835)	-	122		
- Concession agreements	17,093	(4,384)	(1,007)	11,702	16,869	(7,533)	(676)	8,660		
- Non-compete agreements	178	(98)	-	80	187	(145)	-	42		
	<u>\$ 26,618</u>	<u>\$ (8,115)</u>	<u>\$ (1,007)</u>	<u>\$ 17,496</u>	<u>\$ 26,857</u>	<u>\$ (12,393)</u>	<u>\$ (676)</u>	<u>\$ 13,788</u>		

- (1) The Group incurred impairment loss of nil, \$1,000 and \$656 on intangible assets with definite life for the years ended December 31, 2009, 2010 and 2011, respectively. Due to the actual sales and profits for Dongding were below forecast in the year ended December 31, 2011, the future undiscounted cash flow that the finite-lived intangible assets were expected to generate was less than the carrying amount as of December 31, 2011 and \$656 impairment loss was recognized for the year ended December 31, 2011.

The amortization expenses for the years ended December 31, 2009, 2010 and 2011 were \$2,613, \$3,749 and \$3,791, respectively. The Group expects to record amortization expenses of \$3,174, \$2,485, \$1,994, \$1,503, \$1,503 and \$3,129 for 2012, 2013, 2014, 2015, 2016, 2017 and thereafter, respectively.

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**10. GOODWILL**

The movement of the goodwill for the years ended December 31, 2010 and 2011 is as follows:

Balance as of January 1, 2010	\$	9,087
Goodwill recognized in connection with acquisitions of: Flying Dragon and Excel Lead upon contingent consideration payment		2,868
AM Outdoor and Easy Shop (Note 4(b))		7,190
Dongding (Note 4(c))		932
Exchange differences		659
Balance as of December 31, 2010		<u>20,736</u>
Impairment of goodwill in relation to Dongding		(1,003)
Exchange differences		1,001
Balance as of December 31, 2011	\$	<u>20,734</u>

The Group has four reporting units: the advertising media in air travel areas, the advertising media in gas station, the outdoor advertising media and the fire station advertising media. Applying discounted cash flows for its 2011 annual impairment test, the estimated fair value of the fire station reporting unit was below the carrying amount of its net assets. Accordingly, the Group impaired all goodwill related to the fire station reporting unit and incurred an impairment loss of \$1,003 for the year ended December 31, 2011.

The Group incurred an impairment loss on goodwill of nil, nil and \$1,003 for the years ended December 31, 2009, 2010 and 2011, respectively.

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**11. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consist of the following:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Digital display network equipment	\$ 84,865	\$ 81,403
Gas station display network equipment	8,666	14,422
Furniture and fixture	781	816
Computer and office equipment	2,185	2,455
Vehicle	1,075	1,038
Software	9,923	10,250
Property	2,332	2,446
Leasehold improvement	1,374	1,272
	<u>111,201</u>	<u>114,102</u>
Less: accumulated depreciation and amortization	<u>(39,481)</u>	<u>(57,673)</u>
	<u>\$ 71,720</u>	<u>\$ 56,429</u>

Depreciation and amortization expenses recorded for the years ended December 31, 2009, 2010 and 2011 were \$13,900, \$19,730 and \$21,347, respectively.

**12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the follows:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Accrued payroll and welfare	\$ 3,064	\$ 4,093
Deposit payable	1,640	3,513
Other tax payable	1,753	1,262
Contingent consideration in connection with a business acquisition	2,966	-
Deferred income from ADS depository	1,325	787
Accrued staff disbursement	547	755
Accrued professional fees	490	310
Other liabilities	468	556
	<u>\$ 12,253</u>	<u>\$ 11,276</u>

Other liabilities primarily consist of social insurance and miscellaneous operating expenses incurred but not yet paid.

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**13. 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.

AM China and Glorious Star did not have any assessable profits arising in or derived from Hong Kong for the years ended December 31, 2009, 2010 and 2011, and accordingly no provision for Hong Kong Profits Tax was made in these years.

The Group's subsidiaries 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 and regulations. EIT rate for companies operating in the PRC was generally 33% prior to January 1, 2008. On March 16, 2007, the National People's Congress adopted the Enterprise Income Tax Law (the "New EIT Law"), which became effective on January 1, 2008. The EIT rate was generally reduced to 25% in accordance with the New EIT Law since 2008.

AM Technology qualified for the High and New -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 further entitled to a three- year exemption from EIT from year 2006 to 2008 and a preferential rate of 7.5% from year 2009 to 2011. AM Technology is expected to be subject to an EIT rate of 15% from 2012 as long as it maintains its status as a HNTE.

Shenzhen AM is subject to EIT on the taxable income at the gradual rate, which is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012, according to transitional rules of the New EIT Law. Since Shenzhen AM is also qualified as a "manufacturing foreign-invested enterprise" incorporated prior to the effectiveness of the New EIT Law, it is further entitled to a two-year exemption from EIT for years 2008 and 2009 and preferential rates of 11%, 12% and 12.5% for the year 2010, 2011 and 2012, respectively.

Hainan Jinhui is subject to EIT on the taxable income at the gradual rate, which is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012, according to transitional rules of the New EIT Law.

Xi'an AM qualified as a "Software Enterprise" in August 2008 by Technology Information Bureau of Shaanxi province, and therefore is entitled to a two-year exemption from the EIT commencing from its first profitable year and a 50% deduction of 25% EIT rate for the succeeding three years, with approved by the relevant tax authorities. As Xi'an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoys the preferential income tax rate of 12.5% from 2011 to 2013.

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**13. INCOME TAXES - continued**

Income tax benefits/(expenses) are as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Income tax benefits/(expenses):			
Current	\$ (921)	\$ (2,792)	\$ (1,585)
Deferred	6,953	3,527	1,319
Total	<u>\$ 6,032</u>	<u>\$ 735</u>	<u>\$ (266)</u>

The principal components of the Group's deferred income tax assets and liabilities are as follows:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Deferred tax assets:		
Current		
Allowance for doubtful accounts	\$ 4,458	\$ 5,119
Accrued payroll	592	942
Deferred tax assets - current	<u>5,050</u>	<u>6,061</u>
Non-current		
Depreciation of property and equipment	404	683
Amortization of intangible assets and concession fees	1,540	1,524
Taxable loss arising from a disposal of an equity method investment	205	215
Net operating loss carry forwards	9,584	12,255
Deferred tax assets - non-current	<u>11,733</u>	<u>14,677</u>
Valuation allowance	(5,701)	(8,914)
Deferred tax assets - non-current	<u>6,032</u>	<u>5,763</u>
Deferred tax liabilities:		
Non-current		
Acquired intangible assets	4,761	3,800
Total deferred tax liabilities	<u>\$ 4,761</u>	<u>\$ 3,800</u>

The valuation allowance provided as of December 31, 2011 relates to the deferred tax assets generated by Shenzhen AM, Shengshi Lixin, AM Jinshi, Youtong, TJ AM, TJ Jinshi and Dongding, and was recognized based on the Group's estimates of the future taxable income of these entities.



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**13. INCOME TAXES - continued**

The Group's subsidiaries in the PRC had total net operating loss carry forwards of \$49,015 as of December 31, 2011. The net operating loss carry forwards for the PRC subsidiaries will expire on various dates through 2016.

Reconciliation between the provision for income taxes computed by applying the PRC EIT rate of 25% to income before income taxes and the actual provision of income taxes is as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net loss before provision for income taxes	\$ (43,224)	\$ (8,608)	\$ (12,657)
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	<u>(10,806)</u>	<u>(2,152)</u>	<u>(3,164)</u>
Expenses not deductible for tax purposes:			
Entertainment expenses exceeded the tax limit	172	207	180
Non-taxable income	(290)	(256)	-
Changes in valuation allowance	4,695	1,006	3,213
Effect of income tax holidays in subsidiaries, VIEs and VIEs' subsidiaries in the PRC	(1,392)	(1,501)	(819)
Effect of income tax rate difference in other jurisdictions	<u>1,589</u>	<u>1,961</u>	<u>856</u>
Income tax (benefits)/expenses	\$ (6,032)	\$ (735)	\$ 266
Effective tax rates	<u>14.0%</u>	<u>8.5%</u>	<u>(2.1%)</u>

If the Group's subsidiaries, VIEs and VIEs' subsidiaries in the PRC were not in a tax holiday period in the years ended December 31, 2009, 2010 and 2011, the impact to net loss per share amounts would be as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Increase in income tax expenses	\$ 1,392	\$ 1,501	\$ 819
Decrease in net loss per ordinary share-basic	0.01	0.01	0.01
Decrease in net loss per ordinary share-diluted	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>

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**13. INCOME TAXES - continued**

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2009, 2010 and 2011. The Group did not incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2009, 2010 and 2011 and also believed that the adoption of pronouncement issued by FASB regarding accounting for uncertainties in income taxes did not have a significant impact on the unrecognized tax benefits within 12 months from December 31, 2011.

Since the commencement of operations in August 2005, the relevant tax authorities of the Group's subsidiaries in the PRC have not conducted a tax examination except AM Technology and Shenzhen AM. As such, the Group's subsidiaries, VIEs and VIEs' subsidiaries 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. New 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 New 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 tax payers. 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 New EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

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, the Company's subsidiaries located in the PRC had been in loss position and had accumulated deficit as of December 31, 2010 and 2011, and the tax basis for the investment was greater than the carrying value of this investment. A deferred tax asset should be recognized for this temporary difference only if it is apparent that the temporary difference will reverse in the foreseeable future. Absent of evidence of a reversal in the foreseeable future, no deferred tax asset for such temporary difference was recorded.

Aggregate undistributed earnings of the Company's subsidiaries located in the PRC that are available for distribution to the Company are considered to be indefinitely reinvested and accordingly, no provision has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. The Chinese tax authorities have also clarified that distributions made out of pre January 1, 2008 retained earnings will not be subject to the withholding tax.

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**14. NET LOSS PER SHARE**

The calculation of the net loss per share is as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net loss attributable to AirMedia Group Inc.'s ordinary shareholders (numerator)	\$ (37,239)	\$ (4,917)	\$ (9,596)
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing net loss per ordinary share - basic	<u>131,320,730</u>	<u>131,252,115</u>	<u>129,537,955</u>
Weighted average ordinary shares outstanding used in computing net loss per ordinary share - diluted <sup>(i)</sup>	<u>131,320,730</u>	<u>131,252,115</u>	<u>129,537,955</u>
Net loss per ordinary share-basic	\$ (0.28)	\$ (0.04)	\$ (0.07)
Net loss per ordinary share-diluted	<u>(0.28)</u>	<u>(0.04)</u>	<u>(0.07)</u>

(i) The Group had securities outstanding which could potentially dilute basic net loss per share, but which were excluded from the computation of diluted net loss per share for the years ended December 31, 2009, 2010 and 2011, as their effects would have been anti-dilutive. For year 2009, 2010 and 2011, such outstanding securities consisted of stock options of a weighted average number of 9,578,559, 14,408,559 and 15,269,198, respectively.

**15. SHARE BASED PAYMENTS**

***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 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, with a contract life of 10 years, at an exercise price of \$2.00 per share. One twelfth of the Senior Executive Options vests each quarter until July 2, 2010.

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**15. SHARE BASED PAYMENTS - continued**

*2007 Stock incentive plan* - continued

On July 20, 2007, the Board of Directors decided to remove the vesting clause that the vesting of the Employee Options is subject to management's determination on whether the grantee passes the evaluation of the performance of each vesting period. After this modification, the vesting of these Employee Options is only subject to services and one twelfth of the Employee Options vest each quarter until July 20, 2010. Therefore, July 20, 2007 was treated as the grant date of the Employee Options.

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 contract life is 10 years. The Consultant Options have the same vesting schedule with the Employee Options.

On November 29, 2007, the Board of Directors granted options to the Group'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. The contract life is 5 years. One twelfth of these options vests each quarter until November 29, 2010.

On December 10, 2008, the Board of Directors approved the adjustment of the exercise prices 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 the 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, of which \$626 was recognized as share based compensation expense for the year ended December 31, 2008.

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.

On July 10, 2009, the Board of Directors granted options to the Group's non-employee directors, employees and consultants to purchase an aggregate of 5,434,500 ordinary shares of the Company, at an exercise price of \$2.69 per share. The contractual term of the option is of 5 years. One twelfth of these options will vest each quarter until July 10, 2012.

On June 30, 2010, the Board of Directors approved the adjustment of the exercise prices of all stock options which were granted on July 2, 2007, July 20, 2007, November 29, 2007 and July 10, 2009 from \$2.00, \$2.00, \$2.98 and \$2.69 per share, respectively, to \$1.57 per share. The fair value of the options on June 30, 2010, the modification date, was \$0.47, \$0.47, \$0.51, \$0.70 per option, respectively, calculated using the 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 \$2,666, of which \$2,018 was recognized as share based compensation for the year ended December 31, 2010.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
**(In U.S. dollars in thousands, except share data)**

**15. SHARE BASED PAYMENTS - continued**

***2011 Share incentive plan***

On March 18, 2011, the Board of Directors adopted 2011 Share Incentive Plan (the "2011 Option Plan"), which allows the Group to grant options to its employees and directors to purchase up to 2,000,000 ordinary shares of the Company subject to vesting requirement.

On March 22, 2011, the Board of Directors granted options to Group's employees to purchase an aggregate of 2,180,000 ordinary shares of the Company under 2007 Option Plan and 2011 Option Plan, at an exercise price of \$2.3 per share. The contractual term of the option is of 5 or 10 years. One twelfth of these options will vest each quarter until March 22, 2014. Subsequently on June 7, 2011, the Board of Directors approved to adjust the exercise price of these stock options to \$1.57 per share. The fair value of these options at the modification date was \$0.75 per option, calculated using the 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 \$314, of which \$82 was recognized as share based compensation expense for the year ended December 31, 2011.

On August 23, 2011, the Board of Directors approved the adjustment of the exercise price of certain stock options that were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011, which were subsequently modified, from \$1.57 per share to \$1.15 per share. The fair value of the options on the modification date was \$0.21, \$0.22, \$0.26, \$0.39 and \$0.53 per share, respectively, calculated using the 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 \$1,259, of which \$1,046 was recognized as share based compensation expense for the year ended December 31, 2011.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
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**15. SHARE BASED PAYMENTS - continued**

The following summary of stock option activity under the 2007 Option Plan as of December 31, 2010 and 2011, reflective of all modifications that occurred during those respective years, is presented below:

	2010		2011	
	Number of <u>options</u>	Weighted average exercise price <u>per option</u>	Number of <u>options</u>	Weighted average exercise price <u>per option</u>
Outstanding at beginning of the year	14,555,340	\$ 2.40	13,740,480	\$ 1.57
Granted	-	-	2,180,000	2.30
Exercised	(730,774)	1.59	(138,416)	1.54
Forfeited	(84,086)	1.96	(343,342)	1.56
Outstanding at end of the year	13,740,480	1.57	15,438,722	1.26
Shares vested and exercisable at end of year	10,570,355	1.57	12,492,154	1.27

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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(In U.S. dollars in thousands, except share data)

**15. SHARE BASED PAYMENTS - continued**

The following table summarizes information with respect to stock options outstanding as of December 31, 2011:

	Options outstanding				Number vested and exercisable	Options vested and exercisable		
	Weighted average remaining contractual life (years)	Weighted average exercise price per option	Aggregate intrinsic value as of December 31, 2011			Weighted average remaining contractual life (years)	Weighted average exercise price per option	Aggregate intrinsic value as of December 31, 2011
Options	15,438,722	4.44	\$ 1.26	\$ 8,568	12,492,154	4.13	\$ 1.27	\$ 6,808

The weighted average grant date fair value of options granted during the years ended December 31, 2009, 2010 and 2011 was \$1.44, nil, and \$1.40, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2010 and 2011 was \$1,065, \$1,416 and \$54, respectively. The total fair value of options vested during the years ended December 31, 2009, 2010 and 2011 was \$5,766, \$6,344 and \$3,664, respectively.

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 years ended December 31,		
	2009	2010	2011
Risk-free interest rate of return	2.40%	2.03%-2.58%	0.00%-0.79%
Expected term	3.31 years	1.0-2.4 years	0.4-3.1 years
Volatility	77.09%	73.48%-113.84%	70.64%-70.74%
Dividend yield	-	-	-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
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**15. SHARE BASED PAYMENTS - continued**

(1) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of the Company's ordinary shares and listed shares of comparable companies over a period comparable to the expected term of the options. From March 2011, the volatility was estimated based on the historical volatility of the Company's share price as the Company has accumulated sufficient history of stock price for a period comparable to the expected term of the options.

(2) Risk-free rate

Risk-free rate is based on yield of US treasury bill as of valuation date with maturity date close to the expected term of the options.

(3) Expected term

The expected term is estimated by averaging the original contractual term and the vesting term.

(4) Dividend yield

The dividend yield was estimated by the Group based on its expected dividend policy over the expected term of the options. The Group has no plan to pay any dividend in the foreseeable future. Therefore, the Group considers the dividend yield to be zero.

(5) Exercise price

The exercise price of the options was determined by the Group's Board of Directors.

(6) Fair value of underlying ordinary shares

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 \$5,766, \$7,971 and \$4,614 for the years ended December 31, 2009, 2010 and 2011, respectively.

There was \$3,928 of total unrecognized compensation expense related to unvested share options granted as of December 31, 2011. The expense is expected to be recognized over a weighted-average period of 1.47 years on a straight-line basis.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**16. SHARE REPURCHASE PLAN**

On March 21, 2011, the Board of Directors authorized the Group to repurchase up to \$20 million of its own outstanding ADSs within two years from March 21, 2011. As of December 31, 2011, the Group had repurchased an aggregate of 3,397,915 ADSs on the open market for a total consideration of \$11.1 million. As of December 31, 2011, 2,190,685 ADSs had been cancelled and 1,207,230 ADSs were recorded as treasury stock.

**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 labour regulations require the Group to accrue for these benefits based on certain percentages of the employees' income. The total contribution for such employee benefits were \$2,029, \$2,779 and \$2,955 for the years ended December 31, 2009, 2010 and 2011, 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 the 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 \$759 and \$378 for the years ended December 31, 2010 and 2011, respectively.

**19. RESTRICTED NET ASSETS**

The Group's restricted net assets include the paid-in-capital and statutory reserves of the Group's PRC subsidiaries, its VIEs and VIEs' subsidiaries. Relevant PRC statutory laws and regulations restrict the payments of dividends by the Group's PRC subsidiaries and VIEs from their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, general reserve (see Note 18) requires annual appropriations of 10% of after-tax profit and development fund (see Note 18) requires annual appropriations of 25% of after-tax profit should be set aside prior to the payment of dividends.

As a result of these PRC laws and regulations, the Group's PRC subsidiaries and VIEs are restricted in their ability to transfer a portion of their net assets to the Group. As of December 31, 2011, the amounts of restricted net assets was approximately \$211,284.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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(In U.S. dollars in thousands, except share data)

**20. COMMITMENTS**

(a) Rental leases

The Group has entered into operating lease agreements principally for its office spaces in the PRC. These leases expire through 2015 and are renewable upon negotiation. Rental expenses under operating leases for the years ended December 31, 2009, 2010 and 2011 were \$1,915, \$2,626 and \$2,528, respectively.

Future minimum rental lease payments under non-cancellable operating leases agreements were as follows:

Year

2012	\$	2,565
2013		967
2014		124
2015		52
	<u>\$</u>	<u>3,708</u>

(b) Concession fees

The Group has entered into concession right agreements with vendors, such as airports, airlines and a petroleum company. 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 statements of operations for the years ended December 31, 2009, 2010 and 2011 were \$110,075, \$134,293 and \$160,199, respectively.

Future minimum concession fee payments under non-cancellable concession right agreements were as follows:

Year

2012	\$	165,703
2013		68,309
2014		48,587
2015		44,339
2016		9,119
2017 and thereafter		47,536
	<u>\$</u>	<u>383,593</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**20. COMMITMENTS - continued**

(c) Capital commitments

The Group has entered into purchase agreements with vendors for media equipment in airports and gas stations. The minimum purchase payments under non-cancellable purchase agreements were \$5,704, nil, \$16, nil, nil, and \$52 for the years ending December 31, 2012, 2013, 2014, 2015, 2016, 2017 and thereafter, respectively.

**21. 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 financial statements, 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 and some 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 due to the uncertainty in the implementation and enforcement of the regulations promulgated by the SAIC. If the requisite registration is not obtained, the relevant local SAICs may require the Group to forfeit advertising income earned, impose administrative fines of up to \$5. 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, 2011, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
**(In U.S. dollars in thousands, except share data)**

**21. 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. In November 2010, the Group entered into a strategic partnership with CCTV Mobile Media to operate the CCTV Air Channel to broadcast TV programs to air travellers in China. Under the arrangement, CCTV Mobile Media will be responsible for program planning, production, and broadcasting. The Group will operate exclusively the advertising business of CCTV Air TV Channel. According to the terms of the cooperation arrangement with CCTV Mobile Media, during the cooperation period from November 29, 2010 to November 28, 2025, CCTV Mobile Media shall obtain and, from time to time, be responsible for obtaining any approval, license and consent regarding the regulation of broadcasting and television from relevant authorities. There is no assurance that CCTV Mobile Media will be able to obtain or maintain the requisite approval or we will be able to renew the contract with CCTV Mobile Media when it expires. 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, 2011, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
(In U.S. dollars in thousands, except share data)

**21. CONTINGENT LIABILITIES - continued**

(c) Legal proceeding

In September 2011, Zhejiang Xinghui Display and Design Co., Ltd. ("Xinghui"), an equipment supplier, filed an application to the Beijing Arbitration Commission ("BAC") against AM Jinshi and TJ Jinshi, which are two of the Group's PRC operating entities, claiming for total unpaid amount of \$4,254 for equipment provided. In September 2011 and January 2012, AM Jinshi and TJ Jinshi filed counterclaims for a total amount of \$2,902 for the dissatisfied and malfunctioned equipment delivered by Xinghui. As the relevant arbitration actions are currently pending review by the BAC, the Group cannot estimate the range of loss (if any) as of December 31, 2011. Any arbitral award (if any) will be recorded based on the judgement by the BAC. Legal fees are accrued as incurred and are included in general and administrative expenses. As of December 31, 2011, the total legal fees incurred, as it relates to this legal proceeding, was \$90.

**22. RELATED PARTY TRANSACTIONS**

(a) Details of outstanding balances with the Group's related parties as of December 31, 2010 and 2011 were as follows:

*Amount due from related parties-trading:*

<u>Name of related parties</u>	<u>Relationship</u>	<u>As of December 31,</u>	
		<u>2010</u>	<u>2011</u>
BEMC	Equity method investment of the Group	\$ 306	\$ 148
		<u>\$ 306</u>	<u>\$ 148</u>

The amount due from BEMC represents the uncollected advertising revenues earned from BEMC as of December 31, 2010 and 2011, respectively.

*Amount due to related parties-trading:*

<u>Name of related parties</u>	<u>Relationship</u>	<u>As of December 31,</u>	
		<u>2010</u>	<u>2011</u>
BEMC	Equity method investment of the Group	\$ 422	\$ 443
		<u>\$ 422</u>	<u>\$ 443</u>

The amount due to BEMC represents the deposits received for publishing advertisement as of December 31, 2010 and 2011.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011**  
(In U.S. dollars in thousands, except share data)

**22. RELATED PARTY TRANSACTIONS - continued**

(b) Details of related party transactions occurred for the years ended December 31, 2009, 2010 and 2011 were as follows:

*Advertising revenues earned from:*

<u>Name of related parties</u>	<u>Relationship</u>	<u>For the years ended December 31</u>		
		<u>2009</u>	<u>2010</u>	<u>2011</u>
BEMC	Equity method investment of the Group	\$ 2,035	\$ 3,627	\$ 179
AM Outdoor	Cost method investment of the Group in 2009	412	-	-
Zhangshangtong	Cost method investment of the Group	-	92	27
		<u>\$ 2,447</u>	<u>\$ 3,719</u>	<u>\$ 206</u>

*Agency cost paid to:*

<u>Name of related parties</u>	<u>Relationship</u>	<u>For the years ended December 31</u>		
		<u>2009</u>	<u>2010</u>	<u>2011</u>
BEMC	Equity method investment of the Group	-	747	-

**23. SUBSEQUENT EVENTS**

The Group has evaluated events subsequent to the balance sheet date of December 31, 2011 through April 30, 2012, the date of the consolidated financial statements were available to be issued:

The Group and Beijing N-S Digital TV Co, Ltd. ("N-S Digital TV" ) established two joint ventures, Beijing Shibo Movie Technology Co. Ltd. ("Shibo Movie") and Beijing Xinghe Union Media Co. Ltd. ("Xinghe Union") on February 15, 2012 and March 13, 2012, respectively. The registered capital of Shibo Movie and Xinghe Union was \$1,588 each. The Group and N-S Digital TV each contributed \$794, representing 50% of the equity interest in each Shibo Movie and Xinghe Union. Shibo Movie is engaged in movie technology development and consulting services, and Xinghe Union is engaged in movie and TV series investment and publishing, advertisement design and production. These joint ventures were established pursuant to a framework agreement entered into with Beijing Super TV Co., Ltd. ("Super TV") in June 2011 and the supplemental agreement entered into with Super TV and N-S Digital TV in January 2012.

**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**BALANCE SHEETS**  
(In U.S. dollars in thousands, except share related data)

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 16,601	\$ 2,391
Investment in subsidiaries	79,301	86,887
Amount due from subsidiaries	184,183	183,701
Other current assets	197	181
<b>TOTAL ASSETS</b>	<b>280,282</b>	<b>273,160</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	4	40
Amount due to subsidiaries	131	156
Accrued expenses and other liabilities	4,479	816
<b>Total liabilities</b>	<b>4,614</b>	<b>1,012</b>
<b>Equity</b>		
Ordinary Shares (\$0.001 par value; 900,000,000 shares authorized in 2010 and 2011; 131,905,011 shares and 127,662,057 shares issued as of December 31, 2010 and 2011, respectively; 131,905,011 shares and 125,247,597 shares outstanding as of December 31, 2010 and 2011, respectively)	132	128
Additional paid in capital	277,676	275,150
Treasury stock (nil and 2,414,460 shares as of December 31, 2010 and 2011, respectively)	-	(3,775)
Accumulated deficits	(20,493)	(30,089)
Accumulated other comprehensive income	18,353	30,734
<b>Total equity</b>	<b>275,668</b>	<b>272,148</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 280,282</b>	<b>\$ 273,160</b>

**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF OPERATIONS**  
(In U.S. dollars in thousands)

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating expenses			
Selling and marketing	\$ (1,540)	\$ (2,424)	\$ (1,421)
General and administrative	(4,693)	(5,987)	(3,471)
Total operating expenses	<u>(6,233)</u>	<u>(8,411)</u>	<u>(4,892)</u>
Investment (loss)/income in subsidiaries	(32,041)	3,354	(4,795)
Interest income	<u>1,035</u>	<u>140</u>	<u>91</u>
Net loss attributable to holders of ordinary shares	<u>\$ (37,239)</u>	<u>\$ (4,917)</u>	<u>\$ (9,596)</u>



**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME (LOSS)**  
(In U.S. dollars in thousands, except share related data)

	Ordinary shares		Additional paid in capital	Treasury stock	Retained earnings/ (Accumulated deficits)	Accumulated other comprehensive income	Total equity	Comprehensive income (loss)
	Shares	Amount						
Balance as of January 1, 2009	134,425,925	\$ 134	\$ 268,881	\$ -	\$ 21,663	\$ 10,052	\$ 300,730	
Ordinary shares issued for share based compensation	46,566	1	1,279	-	-	-	1,280	
Share repurchase	(3,293,004)	(3)	(7,384)	-	-	-	(7,387)	
Share-based compensation	-	-	5,766	-	-	-	5,766	
Foreign currency translation adjustment	-	-	-	-	-	(108)	(108)	\$ (108)
Net loss	-	-	-	-	(37,239)	-	(37,239)	(37,239)
Balance as of December 31, 2009	131,179,487	132	268,542	-	(15,576)	9,944	263,042	(37,347)
Ordinary shares issued for share based compensation	725,524	-	1,163	-	-	-	1,163	
Share-based compensation	-	-	7,971	-	-	-	7,971	
Foreign currency translation adjustment	-	-	-	-	-	8,409	8,409	8,409
Net loss	-	-	-	-	(4,917)	-	(4,917)	(4,917)
Balance as of December 31, 2010	131,905,011	132	277,676	-	(20,493)	18,353	275,668	3,492
Ordinary shares issued for share based compensation	138,416	-	229	-	-	-	229	
Share repurchase	(4,381,370)	(4)	(7,369)	-	-	-	(7,373)	
Treasury stock	(2,414,460)	-	-	(3,775)	-	-	(3,775)	
Share-based compensation	-	-	4,614	-	-	-	4,614	
Foreign currency translation adjustment	-	-	-	-	-	12,381	12,381	12,381
Net loss	-	-	-	-	(9,596)	-	(9,596)	(9,596)
Balance as of December 31, 2011	125,247,597	\$ 128	\$ 275,150	\$ (3,775)	\$ (30,089)	\$ 30,734	\$ 272,148	\$ 2,785

**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF CASH FLOWS**  
(In U.S. dollars in thousands)

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (37,239)	\$ (4,917)	\$ (9,596)
Investment loss/(income) in subsidiaries	32,041	(3,354)	4,795
Share-based compensation	5,766	7,971	4,614
<b>CHANGES IN WORKING CAPITAL ACCOUNTS</b>			
Other current assets	31	27	16
Accounts payable	-	4	36
Other current liabilities	381	767	(697)
Amount due to subsidiaries	22	53	25
Amount due from subsidiaries	(19,871)	(541)	482
Net cash (used in) provided by operating activities.	<u>(18,869)</u>	<u>10</u>	<u>(325)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for acquisition of subsidiaries	(6,000)	(12,178)	-
Advance payment / payment for contingent consideration in connection with a business combination	-	(2,415)	(2,966)
Net cash used in investing activities	<u>(6,000)</u>	<u>(14,593)</u>	<u>(2,966)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Share repurchase	(7,387)	-	(7,373)
Treasury stock	-	-	(3,775)
Proceeds from exercises of stock options	1,279	1,163	229
Net cash provided by (used in) financing activities	<u>(6,108)</u>	<u>1,163</u>	<u>(10,919)</u>
Net decrease in cash	(30,977)	(13,420)	(14,210)
Cash, at beginning of year	60,998	30,021	16,601
Cash, at end of year	<u>\$ 30,021</u>	<u>\$ 16,601</u>	<u>\$ 2,391</u>

**NOTES TO ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I**  
**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 and Glorious Star, and its VIEs, Shengshi Lianhe, AM Advertising, AirMedia UC and AM Yuehang, and VIEs' subsidiaries, AirTV United, AM Film, Flying Dragon, AM Wenzhou, Weimei Lianhe, Shengshi Lixin, Hainan Jinhui, Youtong, AM Jinshi, TJ Jinshi, TJ AM, Dongding, AM Outdoor, Weimei Shengjing and AM Jinsheng.

**2. INVESTMENTS IN SUBSIDIARIES AND VARIABLE INTEREST ENTITIES**

The Company, its subsidiaries, its VIEs and VIEs' subsidiaries 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, VIEs and VIEs' subsidiaries are reported using the equity method of accounting. The Company's share of income and losses from its subsidiaries, VIEs and VIEs' subsidiaries is reported as earnings from subsidiaries, VIEs and VIEs' subsidiaries in the accompanying condensed financial information of parent company.

**3. INCOME TAXES**

The Company is a tax exempted company incorporated in the Cayman Islands.

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description</b>
1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.3 to Form 6-K filed on December 10, 2009)
2.1	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
2.2	Form of Deposit Agreement among the Company, the depository and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed 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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.1	Amended and Restated 2007 Share Incentive Plan (incorporated by reference to Exhibit 99.2 to Form 6-K filed on December 10, 2009)
4.2	Form of Indemnification Agreement with the Company's directors and officers (incorporated by reference to Exhibit 10.2 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.3	Form of Employment Agreement between the Company and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed 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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.5	English Translation of Business Cooperation Agreement dated June 14, 2007 between Beijing Shengshi Lianhe Advertising Co., Ltd. and AirTV United Media & Culture Co., Ltd. (incorporated by reference to Exhibit 10.9 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.6	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.7	English Translation of Amended Power of Attorneys dated November 28, 2008 from each of the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.11 to Annual Report on Form 20-F filed on April 28, 2009)
4.8	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.9	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.10	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)

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<b>Exhibit No.</b>	<b>Description</b>
4.11	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.12	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.13	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. (incorporated by reference to Exhibit 4.17 to Annual Report on Form 20-F filed on April 28, 2009)
4.14	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.15	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. (incorporated by reference to Exhibit 4.19 to Annual Report on Form 20-F filed on April 28, 2009)
4.16	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.20 to Annual Report on Form 20-F filed on April 28, 2009)
4.17	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.18	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.19	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)

<b>Exhibit No.</b>	<b>Description</b>
4.20	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.21	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.22	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. (incorporated by reference to Exhibit 4.26 to Annual Report on Form 20-F filed on April 28, 2009)
4.23	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. (incorporated by reference to Exhibit 4.27 to Annual Report on Form 20-F filed on April 28, 2009)
4.24	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.25	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. (incorporated by reference to Exhibit 4.29 to Annual Report on Form 20-F filed on April 28, 2009)
4.26	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. (incorporated by reference to Exhibit 4.30 to Annual Report on Form 20-F filed on April 28, 2009)
4.27	English Translation of Supplementary Agreement dated November 28, 2008 to the Loan Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd. and Guo Man, a shareholder of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.31 to Annual Report on Form 20-F filed on April 28, 2009)
4.28	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.32 to Annual Report on Form 20-F filed on April 28, 2009)
4.29	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.30	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 Advertising Co., Ltd. (incorporated by reference to Exhibit 10.5 to Annual Report on Form 20-F filed on April 30, 2008)

<b>Exhibit No.</b>	<b>Description</b>
4.31	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 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.32	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 to Annual Report on Form 20-F filed on April 30, 2008)
4.33	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.34	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. (incorporated by reference to Exhibit 4.38 to Annual Report on Form 20-F filed on April 28, 2009)
4.35	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 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.36	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. (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on April 28, 2009)
4.37	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 (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on April 28, 2009)
4.38	English Translation of Power of Attorneys dated April 1, 2008 from each of the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.42 to Annual Report on Form 20-F filed on April 28, 2009)
4.39	English Translation of Technology Development Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.43 to Annual Report on Form 20-F filed on April 28, 2009)
4.40	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. (incorporated by reference to Exhibit 4.44 to Annual Report on Form 20-F filed on April 28, 2009)
4.41	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. (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on April 28, 2009)
4.42	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. (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on April 28, 2009)
4.43	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. (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on April 28, 2009)
4.44	Share Purchase Agreement dated July 4, 2008 among the Registrant, First Reach Holdings Limited and Excel Lead International Limited (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20- F filed on April 28, 2009)

<b>Exhibit No.</b>	<b>Description</b>
4.45	English Translation of Supplementary Agreement No. 2 to Call Option Agreement dated May 27, 2010 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 4.45 to Annual Report on Form 20-F filed on May 28, 2010)
4.46	English Translation of Supplementary Agreement No. 2 to the Equity Pledge Agreement dated May 27, 2010 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 4.46 to Annual Report on Form 20-F filed on May 28, 2010)
<a href="#">4.47*</a>	<a href="#">Framework Cooperation Agreement (English summary), by and between AirMedia Group Co., Ltd. and Beijing Super TV Co., Ltd</a>
<a href="#">4.48*</a>	<a href="#">Supplementary Agreement to Framework Cooperation Agreement (English summary), by and among AirMedia Group Co., Ltd., Beijing Super TV Co., Ltd and Beijing N-S Digital TV Co., Ltd.</a>
<a href="#">4.49*</a>	<a href="#">2011 Share Incentive Plan</a>
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
<a href="#">8.1*</a>	<a href="#">List of the Company's subsidiaries</a>
<a href="#">12.1*</a>	<a href="#">Certifications of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)</a>
<a href="#">12.2*</a>	<a href="#">Certifications of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)</a>
<a href="#">13.1*</a>	<a href="#">Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">13.2*</a>	<a href="#">Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">15.1*</a>	<a href="#">Consent of Deloitte Touche Tohmatsu CPA Ltd.</a>
<a href="#">15.2*</a>	<a href="#">Consent of Commerce &amp; Finance Law Offices</a>
<a href="#">15.3*</a>	<a href="#">Consent of Maples and Calder</a>

\*Filed herewith.



## Summary of Framework Cooperation Agreement

Party A: AirMedia Group Co., Ltd.

Address: 15/F, Sky Plaza, No.46 of Dongzhimenwai Avenue, Dongcheng District, Beijing, the PRC

Legal Representative: Guo Man

Party B: Beijing Super TV Co., Ltd

Address: Jingmeng High-Tech Building B, 4th Floor, No. 5 Shangdi East Road, Haidian District, Beijing, the PRC

Legal Representative: Zhu Jianhua

I. Incorporation of New Companies

1. The Parties agree to establish two new limited liability companies (hereunder as the “New Companies”), namely Company A and Company B.
2. Upon the incorporation of the New Companies, the Parties will set up a seven-member Strategic Operation and Management Committee to make decisions on the significant developing strategies and directions of the New Companies.
3. Basic Information of Company A and Company B
  - i. Business Scope of Company A: movie and TV series investment and production; advertisement design and production; advertisement information consulting services; convention and exhibition services; and management and investment consulting services.
  - ii. Business Scope of Company B: technology development, consulting, transfer, and training; computer software and system services; sales of computer, software and accessories.
  - iii. Management of Company A and Company B

Company A and Company B will each establish a Board which consists of five directors. Party A will appoint three directors to Company A's board and two directors to Company B's board, and Party B will appoint two directors to Company A's board and three directors to Company B's board. The chairman of Company A's board will be nominated by Party A and the chairman of Company B's board will be nominated by Party B. Additionally, Party B is entitled to appoint a deputy general manager and the financial executive of Company A and Party A is entitled to appoint a deputy general manager and the financial executive of Company B.

- iv. The business license and articles of associations of the New Companies shall govern.
- v. Employee Incentive Plans:

Upon the approvals of the boards, the New Companies may set up employee stock invention plans respectively.

II. Cooperation Arrangement

Upon the incorporation of the New Companies, the Parties and the New Companies will develop home theatre businesses:

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1. Obtaining Broadcasting Rights for Movies and TV Series.
2. Set up Cable TV Network.
3. Television Program Licenses.
4. Business Model.
5. Encryption Technology Platform.
6. Customer Management and Payment Platform.
7. Establishment of Revenue Sharing System
8. Establishment of Call Center.
9. Revenue Distribution.
10. Merger of the New Companies.

III. Representations and Warranties.

IV. Responsibilities of the Parties

V. Confidentiality

1. Without prior written consent of the other Party, any Party shall not disclose to any third party other than the affiliates thereof any clauses and terms of this Framework Agreement, or the business secrets of the other party and its affiliates as disclosed for the purpose of concluding and performing this Framework Agreement.
2. This article will survive even if this Framework Agreement is amended, modified, or terminated.

VI. Miscellaneous

- i. Any dispute arising from the execution and performance of this Agreement, or related to this Agreement shall be resolved through mutual consultation of the Parties.
  - ii. This Agreement will become into effect upon execution by the authorized representatives and approval (if necessary) of the board of directors of both Parties.
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## Summary of Supplemental Agreement to Framework Cooperation Agreement

Party A: AirMedia Group Co., Ltd.

Address: 15/F, Sky Plaza, No.46 of Dongzhimenwai Avenue, Dongcheng District, Beijing, the PRC

Legal Representative: Guo Man

Party B: Beijing Super TV Co., Ltd

Address: Jingmeng High-Tech Building B, 4th Floor, No. 5 Shangdi East Road, Haidian District, Beijing, the PRC

Legal Representative: Zhu Jianhua

Party C: Beijing N-S Digital TV Co., Ltd.

Address: Jingmeng High-Tech Building B, 4th Floor, No. 5 Shangdi East Road, Haidian District, Beijing, the PRC

Legal Representative: Zhu Jianhua

I. Whereas :

1. Party A and Party B has executed the Framework Cooperation Agreement in June, 2011 (hereunder as "Framework Agreement").
2. Party A and Party B acknowledge that Party B will transfer and assign its rights and obligations under the Framework Agreement to Party C, and agree that Party C and Party A will jointly incorporate the new companies as contemplated in the Framework Agreement.
3. The Parties unanimously agree to amend and modify relevant provisions of the Framework Agreement hereunder.

II. Establishment of New Companies

1. Party A and Party C will respectively contribute RMB10,000,000 to incorporate two new limited liability companies (hereunder as "Company A" and "Company B").
2. The shareholders and shareholding of Company A and Company B are the same and as below:

Shareholders	Registered Capital (in RMB)	Shareholding
Party A	5,000,000	50.00%
Party C	5,000,000	50.00%
Total	10,000,000	100.00%

3. Party A and Party C will subscribe and contribute the registered capital in cash.

### III. Management of the New Companies and Operation of Business

1. The boards of directors of Company A and Company B will be established, delegated and appointed in accordance with the Framework Agreement.
2. Company A will be responsible for obtaining copyright licenses and will bear relevant fees and expenses; Company B will be responsible for cooperating with broadcasting and TV operators. The revenue generated by Company B, after deducting the revenue shared by the broadcasting and TV operators, will be equally split between Company A and Company B. Party A and Party C may otherwise negotiate a different proportion.

### IV. Confidentiality

1. Without prior written consent of another Party, any Party shall not disclose to any third party other than the affiliates thereof any clauses and terms of this Supplemental Agreement, or the business secrets of the other party and its affiliates as disclosed for the purpose of concluding and performing this Supplemental Agreement.
2. This article will survive even if this Supplemental Agreement is amended, modified, or terminated.

### V. Miscellaneous

1. Any dispute arising from the execution and performance of this Supplemental Agreement, or related to this Supplemental Agreement shall be resolved through mutual consultation of the Parties.
2. For any conflicts between the Framework Agreement and this Supplemental Agreement, this Supplemental Agreement will prevail, and other provisions of the Framework Agreement will continue to be valid.

This Supplemental Agreement will become into effect upon the execution by the authorized representatives and the approval (if necessary) of the board of directors of all the Parties.

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**AIRMEDIA GROUP INC.****2011 SHARE INCENTIVE PLAN****ARTICLE 1****PURPOSE**

The purpose of the 2011 Share Incentive Plan, as amended to date (the “Plan”) is to promote the success and enhance the value of AirMedia Group Inc., a company formed under the laws of the Cayman Islands (the “Company”) by linking the personal interests of the members of the Board, Employees, and Consultants to those of the Company shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Company shareholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

**ARTICLE 2****DEFINITIONS AND CONSTRUCTION**

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 “Applicable Laws” means the legal requirements relating to the Plan and the Awards under applicable provisions of the corporate, securities, tax and other laws, rules, regulations and government orders, and the rules of any applicable Share exchange or national market system, of any jurisdiction applicable to Awards granted to residents therein.

2.2 “Award” means an Option, a Restricted Share award, a Share Appreciation Right award, a Dividend Equivalents award, a Share Payment award, a Deferred Share award, or a Restricted Share Unit award granted to a Participant pursuant to the Plan.

2.3 “Award Agreement” means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.

2.4 “Board” means the Board of Directors of the Company.

2.5 “Change in Control” means a change in ownership or control of the Company effected through either of the following transactions:

(a) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities pursuant to a tender or exchange offer made directly to the Company’s shareholders which a majority of the Incumbent Board (as defined below) who are not affiliates or associates of the offeror under Rule 12b-2 promulgated under the Exchange Act do not recommend such shareholders accept, or

(b) the individuals who, as of the Effective Date, are members of the Board (the “Incumbent Board”), cease for any reason to constitute at least fifty percent (50%) of the Board; provided that if the election, or nomination for election by the Company’s shareholders, of any new member of the Board is approved by a vote of at least fifty percent (50%) of the Incumbent Board, such new member of the Board shall be considered as a member of the Incumbent Board.

2.6 “Code” means the Internal Revenue Code of 1986 of the United States, as amended.

2.7 “Committee” means the committee of the Board described in Article 11.

2.8 “Consultant” means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to a Service Recipient; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities; and (c) the consultant or adviser is a natural person who has contracted directly with the Service Recipient to render such services.

2.9 “Corporate Transaction” means any of the following transactions, provided, however, that the Committee shall determine under (d) and (e) whether multiple transactions are related, and its determination shall be final, binding and conclusive:

(a) an amalgamation, arrangement or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated;

(b) the sale, transfer or other disposition of all or substantially all of the assets of the Company;

(c) the complete liquidation or dissolution of the Company;

(d) any reverse takeover or series of related transactions culminating in a reverse takeover (including, but not limited to, a tender offer followed by a reverse takeover) in which the Company is the surviving entity but (A) the Ordinary Shares outstanding immediately prior to such takeover are converted or exchanged by virtue of the takeover into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such takeover or the initial transaction culminating in such takeover, but excluding any such transaction or series of related transactions that the Committee determines shall not be a Corporate Transaction; or

(e) acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities but excluding any such transaction or series of related transactions that the Committee determines shall not be a Corporate Transaction.

2.10 "Deferred Share" means a right to receive a specified number of Shares during specified time periods pursuant to Article 8.

2.11 "Disability" means that the Participant qualifies to receive long-term disability payments under the Service Recipient's long-term disability insurance program, as it may be amended from time to time, to which the Participant provides services regardless of whether the Participant is covered by such policy. If the Service Recipient to which the Participant provides service does not have a long-term disability plan in place, "Disability" means that a Participant is unable to carry out the responsibilities and functions of the position held by the Participant by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. A Participant will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Committee in its discretion.

2.12 "Dividend Equivalents" means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Share) of dividends paid on Share.

2.13 "Effective Date" shall have the meaning set forth in Section 12.1.

2.14 “Employee” means any person, including an officer or member of the Board of the Company, any Parent or Subsidiary of the Company, who is in the employ of a Service Recipient, subject to the control and direction of the Service Recipient as to both the work to be performed and the manner and method of performance. The payment of a director’s fee by a Service Recipient shall not be sufficient to constitute “employment” by the Service Recipient.

2.15 “Exchange Act” means the Securities Exchange Act of 1934 of the United States, as amended.

2.16 “Fair Market Value” means, as of any date, the value of Shares determined as follows:

(a) If the Shares are listed on one or more established Share exchanges or national market systems, including without limitation, The Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Share Market, its Fair Market Value shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Shares are listed (as determined by the Committee) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable;

(b) If the Shares are regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such shares as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Shares on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

(c) In the absence of an established market for the Shares of the type described in (i) and (ii), above, the Fair Market Value thereof shall be determined by the Committee in good faith by reference to the placing price of the latest private placement of the Shares and the development of the Company’s business operations and the general economic and market conditions since such latest private placement.

2.17 “Incentive Share Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.18 “Independent Director” means a member of the Board who is not an Employee of the Company.



2.19 “Non-Employee Director” means a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.20 “Non-Qualified Share Option” means an Option that is not intended to be an Incentive Share Option.

2.21 “Option” means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Share Option or a Non-Qualified Share Option.

2.22 “Participant” means a person who, as a member of the Board, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.23 “Parent” means a parent corporation under Section 424(e) of the Code.

2.24 “Plan” means this 2011 Share Incentive Plan, as it may be amended from time to time.

2.25 “PRC” means the People’s Republic of China.

2.26 “Related Entity” means any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or Subsidiary of the Company holds a substantial ownership interest, directly or indirectly but which is not a Subsidiary and which the Board designates as a Related Entity for purposes of the Plan.

2.27 “Restricted Share” means a Share awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.28 “Restricted Share Unit” means an Award granted pursuant to Section 8.6.

2.29 “Securities Act” means the Securities Act of 1933 of the United States, as amended.

2.30 “Service Recipient” means the Company, any Parent or Subsidiary of the Company and any Related Entity to which a Participant provides services as an Employee, Consultant or as a Director.

2.31 “Share” means the ordinary share capital of the Company, par value \$0.001 per share, and such other securities of the Company that may be substituted for Shares pursuant to Article 10.

2.32 “Share Appreciation Right” or “SAR” means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of Shares on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.33 “Share Payment” means (a) a payment in the form of Shares, or (b) an option or other right to purchase Shares, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Article 8.

2.34 “Subsidiary” means any corporation or other entity of which a majority of the outstanding voting shares or voting power is beneficially owned directly or indirectly by the Company.

2.35 “Trading Date” means the closing of the first sale to the general public of the Shares pursuant to a registration statement filed with and declared effective by the U.S. Securities and Exchange Commission under the Securities Act.

## ARTICLE 3

### SHARES SUBJECT TO THE PLAN

#### 3.1 Number of Shares.

(a) Subject to the provisions of Article 10 and Section 3.1(b), the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Share Options) is 2,000,000 Shares.

(b) To the extent that an Award terminates, expires, or lapses for any reason, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by Applicable Law, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form or combination by the Company or any Parent or Subsidiary of the Company shall not be counted against Shares available for grant pursuant to the Plan. Shares delivered by the Participant or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). If any Restricted Shares are forfeited by the Participant or repurchased by the Company, such Shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Share Option to fail to qualify as an incentive share option under Section 422 of the Code.

3.2 Shares Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares, treasury or Shares purchased on the open market. Additionally, in the discretion of the Committee, American Depository Shares in an amount equal to the number of Shares which otherwise would be distributed pursuant to an Award may be distributed in lieu of Shares in settlement of any Award. If the number of Shares represented by an American Depository Share is other than on a one-to-one basis, the limitations of Section 3.1 shall be adjusted to reflect the distribution of American Depository Shares in lieu of Shares.

## ARTICLE 4

### ELIGIBILITY AND PARTICIPATION

4.1 Eligibility. Persons eligible to participate in this Plan include Employees, Consultants, and all members of the Board, as determined by the Committee.

4.2 Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Jurisdictions. In order to assure the viability of Awards granted to Participants employed in various jurisdictions, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom applicable in the jurisdiction in which the Participant resides or is employed. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 3.1 of the Plan. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate any Applicable Laws.

## ARTICLE 5

### OPTIONS

5.1 General. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) Exercise Price. The exercise price per Share subject to an Option shall be determined by the Committee and set forth in the Award Agreement which may be a fixed or variable price related to the Fair Market Value of the Shares; provided, however, that no Option may be granted to an individual subject to taxation in the United States at less than the Fair Market Value on the date of grant. The exercise price per Share subject to an Option may be adjusted in the absolute discretion of the Committee, the determination of which shall be final, binding and conclusive. For the avoidance of doubt, to the extent not prohibited by Applicable Law or any exchange rule, a repricing of Options mentioned in the preceding sentence shall be effective without the approval of the Company's shareholders or the approval of the Participants. Notwithstanding the foregoing, the exercise price per Share subject to an Option shall not be increased without the approval of the Participants.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any Option granted under the Plan shall not exceed ten years, except as provided in Section 12.2. The Committee shall also determine any conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) Payment. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation (i) cash or check denominated in U.S. Dollars, (ii) cash or check in Chinese Renminbi, (iii) cash or check denominated in any other local currency as approved by the Committee, (iv) Shares held for such period of time as may be required by the Committee in order to avoid adverse financial accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, (v) after the Trading Date the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which Shares shall be delivered or deemed to be delivered to Participants (vi) other property acceptable to the Committee with a Fair Market Value equal to the exercise price, or (vii) any combination of the foregoing. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

(d) Evidence of Grant. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

5.2 Incentive Share Options. Incentive Share Options shall be granted only to Employees of the Company, a Parent or Subsidiary of the Company. Incentive Share Options may not be granted to Employees of a Related Entity. The terms of any Incentive Share Options granted pursuant to the Plan, in addition to the requirements of Section 5.1, must comply with the following additional provisions of this Section 5.2:

(a) Expiration of Option. An incentive Share Option may not be exercised to any extent by anyone after the first to occur of the following events, unless otherwise approved by the Committee in a separate resolution:

(i) Ten years from the date it is granted, unless an earlier time is set in the Award Agreement;

(ii) Three months after the Participant's termination of employment as an Employee; and

(iii) One year after the date of the Participant's termination of employment or service on account of Disability or death. Upon the Participant's Disability or death, any Incentive Share Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Share Option or dies intestate, by the person or persons entitled to receive the Incentive Share Option pursuant to the applicable laws of descent and distribution.

(b) Individual Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Share Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Share Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Share Options.

(c) Ten Percent Owners. An Incentive Share Option shall be granted to any individual who, at the date of grant, owns Shares possessing more than ten percent of the total combined voting power of all classes of shares of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(d) Transfer Restriction. The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Share Option within (i) two years from the date of grant of such Incentive Share Option or (ii) one year after the transfer of such Shares to the Participant.

(e) Expiration of Incentive Share Options. No Award of an Incentive Share Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(f) Right to Exercise. During a Participant's lifetime, an Incentive Share Option may be exercised only by the Participant.

5.3 Substitution of Share Appreciation Rights. The Committee may provide in the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have to right to substitute a Share Appreciation Right for such Option at any time prior to or upon exercise of such Option, provided that such Share Appreciation Right shall be exercisable for the same number of shares of Share as such substituted Option would have been exercisable for.

## ARTICLE 6

### RESTRICTED SHARES

6.1 Grant of Restricted Shares. The Committee is authorized to make Awards of Restricted Shares to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Shares shall be evidenced by an Award Agreement.

6.2 Issuance and Restrictions. Restricted Shares shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Share). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.3 Forfeiture. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be forfeited; *provided, however*, the Committee may (a) provide in any Restricted Share Award Agreement that restrictions or forfeiture conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Shares.

6.4 Certificates for Restricted Shares. Restricted Shares granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

## ARTICLE 7

### SHARE APPRECIATION RIGHTS

#### 7.1 Grant of Share Appreciation Rights.

(a) A Share Appreciation Right may be granted to any Participant selected by the Committee. A Share Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

(b) A Share Appreciation Right shall entitle the Participant (or other person entitled to exercise the Share Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Share Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the Share Appreciation Right from the Fair Market Value of a Share on the date of exercise of the Share Appreciation Right by the number of Shares with respect to which the Share Appreciation Right shall have been exercised, subject to any limitations the Committee may impose.

#### 7.2 Payment and Limitations on Exercise.

(a) Payment of the amounts determined under Section 7.1(b) above shall be in cash, in Shares (based on its Fair Market Value as of the date the Share Appreciation Right is exercised) or a combination of both, as determined by the Committee in the Award Agreement.

(b) To the extent any payment under Section 7.1(b) is effected in Shares it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options.

## ARTICLE 8

### OTHER TYPES OF AWARDS

8.1 Dividend Equivalents. Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the Shares that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee.

8.2 Share Payments. Any Participant selected by the Committee may receive Share Payments in the manner determined from time to time by the Committee; *provided*, that unless otherwise determined by the Committee such Share Payments shall be made in lieu of base salary, bonus, or other cash compensation otherwise payable to such Participant. The number of shares shall be determined by the Committee and may be based upon the Performance Criteria or other specific criteria determined appropriate by the Committee, determined on the date such Share Payment is made or on any date thereafter.

8.3 Deferred Shares. Any Participant selected by the Committee may be granted an award of Deferred Shares in the manner determined from time to time by the Committee. The number of shares of Deferred Shares shall be determined by the Committee and may be linked to such specific criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Shares underlying a Deferred Share award will not be issued until the Deferred Share award has vested, pursuant to a vesting schedule or criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Shares shall have no rights as a Company shareholder with respect to such Deferred Shares until such time as the Deferred Share Award has vested and the Shares underlying the Deferred Share Award has been issued.

8.4 Restricted Share Units. The Committee is authorized to make Awards of Restricted Share Units to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Share Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Share Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall transfer to the Participant one unrestricted, fully transferable Share for each Restricted Share Unit scheduled to be paid out on such date and not previously forfeited. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Company for such Shares.

8.5 Term. Except as otherwise provided herein, the term of any Award of Dividend Equivalents, Share Payments, Deferred Share, or Restricted Share Units shall be set by the Committee in its discretion.

8.6 Exercise or Purchase Price. The Committee may establish the exercise or purchase price, if any, of any Award of Deferred Share, Share Payments or Restricted Share Units; *provided, however*, that such price shall not be less than the par value of a Share, unless otherwise permitted by Applicable Law.

8.7 Exercise Upon Termination of Employment or Service. An Award of Dividend Equivalents, Deferred Share, Share Payments, and Restricted Share Units shall only be exercisable or payable while the Participant is an Employee, Consultant or a member of the Board, as applicable; *provided, however*, that the Committee in its sole and absolute discretion may provide that an Award of Dividend Equivalents, Share Payments, Deferred Share, or Restricted Share Units may be exercised or paid subsequent to a termination of employment or service, as applicable, or following a Change of Control of the Company, or because of the Participant's retirement, death or Disability, or otherwise.

8.8 Form of Payment. Payments with respect to any Awards granted under this Article 8 shall be made in cash, in Shares or a combination of both, as determined by the Committee.

8.9 Award Agreement. All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by an Award Agreement

## PROVISIONS APPLICABLE TO AWARDS

9.1 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

9.2 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

9.3 Limits on Transfer. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. The Committee by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Share Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's termination of employment or service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

9.4 Beneficiaries. Notwithstanding Section 9.3, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

9.5 Share Certificates. Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Share pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all Applicable Laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Committee may place legends on any Share certificate to reference restrictions applicable to the Share. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.



9.6 Paperless Administration. Subject to Applicable Laws, the Committee may make Awards, provide applicable disclosure and procedures for exercise of Awards by an internet website or interactive voice response system for the paperless administration of Awards.

9.7 Foreign Currency. A Participant may be required to provide evidence that any currency used to pay the exercise price of any Award was acquired and taken out of the jurisdiction in which the Participant resides in accordance with Applicable Laws, including foreign exchange control laws and regulations. In the event the exercise price for an Award is paid in Chinese Renminbi or other foreign currency, as permitted by the Committee, the amount payable will be determined by conversion from U.S. dollars at the official rate promulgated by the People's Bank of China for Chinese Renminbi, or for jurisdictions other than the PRC, the exchange rate as selected by the Committee on the date of exercise.

## ARTICLE 10

### CHANGES IN CAPITAL STRUCTURE

10.1 Adjustments. In the event of any dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares of Shares or the share price of a Share, the Committee shall make such proportionate and equity adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Plan.

10.2 Acceleration upon a Change of Control. Except as may otherwise be provided in any Award Agreement or any other written agreement entered into by and between the Company and a Participant, if a Change of Control occurs and a Participant's Options, Restricted Share or Share Appreciation Rights settled in Shares are not converted, assumed, or replaced by a successor, such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change of Control, the Committee may in its sole discretion provide for (i) any and all Awards outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise such Awards during a period of time as the Committee shall determine, (ii) either the purchase of any Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Participant's rights had such Award been currently exercisable or payable or fully vested (and, for the avoidance of doubt, if as of such date the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), (iii) the replacement of such Award with other rights or property selected by the Committee in its sole discretion the assumption of or substitution of such Award by the successor or surviving corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of Shares and prices, or (iv) provide for payment of Awards in cash based on the value of Shares on the date of the Change of Control plus reasonable interest on the Award through the date such Award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with Section 409A of the Code.

10.3 Outstanding Awards — Corporate Transactions. In the event of a Corporate Transaction, each Award will terminate upon the consummation of the Corporate Transaction, unless the Award is assumed by the successor entity or Parent thereof in connection with the Corporate Transaction. .. Except as provided otherwise in an individual Award Agreement, in the event of a Corporate Transaction and:

(a) the Award either is (x) assumed by the successor entity or Parent thereof or replaced with a comparable Award (as determined by the Committee) with respect to shares of the capital stock of the successor entity or Parent thereof or (y) replaced with a cash incentive program of the successor entity which preserves the compensation element of such Award existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award, then such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights, immediately upon termination of the Participant's employment or service with all Service Recipient within twelve (12) months of the Corporate Transaction without cause; and

(b) For each Award that is neither assumed nor replaced, such portion of the Award shall automatically become fully vested and exercisable and be released from any repurchase or forfeiture rights (other than repurchase rights exercisable at Fair Market Value) for all of the Shares at the time represented by such portion of the Award, immediately prior to the specified effective date of such Corporate Transaction, provided that the Participant remains an Employee, Consultant or Director on the effective date of the Corporate Transaction.

10.4 Outstanding Awards — Other Changes. In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 10, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

10.5 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of Shares of any class, the payment of any dividend, any increase or decrease in the number of shares of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares subject to an Award or the grant or exercise price of any Award.

## ARTICLE 11

### ADMINISTRATION

11.1 Committee. The Plan shall be administered by the Compensation Committee of the Board; *provided, however* that the Compensation Committee may delegate to a committee of one or more members of the Board the authority to grant or amend Awards to Participants other than Independent Directors and executive officers of the Company (such committee being the "Committee"). The Committee shall consist of at least two individuals, each of whom qualifies as a Non-Employee Director. Reference to the Committee shall refer to the Board if the Compensation Committee does not yet exist or ceases to exist and the Board does not appoint a successor Committee. Notwithstanding the foregoing, the full Board, acting by majority of its members in office shall conduct the general administration of the Plan if required by Applicable Law, and with respect to Awards granted to Independent Directors and for purposes of such Awards the term "Committee" as used in the Plan shall be deemed to refer to the Board.

11.2 Action by the Committee. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

11.3 Authority of Committee. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;

(e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement;

(j) Adjust the exercise price per Share subject to an Option; and

(k) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

11.4 Decisions Binding. The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

## ARTICLE 12

### EFFECTIVE AND EXPIRATION DATE

12.1 Effective Date. The Plan is effective as of the date the Plan is approved by the Company's board of directors (the "Effective Date").

12.2 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

## ARTICLE 13

### AMENDMENT, MODIFICATION, AND TERMINATION

13.1 Amendment, Modification, And Termination. With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; provided, however, that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) shareholder approval is required for any amendment to the Plan that (i) permits the Committee to grant Options with an exercise price that is below Fair Market Value on the date of grant, (ii) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant, or (iii) results in a material increase in benefits or a change in eligibility requirements.

13.2 Awards Previously Granted. Except with respect to amendments made pursuant to Section 13.1, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

## ARTICLE 14

### GENERAL PROVISIONS

14.1 No Rights to Awards. No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Participants, employees, and other persons uniformly.

14.2 No Shareholders Rights. No Award gives the Participant any of the rights of a Shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.

14.3 Taxes. No Shares shall be delivered under the Plan to any Participant until such Participant has made arrangements acceptable to the Committee for the satisfaction of any income and employment tax withholding obligations under Applicable Laws. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's payroll tax obligations) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the return of Shares) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award after such Shares were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall, unless specifically approved by the Committee, be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

14.4 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Service Recipient to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of any Service Recipient.

14.5 Unfunded Status of Awards. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

14.6 Indemnification. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Memorandum of Association and Articles of Association, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

14.7 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

14.8 Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

14.9 Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

14.10 Fractional Shares. No fractional shares of Share shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

14.11 Government and Other Regulations. The obligation of the Company to make payment of awards in Share or otherwise shall be subject to all Applicable Laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register any of the Shares paid pursuant to the Plan under the Securities Act or any other similar law in any applicable jurisdiction. If the Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act or other Applicable Laws the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

14.12 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the Cayman Islands.

14.13 Section 409A. To the extent that the Committee determines that any Award granted under the Plan is or may become subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and the Award Agreements shall be interpreted in accordance with Section 409A of the Code and the U.S. Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulation or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines is necessary or appropriate to (a) exempt the Award from Section 409A of the Code and /or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related U.S. Department of Treasury guidance.

14.14 Appendices. The Committee may approve such supplements, amendments or appendices to the Plan as it may consider necessary or appropriate for purposes of compliance with applicable laws or otherwise and such supplements, amendments or appendices shall be considered a part of the Plan; provided, however, that no such supplements shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

## List of Subsidiaries

Wholly-Owned Subsidiaries

	<b>Place of Incorporation</b>
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. Dominant City Ltd.	British Virgin Islands
5. Easy Shop Limited	British Virgin Islands
6. Air Media (China) Limited	Hong Kong
7. Glorious Star Investment Limited	Hong Kong
8. AirMedia Technology (Beijing) Co., Ltd.	PRC
9. Shenzhen AirMedia Information Technology Co., Ltd.	PRC
10. Xi'an AirMedia Chuangyi Technology Co., Ltd.	PRC

Affiliated Entities Consolidated in the Registrant's Financial Statements

	<b>Place of Incorporation</b>
11. Beijing AirMedia Jinsheng Advertising Co., Ltd.	PRC
12. Beijing Shengshi Lianhe Advertising Co., Ltd.	PRC
13. AirMedia Group Co., Ltd.	PRC
14. Beijing AirMedia UC Advertising Co., Ltd.	PRC
15. Beijing Yuehang Digital Media Advertising Co., Ltd.	PRC
16. Wenzhou AirMedia Advertising Co., Ltd.	PRC
17. AirTV United Media & Culture Co., Ltd.	PRC
18. Beijing AirMedia Film & TV Culture Co., Ltd.	PRC
19. Flying Dragon Media Advertising Co., Ltd.	PRC
20. Beijing Weimei Shengjing Advertising Co., Ltd.	PRC
21. Beijing Weimei Lianhe Advertising co., Ltd.	PRC
22. Beijing Shengshi Lixin Culture & Media Co., Ltd.	PRC
23. Hainan Jinhui Guangming Media Advertising Co., Ltd.	PRC
24. Beijing Youtong Hezhong Advertising Media Co. Ltd.	PRC
25. Beijing AirMedia Jinshi Advertising Co., Ltd.	PRC
26. Tianjin AirMedia Jinshi Advertising Co., Ltd.	PRC
27. Tianjin AirMedia Advertising Co., Ltd.	PRC
28. Beijing AirMedia City Outdoor Advertising Co., Ltd.	PRC
29. Beijing Dongding Gongyi Advertising Co., Ltd.	PRC



## CERTIFICATIONS

I, Herman Man Guo, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc.;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: April 30, 2012

/s/ Herman Man Guo

Herman Man Guo

Chief Executive Officer

(Principal Executive Officer)

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## CERTIFICATIONS

I, Ping Sun, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc.;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: April 30, 2012

/s/ Ping Sun

Ping Sun  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Herman Man Guo, the Chief Executive Officer of AIRMEDIA GROUP INC. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 30th day of April, 2012.

/s/ Herman Man Guo  
Herman Man Guo  
Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to AirMedia Group Inc. and will be retained by AirMedia Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Ping Sun, the Chief Financial Officer of AIRMEDIA GROUP INC. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2011 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 30th day of April, 2012.

/s/Ping Sun  
Ping Sun  
Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906 has been provided to AirMedia Group Inc. and will be retained by AirMedia Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements No. 333-148352, 333-164219 on Form S-8 and No. 333-161067 on Form F-3 of our reports dated April 30, 2012, relating to the consolidated financial statements and financial statement schedule of AirMedia Group Inc., its subsidiaries, its variable interest entities (the “VIEs”) 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, 2011.

/s/ Deloitte Touche Tohmatsu CPA Ltd.  
Beijing, the People’s Republic of China  
April 30, 2012

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**Commerce & Finance Law Offices**

6F NCI Tower, A12 Jianguomenwai Avenue,  
Chaoyang District, Beijing, PRC; Postcode: 100022  
Tel:(8610) 65693399 Fax: (8610) 65693838, 65693836, 65693837  
Website: [www.tongshang.com](http://www.tongshang.com)

April 30, 2012

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 headings “Item 3. Key Information—D. Risk Factor” and “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, 2011 (the “Annual Report”) filed with the Securities and Exchange Commission (the “SEC”). 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

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

April 30, 2012

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 2011 (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 and Calder  
Maples and Calder

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