

AIRMEDIA GROUP INC.
Form 20-F
April 29, 2013

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, 2012**

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/F, Sky Plaza
No. 46 Dongzhimenwai Street
Dongcheng District, Beijing 100027
The People s Republic of China
(Address of principal executive offices)

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

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

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

* 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, with 122,112,485 shares outstanding and 5,549,572 shares in treasury stock, par value \$0.001 per share, as of December 31, 2012.

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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

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

AIRMEDIA GROUP INC.

Annual Report on Form 20-F

TABLE OF CONTENTS

	<u>Page</u>
PART I	
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>4</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>4</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>4</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>33</u>
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	<u>53</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>53</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>81</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>90</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>92</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>93</u>
<u>ITEM 10. ADDITIONAL INFORMATION</u>	<u>94</u>
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>102</u>
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>103</u>
PART II	
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>104</u>
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITIES HOLDERS AND USE OF PROCEEDS</u>	<u>104</u>
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	<u>104</u>
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>106</u>
<u>ITEM 16B. CODE OF ETHICS</u>	<u>106</u>
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>107</u>
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>107</u>
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>107</u>
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	<u>108</u>
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	<u>108</u>
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	<u>109</u>
PART III	
<u>ITEM 17. FINANCIAL STATEMENTS</u>	<u>109</u>
<u>ITEM 18. FINANCIAL STATEMENTS</u>	<u>109</u>
<u>ITEM 19. EXHIBITS</u>	<u>109</u>

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;
- 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;
- "VIEs" means our variable interest entities; and
- we, us, our, the Company or AirMedia refers to the combined business of AirMedia Group Inc., its consolidated subsidiaries, its VIEs and VIEs' subsidiaries.

Although AirMedia does not directly or indirectly own any equity interests in its consolidated VIEs 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 VIEs 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, 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 statements of operations data for the years ended December 31, 2010, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements, which are included in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2008 and 2009 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, 2008, 2009 and 2010 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., or AM Outdoor, a PRC company that was acquired by our VIE, AirMedia Group Co., Ltd., or AM Advertising, in January 2010. AM Outdoor 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.

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(In thousands of U.S. Dollars, except share, per share and per ADS data)				
Consolidated Statements of Operations Data:					
Revenues:					
<i>Air Travel Media Network</i>					
Digital frames in airports	\$ 45,011	\$ 66,255	\$ 113,196	\$ 126,539	\$ 137,342

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Digital TV screens in airports	47,591	37,260	28,905	21,937	13,731
Digital TV screens on airplanes	19,227	17,082	27,564	26,734	26,612
Traditional media in airports	6,490	27,192	48,418	73,535	83,478
Other revenues in air travel	7,221	4,639	4,063	6,416	7,346
Gas Station Media Network		102	3,664	12,873	14,217
Other Media			10,650	9,787	10,239
Total revenues	125,540	152,530	236,460	277,821	292,965
Business tax and other sales tax	(6,107)	(3,102)	(5,955)	(7,197)	(6,223)

4

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(In thousands of U.S. Dollars, except share, per share and per ADS data)				
Net revenues	119,433	149,428	230,505	270,624	286,742
Cost of revenues	(70,995)	(147,541)	(197,908)	(244,470)	(250,606)
Gross profit	48,438	1,887	32,597	26,154	36,136
Operating expenses:					
Selling and marketing (including share-based compensation of \$1,158, \$1,540, \$2,424, \$1,422 and \$859 in 2008, 2009, 2010, 2011 and 2012, respectively)	(10,171)	(13,439)	(18,112)	(18,238)	(17,995)
General and administrative (including share-based compensation of \$3,805, \$4,226, \$5,547, \$3,192 and \$2,643 in 2008, 2009, 2010, 2011 and 2012, respectively)	(14,374)	(34,936)	(24,646)	(22,004)	(21,842)
Impairment of goodwill				(1,003)	(20,611)
Impairment of intangible assets			(1,000)	(656)	(9,583)
Total operating expenses	(24,545)	(48,375)	(43,758)	(41,901)	(70,031)
Income/(loss) from operations	23,893	(46,488)	(11,161)	(15,747)	(33,895)
Interest income	5,379	2,025	694	1,242	1,355
Gain on remeasurement of fair value of cost and equity method investments (net)			919		

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Other income, net	1,135	1,239	940	1,848	2,770
Income/(loss) before income taxes	30,407	(43,224)	(8,608)	(12,657)	(29,770)
Income tax benefits (expenses)	498	6,032	735	(266)	(2,493)
Income/(loss) before share of (loss)/income on equity method investments	30,905	(37,192)	(7,873)	(12,923)	(32,263)
Share of (loss)/income on equity method investments	(325)	164	290	243	22
Net income/(loss)	30,580	(37,028)	(7,583)	(12,680)	(32,241)
Less: Net income/(loss) attributable to noncontrolling interests	382	211	(2,666)	(3,084)	487
Net income/(loss) attributable to AirMedia Group Inc. s shareholders	\$ 30,198	\$ (37,239)	\$ (4,917)	\$ (9,596)	(32,728)
Net income/(loss) attributable to AirMedia Group Inc. s shareholders per ordinary share basic	\$ 0.23	\$ (0.28)	\$ (0.04)	\$ (0.07)	\$ (0.26)
Net income/(loss) attributable to AirMedia Group Inc. s shareholders per ordinary share diluted	\$ 0.22	\$ (0.28)	\$ (0.04)	\$ (0.07)	\$ (0.26)
Net income/(loss) attributable to	\$ 0.45	\$ (0.57)	\$ (0.07)	\$ (0.15)	\$ (0.53)

AirMedia Group Inc. s shareholders per ADS basic(1)						
Net income/(loss) attributable to AirMedia Group Inc. s shareholders per ADS diluted(1)\$	0.44	\$ (0.57)	\$ (0.07)	\$ (0.15)	\$ (0.53)	
Weighted average shares used in calculating net income/(loss) per ordinary share basic	133,603,419	131,320,730	131,252,115	129,537,955	124,269,245	
Weighted average shares used in calculating net income/(loss) per ordinary share diluted	137,782,135	131,320,730	131,252,115	129,537,955	124,269,245	

(1) Each ADS represents two ordinary shares.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2008, 2009, 2010, 2011 and 2012:

	As of December 31,				
	(In thousands of U.S. Dollars)				
	2008	2009	2010	2011	2012
Balance Sheet Data:					
Cash	\$ 161,534	\$ 123,754	\$ 106,505	\$ 112,734	\$ 73,634
Total assets	329,891	316,651	347,186	361,468	343,867
Total liabilities	28,208	50,372	70,470	91,410	104,432
Total AirMedia Group Inc. s shareholders equity	300,730	263,042	275,668	272,148	241,876
Noncontrolling interests	953	3,237	1,048	(2,090)	(2,441)
Total equity	\$ 301,683	\$ 266,279	\$ 276,716	\$ 270,058	\$ 239,435

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 VIEs 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 RMB6.2301 to US\$1.00, the noon

buying rate in effect as of December 31, 2012. 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 maybe, 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 19, 2013, the noon buying rate was RMB6.1772 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	Period-End	Noon Buying Rate (1)		
		Average (2) (RMB per US\$1.00)	Low	High
2008	6.8225	6.9459	7.2946	6.3879
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
October	6.2372	6.2627	6.2877	6.2372
November	6.2265	6.2338	6.2454	6.2221
December	6.2301	6.2328	6.3879	6.2251
2013				
January	6.2186	6.2215	6.2303	6.2134
February	6.2213	6.2323	6.2438	6.2213
March	6.2108	6.2154	6.2246	6.2105
April (through April 19, 2013)	6.1772	6.1927	6.1720	6.2078

(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 2012, the top three industries that advertise on our network were automobile, finance, and electronic and home appliances, based on revenues derived from advertisers in these industries. Any significant or prolonged slowdown or decline of the economy of the PRC, countries like Japan or the overall global economy will affect consumers' disposable income and consumer spending in these industries, and lead to a decrease in demand for our services.

In 2012, the tension between China and Japan arising from territorial disputes over a group of islands in the East China Sea caused a round of anti-Japanese demonstration in China. The demonstrations led to a dramatic decrease in the sales of Japanese products in China in September 2012, especially Japan's automobiles, which consequently led to a drop in demand for relevant advertising in China and negatively impacted our revenues generated from the Japanese automobile advertising. Although the decline in the revenues of Japanese automobile advertising in 2012 was offset by the increase in the revenues from other sectors, we cannot assure you that there will not be more anti-Japanese activities in China in the future, which could materially and adversely affect our business, results of operations and overall performance.

In 2012, China grew at a lower rate than in previous years. This had a negative impact on the overall media industry in China, and made 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 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, 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, 2012, we had in total approximately 36 concession rights contracts to be renewed in the next twelve months, with aggregated concession fees of approximately \$80.9 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 overtime, 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 or if there are changes in our arrangements with these airports or airlines, we may incur substantial losses of revenues.

We derived a significant portion of our total revenues in 2012 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 Baoan 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 2012 from the three largest domestic airlines in China: Air China, China Southern Airlines, and China Eastern Airlines. If we are not able to renew concession rights contract with these or other airlines, or if any of the airlines in our network 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. In 2013, in order to control our concession cost, we changed our business cooperation model with Air China so that instead of holding the exclusive concession rights for Air China, we now find potential advertisers before purchasing placing right from Air China for specific advertising time slots. Under this new arrangement, we do not pay extra concession fees to Air China for unsold time slots. However, if we are not able to attract as many advertisers for Air China under this new arrangement as we used to in the past, our advertising revenues may be negatively impacted.

We expect these abovementioned airports and 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. For example, 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 on 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 on 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. For example, 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 VIE, AM Advertising, now holds 100% of AM Outdoor which operates out-of-home advertising media in urban locations in Beijing.

As we are still in the developing stage in the gas station media advertising and outdoor media advertising market, it may take us an extended period of time to ramp up revenues from these 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 revenues.

We may also incur significant costs in maintaining and upgrading our 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 our 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. We also began to implement changes in the operational model and structure of our gas station advertising business in the second half of 2011 with the intention of accelerating growth and profitability. We may experience significant obstacles and challenges as we move forward with our strategy. Our gas station advertising business achieved significant revenues growth in the second half of 2011 and 2012, but we can make no assurance that such growth is indicative of future results.

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. According to the Outdoor Advertising Registration Administrative Regulations, or the Outdoor Regulations, which were issued by the SAIC and became effective on July 1, 2006, if we fail to comply with such requirements, we may be ordered by the local SAIC office to (1) forfeit the relevant advertising income, (2) pay an administrative fines of up to RMB30,000 (approximately \$5,000) and (3) 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 has not been obtained. We understand that these Outdoor Regulations apply to our operations, and intend to register with the relevant local SAIC offices if requested by the local SAIC offices or any specific airport authorities; so far we have registered and received outdoor advertising licenses for our advertisements in Beijing Capital Airport, Shanghai Pudong Airport and Shanghai Hongqiao Airport, and our registrations have been approved by the SAIC offices in four other cities and provinces where we have operations for our advertisements in the airports of those regions. However, 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 are found to be in violation of the Outdoor Regulations, we may be subject to any or all of the penalties set forth above, including forfeiture of relevant income and the payment of administrative fines.

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 20.6%, 20.3% and 32.7% of our total revenues in the years ended December 31, 2010, 2011 and 2012, 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 from time to time, 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 2012, and the number of our network airports and the number of digital frames in these airports had increased from 2007 to 2012. 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 and from 2011 to 2012, 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 effective as of December 31, 2012. Our independent registered public accounting firm has issued an audit report stating that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting. This could negatively affect the reliability of our financial information and reduce investors' confidence in our reported financial information, which in turn could result in lawsuits being filed against us by our shareholders, otherwise harm our reputation or negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements of the Sarbanes-Oxley Act.

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

We may require additional cash resources due to changed business conditions or other future developments. If our current 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 VIEs in China: AirMedia Group Co., Ltd, or AM Advertising, Beijing Shengshi Lianhe Advertising Co., Ltd., or Shengshi Lianhe, Beijing AirMedia UC Advertising Co., Ltd., or AirMedia UC, and Beijing Yuehang Digital Media Advertising Co., Ltd., or AM Yuehang. Although the Foreign-invested Advertising Enterprise Management Regulations, or the Foreign-invested Advertising Regulations, which became effective on October 1, 2008, currently permit 100% foreign ownership of companies that provide advertising services, subject to approval by relevant PRC government authorities, these regulations also require any foreign entities that establish a wholly owned advertising company must have at least three years of direct operations in the advertising industry outside of China. In addition, the Foreign Investment Industrial Guidance Catalogue, which became effective on December 24, 2011, stated that non-advertising television program production and operation companies fall into the category of a prohibited foreign investment industry. We believe that these regulations apply to our business and are therefore carrying out the portions of our business that involve the production of non-advertising content through our VIEs. 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, and thus it is allowed to directly invest in advertising business in China. We are in the process of establishing a wholly-owned subsidiary of AM China to provide advertising services in China directly, as AM China has operated outside of China for more than three years and is now qualified to directly invest in advertising business in China. However, the establishment of this subsidiary is subject to review and approval by SAIC or its authorized local branch, and we can make no assurance as to the specific time when this wholly-owned subsidiary will be established. Once this subsidiary commences operation, we intend to gradually shift our advertising business to this subsidiary, and thus to gradually reduce our reliance on the current VIE structure. Our advertising business is currently primarily provided through our contractual arrangements with our four consolidated VIEs 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 VIEs pursuant to which we, through AM Technology, provide technical support and consulting services to these entities. We also have agreements with our VIEs 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. 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).

Because some of the shareholders of our VIEs in China are our directors and officers, their fiduciary duties to us may conflict with their respective roles in the VIEs, and their interest may not be aligned with the interests of our unaffiliated public security holders. If any of the shareholders of our VIEs fails to act in the best interests of our company or our shareholders, our business and results of operations may be materially and adversely affected.

Certain of our directors and officers are shareholders in the VIEs, AM Advertising, Shengshi Lianhe, AirMedia UC, and AM Yuehang. Mr. Herman Man Guo, our chairman and chief executive officer, in addition to holding 23.3% in our company, also directly and indirectly holds approximately 80.10% of AM Advertising, 79.86% of Shengshi Lianhe and 80.14% of AirMedia UC. Mr. Qing Xu, our director and executive president, in addition to holding 3.5% of our company, also directly and indirectly holds approximately 11.79% of AM Advertising, 11.94% of Shengshi Lianhe and 11.87% of AirMedia UC. Mr. James Zhonghua Feng, our director and president, holds 80% of AM Yuehang. In addition, Mr. Guo and Mr. Xu are each a director of AirMedia UC, Shengshi Lianhe and AM Advertising, and Mr. Guo is the legal representative of each of Shengshi Lianhe and AirMedia UC. For these directors and officers, their fiduciary duties toward our company under Cayman law to act honestly, in good faith and with a view to our best interests may conflict with their roles in the VIEs, as what is in the best interest of the VIEs may not be in the best interests of our company or the unaffiliated public shareholders of our company.

Currently, we do not have agreements in place that solely target to resolve conflicts of interest arising between our company and the VIEs and their operations. In addition, we have not appointed a separate fiduciary one without potential conflicts of interest to serve as the fiduciary of the public unaffiliated security holders of our company. Although our independent directors or disinterested officers may take measures to prevent the parties with dual roles from making decisions that may favor themselves as shareholders of the VIEs, we cannot assure you that these measures would be effective in all instances. If the parties with dual roles do find ways to make and carry out decisions on our behalf that are detrimental to our interest, our business and results of operations may be materially and adversely affected.

Certain provisions in the contractual agreements between AM Technology and our VIEs do impose limits on the rights of the shareholders of the VIEs. For example, each of the shareholders of the VIEs has signed an irrevocable power of attorney authorizing the person designated by AM Technology to exercise its rights as shareholder, including the voting rights, the right to enter into legal documents and the right to transfer its equity interest in the VIEs. However, we cannot assure you that when conflicts of interest arise that each of our VIEs and its respective shareholders will act completely in our interests or that conflicts of interests will be resolved in our favor, or that the above contractual provisions would be sufficient protection for us in the event that shareholders of the VIEs fail to perform under their contracts with AM Technology. In any such event, we would have to rely on legal remedies under PRC law, which may not be effective. See 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 and Item 7, Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements.

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 VIEs. Under these contractual arrangements, if our VIEs 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 VIEs, and our ability to conduct our business may be negatively affected.

We have not registered the pledges of equity interests by certain shareholders of our consolidated affiliated entities with the relevant authority, and we may not be able to enforce the equity pledges against any third parties who acquire the equity interests in good faith in the relevant consolidated affiliated entities before the pledges are registered.

The shareholders of our VIEs, each a consolidated affiliated entity of ours, have pledged all of their equity interests, including the right to receive declared dividends, in the relevant VIEs to AM Technology, our wholly-owned subsidiary. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. We have already submitted all the necessary documents to the relevant PRC authorities for the registration of these pledges, and because the registration is generally procedural and does not involve PRC government review or approval, we believe that the registration will be completed in due course; however, as the registration of the pledges have not yet been completed so far, the pledges, as property rights, have not yet become effective under the PRC Property Rights Law. Before the registration procedures are completed, we cannot assure you that the effectiveness of the pledges will be recognized by PRC courts if disputes arise with respect to certain pledged equity interests or that AM Technology's interests as pledgee will prevail over those of third parties. AM Technology may not be able to successfully enforce the pledges against any third parties who have acquired property right interests in good faith in the equity interests in the VIEs. As a result, if the VIEs breach their obligations under the various agreements described above, and there are third parties who have acquired equity interests in good faith, AM Technology would need to resort to legal proceedings to enforce its contractual rights under the equity pledge agreements, or the underlying agreements secured by the pledges. We do not have agreements that pledge the assets of the VIEs and their respective subsidiaries for the benefit of us or our wholly owned subsidiaries.

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 VIEs 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 VIEs 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 \$42.0 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 conversion of Renminbi into foreign currencies, including U.S. dollar, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation was halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar again, though there have been periods recently when the U.S. dollar has appreciated against the Renminbi. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in further appreciation in the value of the RMB 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 VIEs 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 VIEs 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 in China to exchange the foreign currencies obtained through debt or equity financing, and could affect our business and financial condition.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used within the purpose within the business scope approved by the applicable government authority and unless otherwise provided by law, such RMB capital may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested company. The use of such RMB capital may not be altered without SAFE approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 could result in severe monetary or other penalties. On November 16, 2011, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Issues Relating to Further Clarification and Regulation of Certain Capital Account Items under Foreign Exchange Control (Circular 45) to further strengthen and clarify its existing regulations on foreign exchange control under SAFE Circular 142. Circular 45 expressly prohibits foreign invested entities, including wholly foreign owned enterprises such as AM Technology, from converting registered capital in foreign exchange into RMB for the purpose of equity investment, granting certain loans, repayment of inter-company loans, and repayment of bank loans which have been transferred to a third party. Further, Circular 45 generally prohibits a foreign invested entity from converting registered capital in foreign exchange into RMB for the payment of various types of cash deposits. If our VIEs require financial support from us or our wholly foreign-owned enterprises in the future and we find it necessary to use foreign currency-denominated capital to provide such financial support, our ability to fund the VIEs' operations will be subject to statutory limits and restrictions, including those described above.

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. We are in the process of completing the registration and procedures which the New Share Incentive Rule requires, but the application documents are subject to the review and approval of SAFE, and we can make no assurance as to when the registration and procedures could be completed. 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, and we are in the process of completing the required registration and procedures, but the application documents are subject to the review and approval of SAFE, and we can make no assurance as to when the registration and procedures could be completed. 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. Changes in existing laws and regulations or the implementation of new 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 PRC Enterprise Income Tax Law, or 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 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 reapply 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 2010 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 and 2010. In September 2011, AM Technology received a new HNTE certificate. As a result, AM Technology was subject to an EIT rate of 15% in 2011 and 2012 and is expected to be subject to an EIT rate of 15% as long as 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 the years 2008 and 2009 and preferential rates of 11%, 12% and 12.5% for the years 2010, 2011 and 2012, respectively. Shenzhen AM will be subject to EIT at a rate of 25% from 2013 onwards.

Hainan Jinhui Guangming Media Advertising Co., Ltd., or Hainan Jinhui, one of our VIEs PRC subsidiaries, is subject to EIT on the taxable income at the gradual rate, which was 22% in 2010, 24% in 2011, 25% in 2012 and will be 25% in 2013 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. For example, in December 2012, the SEC initiated administrative proceedings against the China affiliates of the Big Four public accounting firms for allegedly refusing to produce audit work papers and other documents related to certain China-based companies under investigation by the SEC for potential accounting fraud against U.S. investors. Although we were not and are not subject to any ongoing SEC investigations, many U.S. listed Chinese companies are now subject to, or may become subject to, shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. As

a result of this proceeding and 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. 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 United States 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 2012, the trading prices of our ADSs on the NASDAQ Global Select Market ranged from \$4.01 to \$1.33 per ADS and the closing sale price on April 24, 2013 was \$1.74 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 depository bank will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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

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

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

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

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct 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 VIEs. 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 (2012 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, shareholders of 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 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.

Certain principal shareholders hold a substantial percentage of the outstanding shares of our company. For example, as of March 31, 2013, our principal shareholder, Mr. Herman Man Guo, along with his wife, Ms. Dan Shao, beneficially owned approximately 31.8% of our outstanding ordinary shares. Mr. Guo and other principal shareholders of our company 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 significant adverse U.S. federal income tax consequences to U.S. Holders.

Although we do not believe that we were classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2012, there is a significant risk that we will be a PFIC for our taxable year ending December 31, 2013. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) 75% or more of its gross income for such year consists of certain types of passive income or (2) 50% or more of the average quarterly value of its assets (as generally determined on the basis of fair market value) during such year produce or are held for the production of passive income.

In particular, we believe that there is a significant risk that we will be a PFIC for our taxable year ending December 31, 2013 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.

If we were to be classified as a PFIC in any taxable year, a U.S. Holder (as defined in Item 10, "Additional Information -- Taxation United States Federal Income Taxation") may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an "excess distribution" under the U.S. federal income tax rules. Furthermore, a U.S. Holder will generally be treated as holding an equity interest in a PFIC in the first taxable year of the U.S. Holder's holding period in which we become a PFIC and subsequent taxable years even if, we, in fact, cease to be a PFIC in subsequent taxable years. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of an investment in our ADSs or ordinary shares if we are treated as a PFIC for our current taxable year ending 2013 or any future taxable year, including the possibility of making a "mark-to-market" election. For more information, see "Item 10. Additional Information E. Taxation Material United States Federal Income Taxation".

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated in Cayman Islands on April 12, 2007 and conducted our operations in China through our subsidiaries, consolidated VIEs and the VIEs' subsidiaries. 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 VIEs to conduct our operations in China. Substantially all of our current operations are conducted through contractual arrangements with these VIEs.

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, we acquired an airport gate bridge advertising business through two concurrent acquisitions: one of our VIEs, AM Advertising, purchased 80% equity interest in Flying Dragon Media Advertising Co., Ltd., or Flying Dragon, a PRC company which operates an airport gate bridge advertising businesses in mainland China, and we directly acquired all of the equity interest in Excel Lead International Limited, or Excel Lead, a BVI company that is an affiliate of Flying Dragon.

In 2009 and 2010, we 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, and concurrently, 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. In 2009, AM Advertising, which is majority-owned by our VIE, AirMedia UC, entered into an exclusive concession rights contract in which it undertook to 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, 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, AM Advertising now holds 100% equity interest in AM Outdoor and operates unipole signs and other outdoor media in China. In February 2010, AirMedia UC acquired 45% equity interest in Beijing Dongding Gongyi Advertising Co., Ltd., or 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 now holds 75% equity interest in Dongding.

In April 2011, we formed Beijing GreatView Media Advertising Co., Ltd., (formerly known as Beijing Weimei Shengjing Advertising Co., Ltd.), or GreatView Media, a PRC company, as a wholly-owned subsidiary of AirMedia UC, with a registered capital of RMB 1.0 million. GreatView Media is currently the primary operating entity of our gas station media network. In the same month, we also formed 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 RMB5.0 million. 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. In November 2012, our board of directors approved a share capital increase for GreatView Media and a share purchase by the senior management of GreatView Media; GreatView Media is to increase its share capital by issuing new registered capital to AirMedia UC for RMB38.0 million in cash and to Beijing Zhongshi Aoyou Advertising Co., Ltd., or Zhongshi Aoyou, for RMB15.0 million in cash. After this proposed share capital increase, AirMedia UC and Zhongshi Aoyou will hold 78% and 22% equity interest in GreatView Media, respectively. Certain members of the management of GreatView Media intend to purchase certain equity interests of Zhongshi Aoyou at fair value, after which they will indirectly hold certain equity interests in GreatView Media. We are in the process of registering the share capital increase with the Beijing Administration of Industry and Commerce.

In February and March 2012, we and Beijing N-S Digital TV Co., Ltd established two joint ventures: Beijing Xinghe Union Media Co., Ltd, or Beijing Xinghe, and Beijing Shibo Movie Technology Co., Ltd., or Beijing Shibo, respectively. Our company and Beijing N-S Digital TV Co., Ltd. each contributed RMB5.0 million in cash for 50% of the equity interest in each of Beijing Xinghe and Beijing Shibo. Beijing Xinghe is expected to mainly engage in the production and publishing of movies and television series as well as the design and production of advertisements. Beijing Shibo is expected to mainly engage in technology development and consulting services. Through these newly established companies, we plan to develop the home theatre business together with Beijing N-S Digital TV Co., Ltd.

In April 2012, we entered into an agreement with Guangxi Civil Aviation Development Co., Ltd., a wholly owned subsidiary of Guangxi Airport Management Group Co., Ltd., and Beijing Asiaray Advertising Media Ltd. to form a joint venture that operates various media resources in four airports in China's Guangxi province that are owned and operated by Guangxi Airport Management Group Co., Ltd. These four airports are Nanning Wuxu International Airport, Guilin Liangjiang International Airport, Liuzhou Bailian Airport and Beihai Fucheng Airport. The joint venture, Guangxi Dingyuan Advertising Co., Ltd., has a 30-year operating term and began operations from July 2012.

We wound up and deregistered Beijing Shengshi Lixin Culture & Media Co., Ltd. in April 2013 and are in the process of unwinding and deregistering Tianjin AirMedia Advertising Co., Ltd.; both of these companies are 100% owned subsidiaries of our VIE, AM Advertising.

We are in the process of establishing a wholly-owned subsidiary for our wholly owned Hong Kong subsidiary, AM China, which has been operating an advertising business in Hong Kong since 2008. We intend to gradually shift our advertising business to this subsidiary once it is set up, and thus to gradually reduce the reliance on our 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 at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Expenditures for a discussion of our capital expenditures.

B. Business Overview

General

We are a leading operator of out-of-home advertising platforms in China targeting mid-to-high-end consumers. As of December 31, 2012, we operated digital frames and digital TV screens in 34 airports in China, 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 Baoan International Airport. In addition, we had contractual concession rights to sell advertisements on digital TV screens on the airplanes operated by nine airlines, including leading airlines in China such as China Southern Airlines, Air China, China Eastern Airlines, Hainan Airlines and Shanghai 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 Beijing Capital International Airport and Wenzhou Yongqiang Airport.

We started operating advertising media platforms at gas stations owned by Sinopec in 2009. In 2011, we established GreatView Media. And from 2012 onwards, GreatView Media began to operate our gas station media business. In the same year, we decided to increase GreatView Media's capital and align the interests of its senior management team with the interests of the company by allowing them to indirectly hold certain equity in GreatView Media. From 2012 onwards, we intend to put more efforts into developing our gas station network, expand locations in top tier cities and strengthen our existing advantages by installing LED screens. In addition, we also hold concession rights to operate various traditional advertising media including billboards, light boxes and other media platforms outside the air travel sector, such as 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 15 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 6 or 12 seconds, with certain exceptions of 5 to 10 seconds in certain large 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 42 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 and Guangzhou. 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 11 sets of 108-inch LCD screens in departure halls, security checkpoints, luggage pickup and subway entrance areas inside Guangzhou Baiyun International Airport. In addition, as of March 31, 2013, we were operating mega-size LED screens in seven airports, including Guangzhou Baiyun International Airport, Nanjing Lukou International Airport, Changsha Huanghua International Airport, Xi'an Xianyang International Airport, Chengdu Shuangliu International Airport, Jinan Yaoqiang International Airport and Hangzhou Xiaoshan International Airport. As of March 1, 2013, we operated approximately 3,403 digital frames in 34 airports, 1,193 of which were standalone digital frames, including 108-inch LCD display screens and mega-size LED screens, 1,765 of which were TV-attached digital frames, and 445 of which were frames displayed in groups. These 34 airports accounted for more than 80% of the total air travelers in China in 2012, according to the General Administration of Civil Aviation of China. Our digital frames play advertising content repeatedly mainly in five-minute - and ten-minute cycles, and we also offer two-minute and three-minute cycles to our advertisers.

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, in Shenzhen International Airport we put two or five screens together as a group, and in Xi'an Airport we present three screens 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, 2013, we operated approximately 2,579 digital TV screens in 34 airports in China under various concession rights contracts.

These 34 airports accounted for approximately 80% of the total air travelers in China in 2012, 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, 2013, our programs were placed on digital TV screens on planes operated by seven 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 to 15 inches in size, while the display screens on the back of passenger seats typically range from 7 to 9 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, 2013, we operated approximately 400 light boxes and billboards mainly in six airports, such as Beijing Capital International Airport and Wenzhou Yongqiang 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.

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 currently operate approximately 23 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. Our concession right contracts of outdoor media platforms typically last for three years, and we generally sell advertisements on outdoor media platforms in approximately one year long units. We currently plan to focus on improving the utilization rates of our existing outdoor media network resources.

Our Sales Contracts

We typically offer advertisers 6- and 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, 2012, our major concession rights contracts that will expire and need to be renewed in the next 12 months include digital frames and digital TV screens media assets in Terminal 3 of Beijing Capital International Airport and Guangzhou Baiyun International Airport, among others.

As of March 1, 2013, we had 172 concession rights contracts to operate our digital frames, digital TV screens, other displays in our air travel network, traditional media network and gas stations. Many 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 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 Baoan International Airport in 2011 in terms of air traveler volume to become the fifth largest airport in mainland China. In 2012, we obtained concession rights contract to install and operate various mega-size LED screens in Jinan Yaoqiang International Airport in Shandong province, Changchun Longjia International Airport in Jilin province, Xi'an Xianyang International Airport in Shaanxi province, Chengdu Shuangliu International Airport in Sichuan province and Sanya Fenghuang International Airport in Hainan province; in February 2013, we obtained concession rights contract to install and operate various mega-size LED screens in Hohhot Baita International Airport in Inner Mongolia province. These contracts have durations of two to five years. 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, 2013, 37 out of our 172 concession rights contracts to operate in airports would be subject to renewal by the end of 2013. The number of displays and placement locations are explicitly specified in the majority of our concession rights contracts.

Airlines

As of December 31, 2012, our programs were placed on digital TV screens located on routes operated by the following airlines:

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

As of December 31, 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. 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. In 2013, in order to control our concession cost, we changed our business cooperation model with Air China so that instead of holding the exclusive concession rights for Air China, we now find potential advertisers before purchasing placing right from Air China for specific advertising time slots. See "Item 3. Key Information D. Risk Factors Risks Related to Our Business 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 or if there are changes in our arrangements with these airports or airlines, we may incur substantial losses of revenues." In addition, two more of our concession rights contracts to operate on airlines are subject to renewal by the end of 2013, and are in the process of being renewed.

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, 2012, 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.

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. In 2010 and 2011, the top three industries that advertised on our network were automobile, finance and high-end food and beverage, based on revenues derived from advertisers in these industries. Advertising revenues from automobile, finance and high-end food and beverage industries accounted for 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. For 2012, the top three industries that advertised on our network were automobile, finance, and electronic and home appliances, which accounted for approximately 33.2%, 16.1% and 9.3% of our total revenues, respectively. No single customer accounted for more than 10% of our total revenues for 2010 and 2011, and one customer accounted for more than 10% of our total revenues for 2012.

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 23 cities as of December 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 five- and ten-minute cycles throughout the day. We compile each cycle from advertisements that are provided to us by advertisers. We generally update the advertisements displayed on our digital frames on a weekly basis. Beginning April 6, 2012, to improve the attractiveness of our digital frames, we changed our sales method for stand-alone digital frames in the airports for second-tier and third-tier cities in China by changing the length of advertising time slot from 12 seconds to six seconds per time slot and shortening the cycle time of advertisements from 10 minutes to five minutes. These changes increased the frequency of exposure for advertisements and had no impact on the time slots available for sale of our digital frames. In addition, advertisers now have the choice to purchase time slots on our stand-alone digital frames at departure halls or arrival halls separately or as a whole in the airports for second-tier and third-tier cities.

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 generated by our VIEs in China or 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. A majority 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 and mega-size LED screens. 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 suppliers of our digital frames in 2012 were Sharp, Samsung, Haier, Auo and Hitachi, which collectively provided 93.5% of our total digital frames. The top five suppliers of our digital TV screens in 2012 were Hitachi, Haier, Hisense, TCL and Sharp, which collectively provided approximately 95.8% of our total digital TV screens. Our digital frame suppliers typically provide us with one- to two-year warranties while our TV screen suppliers typically provide us with one-year warranties.

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 11

trademarks in China, including " ", " ", , AIRMEDIA , AirMedia and AirTV. We are in the process of applying for two additional trademarks. 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 with the Internet Corporation for Assigned Names and Numbers. We were granted one patent relating to the design of our TV-attached digital frame, each of which consists of a LCD TV screen placed above a digital frame and which allows simultaneous display of advertisement on both the LCD TV screen and the digital frame. The patent was granted in April 2009 and will expire in December 2017. 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 Foreign-invested Advertising Regulations require foreign entities that establish a wholly owned advertising company must have at least three 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 VIEs under the rules allowing for complete foreign ownership, our VIEs 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 VIEs in China, including AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang.

Our VIEs 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 VIEs are in compliance with existing PRC laws and regulations, and the contractual arrangements among AM Technology and our consolidated VIEs, 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 VIEs 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. We are in the process of completing the required registration and the procedures for the New Share Incentive Rule under PRC laws, but the application documents are subject to the review and approval of the SAFE, and we can make no assurance as to when the registration and procedures will be completed. 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, 2013:

49

Offshore

VIE

Onshore

Equity Interest

Contractual arrangements. See Item 7. Major Shareholders and Related Party Transactions B.
Related Party Transactions.

- (1) Wealthy Environment Limited is a BVI company wholly owned by Mr. Herman Man Guo, our chairman and chief executive officer. The 22.13% in this chart refers to the 26,891,980 ordinary shares held by Wealthy Environment Limited; on top of these shares, Wealthy Environment Limited also owns 1,400,000 ordinary shares represented by American Depositary Shares as of March 31, 2013, which are being held by JPMorgan Chase Bank, N.A., our ADS program depository.
- (2) Mambo Fiesta Limited is 100% owned by Mr. Qing Xu, our director and executive president.
- (3) Beijing Shengshi Lianhe Advertising Co., Ltd., or Shengshi Lianhe, is 79.86% owned by Mr. Herman Man Guo, our chairman and chief executive officer, 11.94% owned by Mr. Qing Xu, our director and executive president, and 8.20% owned by Mr. Xiaoya Zhang, former president and chief financial officer of AirMedia Group Inc. and AirMedia Group Co., Ltd.
- (4) Beijing AirMedia UC Advertising Co., Ltd. is 98.75% owned by AirMedia Group Co., Ltd., 1.035% owned by Mr. Herman Man Guo, our chairman and chief executive officer, 0.215% owned by Mr. Qing Xu, our director and executive president.
- (5) Beijing Yuehang Digital Media Advertising Co., Ltd. is 80% owned by Mr. James Zhonghua Feng, our president and director, and 20% owned by Mr. Tao Hong, senior administrative director of AirMedia Group Co., Ltd.
- (6) AirMedia Group Co., Ltd. is 2.833% owned by Mr. Herman Man Guo, our chairman and chief executive officer, 0.241% owned by Mr. Qing Xu, our director and executive president, 0.166% owned by Mr. Xiaoya Zhang, former president and chief financial officer of AirMedia Group Inc. and AirMedia Group Co., Ltd., and 96.76% owned by Shengshi Lianhe.
- (7) Beijing GreatView Media Advertising Co., Ltd. is formerly known as Beijing Weimei Shengjing Media Advertising Co., Ltd.
- (8) Beijing AirMedia Jinshi Advertising Co., Ltd. is 20% owned by Shanghai Zhongshi Bokai Advertising Co., Ltd.
- (9) Beijing Dongding Gongyi Advertising Co., Ltd. is 25% owned by Mr. Jin Li, director and deputy general manager of Beijing Dongding Gongyi Advertising Co., Ltd.
- (10) Beijing Eastern Media Co., Ltd. is 51% owned by Shanghai Eastern Media Co., Ltd.
- (11) AirTV United Media & Culture Co., Ltd. is 25% owned by AirTV Qiangshi Media Advertising Co., Ltd.
- (12) Flying Dragon Media Advertising Co., Ltd. is 16% owned by Ms. Mingfang Zhang, president of Flying Dragon Media Advertising Co., Ltd., and 4% owned by Mr. Hulin Zhang, general manager of Flying Dragon Media Advertising Co., Ltd.
- (13) Beijing Shengshi Lixin Culture & Media Co., Ltd. was wound up and deregistered in April 2013.
- (14) As of the date of this annual report, Tianjin AirMedia Advertising Co., Ltd. is in the process of deregistration and is expected to be deregistered in 2013.
- (15) Zhangshangdong Air Service (Beijing) Co., Ltd. is 80% owned by Beijing Zhangshangdong Network Technology Co., Ltd.
- (16) Beijing Xinghe Union Media Co., Ltd. is 50% owned by Beijing N-S Digital TV Co., Ltd.
- (17) Beijing Shibo Movie Technology Co., Ltd. is 50% owned by Beijing N-S Digital TV Co., Ltd.
- (18) Guangxi Dingyuan Advertising Co., Ltd. is 20% owned by Guangxi Civil Aviation Development Co., Ltd. and 40% owned by Beijing Asiaray Advertising Co., Ltd.

Substantially all of our operations are conducted through contractual arrangements with our consolidated VIEs in China, AM Advertising, Shengshi Lianhe, AirMedia UC and AM Yuehang. We do not have any equity interests in our VIEs, 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 4,783 square meters (approximately 51,484 square feet) of office space in approximately 33 other locations.

In addition, we own approximately 841 square meters (approximately 9,051 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, mega-size LED 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. Also, beginning April 6, 2012, in an effort to improve the attractiveness of our digital frames, we changed our sales method for stand-alone digital frames in the airports for second-tier and third-tier cities in China. The length of advertising time slot was changed from 12 seconds to six seconds per time slot. The cycle time of advertisements was changed from 10 minutes to five minutes. These changes increased the frequency of exposure for advertisements and had no impact on the time slots available for sale of our digital frames. In addition, advertisers now have the choice to purchase time slots on our stand-alone digital frames at departure halls or arrival halls separately or as a whole in the airports for second-tier and third-tier cities. For more details, see "Item 4. Information on the Company A. History and Development of the Company---Business Overview Programming." 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 6- and 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. For example, starting from October 23, 2012, after approximately 40-day operation, we completed the upward adjustment of the listing price of our mega-size LED screens at Terminals 2 of Chengdu Shuangliu International Airport by approximately 75%; the price adjustment was due to strong demand from advertisers.

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 we either generated such content through our VIEs or 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 Years Ended December 31,					
	2010		2011		2012	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
Air Travel Media Network						
Digital frames in airports	\$ 113,196	47.9%	\$ 126,539	45.5%	\$ 137,342	46.9%
Digital TV screens in airports	28,905	12.2%	21,937	7.9%	13,731	4.7%
Digital TV screens on airplanes	27,564	11.7%	26,734	9.6%	26,612	9.1%
Traditional media in airports	48,418	20.5%	73,535	26.5%	83,478	28.5%
Other revenues in air travel	4,063	1.7%	6,416	2.4%	7,346	2.4%
Gas station Media Network						
	3,664	1.5%	12,873	4.6%	14,217	4.9%

Other Media	10,650	4.5%	9,787	3.5%	10,239	3.5%
Total revenues	236,460	100.0%	277,821	100.0%	292,965	100.0%
Business tax and other sales tax	(5,955)	(2.5%)	(7,197)	(2.6%)	(6,223)	(2.1%)
Net revenues	\$ 230,505	97.5%	\$ 270,624	97.4%	\$ 286,742	97.9%

Revenues from Air Travel Media Network

Revenues from our digital frames in airports accounted for 47.9%, 45.5% and 46.9% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. We operated a total of 3,466 digital frames in 34 airports, 3,092 digital frames in 34 airports and 3,403 digital frames in 34 airports as of December 31, 2010, 2011 and 2012, respectively.

Revenues from digital frames in airports for fiscal year 2012 increased by 8.5% to \$137.3 million in 2012 from \$126.5 million in 2011 mainly due to our continued sales efforts and the rapid growth of our mega-size LED screens.

The number of digital frames advertising time slots sold increased 6.8% from 46,399 in 2011 to 49,558 in 2012, and the average selling price increased slightly from \$2,727 in 2011 to \$2,771 in 2012.

Revenues from digital frames in airports for fiscal year 2011 increased by 11.8% to \$126.5 million in 2011 from \$113.2 million in 2010 due to an increase in the average selling price of digital frames in airports by 13.0% to \$2,727 in 2011 from \$2,414 in 2010, offset in part by a 1.0% decrease in the number of digital frames advertising time slots sold to 46,399 in 2011 from 46,887 in 2010.

Revenues from our digital TV screens in airports accounted for 12.2%, 7.9% and 4.7% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. We operated 2,215 digital TV screens in 38 airports, 2,104 digital TV screens in 36 airports and 2,579 digital TV screens in 34 airports as of December 31, 2010, 2011 and 2012, respectively. The increase in the number of digital TV screens from 2011 was due to the commencement of operations of digital TV screens in certain new terminals and airports.

Revenues from digital TV screens in airports for fiscal year 2012 decreased by 37.4% to \$13.7 million in 2012 from \$21.9 million in 2011 due to a drop in demand from advertisers resulting from competition from our other product lines and the fact that, with the rapid development of mobile internet, more people use their cell phones for entertainment and do not pay attention to our digital TV screens in airports. Meanwhile, there was a 61.4% downward adjustment in the average selling price of our digital TV screens in airports to \$587 in 2012 from \$1,519 in 2011, offset in part by a 62.0% increase in the number of digital TV advertising time slots sold to 23,385 in 2012 from 14,439 in 2011.

Revenues from digital TV screens in airports for fiscal year 2011 decreased by 24.1% to \$21.9 million in 2011 from \$28.9 million in 2010 due to a 44.9% decrease in the number of digital TV advertising time slots sold to 14,439 in 2011 from 26,216 in 2010, offset in part by a 37.7% increase in the average selling price of digital TV screens in airports to \$1,519 in 2011 from \$1,103 in 2010.

Revenues from our digital TV screens on airplanes accounted for 11.7%, 9.6% and 9.1% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Our network operating digital TV screens consisted of nine airlines as of December 31, 2010, 2011 and 2012.

Revenues from digital TV screens on airplanes decreased by 0.5% to \$26.6 million in 2012 from \$26.7 million in 2011. However, the number of time slots sold decreased by 12.8% to 781 in 2012 from 896 in 2011, offset in part by a 14.2% increase in the average selling price of digital TV screens on airplanes to \$34,074 in 2012 from \$29,837 in 2011.

Revenues from digital TV screens on airplanes decreased by 3.0% to \$26.7 million in 2011 from \$27.6 million in 2010 due to a decrease in the number of time slots sold by 25.5% to 896 in 2011 from 1,203 in 2010, offset in part by a 30.2% increase in the average selling price of digital TV screens on airplanes to \$29,837 in 2011 from 22,913 in 2010.

Revenues from traditional media in airports, consisting of billboards and light boxes in airports and billboards and painted advertisements on gate bridges, accounted for 20.5%, 26.5% and 28.5% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. We have offered light box displays since the commencement of our operations.

Revenues from traditional media in airports increased by 13.5% to \$83.5 million in 2012 from \$73.5 million in 2011. The increase was primarily due to our continued sales efforts and an increase in the listing prices of many of our traditional media locations in 2012. There was an 18.0% increase in the average selling price of traditional media in airports to \$33,920 in 2012 from \$28,736 in 2011, offset in part by a 3.8% decrease in the number of locations sold to 2,461 locations in 2012 from 2,559 locations in 2011.

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 by 39.6% to 2,559 locations in 2011 from 1,833 in 2010 and the average selling price of traditional media in airports by 8.8% to \$28,736 in 2011 from \$26,415 in 2010.

Other revenues in air travel, mainly generated from equipment logos displayed on advertising equipment such as digital TV screens, accounted for 1.7%, 2.4% and 2.4% of our total revenues for the years ended December 31, 2010, 2011 and 2012, 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 1.5%, 4.6% and 4.9% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Due to the growing acceptance of our gas stations media network, we expect the revenues from gas station media network to continue to grow in 2013.

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 4.5%, 3.5% and 3.5% of our total revenues for the years ended December 31, 2010, 2011 and 2012, respectively.

Business Tax, Value-added Tax (VAT) and Other Sales Related Tax

Prior to 2012, our PRC subsidiaries and consolidated VIEs 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.

In 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot VAT reform program, which changed the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, but has been expanded to eight additional regions, including Beijing. The pilot program will also be expanded nationwide when conditions permit. The majority of our PRC subsidiaries and consolidated VIEs fall within the scope of the pilot program and have been recognized as VAT tax payers in 2012.

From the applicable effective time onwards, these entities are required to pay VAT instead of business tax at a rate of 6%. In addition, cultural business construction fee is imposed at a rate of 3%. Same as before, for the purpose of calculating the amount of VAT and certain other taxes, input VAT obtained for concession fees and purchase of fixed assets are permitted to be deducted from output VAT under applicable PRC tax law.

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

Our PRC subsidiaries are subject to value-added tax at a rate of 6% on revenues from advertising services and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is reflected in the account under other taxes payable.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program was gradually implemented in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, certain of our subsidiaries and VIEs became subject to VAT at the rates of 6% or 3% on certain service revenues which were previously subject to business tax. The amount of VAT included as a deduction to revenue amounted to \$8.8 million for the year ended December 31, 2012.

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.

	Fiscal Years Ended December 31,					
	2010		2011		2012	
	(All amounts are in thousands of U.S. Dollars, except percentages)					
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 230,505	100.0%	\$ 270,624	100.0%	\$ 286,742	100.0%
Cost of revenues						
Concession fees	(134,294)	(58.3%)	(160,199)	(59.2%)	(177,996)	(62.1%)
Agency fees	(40,153)	(17.4%)	(54,824)	(20.2%)	(45,778)	(16.0%)
Others	(23,461)	(10.2%)	(29,447)	(10.9%)	(26,832)	(9.3%)
Total cost of revenues	\$ (197,908)	(85.9%)	\$ (244,470)	(90.3%)	\$ (250,606)	(87.4%)
<i>Concession Fees</i>						

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 58.3%, 59.2% and 62.1% of our net revenues and were \$134.3 million, \$160.2 million and \$178.0 million in the years ended December 31, 2010, 2011 and 2012, 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. For gas stations, the actual concession fees paid to Sinopec were RMB 20 million (approximately \$2.9 million) for the second half of 2009, RMB 50 million (approximately \$7.6 million) for the year ended December 31, 2010 and RMB 38 million (approximately \$6.0 million) for the year ended December 31, 2011. From 2012 onwards, 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.

Concession fees increased significantly from 2010 to 2012 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 2010 to 2012, including the ones with billboard and painted advertisements on interior or exterior walls of gate bridges at Terminal 3 of Beijing Capital International Airport, mega-size LED screens in several airports, and new media resources in newly opened terminals. As some of our concession rights contracts are subject to renewal in the next few 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 17.4%, 20.2% and 16.0% of our net revenues for the years ended December 31, 2010, 2011 and 2012, respectively. We expect to continue using these third-party advertising agencies in the near future.

From time to time, we and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to extinguish existing agency fee liabilities as calculated under the terms of existing contracts. Such extinguishments are recorded as a reduction in cost of sales in the period in which the renegotiations are finalized. During the years ended December 31, 2010, 2011 and 2012, reversals in cost of sales as a result of renegotiated agency fees amounted to nil, nil, and \$6.4 million, respectively.

Others

Our other cost of revenues represented 10.2%, 10.9% and 9.3% of our net revenues for the years ended December 31, 2010, 2011 and 2012, 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 45 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 produced some of the non-advertising content shown on our network through our VIEs. The majority of 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.

	Fiscal Years Ended December 31,					
	2010		2011		2012	
	(All amounts are in thousands of U.S. Dollars, except percentages)					
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 230,505	100.0%	\$ 270,624	100.0%	\$ 286,742	100.0%
Operating expenses						
General and administrative expenses	(24,646)	(10.7%)	(22,004)	(8.1%)	(21,842)	(7.6%)
Selling and marketing expenses	(18,112)	(7.9%)	(18,238)	(6.7%)	(17,995)	(6.3%)
Impairment of goodwill	-	-	(1,003)	(0.4%)	(20,611)	(7.2%)
Impairment of intangible assets	(1,000)	(0.4%)	(656)	(0.2%)	(9,583)	(3.3%)
Total operating expenses	\$ (43,758)	(19.0%)	\$ (41,901)	(15.4%)	\$ (70,031)	(24.4%)

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 10.7%, 8.1% and 7.6% of our net revenues for the years ended December 31, 2010, 2011 and 2012, respectively. Our general and administrative expenses included share-based compensation expenses of \$5.5 million, \$3.2 million and 2.6 million in the fiscal years ended December 31, 2010, 2011 and 2012, 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.

Selling and Marketing Expenses

Selling and marketing expenses accounted for 7.9%, 6.7% and 6.3% of our net revenues for the years ended December 31, 2010, 2011 and 2012, 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.

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, \$1.0 million and \$20.6 million for impairment of goodwill for the years ended December 31, 2010, 2011 and 2012, respectively. Applying discounted cash flows for our 2012 annual impairment test, the estimated fair value of the air travel areas and outdoor advertising media was below the carrying amount of our net assets. We impaired all goodwill related to air travel areas reporting unit and outdoor media advertising media reporting unit and incurred an

impairment loss of \$20.6 million in 2012.

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 \$1.0 million, \$0.7 million and \$9.6 million for impairment of intangible assets for the years ended December 31, 2010, 2011 and 2012, respectively. Due to the fact that actual sales and profits for air travel areas and outdoor advertising media were below forecast in the year ended December 31, 2012, the future undiscounted cash flow that the finite-lived intangible assets were expected to generate were less than the carrying amount as of December 31, 2012 and we recognized an impairment loss of \$9.6 million for the year ended December 31, 2012 based on the excess of carrying amount over the fair value of the assets.

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, 2010, 2011 and 2012 on the basis that our Hong Kong subsidiaries did not have any assessable profits arising in or derived from Hong Kong for 2010, 2011 and 2012. 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 2010 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 and 2010. In September 14, 2011, AM Technology received a new HNTE certificate. As a result, AM Technology was subject to an EIT rate of 15% in 2011 and 2012 and is expected to be subject to an EIT rate of 15% 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 enjoys 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. Shenzhen AM will be subject to EIT at a rate of 25% from 2013 onwards.

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, 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, we have 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, 2010, 2011 and 2012, 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 \$1.2 million, \$2.8 million and \$1.3 million for the years ended December 31, 2010, 2011 and 2012, 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.

From time to time, we and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to extinguish existing agency fee liabilities as calculated under the terms of existing contracts. Such extinguishments are recorded as a reduction in cost of sales in the period the renegotiations are finalized. During the years ended December 31, 2010, 2011 and 2012, reversals in cost of sales as a result of renegotiated agency fees amounted to nil, nil, and \$6.4 million, respectively.

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, \$1.0 million and \$20.6 million for the years ended December 31, 2010, 2011 and 2012, respectively. As a result, we do not have any goodwill left for any reporting until now and will not incur any more impairment loss on good will in the future.

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. We recognized an impairment loss of intangible assets of \$9.6 million for the year ended December 31, 2012.

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.

Business tax and other sale related taxes

Our PRC subsidiaries and VIEs are subject to business tax and other sale related taxes at the rate of 8.5% on total revenues after deduction of certain costs of revenues permitted by the PRC tax laws.

Value Added Tax ("VAT")

Our PRC subsidiaries are subject to value-added tax at a rate of 6% on revenues from advertising services and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is reflected in the account under other taxes payable.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program was gradually implemented in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, certain of our subsidiaries and VIEs became subject to VAT at the rates of 6% or 3% on certain service revenues which were previously subject to business tax. The amount of VAT included as a deduction to revenue amounted to \$8.8 million for the year ended December 31, 2012.

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.

Share-based payment transactions with non-employees are measured based on the fair value of the options as of each reporting date through the measurement date, with a corresponding impact reflected in additional paid-in capital.

Comprehensive income/(loss)

Comprehensive income/(loss) includes net income/(loss) and foreign currency translation adjustments. Our consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income. Beginning January 1, 2012, we presented our consolidated statements of comprehensive income in two separate but consecutive statements.

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.

	Years Ended December 31,		
	2010	2011	2012
	(All amounts 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	\$ 113,196	\$ 126,539	\$ 137,342
Digital TV screens in airports	28,905	21,937	13,731
Digital TV screens on airplanes	27,564	26,734	26,612
Traditional media in airports	48,418	73,535	83,478
Other revenues in air travel	4,063	6,416	7,346
Gas Station Media Network	3,664	12,873	14,217
Other Media	10,650	9,787	10,239
Total revenues	236,460	277,821	292,965
Business tax and other sales tax	(5,955)	(7,197)	(6,223)
Net revenues	230,505	270,624	286,742
Cost of revenues	(197,908)	(244,470)	(250,606)
Gross profit	32,597	26,154	36,136
Operating expenses:			
Selling and marketing (including share- based compensation of \$ \$2,424, \$1,422 and \$859 in 2010, 2011 and 2012, respectively)	(18,112)	(18,238)	(17,995)
General and administrative (including share-based compensation of \$5,547, \$3,192 and \$2,643 in 2010, 2011 and 2012, respectively)	(24,646)	(22,004)	(21,842)
Impairment of goodwill	-	(1,003)	(20,611)
Impairment of intangible assets	(1,000)	(656)	(9,583)
Total operating expenses	(43,758)	(41,901)	(70,031)
Loss from operations	(11,161)	(15,747)	(33,895)
Interest income	694	1,242	1,355
Gain on remeasurement of fair value of cost and equity method investments (net)	919	-	-
Other income, net	940	1,848	2,770
Income tax benefits (expenses)	735	(266)	(2,493)
Less: Net (loss)/income attributable to noncontrolling interests	(2,666)	(3,084)	487
Share of income on equity method investments	290	243	22
Net loss attributable to AirMedia Group Inc.'s shareholders	\$ (4,917)	\$ (9,596)	\$ (32,728)

The following table presents selected operating data for the years ended December 31, 2010, 2011 and 2012, respectively.

	Years Ended December 31,		
	2010	2011	2012
Selected Operating Data:			
Digital frames in airports			
Number of airports in operation	34	34	34
Number of digital frames in our network airports as of year end	3,466	3,092	3,403
Number of time slots available for sale ⁽¹⁾	132,340	139,252	131,060
Number of time slots sold ⁽²⁾	46,887	46,399	49,558
Utilization rate ⁽³⁾	35.4%	33.3%	37.8%
Average advertising revenue per time slot sold ⁽⁴⁾	\$ 2,414	\$ 2,727	\$ 2,771
Digital TV screens in airports			
Number of airports in operation	38	36	34
Number of screens in our network airports as of year end	2,215	2,104	2,579
Number of time slots available for sale ⁽⁵⁾	94,050	74,028	67,592

	Years Ended December 31,		
	2010	2011	2012
Number of time slots sold ⁽²⁾	26,216	14,439	23,385
Utilization rate ⁽³⁾	27.9%	19.5%	34.6%
Average advertising revenue per time slot sold ⁽⁴⁾	\$ 1,103	\$ 1,519	\$ 587
Digital TV screens on airplanes			
Number of airlines in operation	9	9	9
Number of time slots available for sale ⁽⁵⁾	1,646	1,656	1,776
Number of time slots sold ⁽²⁾	1,203	896	781
Utilization rate ⁽³⁾	73.1%	54.1%	44.0%
Average advertising revenue per time slot sold ⁽⁴⁾	\$ 22,913	\$ 29,837	\$ 34,074
Traditional media in airports			
Numbers of locations available for sale ⁽⁶⁾	2,887	3,621	3,751
Numbers of locations sold ⁽⁷⁾	1,833	2,559	2,461
Utilization rate ⁽⁸⁾	63.5%	70.7%	65.6%
Average advertising revenue per location ⁽⁹⁾	\$ 26,415	\$ 28,736	\$ 33,920

- (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.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.

- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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, 2012 Compared to Year Ended December 31, 2011

Net Revenues. Our net revenues increased by 6.0% from \$270.6 million in 2011 to \$286.7 million in 2012. The increase was primarily due to an increase in revenue from several our business sections, including digital frames in airports, traditional media in airports, gas station media network and other media.

Revenues from digital frames in airports: Revenues from digital frames in airports for fiscal year 2012 increased by 8.5% from \$126.5 million in 2011 to \$137.3 million in 2012 due to an increase in revenues from the rapidly growing product line of mega-size LED screens and our continued sales efforts.

We operated our digital frames in 34 airports as of December 31, 2012 which remained unchanged during fiscal year 2012. However, the number of digital frames advertising time slots available for sale in airports decreased by 5.9% from 139,252 in 2011 to 131,060 in 2012, while the number of time slots sold increased by 6.8% from 46,399 in 2011 to 49,558 in 2012. Our utilization rate for digital frames in airports increased from 33.3% in 2011 to 37.8% in 2012 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 advertising revenue of digital frames increased by 1.6% from \$2,727 in 2011 to \$2,771 in 2012 due to lower discounts offered in 2012 than in 2011.

Revenues from digital TV screens in airports: Revenues from digital TV screens in airports decreased by 37.4% to \$13.7 million in 2012 from \$21.9 million in 2011 due to a decline in demand from advertisers as a result of competition from our other product lines and the fact that, with the rapid development of mobile internet, people pay more attention to their cell phones instead of digital TV screens.

The number of time slots sold for 2012 increased by 62.0% year-over-year to 23,385 time slots primarily due to a decrease in the average selling prices of digital TV screens in airports. The number of time slots available for sale for 2012 decreased by 8.7% year-over-year to 67,592 time slots in 2012 primarily due to the termination of operations of digital TV screens in certain airports. Utilization rate of digital TV screens in airports for fiscal year 2012 increased to 34.6% from 19.5% in 2011 primarily due to the increase in the number of time slots sold and the decrease in the time slots available for sale. The average selling price of digital TV screens in airports decreased by 61.4% to \$587 in 2012 from \$1,519 in 2011 primarily due to higher discounts offered in 2012 than in 2011.

Revenues from digital TV screens on airplanes: Revenues from digital TV screens on airplanes decreased by 0.5% to \$26.6 million in 2012 from \$26.7 million in 2011.

The number of time slots sold decreased by 12.8% to 781 time slots in 2012 from 896 time slots in 2011 due to a drop in demand caused by an increase in the average selling price of digital TV screens on airplanes in fiscal year 2012 than in fiscal year 2011. The number of time slots available for sale increased by 7.2% to 1,776 time slots in 2012 from 1,656 time slots in 2011. Utilization rate decreased to 44.0% in 2012 from 54.1% in 2011 primarily due to the decrease in the number of time slots sold and the increase in the number of time slots available for sale. The average selling price of digital TV screens on airplanes increased by 14.2% to \$34,074 in 2012 from \$29,837 in 2011 primarily due to lower discounts offered in 2012 than in 2011.

Revenues from traditional media in airports: Revenues from traditional media in airports increased by 13.5% to \$83.5 million in 2012 from \$73.5 million in 2011. The increase was primarily due to our continued sales efforts and an increase in listing prices of many locations in 2012.

The number of locations sold decreased by 3.8% to 2,461 locations in 2012 from 2,559 in 2011. The number of locations available increased by 3.6% to 3,751 locations in 2012 from 3,621 in 2011, primarily due to the commencement of operations in additional airports. The utilization rate of traditional media decreased by 5.1% to 65.6% in 2012 from 70.7% in 2011 due to the decrease in the number of locations sold and the increase in the number of locations available for sale. The average selling price of traditional media in airports increased by 18.0% to \$33,920

in 2012 from \$28,736 in 2011 primarily due to an increase in the listing prices of some traditional media in 2012, lower discounts offered in 2012 than in 2011, and more locations with higher listing prices sold in 2012 than in 2011

Revenues from the gas station media network: Revenues from the gas station media network increased by 10.4% to \$14.2 million from \$12.9 million in 2011 due to our continued sales efforts and advertisers' continually growing acceptance of our 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 2011, which operates unipole signs and other outdoor media across Beijing. Revenues from other media for fiscal year 2012 increased by 4.6% year-over-year to \$10.2 million in 2012 from \$9.8 million in 2011, primarily due to our continued sales efforts.

Cost of Revenues. Our cost of revenues increased by 2.5% from \$244.5 million in 2011 to \$250.6 million in 2012, primarily due to the increased concession fees partially offset by lower agency fees for third-party advertising agencies. The year-over-year decrease in agency fees was primarily due to a partial reversal of certain previously accrued agency fees of \$6.4 million that were waived by the related agents. Our cost of revenues as a percentage of our net revenues decreased from 90.3% in 2011 to 87.4% in 2012. Concession fees increased 11.1% from \$160.2 million in 2011 to \$178.0 million in 2012, primarily due to newly signed and renewed concession contracts entered into in 2012. Concession fees as a percentage of net revenues increased from 59.2% in 2011 to 62.1% in 2012.

Operating Expenses. Our operating expenses increased by 67.1% from \$41.9 million in 2011 to \$70.0 million in 2012. Our total operating expenses in 2011 included share-based compensation expenses of \$4.6 million while our total operating expenses in 2012 included share-based compensation expenses of \$3.5 million.

- *Selling and Marketing Expenses.* Our selling and marketing expenses decreased by 1.3% from \$18.2 million in 2011 (including \$1.4 million of share-based compensation expenses) to \$18.0 million in 2012 (including \$0.9 million of share-based compensation expenses) mainly due to the decrease in the share-based compensation expenses.
- *General and Administrative Expenses.* Our general and administrative expenses decreased by 0.7% from \$22.0 million (including \$3.2 million of share-based compensation expenses) in 2011 to \$21.8 million (including \$2.6 million of share-based compensation expenses) in 2012, primarily due to a decrease in share-based compensation expenses of \$0.6 million.
- *Impairment for goodwill.* We perform the annual impairment tests on December 31 of each year. Applying discounted cash flows for our 2012 annual impairment test, the estimated fair value of the air travel areas and outdoor advertising media was below the carrying amount if its net assets. We impaired all goodwill related to air travel areas reporting unit and outdoor media advertising media reporting unit and incurred an impairment loss of \$20.6 million.
- *Impairment of intangible assets.* We perform the annual impairment tests on December 31 of each year. Due to the fact that actual sales and profits for air travel areas and outdoor advertising media were below forecast in the year ended December 31, 2012, the future undiscounted cash flow that the finite-lived intangible assets were expected to generate were less than the carrying amount as of December 31, 2012 and \$9.6 million impairment loss was recognized for the year ended December 31, 2012.

Loss from Operations. We recorded a net loss from operations of \$33.9 million in 2012, as compared to a net loss from operations of \$15.7 million in 2011 as a cumulative result of the above factors.

Other income, net. We recorded \$2.8 million of other income net in 2012 as compared to \$1.8 million in 2011. The increase was primarily due to increase in the investment income from short-term investments.

Income Taxes. We recorded \$2.5 million of income tax expenses in 2012 as compared to income tax expenses of \$266,000 in 2011. Our effective income tax rate changed to negative 8.4% in 2012 from negative 2.1% in 2011.

Net Loss Attributable to Noncontrolling Interests. We recorded \$0.5 million in net income attributable to noncontrolling interests in 2012, as compared to \$3.1 million in net loss attributable to noncontrolling interests in

2011. 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 VIEs.

Net Loss Attributable to AirMedia's Shareholders. As a result of the foregoing, we had net loss attributable to our shareholders of \$32.7 million in 2012, as compared to \$9.6 million in 2011.

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 VIEs.

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.

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 \$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.

On September 1, 2012, the Board of Directors approved to grant options to an employee of our company, under the 2007 Share Incentive Plan, to purchase an aggregate of 1,857,538 ordinary shares of our company, at an exercise price of \$0.72 per ordinary share. One twelfth of the options will vest each quarter starting from September 4, 2012. The expiration date will be 5 years from the grant date.

In September 2012, the former chief financial officer of our company resigned. Of the 600,000 options granted to her on March 22, 2011, 300,000 were vested through her date of resignation. In conjunction with her resignation, she signed a supplementary agreement with us, pursuant to which the Company granted her 100,000 options that are immediately exercisable and 200,000 options that would vest through September 22, 2013. During the vesting period, she would provide consulting service as a consultant. For the 100,000 immediately exercisable options, a measurement date was reached upon grant and we immediately recognized \$35,000 into expense, which is equal to the fair value of the options as of September 30, 2012. For the 200,000 options that will vest through September 22, 2013, we will recognize expense based on the fair value of the options as of each reporting date through the measurement date, or September 23, 2013. For the year ended December 31, 2012, we recognized \$19,000 expense for these options.

On October 10, 2012, the Board of Directors approved the Company to extend the expiration date of the options granted on July 2, 2007, November 29, 2007 and July 10, 2009 to November 29, 2015. Modified awards are viewed as an exchange of the original award for a new award. As a result, an incremental fair-value-based measure of the modified award was recorded as compensation cost on the date of modification for vested awards. The fair value of the stock options, which was \$0.33 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was approximately \$449,000, which was immediately recognized as a one-time expense on the modification date.

On November 30, 2012, the Board of Directors adopted the 2012 Share Incentive Plan (the "2012 Option Plan"), which allows the Company to grant restricted shares or options and other awards for the issuance of up to 6,000,000

ordinary shares of the Company subject to vesting requirements.

On November 1 and November 30, 2012, and in exchange for film industry strategy advisory services, the Company granted options to a consultant under the 2007 Option Plan and the 2012 Option Plan to purchase 20,000 and 60,000 ordinary shares of the Company at an exercise price of \$1.11 per ordinary share. The 20,000 share options vests immediately and one-third of the 60,000 share options will vest on February 1, May 1 and August 1, 2013.

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 \$8.0 million, \$4.6 million and \$3.5 million for the years ended December 31, 2010, 2011 and 2012, 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 3.3%, 5.4% and 2.6% in the years 2010, 2011 and 2012, respectively. In 2012, China's inflation has been regarded as relatively high.

The higher inflation in 2012 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 2012, 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, 2012, we had approximately \$73.6 million in cash. We generally deposit our excess cash in interest bearing bank accounts. Although we consolidate the results of our VIEs 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, 2010, 2011 and 2012:

	Years Ended December 31,		
	2010	2011	2012
	(in thousands of U.S. Dollars)		
Net cash provided by operating activities	\$ 10,626	\$ 17,932	\$ 20,230
Net cash used in investing activities	(30,368)	(5,192)	(57,006)
Net cash provided by (used in) financing activities	72	(10,919)	(3,260)
Effect of exchange rate changes	2,421	4,408	936
Net (decrease)/increase in cash	(19,670)	6,229	(39,100)
Cash at the beginning of the year	123,754	106,505	112,734

Cash at the end of the year	106,505	112,734	73,634
	74		

Operating Activities

Net cash provided by operating activities was \$20.2 million for the year ended December 31, 2012. This was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$24.0 million, impairment loss of goodwill of \$20.6 million, impairment loss of intangible assets of \$9.6 million, loss on disposal of property and equipment of \$1.2 million, allowance for doubtful accounts of \$1.2 million and share-based compensation of \$3.5 million, (2) an increase of \$8.3 million in accounts payable, and (3) an increase of \$6.6 million in deferred revenues. The foregoing was partly offset by (1) an increase of \$8.6 million in accounts receivable and (2) an increase of \$7.0 million in long-term deposits.

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 airports and airlines.

Accounts Receivable

Our gross accounts receivable balance increased by \$9.7 million, or approximately 10.1%, from \$96.1 million as of December 31, 2011 to \$105.8 million as of December 31, 2012. Our allowance for doubtful accounts increased from \$3.3 million as of December 31, 2011 to \$4.6 million as of December 31, 2012. The net effect of these changes resulted in an increase of net accounts receivable of \$8.4 million, or approximately 9.0%, from \$92.8 million for the year ended December 31, 2011 to \$101.2 million for the year ended December 31, 2012. Our revenues increased by \$15.2 million, or approximately 5.5%, from \$277.8 million in 2011 to \$293.0 million in 2012. The rate of increase for net accounts receivables (9.0%) is slightly higher than the rate of increase for net revenues (6.0%), mainly because traditional media increased from \$73.5 million to \$83.5 million and the credit term for traditional media is six to twelve months and longer than the average credit term. As of December 31, 2012, our net accounts receivable balance aged less than and greater than six months was \$84.7 million and \$16.5 million, respectively. In general, our accounts receivable increased as a direct result of the increase in our revenues.

Our gross accounts receivable balance increased by \$16.0 million, or approximately 20.0%, from \$80.1 million to \$96.1 million as of December 31, 2010 and 2011, respectively. Our allowance for doubtful accounts declined from \$17.6 million to \$3.3 million as of December 31, 2010 and 2011, respectively. The net effect of these changes resulted in an increase of net accounts receivable of \$30.3 million, or approximately 48.6%, from \$62.5 million to \$92.8 million as of the year ended December 31, 2010 and 2011, respectively. Our revenues increased by \$41.3 million, or approximately 17.5%, from \$236.5 million to \$277.8 million. In general, our accounts receivable increased as a direct result of the increase in our revenues. However, the reasons for the rate of increase for net accounts receivables (48.6%) exceeding the rate of increase for net revenues (17.4%) are set forth below.

Our revenues have fluctuated and may continue to fluctuate significantly from period to period, primarily due to 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 the second half of the year and tend to decrease during the first quarter of each year.

As a result of the earthquakes and tsunamis Japan experienced in the first quarter of 2011, many of our major automobile manufacturer customers temporarily suspended their advertising activities until the latter half of 2011. Revenues recognized during the third and fourth quarters increased by \$26.5 million, or approximately 20.2%, to \$157.9 million from \$131.4 million for the fiscal years 2011 and 2010, respectively. The average credit term we provide to our digital media customers is approximately six months. The credit terms we provide to our traditional media and other customers range from six to twelve months. In other words, as of December 31, 2011, the accounts receivable balance consists mainly of sales recognized in the second half of 2011. As of December 31, 2011, our net accounts receivable balance aged less than and greater than six months was \$79.4 million and \$13.4 million, respectively.

To the extent we need to convert our Renminbi assets and liabilities into U.S. dollars, depreciation of the Renminbi against the U.S. dollar would have an impact on our financial statements. The spot rate decreased from 6.29 to 6.23 Renminbi against 1 U.S. dollar, or a depreciation of approximately 1.01%, from December 31, 2011 to 2012. This strengthening of the Renminbi contributed to a \$1.1 million increase in the value of our accounts receivable as of December 31, 2012.

The spot rate decreased from 6.6 to 6.29 Renminbi against 1 U.S.dollar, or a depreciation of approximately 4.7%, from December 31, 2010 to 2011, respectively. This 4.7% strengthening of the Renminbi contributed to a \$4.4 million increase in the value of our accounts receivable as of December 31, 2011.

Allowance for Doubtful Accounts

Our policy for the allowance for doubtful accounts is discussed in our Critical Accounting Policies on page F-24.

Our allowance for doubtful accounts increased from \$3.3 million as of December 31, 2011 to \$4.6 million as of December 31, 2012, as we charged approximately \$1.2 million to expenses based on continuous monitoring and our best estimate of the uncollectible accounts.

Our allowance for doubtful accounts declined from \$17.6 million as of December 31, 2010 to \$3.3 million as of December 31, 2011, as we wrote off approximately \$17.3 million in accounts receivables during 2011. In 2009, at the beginning of the global economic recession, many of our multinational corporation clients reduced their advertising budgets, which negatively impacted our business. In response, we provided services to some new and relatively small domestic advertising agencies and clients in 2009. All sales to these clients met the criteria for revenue recognition. The overall decline in the economy led to the creation of certain doubtful accounts for these new clients. Of the \$14.8 million balance of allowance for doubtful accounts as of December 31, 2009, a \$13.3 million provision was recorded during the same year. We had been continually making efforts to collect accounts receivable associated with these doubtful accounts, but some of these clients, heavily impacted by the economic downturn in 2009, only made partial payments to us in 2010 while others did not make payment at all. In 2011, we wrote off the doubtful accounts which we believed would be unlikely to be settled.

Since June 1, 2010, we adopted a stricter credit policy with enhanced procedures designed to ensure more thorough background checks and credit reviews are performed before accepting new customers. This includes requiring advance payments from certain customers. We expect that the enhanced credit policy and procedures will help us mitigate risks associated with bad debts in the future.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2012 amounted to \$57.0 million, mainly as a result of our purchase of \$42.5 million of held-to-maturity securities, purchase of property and equipment for \$9.3 million, a payment of \$2.2 million for equity investments in Xinghe Union, Shibo Movie, and Guangxi Dingyuan Advertising Co., Ltd., restricted cash of \$1.6 million, and an increase in loans from a third party of \$1.6 million, which was partially offset by \$0.1 million in proceeds from the disposal of property and equipment.

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 property and equipment 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 property and equipment for \$8.9 million.

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, \$4.2 million and \$9.3 million in 2010, 2011 and 2012, respectively. The expected capital expenditure in 2013 would be \$20.0 million.

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 working capital and 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.

Financing Activities

Net cash used in financing activities amounted to \$3.3 million for the year ended December 31, 2012, as a result of \$3.4 million used for repurchased shares, which was offset by \$0.1 million in proceeds from stock option exercises.

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.

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.

Recently Issued Accounting Pronouncements

Recently adopted 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.

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. The adoption of this guidance did not have a significant effect 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 adopted this guidance effective January 1, 2012 and presented the consolidated statements of comprehensive income in two separate but consecutive 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 adoption of this pronouncement did not have a significant effect on our consolidated financial statements, as we chose to directly perform the two-step goodwill impairment test for 2012.

In July 2012, the FASB issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the guidance, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, the entity would not need to calculate the fair value of the asset. The guidance does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the guidance does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. The guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance did not have a significant effect on our consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

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. In January 2013, the FASB further clarifies that ordinary trade receivables and receivables are not in the scope of the authoritative pronouncement and the pronouncement applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification (Codification) or subject to a master netting arrangement or similar agreement. 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 do not expect that the adoption of this guidance will have a significant effect on our consolidated financial statements.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income.

The guidance expands the exiting disclosure requirement for reporting net income or other comprehensive income in financial statements, including:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

In March 2013, the FASB has issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this pronouncement clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

The amendments in this pronouncement are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption. We do not expect the adoption of this pronouncement to have a significant impact on our financial condition or results of operations.

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, 2012:

	Total	2013	Payments Due by Period		
			2014-2015	2016-2017	2018 and thereafter
(in thousands of U.S. Dollars)					
Operating lease agreements	\$ 3,033	\$ 2,049	\$ 984	\$	\$
Concession rights contracts	485,417	176,827	231,050	40,608	36,932
Purchase obligations	28,425	19,998	8,427		
Total	\$ 516,875	\$ 198,874	\$ 240,461	\$ 40,608	\$ 36,932

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 March 31, 2013.

NAME	AGE	POSITION
Herman Man Guo	49	Chairman and Chief Executive Officer
James Zhonghua Feng	42	President and Director
Henry Hin-hung Ho	56	Chief Financial Officer
Qing Xu	52	Director and Executive President
Shichong Shan	81	Independent Director
Donglin Xia	52	Independent Director
Junjie Ding	48	Independent Director
Songzuo Xiang	48	Independent Director
Conor Chia-hung Yang	50	Independent Director
Wei He	38	Chief Public Relations Officer
Tong Wu	45	Chief Strategy 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.

Mr. Henry Hin-hung Ho has served as our chief financial officer since September 2012. Prior to joining AirMedia, Mr. Ho was a senior partner at Cornerstone Fund Management, a private equity fund management company based in Tianjin. He has served as a director of several Hong Kong and Shanghai listed companies, including Tasly Pharmaceutical Group Co. Ltd. (stock code: 600535.SH) since March 2009, an independent non-executive director of Larry Jewelry Limited (stock code: 8351.HK) since February 2011, and a non-executive director and an executive director of Mongolia Investment Group Limited (stock code: 402.HK) from April 2011 to June 2012 and from March 2010 to March 2011, respectively. From 2001 to 2008, Mr. Ho worked for several international investment banks as China strategist and/or head of China equity research, including Morgan Stanley, Merrill Lynch, UBS and Lehman Brothers. From 1999 to late 2000, Mr. Ho was a founding partner and a managing director of Atlantis Investment Management (Asia). From 1994 to 1999, Mr. Ho was a director at Baring Asset Management (Asia), and headed its Greater China investment team and served as a part-time member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region. Mr. Ho holds a degree of Master of Arts in Accounting and Finance from the University of Lancaster, United Kingdom. Mr. Ho is a fellow of the Hong Kong Institute of Certified Public Accountants.

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., an 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.

Mr. Conor Chia-hung Yang has served as our independent director since March 2013. Mr. Yang currently serves as the chief financial officer of tuniu.com, an online travel service provider in China. Previously, Mr. Yang was the chief financial officer of E-Commerce China Dangdang Inc., an NYSE-listed e-commerce company, from March 2010 to July 2012, the chief financial officer of our company, from March 2007 to March 2010, and the chief executive officer of Rock Mobile Corporation from 2004 to February 2007. From 1999 to 2004, Mr. Yang served as the chief financial officer of the Asia Pacific region for CellStar Asia Corporation. Mr. Yang was an executive director of Goldman Sachs (Asia) L.L.C. from 1997 to 1999. Previously, Mr. Yang was a vice president of Lehman Brothers Asia Limited from 1994 to 1996 and an associate at Morgan Stanley Asia Limited from 1992 to 1994. Mr. Yang currently serves as an independent director and the chairman of the audit committee of IFM Investments Limited, an NYSE-listed real estate services provider. Mr. Yang received his MBA degree from University of California, Los Angeles in 1992 and his bachelor's degree in food science from Fu Jen University in Taiwan in 1985.

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. Ms. He enrolled in the EMBA program in Cheung Kong Graduate School of Business in year 2012 and expects to receive her degree at the end of 2013.

Mr. Tong Wu has served as our chief strategy officer since March 2013. Prior to that, he was an outdoor media director of Beijing Dentsu Advertising Co., Ltd. for more than 6 years and was responsible for Dentsu Beijing's nationwide outdoor advertising business in China as well as the outdoor advertising business commissioned by Dentsu's headquarters in Japan. He was the outdoor director of the sole advertising agent of the Beijing 2008 Olympic Game Organization Committee for the 29th Olympic Games in charge of outdoor integration and sponsors management. Prior to that, Mr. Wu served various positions in advertising industry, including being a managing director of Beijing Dongjizhicheng International Advertising Co., Ltd. from 1998 to 2003, a media manager of Beijing Beiao Advertising Corporation and a managing director of Beijing Osinche Technology Development Co., Ltd. from 1992 to 1997, an advertising officer of the Beijing 2000 Olympic Games Bid Committee Advertising Department from 1991 to 1992, and an officer of Organization Committee of XI Asian Games Organization Committee in 1990.

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, Henry Hin-hung Ho and James Zhonghua Feng. Under these employment agreements, each of our executive officers

is employed for a specified time period, 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.

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. 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 VIEs 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 2012, the aggregate cash compensation to our executive officers was approximately \$619,082 and the aggregate cash compensation to our non-executive directors was approximately \$91,043. Our PRC subsidiaries and consolidated VIEs 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 12,000,000 to 17,000,000. In March 2011, our board of directors authorized the issuance of 2,000,000 ordinary shares under the 2011 Option Plan with the same aim as the 2007 Option Plan. In 2012, our board of directors adopted the 2012 Option Plan, under which we are authorized to grant options and other awards for a total issuance of up to 6,000,000 ordinary shares. As of December 31, 2012, options to purchase 16,721,266 of our ordinary shares were outstanding. The majority of 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, 2012, the outstanding options granted to our executive officers, directors and to other individuals as a group under our 2007 Option Plan, as amended, 2011 Option Plan and 2012 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
Henry Hin-hung Ho	1,857,538	0.72	September 4, 2012	September 3, 2017
Shichong Shan	*	1.15	July 20, 2007	July 20, 2017
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	November 29, 2007	July 20, 2017
	840,000	1.15	November 29, 2007	November 29, 2015
	110,000	1.15	July 10, 2009	July 10, 2014
Conor Chia-hung Yang	*	1.15	July 2, 2007	November 29, 2015
	*	1.15	November 29, 2007	November 29, 2015
	*	1.15	July 10, 2009	November 29, 2015
Wei He	*	1.15	July 20, 2007	July 20, 2017
	*	1.15	July 10, 2009	July 10, 2014
	*	1.15	March 22, 2011	March 22, 2016
Other individuals as a group	1,000,000	1.57	July 2, 2007	July 20, 2017
Other individuals as a group	574,800	1.57	July 20, 2007	July 20, 2017
Other individuals as a group	1,540,616	1.15	July 20, 2007	July 20, 2017
Other individuals as a group	830,000	1.57	November 29, 2007	November 29, 2015
Other individuals as a group	530,418	1.15	November 29, 2007	November 29, 2015
Other individuals as a group	1,270,286	1.57	July 10, 2009	July 10, 2014
Other individuals as a group	2,023,586	1.15	July 20, 2009	July 10, 2014
Other individuals as a group	1,200,000	1.15	March 22, 2011	March 22, 2021
Other individuals as a group	235,000	1.15	March 22, 2011	March 22, 2016
Other individuals as a group	20,000	1.11	November 1, 2012	October 31, 2014
Other individuals as a group	60,000	1.11	November 30, 2012	October 31, 2014

The following paragraphs summarize the terms of our 2007 Option Plan, as amended, 2011 Option Plan and 2012 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 plans. 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, our 2011 Option Plan will expire and no further awards may be granted under it after March 2021, and our 2012 Option Plan will expire and no further awards may be granted under it after November 2022. 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 impair the rights of any optionee unless agreed by the optionee.

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. The remuneration to be paid to the directors is determined by the board of directors. There is no age limit requirement for directors.

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, Donglin Xia and Conor Chia-hung Yang. Our board of directors has determined that all members of our audit committee 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. All directors hold office until their successors have been duly elected and qualified. A director may be removed from office before the expiry of his term by a special resolution passed by the shareholders. The articles of association also provide that the office of a director shall also be vacated in a limited number of circumstances, namely if the director: (a) becomes bankrupt or makes any arrangement or composition with his creditors; (b) is found to be or becomes of unsound mind; (c) resigns his office by notice in writing to the Company; or (d) without special leave of absence from the board of directors, is absent from meetings of the board of directors for six consecutive months and the board of directors resolves that his office be vacated. Officers are elected by and serve at the discretion of the board of directors.

In addition, our service agreements with our directors do not provide benefits upon termination of their services.

D. Employees

We had 737, 723 and 795 employees as of December 31, 2010, 2011 and 2012, respectively. The following table sets forth the number of our employees by area of business as of December 31, 2010, 2011 and 2012:

	2010		As of December 31, 2011		2012	
	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
Sales and Marketing Department	333	45.2	319	44.1	352	44.3
Quality Control and Technology Department	173	23.5	173	23.9	215	27.0
Programming Department	28	3.8	31	4.3	32	4.1
Resources Development Department	62	8.4	57	7.9	44	5.5
General Administrative and Accounting	141	19.1	143	19.8	152	19.1
Total	737	100.0	723	100.0	795	100.0

The following table sets forth the breakdown of employees by geographic location as of December 31, 2012:

City	Number of Employees	% of Total
Beijing	479	60.3%
Shanghai	77	9.7%
Guangzhou	32	4.0%
Shenzhen	49	6.2%
Chengdu	25	3.1%
Wenzhou	16	2.0%
Others	117	14.7%
Total	795	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, 2013, by:

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

The calculations in the shareholder table below are based on 121,493,907 ordinary shares outstanding as of March 31, 2013. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after March 31, 2013, the most recent practicable date, including through the exercise of any option, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

Shares Beneficially Owned
Number **%**

Directors and Executive Officers:

Herman Man Guo ⁽¹⁾	40,876,194	33.6%
Qing Xu ⁽²⁾	4,600,000	3.8%
Henry Hin-hung Ho	1,857,538	1.5%
Shichong Shan	*	*
Donglin Xia		
Junjie Ding	*	*
Songzuo Xiang	*	*
Conor Chiahung Yang	*	*
James Zhonghua Feng ⁽³⁾	3,306,169	2.7%
Wei He	*	*
Tong Wu		

Principal Shareholders:

Wealthy Environment Limited ⁽⁴⁾	28,291,980	23.3%
Global Gateway Investments Limited ⁽⁵⁾	22,045,506	18.1%
Dan Shao ⁽⁶⁾	10,584,214	8.7%
FMR LLC ⁽⁷⁾	7,160,882	5.9%

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

- (1) Includes (i) 26,891,980 ordinary shares held by Wealthy Environment Limited, a BVI company wholly owned by Mr. Herman Man 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, (iv) 10,000,000 ordinary shares held by Global Earnings Pacific Limited, a BVI company wholly owned and controlled by Ms. Dan Shao, Mr. Guo's wife, and (v) 584,214 ordinary shares represented by American Depositary Shares held by Ms. Dan Shao. Mr. Guo disclaims beneficial ownership of the ordinary shares held by Global Earnings Pacific Limited and by Ms. Dan Shao.
- (2) Includes (i) 4,000,000 ordinary shares held by Mambo Fiesta Limited, a BVI company wholly owned by Mr. Qing Xu, (ii) 200,000 ordinary shares represented by American Depositary Shares held by Mr. Qing Xu, and (iii) 400,000 ordinary shares issuable upon exercise of options held by Mr. Xu that are exercisable within 60 days.
- (3) Includes (i) 1,580,655 ordinary shares represented by American Depositary Shares held by Mr. James Zhonghua Feng, and (ii) 1,725,514 ordinary shares issuable upon exercise of options held by Mr. James Zhonghua Feng that are exercisable within 60 days.
- (4) Includes (i) 26,891,980 ordinary shares held by Wealthy Environment Limited, and (ii) 1,400,000 ordinary shares represented by American Depositary Shares held by Wealthy Environment Limited. Wealthy Environment Limited, a company incorporated in BVI, is wholly owned and controlled by Herman Man Guo. The registered address of Wealthy Environment Limited is P.O. Box 173, Kingston Chambers, Road Town Tortola, BVI.
- (5) Includes 22,045,506 ordinary shares represented by American Depositary Shares held by Global Gateway Investment Limited (Global Gateway), which is a wholly owned subsidiary of CDH China Growth Capital Fund

II, L.P. (CDH Fund II). CDH China Growth Capital Holdings Company Limited (CDH Holdings) is the general partner of CDH Fund II and has the power to direct the voting and disposition of the ordinary shares in the form of American Depositary Shares indirectly held by CDH Fund II through Global Gateway. Shangzhi Wu, Shuge Jiao and Xinlai Liu, members of the investment committee of CDH Holdings, may be deemed to have beneficial ownership of the ordinary shares held by Global Gateway. Each of Shangzhi Wu, Shuge Jiao and Xinlai Liu disclaims the beneficial ownership of any of the ordinary shares held by Global Gateway except to the extent of each of their pecuniary interests therein. The business address of Global Gateway, CDH Fund II and CDH Holdings is One Temasek Avenue, #18-02, Millenia Tower, Singapore 039192.

- (6) Includes (i) 10,000,000 ordinary shares held by Global Earning Pacific Limited and (ii) 584,214 ordinary shares represented by ADSs that Ms. Dan Shao purchased in one or more open-market transactions. Global Earning Pacific Limited, a company incorporated in BVI, is wholly owned and controlled by Ms. Dan Shao, Mr. Herman Man Guo s wife. The registered address of Global Earning Pacific Limited is OMCChambers, Wickham Cay 1, Road Town Tortola, BVI.
- (7) The information provided with respect to FMR LLC and its affiliate, FIL Limited, is as of December 31, 2012 and is derived from a Schedule 13G/A filed with the SEC on February 14, 2013 by FMR LLC and certain other beneficial owners. Further information regarding these beneficial owners may be obtained from these filings. The address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.

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, 2013, 127,662,057 of our ordinary shares were issued, with 121,493,907 shares outstanding and 6,168,150 shares in Treasury Stock. 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 67.2% of our total outstanding ordinary shares as of March 31, 2013. 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 VIEs in China, principally AM Advertising, certain of its subsidiaries, Shengshi Lianhe, AirMedia UC and AM Yuehang. Since the beginning of 2012, AM China has been in operation for more than three years and as a result, AM China is now allowed to directly invest in advertising business in China. 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 VIEs 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 VIEs 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 VIEs as our direct, wholly-owned subsidiaries. AM Technology has entered into contractual arrangements with our VIEs, pursuant to which AM Technology provides exclusive technology support and service and technology development services in exchange for payments from them. In addition, AM Technology has entered into agreements with our VIEs and each of their shareholders, which provide AM Technology with the substantial ability to control our VIEs. These agreements are summarized in the following paragraphs.

- ***Technology support and service agreements:*** AM Technology provides exclusive technology support and consulting services to our VIEs and in return, the VIEs are required to pay AM Technology service fees. 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. It is at AM

Technology's sole discretion that the rate and amount of service fees ultimately charged the VIEs under these agreements are determined. 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 their expiration unless either party to an agreement informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.

- **Technology development agreements:** 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. It is at AM Technology's sole discretion the rate and amount of fees ultimately charged the VIEs under these agreements are determined. 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 is automatically renewed upon their expiration unless either party informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.
- **Call option agreements:** 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, under these agreements, AM Technology has undertaken to act as guarantor of VIEs in all operations-related contracts, agreements and transactions and commit to provide loans to support the business development needs of VIEs or if the VIEs suffer operating difficulties, provided that the relevant VIEs' shareholders satisfy the terms and conditions in the call option agreements. Under PRC laws, to provide an effective guarantee, a guarantor needs to execute a specific written agreement with the beneficiary of the guarantee. As AM Technology has not entered into any written guarantee agreements with any third party beneficiaries to guarantee the VIEs performance obligations to these third parties, none of these third parties can demand performance from AM Technology as a guarantor of the VIEs' performance obligations. The absence of a written guarantee agreement, however, does not affect our conclusion that we are the primary beneficiary of the VIEs and in turn should consolidate the financials of the VIEs. The term of each call option agreement shall be terminated after AM Technology exercises the call option over all VIEs' equity pursuant to the provisions of the agreement.
- **Equity pledge agreements:** 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 their 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 letters:** 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 unless the relevant call option agreements which the VIEs entered into terminated.

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 at its sole discretion. Accordingly, we have consolidated the VIEs because we believe, through the contractual arrangements, (1) AM Technology could direct the activities of the VIEs that most significantly affect its economic performance and (2) 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, 2012, we had \$0.4 million due to BEMC as the deposits received for publishing advertisement.

Amounts Due from BEMC

As of December 31, 2012, we had \$1.3 million due from BEMC as the uncollected advertising revenue earned from BEMC.

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

In 2012, we earned \$1.9 million of advertising revenue from BEMC.

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 VIEs have engaged in and may be subject to various legal proceedings relating to commercial arrangements and other matters in the ordinary course of its business.

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.

<i>Annual Market Prices</i>	High	Low
Year 2008	\$ 26.51	\$ 3.85
Year 2009	9.26	3.80
Year 2010	8.90	2.83
Year 2011	7.60	2.10
Year 2012	4.01	1.33

Quarterly Market Prices

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
Second Quarter 2012	3.24	2.12
Third Quarter 2012	2.56	1.33
Fourth Quarter 2012	2.59	1.48
First Quarter 2013	2.47	1.70

Monthly Market Prices

October 2012	2.59	1.81
November 2012	2.31	1.48

December 2012	2.27	1.83
January 2013	2.47	2.00
February 2013	2.42	2.00
March 2013	2.39	1.70
April 2013 (until April 24, 2013)	1.96	1.61

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 (2012 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 10, 2009 and incorporated by reference as Exhibit 1.1 to this annual report.

Registered Office and Objects

Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law, as amended from time to time, or any other law of the Cayman Islands.

Board of Directors

See Item 6. Directors, Senior Management and Employees C. Board Practices Board of Directors.

Ordinary Shares

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 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 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.

Redemption of Shares

We may issue shares on terms that are subject to redemption on such terms and in such manner as may, before the issue of such shares, be determined by our board of directors.

Calls on Shares and Forfeiture of Shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least fourteen calendar days prior to the specified time and place of payment. Shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

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 RMB10 million each. AirMedia and N-S Digital TV each contributed in cash RMB5.0 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 have been filed as Exhibits 4.47 and 4.48 to this report.

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

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 summary of the material U.S. federal income tax considerations relating to the acquisition, ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that will acquire our ADSs or ordinary shares and will hold our ADSs or ordinary shares as "capital assets" (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This summary is based upon existing U.S. federal tax law as of the date hereof, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules (for example, financial institutions, insurance companies, broker-dealers, partnerships and their partners, and tax-exempt organizations (including private foundations)), holders who are not U.S. Holders, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, holders who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation, investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes, traders in securities that have elected the mark-to-market method of accounting for their securities or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any state, local or non-U.S. tax considerations. Each U.S. Holder is urged to consult with its tax advisor regarding the U.S. federal, state, local, and non-U.S. income and other tax considerations of an investment in our ADSs or ordinary shares.

General

For purposes of this summary, a "U.S. Holder" is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the law of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and partners in such partnerships are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

For U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the beneficial owner of the underlying ADSs or ordinary shares represented by the ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to U.S. federal income tax.

Passive Foreign Investment Company Considerations

Although we do not believe that we were classified as a PFIC, for U.S. federal income tax purposes, for the taxable year ended December 31, 2012, there is a significant risk that we will become a PFIC for our current taxable year ending December 31, 2013 and future taxable years unless our share value increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. In general, we will be classified as a PFIC for any taxable year if either (i) 75 percent or more of our gross income for such year is passive income or (ii) 50 percent or more of the average quarterly value of our assets (as generally determined on the basis of fair market value) produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are generally classified as passive and goodwill and other unbooked intangibles associated with active business activities may generally be classified as non-passive. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25 percent (by value) of the stock. Although the law in this regard is unclear, we treat the VIEs as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operations of such entities but also because we are entitled to substantially all of the economic benefits associated with such entities, and, as a result, we consolidate such entities' operating results in our consolidated financial statements. Because there are uncertainties in the application of the relevant rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given with respect to our PFIC status for any taxable year.

If we are classified as a PFIC for any year during which a U.S. Holder holds ADSs or ordinary shares, a U.S. Holder will generally, as discussed below under "Passive Foreign Investment Company Rules," be treated as holding an equity interest in a PFIC in the first taxable year of the U.S. Holder's holding period in which we are or become a PFIC and subsequent taxable years ("PFIC-Tainted Shares") even if, we in fact, cease to be a PFIC in subsequent taxable years. Accordingly, a U.S. Holder, who acquires our ADSs should consider making a mark-to-market election, as discussed below under "Passive Foreign Investment Company Rules," in the first taxable year of such holder's holding period in which we are a PFIC in order to avoid owning PFIC-Tainted Shares.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds ADSs or ordinary shares, and unless a mark-to-market election (as described below) is made, a U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make (which generally means any distribution received in a taxable year that is greater than 125 percent of the average annual distributions received in the three preceding taxable years or such U.S. Holder's holding period for the ADSs or ordinary shares, if shorter), and (ii) any gain realized on the sale or other disposition, including a pledge, of our ADSs or ordinary shares. Under the PFIC rules:

- such excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;
- such amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are classified as a PFIC (a pre-PFIC year) will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to such U.S. Holder for that year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. Holder holds ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the ADSs or ordinary shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by a lower-tier PFIC and a disposition of ADSs or ordinary shares of a lower-tier PFIC even though such U.S. Holder would not receive the proceeds of those distributions or dispositions.

As an alternative to the foregoing rules, a holder of marketable stock in a PFIC may make a mark-to-market election with respect to such stock. Marketable stock is stock that is traded in other than de minimus quantities on at least 15 days during each calendar quarter ("regularly traded") on a qualified exchange or other market as defined in applicable United States Treasury Regulations. Our ADSs are listed on the NASDAQ Global Select Market, which is a qualified exchange or market for these purposes. No assurance, however, can be given that the ADSs will be readily tradable on an established securities market in the United States. If a U.S. Holder makes this election, such holder will generally (i) include in gross income for each taxable year the excess, if any, of the fair market value of the ADSs at the end of the taxable year over the adjusted tax basis of the ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of the ADSs at the end of the taxable year, but only to the extent of the amount previously included in income as a result of the mark-to-market election. The adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a mark-to-market election is made in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, a U.S. Holder will generally not be required to take into account the gain or loss described above during any period that such corporation is not classified as a PFIC. If a mark-to-market election is made, any gain recognized upon the sale or other disposition of ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary to the extent of the net amount previously included in income as a result of the mark-to-market election. In the case of a U.S. Holder who has held ADSs during any taxable year in which we are classified as PFIC and continues to hold such ADSs (or any portion thereof), and who is considering making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ADSs. If a 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, except that the reduced tax rate applicable to qualified dividend income (as discussed below in " Dividends") would not apply.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investment held by us that is treated as an equity interest in a PFIC for United States federal income tax purposes.

We do not intend to provide the U.S. Holders with the information necessary to permit U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

Each U.S. Holder who holds a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. In addition, if a U.S. Holder holds ADSs or ordinary shares in any year in which we are a PFIC, such holder will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares, any gain realized on the disposition of the ADSs or ordinary shares, and any reportable election. Each U.S. Holder is urged to consult its tax advisor regarding the application of the PFIC rules if we are or become classified as a PFIC, including the possibility of making a mark-to-market election.

Dividends

Subject to the PFIC rules discussed above, any cash distributions (including the amount of any taxes withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution paid will generally be reported as a "dividend" for U.S. federal income tax purposes. A non-corporate recipient of dividend income generally will be subject to tax on dividend income from a "qualified foreign corporation" at a reduced U.S. federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements are met.

A non-United States corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States or, in the event that the company is deemed to be a PRC resident under the PRC Enterprise Income Tax Law, the company is eligible for the benefits of the United States-PRC treaty. Dividends received on the ADSs or ordinary shares are not expected to be eligible for the dividends received deduction allowed to corporations.

Although the ADSs are currently tradable on the NASDAQ Global Select Market, which is an established securities market in the United States, no assurance may be given that the ADSs will be readily tradable on an established securities market in the United States for purposes of the reduced tax rate. Since we do not expect that our ordinary shares will be listed on an established securities market in the United States, it is unclear whether dividends that we pay on our ordinary ADSs or ordinary shares that are not backed by ADSs meet the conditions required for the reduced tax rate. Each U.S. Holder is advised to consult its tax advisor regarding the rate of tax that will apply to such holder with respect to, dividend distributions, if any, received from us.

Dividends paid on our ADSs or ordinary shares generally will be treated as income from foreign sources for United States foreign tax credit purposes and generally will constitute passive category income. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld, may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholdings, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. Each U.S. Holder is advised to consult its tax advisor regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition of ADSs or Ordinary Shares

Subject to the PFIC rules discussed above, a U.S. Holder generally will recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder's adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. The deductibility of a capital loss is subject to limitations. Each U.S. Holder is advised to consult with its tax advisor regarding the tax consequences if a foreign withholding tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

Information Reporting and Backup Withholding

U.S. Holders may be subject to information reporting to the Internal Revenue Service with respect to dividends on and proceeds from the sale or other disposition of our ADSs or ordinary shares. Dividend payments with respect to our ADSs or ordinary shares and proceeds from the sale or other disposition of our ADSs or ordinary shares are not generally subject to United States backup withholding (provided that certain certification requirements are satisfied). Each U.S. Holder is advised to consult its tax advisor regarding the application of the United States information reporting and backup withholding rules to their particular circumstances.

Individuals who are U.S. Holders, and who hold "specified foreign financial assets", including stock of a non-U.S. corporation that is not held in an account maintained by a U.S. "financial institution", whose aggregate value exceeds \$50,000 during the tax year, may be required to attach to their tax returns for the year certain specified information. An individual who fails to timely furnish the required information may be subject to a penalty. Each U.S. Holder who is an individual is advised to consult its tax advisor regarding its reporting obligations under this legislation.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the 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 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. A hypothetical 1% decrease in interest rates would have resulted in a decrease of approximately \$0.9 million in our interest income for the year ended December 31, 2012.

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 VIEs is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between RMB and the U.S. dollar remained within a narrow band. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. 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 \$0.2 million in the value of our U.S. dollar-denominated financial assets at December 31, 2012. 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.

Persons depositing or withdrawing shares must pay:

\$5.00 per 100 ADSs (or portion of 100 ADSs)

\$0.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities

For:

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
Any cash distribution to registered ADS holders
Distribution of securities distributed to holders of deposited securities

<p>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 depositary has not collected any cash distribution fee during that year) Expenses of the depositary</p>	<p>which are distributed by the depositary to registered ADS holders Depositary services</p>
<p>Registration or transfer fees</p>	<p>Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); converting foreign currency to U.S. dollars Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares</p>
<p>Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes Any charges incurred by the depositary or its agents for servicing the deposited securities</p>	<p>As necessary As necessary</p>

Fees and Other Payments Made by the Depositary to Us

The depositary 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 depositary 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 depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary 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 depositary.

For the year ended December 31, 2012, we received \$115,961 from the depositary as reimbursement for our expenses incurred and recognized \$539,000 as other income in our consolidated statements of operations, and the depositary waived an estimated nil 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

Not applicable.

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, 2012. 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 effective.

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, 2012. 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.

Based on our assessment, our management has concluded that our internal control over financial reporting was effective at December 31, 2012.

During 2012, we have implemented certain measures described below to address and remediate our previously identified material weakness.

- We have hired Mr. Henry Hin-hung Ho as the chief financial officer of our company, effective September 1, 2012. We have also hired two new individuals for the positions of financial controller and financial reporting director. Our new financial controller has five years external audit experiences in one of the Big Four public accounting firms and close another five years of U.S. GAAP reporting experiences in public companies listed on the NASDAQ and NYSE. Our new financial reporting director, who is a U.S. Certified Public Accountant, has over five years of external auditing experience reviewing financial statements prepared in accordance with U.S. GAAP and evaluating the effectiveness of internal control over financial reporting in a PCAOB registered public accounting firm.
- We have designed and have begun the implementation of more robust financial reporting and management controls over the accounting for complex and unusual transactions.
- Our staff has attended training seminars to stay current with U.S. GAAP and SEC reporting requirements.

The effectiveness of our internal control over financial reporting has been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, 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 (VIEs) and its VIEs' subsidiaries (collectively, the Group) as of December 31, 2012, 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 Annual 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 directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, 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, 2012 of the Group and our report dated April 25, 2013 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule, and included an explanatory paragraph regarding the Group's adoption of the authoritative guidance on the presentation of comprehensive income.

Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China

April 25, 2013

Changes in Internal Control over Financial Reporting

We have implemented certain measures to address and remediate the previously identified material weakness as described above, which including the hiring of Mr. Henry Hin-hung Ho as well as the hiring of two new individuals for the position of financial controller and financial reporting director.

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2012 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 and Conor Chia-hung Yang, two members of our audit committee, are both audit committee financial experts. Both Donglin Xia and Conor Chia-hung Yang are independent directors 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), as amended, initially filed on October 19, 2007.

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 Certified Public Accountants LLP, 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,	
	2011	2012
Audit Fees	\$ 965,889	\$ 1,331,890
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	21,001	51,215
TOTAL	\$ 986,890	\$ 1,383,105

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 Certified Public Accountants LLP, 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

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. Subsequently, our board of directors approved to increase the size of our share repurchase program to \$40 million from \$20 million and to extend the date of the share repurchase program to March 20, 2014. The following tables set forth information about our repurchases made under this share repurchase program in the year ended December 31, 2012.

			Total Number of Shares Purchased as	Maximum Approximate Dollar Value of Shares that May Yet Be

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Period	Total Number of Shares Purchased	Average Price Paid Per Share	Part of Publicly Announced Plans or Programs	Purchased Under the Plans or Programs
January 1, 2012 to January 31, 2012				8,852,164
February 1, 2012 to February 28, 2012				8,852,164

107

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
March 1, 2012 to March 31, 2012				8,852,164
April 1, 2012 to April 30, 2012				8,852,164
May 1, 2012 to May 31, 2012	222,278	1.16	222,278	8,594,340
June 1, 2012 to June 30, 2012	467,358	1.26	467,358	8,006,254
July 1, 2012 to July 31, 2012	345,510	1.07	345,510	7,636,454
August 1, 2012 to August 31, 2012	308,656	0.91	308,656	7,356,652
September 1, 2012 to September 30, 2012	762,078	0.89	762,078	26,675,454
October 1, 2012 to October 31, 2012	706,454	1.07	706,454	25,917,408
November 1, 2012 to November 30, 2012	97,478	1.08	97,478	25,812,402
December 1, 2012 to December 31, 2012	362,466	1.05	362,466	25,431,204

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, 2011 or 2012. 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 practices 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. 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

Exhibit No. Description

1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.3 to Form 6-K (File No. 001-33765) 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	2012 Share Incentive Plan. (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-8 (File No. 333- 187442) filed on March 22, 2013)
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	

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)

- 4.5 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)
- 4.6 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)
- 4.7 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)

Exhibit No. Description

- 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)
- 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. (Beijing AirMedia Advertising Co., Ltd. has undergone a corporate name change and is now known as AirMedia Group 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)

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Exhibit No. Description

- 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)
- 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)

Exhibit No. Description

- 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)
- 4.47 Framework Cooperation Agreement (English summary), by and between AirMedia Group Co., Ltd. and Beijing Super TV Co., Ltd (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on April 30, 2012)
- 4.48 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. (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20-F filed on April 30, 2012)
- 4.49 2011 Share Incentive Plan (incorporated by reference to Exhibit 4.49 to Annual Report on Form 20-F filed on April 30, 2012)
- 4.50 2012 Share Incentive Plan (incorporated by reference to Exhibit 4.3 to Form S-8 (File No. 333-187442) filed on March 22, 2013)
- 8.1* List of the Registrant's subsidiaries

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)

12.1* Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

12.2* Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

13.1** Certifications by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

13.2** Certifications by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

15.1* Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP

15.2* Consent of Commerce & Finance Law Offices

15.3* Consent of Maples and Calder

101.INS*** XBRL Instance Document

101.SCH*** XBRL Taxonomy Extension Schema Document

101.CAL*** XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF*** XBRL Taxonomy Extension Definition Linkbase Document

101.LAB*** XBRL Taxonomy Extension Label Linkbase Document

101.PRE*** XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished with this annual report on Form 20-F

*** To be furnished by an amendment to Form 20-F.

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 29, 2013

AIRMEDIA GROUP INC.

/s/ Herman Man Guo

Herman Man Guo
Chairman and Chief Executive Officer

AIRMEDIA GROUP INC.

Report of Independent Registered Public Accounting Firm
and Consolidated Financial Statements
For the years ended December 31, 2010, 2011 and 2012

AIRMEDIA GROUP INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>CONTENTS</u>	<u>PAGE(S)</u>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-1
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2011 AND 2012	F-2
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012	F-3
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS) FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012	F-4
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012	F-5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012	F-6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-7
ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I	F-60

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, 2011 and 2012 and the related consolidated statements of operations, comprehensive income/(loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2012 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, 2011 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, 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.

As discussed in Note 2 to the consolidated financial statements, such statements have been adjusted for the retrospective application of the authoritative guidance regarding the presentation of comprehensive income/(loss), which was adopted by the Group on January 1, 2012.

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, 2012, 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 XX, 2013 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
April 25, 2013

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

	As of December 31,	
	2011	2012
Assets		
Current assets:		
Cash	\$ 112,734	\$ 73,634
Restricted cash	6,363	8,026
Short-term investment	-	44,622
Accounts receivable, net of allowance for doubtful accounts Of \$3,288 and \$4,609 as of December 31, 2011 and 2012	92,823	101,222
Prepaid concession fees	22,909	20,759
Amount due from related parties	148	1,310
Other current assets	6,627	9,788
Deferred tax assets - current	6,061	2,064
Total current assets	247,665	261,425
Property and equipment, net	56,429	45,930
Long-term investments	2,047	4,337
Long term deposits	15,042	22,307
Deferred tax assets - non-current	5,763	8,347
Acquired intangible assets, net	13,788	1,521
Goodwill	20,734	-
TOTAL ASSETS	361,468	343,867
Liabilities		
Current liabilities:		
Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$61,697 and \$71,045 as of December 31, 2011 and 2012, respectively)	63,577	72,895
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. \$9,585 and \$8,716 as of December 31, 2011 and 2012, respectively)	11,276	10,999
Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$11,516 and \$18,596 as of December 31, 2011 and 2012, respectively)	11,522	18,602
Income tax payable (including income tax payable of the consolidated variable	792	1,109

interest entities without recourse to AirMedia Group Inc. \$332 and \$169 as of December 31, 2011 and 2012, respectively)		
Amounts due to related parties (including amounts due to related parties of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$443 and \$447 as of December 31, 2011 and 2012, respectively)	443	447
Total current liabilities	87,610	104,052
Non-current liabilities:		
Deferred tax liabilities - non-current (including deferred tax liabilities - non-current of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$3,800 and \$380 as of December 31, 2011 and 2012, respectively)	3,800	380
Total liabilities	91,410	104,432
Commitments and contingencies (Note 22 and Note 23)		
Equity		
Ordinary shares (\$0.001 par value; 900,000,000 shares authorized in 2011 and 2012; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2011 and 2012, respectively; 125,247,597 shares and 122,112,485 shares outstanding as of December 31, 2011 and 2012, respectively)	128	128
Additional paid-in capital	275,150	278,652
Treasury stock (2,414,460 and 5,549,572 shares as of December 31, 2011 and 2012, respectively)	(3,775)	(7,035)
Statutory reserves	8,049	10,144
Accumulated deficits	(38,138)	(72,961)
Accumulated other comprehensive income	30,734	32,948
Total AirMedia Group Inc.'s shareholders' equity	272,148	241,876
Noncontrolling interests	(2,090)	(2,441)
Total equity	270,058	239,435
TOTAL LIABILITIES AND EQUITY	\$ 361,468	\$ 343,867

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

AIRMEDIA GROUP INC.

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

	For the years ended December 31,		
	2010	2011	2012
Revenues	\$ 236,460	\$ 277,821	\$ 292,965
Business tax and other sales tax	(5,955)	(7,197)	(6,223)
Net revenues	230,505	270,624	286,742
Cost of revenues	197,908	244,470	250,606
Gross profit	32,597	26,154	36,136
Operating expenses:			
Selling and marketing (including share-based compensation of \$2,424, \$1,422 and \$859 in 2010, 2011 and 2012, respectively)	18,112	18,238	17,995
General and administrative (including share-based compensation of \$5,547, \$3,192 and \$2,643 in 2010, 2011 and 2012, respectively)	24,646	22,004	21,842
Impairment of intangible assets	1,000	656	9,583
Impairment of goodwill	-	1,003	20,611
Total operating expenses	43,758	41,901	70,031
Loss from operations	(11,161)	(15,747)	(33,895)
Interest income	694	1,242	1,355
Gain on remeasurement of fair value of cost and equity method investments (net)	919	-	-
Other income, net	940	1,848	2,770
Loss before income taxes and share of income on equity method investments	(8,608)	(12,657)	(29,770)
Income tax benefits (expenses)	735	(266)	(2,493)
Loss before share of income on equity method investments	(7,873)	(12,923)	(32,263)
Share of income on equity method investments	290	243	22
Net loss	(7,583)	(12,680)	(32,241)
Less: Net (loss)/income attributable to noncontrolling interests	(2,666)	(3,084)	487
Net loss attributable to AirMedia Group Inc.'s shareholders	(4,917)	(9,596)	(32,728)
Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share - basic	\$ (0.04)	\$ (0.07)	\$ (0.26)
Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share - diluted	\$ (0.04)	\$ (0.07)	\$ (0.26)
Weighted average shares used in calculating net loss per ordinary share - basic	131,252,115	129,537,955	124,269,245
	131,252,115	129,537,955	124,269,245

Weighted average shares used in calculating net
loss per ordinary share - diluted

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

F-3

AIRMEDIA GROUP INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**
(In U.S. dollars in thousands)

	For the years ended December 31,		
	2010	2011	2012
Net loss	\$ (7,583)	\$ (12,680)	\$ (32,241)
Other comprehensive income, net of tax:			
Change in cumulative foreign currency translation adjustment	8,471	12,327	2,144
Comprehensive income/(loss)	888	(353)	(30,097)
Less: comprehensive (loss)/income attributable to non-controlling interest	(2,604)	(3,138)	417
Comprehensive income/(loss) attributable to AirMedia Group Inc. s shareholders	3,492	2,785	(30,514)

F-4

AIRMEDIA GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In U.S. dollars in thousands, except share data)

	AirMedia Group Inc.'s shareholder's equity							Total AirMedia Inc.'s share equity
	Ordinary shares Shares	Amount	Additional paid-in capital	Treasury stock	Statutory reserves	Retained earnings Accumulated deficits	Accumulated other comprehensive income	
Balance as of January 1, 2010	131,179,487	\$ 132	\$ 268,542	\$ -	\$ 6,912	\$(22,488)	\$ 9,944	
Ordinary shares issued for share based compensation	725,524	-	1,163	-	-	-	-	
Provision for statutory reserve	-	-	-	-	759	(759)	-	
Share-based compensation	-	-	7,971	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	-	-	8,409	
Net loss	-	-	-	-	-	(4,917)	-	
Noncontrolling interest acquired in business combination of Dongding	-	-	-	-	-	-	-	
Balance as of December 31, 2010	131,905,011	\$ 132	\$ 277,676	\$ -	\$ 7,671	\$(28,164)	\$ 18,353	
Ordinary shares issued for share based compensation	138,416	-	229	-	-	-	-	
Share repurchase	(4,381,370)	(4)	(7,369)	-	-	-	-	
Treasury stock	(2,414,460)	-	-	(3,775)	-	-	-	
Provision for statutory reserve	-	-	-	-	378	(378)	-	

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Share-based compensation	-	-	4,614	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	12,381
Net loss	-	-	-	-	-	(9,596)	-
Balance as of December 31, 2011	125,247,597 \$	128 \$	275,150 \$	(3,775)\$	8,049 \$	(38,138)\$	30,734 \$
Ordinary shares issued for share based compensation	137,166	-	-	161	-	-	-
Share repurchase	(3,272,278)	-	-	(3,421)	-	-	-
Provision for statutory reserve	-	-	-	-	2,095	(2,095)	-
Share-based compensation	-	-	3,502	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	2,214
Net loss	-	-	-	-	-	(32,728)	-
Dividends payable to minority shareholders of Xianglong	-	-	-	-	-	-	-
Balance as of December 31, 2012	122,112,485 \$	128 \$	278,652 \$	(7,035)\$	10,144 \$	(72,961)\$	32,948 \$

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

AIRMEDIA GROUP INC.

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

	For the years ended December 31,		
	2010	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (7,583)	\$ (12,680)	\$ (32,241)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Allowance for doubtful accounts	2,223	2,044	1,242
Depreciation and amortization	23,479	25,138	24,033
Share-based compensation	7,971	4,614	3,502
Share of income on equity method investments	(290)	(243)	(22)
Loss on disposal of property and equipment	518	4,380	1,192
Gain on sale/maturity of short-term investments	(511)	(1,040)	(2,023)
Gain on remeasurement of fair value of cost and equity method investment (net)	(919)	-	-
Impairment of intangible assets	1,000	656	9,583
Impairment of goodwill	-	1,003	20,611
Changes in assets and liabilities			
Accounts receivable	(21,089)	(28,728)	(8,609)
Prepaid concession fees	(3,894)	10,178	2,358
Other current assets	4,540	(3,705)	(3,147)
Long term deposits	2,815	(499)	(7,033)
Amount due from related parties	(302)	169	(1,148)
Accounts payable	5,534	18,734	8,269
Accrued expenses and other current liabilities	262	1,555	(1,397)
Deferred revenue	(702)	(1,805)	6,586
Deferred tax assets(liabilities), net	(3,526)	(1,319)	(1,831)
Income tax payable	1,100	(520)	305
Net cash provided by operating activities	10,626	17,932	20,230
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for acquisition of business (net of cash acquired of \$212, nil and nil in 2010, 2011 and 2012, respectively)	(14,758)	-	-
Payment for contingent consideration in connection with a business combination	(2,415)	(2,966)	-
Purchase of property and equipment	(8,910)	(4,186)	(9,287)
Proceeds from disposal of property and equipment	137	172	127
Net amount (paid) received upon settlement of short-term investment	1,226	1,040	(42,464)
Restricted cash	(5,281)	748	(1,580)
Purchase of long-term investments	(367)	-	(2,223)
Loan receivable from a third party	-	-	(1,579)

Net cash used in investing activities	(30,368)	(5,192)	(57,006)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share repurchase	-	(7,373)	-
Treasury stock	-	(3,775)	(3,421)
Dividend paid to former shareholder of subsidiaries	(1,091)	-	-
Proceed from exercises of stock options	1,163	229	161
Net cash provided by (used in) financing activities	72	(10,919)	(3,260)
Effect of exchange rate changes	2,421	4,408	936
Net(decrease)/increase in cash	(19,670)	6,229	(39,100)
Cash, at beginning of year	123,754	106,505	112,734
Cash, at end of year	\$ 106,505	\$ 112,734	\$ 73,634
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income tax paid	\$ 1,941	\$ 2,105	\$ 4,016

Fair value of property, equipment and other assets
acquired in exchange of advertising services rendered \$ 262 \$ 2,823 \$ 1,987

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

AIRMEDIA GROUP INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(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, 2012, details of the Company's subsidiaries, VIEs and VIEs' subsidiaries are as follows:

<u>Name</u>	<u>Date of incorporation/ acquisition</u>	<u>Place of incorporation</u>	<u>Percentage of legal ownership</u>
Intermediate Holding Company:			
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%
Glorious Star Investment Limited("Glorious Star")	August 1, 2008	Hong Kong	100%
Subsidiaries:			
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%
VIEs:			
Beijing ShengshiLianhe Advertising Co., Ltd. ("ShengshiLianhe")	August 7, 2005	the PRC	N/A
AirMedia Group Co., Ltd. (Formerly Beijing AirMedia Advertising Co., Ltd.) ("AM Advertising")	November 22, 2005	the PRC	N/A
Beijing AirMedia UC Advertising Co. Ltd. ("AirMedia UC")	January 1, 2007	the PRC	N/A
	January 16, 2008	the PRC	N/A

Beijing Yuehang Digital Media Advertising
Co. Ltd. ("AM Yuehang")

F-7

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(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 legal ownership</u>
VIE's subsidiaries:			
AirTV United Media & Culture Co., Ltd. ("AirTV United")	October 10, 2006	the PRC	N/A
Beijing AirMedia Film & TV Culture Co. Ltd. ("AM Film")	September 13, 2007	the PRC	N/A
Flying Dragon Media Advertising Co., Ltd. ("Flying Dragon")	August 1, 2008	the PRC	N/A
Wenzhou AirMedia Advertising Co., Ltd. ("AM Wenzhou")	October 17, 2008	the PRC	N/A
Beijing Weimei Lianhe Advertising Co., Ltd. ("Weimei Lianhe")	March 10, 2009	the PRC	N/A
Beijing Shengshi Lixin Culture & Media Co., Ltd. ("Shengshi Lixin")	June 1, 2009	the PRC	N/A
Hainan Jinhui Guangming Media Advertising Co., Ltd. ("Hainan Jinhui")	June 23, 2009	the PRC	N/A
Beijing Youtong Hezhong Advertising Media Co. Ltd. (Formerly Beijing Union of Friendship Advertising Media Co., Ltd.) ("Youtong")	July 1, 2009	the PRC	N/A
Beijing AirMedia Jinshi Advertising Co., Ltd. ("AM Jinshi")	July 7, 2009	the PRC	N/A
Tianjin AirMedia Jinshi Advertising Co., Ltd. ("TJ Jinshi")	September 8, 2009	the PRC	N/A
Tianjin AirMedia Advertising Co., Ltd. ("TJ AM")	September 21, 2009	the PRC	N/A
AirMedia City (Beijing) Outdoor Advertising Co., Ltd. ("AM Outdoor")	January 1, 2010	the PRC	N/A
Beijing Dongding Gongyi Advertising Co., Ltd. ("Dongding")	February 1, 2010	the PRC	N/A
Beijing GreatView Media Advertising Co., Ltd. (Formerly Beijing Weimei Shengjing Media Advertising Co., Ltd) ("GreatView Media")	April 28, 2011	the PRC	N/A
Beijing AirMedia Jinsheng Advertising Co., Ltd. ("AM Jinsheng")	April 28, 2011	the PRC	N/A

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements

Chinese regulations currently limit foreign ownership of companies that provide advertising services, including out-of-home television advertising services. Since December 30, 2005, foreign investors have been permitted to own directly 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.

One of the Company's subsidiary, 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.

The Group conducts substantially all of its activities through the VIEs, i.e. ShengshiLianhe, AM Advertising, AirMedia UC and AM Yuehang, and the VIEs' subsidiaries. The VIEs have entered into the following series of agreements with AM Technology:

- **Technology support and service agreement:** AM Technology provides exclusive technology support and consulting services to the VIEs and in return, the VIEs are required to pay AM Technology service fees. 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, ShengshiLianhe 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 unless either party informs the other party of its intention of no extension at least twenty days prior to the expiration of the agreements.
- **Technology development agreement:** VIEs exclusively engaged 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, ShengshiLianhe 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 unless either party informs the other party of its intention of no extension at least twenty days prior to the expiration of the agreements.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements - continued

- **Call option agreement:** Under the call option agreements, the shareholders of VIEs irrevocably grant 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 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 provided that the relevant VIEs' shareholders satisfy the terms and conditions in the call option agreements. Based on PRC law to provide an effective guarantee, a guarantor needs to execute a specific written agreement with the beneficiary of the guarantee. As AM Technology has not entered into any written guarantee agreements with any third party beneficiaries to guarantee the VIEs' performance obligations to these third parties, none of these third parties can demand performance from AM Technology as a guarantor of the VIEs' performance obligations. The absence of the written guarantee agreement did not obviate the Group's conclusion that it is the primary beneficiary of the VIEs and in turn should consolidate the VIEs. The term of call option agreement shall be terminated after AM Technology exercises the call option over all VIEs' equity pursuant to the provisions of the agreements.
- **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 unless the relevant call option agreements which the VIEs entered into terminated.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(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;

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued*Risks in relation to the VIE structure - continued*

Certain shareholders of VIEs are also beneficial owners or directors of the Company. In addition, certain beneficial owners and directors of the Company are also directors or officers of VIEs. Their interests as beneficial owners of VIEs may differ from the interests of the Company as a whole. The Company cannot be certain that if conflicts of interest arise, these parties will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest these parties may encounter in their capacity as beneficial owners of VIEs, on the one hand, and as beneficial owners of the Company, on the other hand. The Company believes the shareholders of VIEs will not act contrary to any of the contractual arrangements and the exclusive purchase right contract provides the Company with a mechanism to remove them as shareholders of VIEs should they act to the detriment of the Company. If any conflict of interest or dispute between the Company and the shareholders of VIEs arises and the Company is unable to resolve it, the Company would have to rely on legal proceedings in the PRC. Such legal proceedings could result in disruption of its business; moreover, there is substantial uncertainty as to the ultimate outcome of any such legal proceedings.

The following financial statement information for AirMedia's VIEs were included in the accompanying consolidated financial statements, presented net of intercompany eliminations, as of and for the years ended December 31:

	As of December 31,		
	2011		2012
Total current assets	\$ 184,788	\$	201,088
Total non-current assets	63,187		27,499
Total assets	247,975		228,587
Total current liabilities	83,573		98,973
Total non-current liabilities	3,800		380
Total liabilities	\$ 87,373	\$	99,353

	For the years ended December 31,		
	2010	2011	2012
Net revenues	\$ 229,989	\$ 268,866	\$ 286,641
Net income/(loss)	7,425	(2,543)	(31,771)
Net cash (used in) provided by operating activities	(1,445)	5,251	(8,587)
Net cash used in investing activities	(11,664)	(538)	(7,700)
Net cash used in financing activities	(1,091)	-	-

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(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 information for AirMedia's non - VIEs were included in the accompanying consolidated financial statements, presented net of intercompany eliminations, as of and for the years ended December 31:

	As of December 31,		For the years ended December 31,		
	2011	2012	2010	2011	2012
Total current assets	\$ 62,877	\$ 60,337			
Total non-current assets	50,616	54,943			
Total assets	113,493	115,280			
Total current liabilities	4,037	5,079			
Total non-current liabilities	-	-			
Total liabilities	\$ 4,037	\$ 5,079			
Net revenues	\$ 516	\$ 1,758	\$ 101		
Net loss	(15,008)	(10,137)	(470)		
Net cash provided by operating activities	12,071	12,681	28,817		
Net cash used in investing activities	(18,704)	(4,654)	(49,306)		
Net cash provided by (used in) financing activities	1,163	(10,919)	(3,260)		

F-13

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Risks in relation to the VIE structure - continued

The VIEs contributed an aggregate of 99.8%, 99.4% and 100% of the consolidated net revenues for the years ended December 31, 2010, 2011 and 2012, respectively. As of December 31, 2011 and 2012, the VIEs accounted for an aggregate of 68.6% and 66.5%, respectively, of the consolidated total assets, and 95.6% and 95.1%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs primarily consist of cash and cash equivalent, short term investments and property and equipment.

There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligations. There are no creditors (or beneficial interest holders) of the VIEs that have recourse to the general credit of the Company or any of its consolidated subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests, which require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs ever need financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholder of the VIEs or entrustment loans to the VIEs.

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.

(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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(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.

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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(f) Fair value of financial instruments

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

The Group did not have any other financial assets and liabilities or nonfinancial assets and liabilities that are measured at fair value on recurring basis as of December 31, 2011 and 2012.

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.

(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.

(i) Short-term investment

Short-term investments comprise marketable debt securities, which are classified as held-to-maturity as the Group has the positive intent and ability to hold the securities to maturity. All of the Group's held-to-maturity securities are stated at their amortized costs and classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year.

The Group reviews its short-term investments for other-than-temporary impairment based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its short-term investments. If the cost of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, and the Group's intent and ability to hold the investment, in determining if impairment is needed.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*(j) Property and equipment*

Property and equipment 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

(k) 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(l) 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.

(m) Long-term investments

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.

Cost method investments

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 carrying amount 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

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

(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

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(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, 2010, 2011 and 2012, 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.

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 \$1,244, \$2,823 and \$1,287 for the years ended December 31, 2010, 2011 and 2012, respectively. No direct costs are attributable to the revenues.

(q) Business tax and other sale related taxes

The Group's PRC subsidiaries and VIEs are subject to business tax and other sale related taxes at the rate of 8.5% on total revenues after deduction of certain costs of revenues permitted by the PRC tax laws.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(r) Value Added Tax ("VAT")

The Company's PRC subsidiaries are subject to value-added tax at a rate of 6% on revenues from advertising services and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is reflected in the account under other taxes payable.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program is to be phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, certain subsidiaries and VIEs became subject to VAT at the rates of 6% or 3%, on certain service revenues which were previously subject to business tax. For the year ended December 31, 2012, gross revenue is presented net of \$8,785 of VAT.

(s) 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 if any base on negotiation with the petroleum company.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(t) 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. From time to time, the Group and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to extinguish existing agency fee liabilities as calculated under the terms of existing contracts. Such extinguishments are recorded as a reduction in cost of sales in the period the renegotiations are finalized. During the years ended December 31, 2010, 2011 and 2012, reversals in cost of sales as a result of renegotiated agency fees amounted to nil, nil, and \$6,407, respectively.

(u) 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.

(v) Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses were \$558,\$288 and \$767 for the years ended December 31, 2010, 2011 and 2012, respectively, and have been included as part of selling and marketing expenses.

(w) 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, 2010, 2011 and 2012, respectively.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(x) *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.

(y) *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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(z) 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.

Share-based payment transactions with non-employees are measured based on the fair value of the options as of each reporting date through the measurement date, with a corresponding impact reflected in additional paid-in capital.

(aa) Comprehensive income/(loss)

Comprehensive income/(loss) includes net income/(loss) and foreign currency translation adjustments and is presented net of tax, the amount of which is nil for the three years ended December 31, 2012. The consolidated financial statements have been adjusted for the retrospective application of the authoritative guidance regarding presentation of comprehensive income. Beginning January 1, 2012, the Group presented the consolidated statements of comprehensive income in two separate but consecutive statements.

(bb) 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*(cc) 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.

Details of the customers accounting for 10% or more of total revenues are as follow:

<u>Customer</u>	For the years ended December 31,		
	2010	2011	2012
A	1.7%	6.9%	11.2%

Details of the customers accounting for 10% or more of accounts receivable are as follow:

<u>Customer</u>	As of December 31,	
	2011	2012
B	7.7%	15.3%

(dd) 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 anti-dilutive.

(ee) 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 \$256, \$268 and \$210 for the years ended December 31, 2010, 2011 and 2012, respectively.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) Recent issued accounting standards adopted

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.

F-26

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) Recent issued accounting standards adopted - continued

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. The adoption of this guidance did not have a significant effect on the Group's 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 adopted this guidance effective January 1, 2012 and presented the consolidated statements of comprehensive income in two separate but consecutive statements.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) Recent issued accounting standards adopted - continued

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 non-public, 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 adoption of this pronouncement did not have a significant effect on the Group's consolidated financial statements, as the Group chose to directly perform the two-step goodwill impairment test for 2012.

In July 2012, the FASB issued an authoritative pronouncement related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the guidance, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, the entity would not need to calculate the fair value of the asset. The guidance does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the guidance does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. The guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance did not have a significant effect on the Group's consolidated financial statements.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(gg) Recent issued accounting standards not yet adopted

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. In January 2013, the FASB further clarifies that ordinary trade receivables and receivables are not in the scope of the authoritative pronouncement and the pronouncement applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification (Codification) or subject to a master netting arrangement or similar agreement. 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 does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income.

The guidance expands the exiting disclosure requirement for reporting net income or other comprehensive income in financial statements, including:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(gg) Recent issued accounting standards not yet adopted - continued

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. The Group does not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations.

In March 2013, the FASB has issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a non-profit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The Group does not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations.

For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this pronouncement clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

The amendments in this pronouncement are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption. The Group does not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

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,		
	2010	2011	2012
Revenues:			
Air Travel Media Network:			
Digital frames in airports	\$ 113,196	\$ 126,539	\$ 137,342
Digital TV screens in airports	28,905	21,937	13,731
Digital TV screens on airplanes	27,564	26,734	26,612
Traditional media in airports	48,418	73,535	83,478
Other revenues in air travel	4,063	6,416	7,346
Gas Station Media Network	3,664	12,873	14,217
Other Media	10,650	9,787	10,239
	\$ 236,460	\$ 277,821	\$ 292,965

F-31

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

4. BUSINESS ACQUISITION*(a) 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:

		Amortization period
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	
Total	15,223	
Represented by:		
Cash consideration	13,935	
Remeasurement of fair value of previously held 10% interest	1,288	
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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

4. BUSINESS ACQUISITION - continued*(a) 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, 2010 of the Group as if the acquisition had occurred on January 1, 2010. 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, 2010 (unaudited)
Pro forma revenues	\$ 236,460
Pro forma net loss	(4,917)
Pro forma net loss per ordinary share-basic	(0.04)
Pro forma net loss per ordinary share-diluted	(0.04)

(b) 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.

F-33

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

4. BUSINESS ACQUISITION - continued*(b) 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	
Total	1,811	
Represented by:		
Cash consideration	498	
Remeasurement of fair value of previously held 30% interest	899	
Fair value of 25% noncontrolling interest	414	
Total	\$ 1,811	

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, 2010 of the Group as if the acquisition had occurred on January 1, 2010. 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, 2010 (unaudited)
Pro forma revenues	\$ 236,491
Pro forma net loss	(4,956)
Pro forma net loss per ordinary share-basic	(0.04)
Pro forma net loss per ordinary share-diluted	(0.04)

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

5. SHORT-TERM INVESTMENTS

Short-term investments consist of various fixed-income financial products purchased from Chinese banks and trusts and are classified as held-to-maturity securities and carried at amortized costs. The maturity dates range from 38 days to less than one year, with interest rates ranging from 3.8% to 4.0%. The held-to-maturity securities are not allowed to be redeemed early before its maturity. The repayment of these financial products is guaranteed by the issuing bank. The carrying amount of the held-to-maturity securities of \$44,622 approximated their fair values due to its credit ratings and its short-term nature, all of which have a maturity date within one-year.

6. LONG-TERM INVESTMENTS**(a) Equity method investments**

The Group had the following equity method investments:

Name of company	Percentage %	As of December 31,		Percentage %	Carrying value
		2011 Carrying value	2012 Carrying value		
Beijing Eastern Media Corporation, Ltd. ("BEMC")(1)	49	\$ 1,650	\$ 2,063	49	
Beijing Shibo Movie Technology Co., Ltd. ("Shibo Movie") (2)	-	-	\$ 612	50	
Beijing Xinghe Union Media Co., Ltd. ("Xinghe Union") (2)	-	-	\$ 604	50	
Guangxi DingyuanMeida Ltd. ("Guangxi Dingyuan") (3)	-	-	\$ 658	40	

\$ 1,650

\$ 3,937

- (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.

F-35

AIRMEDIA GROUP INC.**FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**
(In U.S. dollars in thousands, except share data)**6. LONG-TERM INVESTMENTS - continued****(a) Equity method investments - continued**

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,	
	2011	2012
Total current assets	\$ 4,832	\$ 7,919
Total assets	4,877	7,945
Total current liabilities	1,510	3,736
Total liabilities	1,510	3,736
Total net revenue	11,224	14,007
Net income	526	801

- (2) On February 15, 2012 and March 13, 2012, 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), respectively. The registered capital of Shibo Movie and Xinghe Union was \$1,558 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.

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 Shibo Movie and Xinghe Union.

	As of and for the years ended December 31,	
	2011	2012
Total current assets	-	\$ 2,629
Total assets	-	2,667
Total current liabilities	-	236
Total liabilities	-	236
Total net revenue	-	-
Net loss	-	771

F-36

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

6. LONG-TERM INVESTMENTS - continued*(a) Equity method investments - continued*

- (3) In April 2012, The Group entered into an agreement with Asiaray Advertising Media Ltd.(Asiaray) and Guangxi Civil Aviation Development Co., Ltd. (Guangxi Civil Aviation) to establish a joint venture, Guangxi Dingyuan Media Ltd.(Guangxi Dingyuan). Guangxi Dingyuan was incorporated on April 18, 2012 with total contributed capital of \$1,605, of which 20%, 40% and 40% of that amount was contributed by Guangxi Civil Aviation, Asiaray and the Group, respectively. Guangxi Dingyuan exclusively operates various media resources in four airports in China's Guangxi province.

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 Guangxi Dingyuan.

	As of and for the years ended December 31,	
	2011	2012
Total current assets	-	\$ 1,607
Total assets	-	1,789
Total current liabilities	-	144
Total liabilities	-	144
Total net revenue	-	1,045
Net income	-	40

(b) Cost method investment

In June 2010, the Group invested in \$367 for 20% of equity interest in Zhangshangtong Air Service (Beijing) Co., Ltd. ("Zhangshangtong"), a company established in the PRC that is mainly engaged in air tickets agency services.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of the following:

	As of December 31,	
	2011	2012
Billed receivable	\$ 54,525	\$ 61,760
Unbilled receivable	41,586	44,071
Accounts receivable, gross	96,111	105,831
Less: Allowance for doubtful accounts	(3,288)	(4,609)
Accounts receivable, net	\$ 92,823	\$ 101,222

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 the majority of such unbilled amounts will be billed and collected within twelve months of the balance sheet date.

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
2010	\$ 14,843	2,223	-	580	\$ 17,646
2011	\$ 17,646	2,044	(17,279)	877	\$ 3,288
2012	\$ 3,288	1,242	34	45	\$ 4,609

F-38

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

8. OTHER CURRENT ASSETS

Other current assets consist of the following:

	As of December 31,	
	2011	2012
Short-term deposits	\$ 1,858	\$ 1,588
Other assets from non-monetary transactions ⁽ⁱ⁾	3,142	1,736
Input VAT receivable	-	1,955
Loan receivable from a third party ⁽ⁱⁱ⁾	-	1,732
Interest receivable	248	438
Advances to employees	347	418
Prepaid agency fees	395	262
Other prepaid expenses	637	1,659
	\$ 6,627	\$ 9,788

- (i) Other assets from non-monetary transactions primarily consist of exchange golf club membership cards.
- (ii) Loan receivable is related to amount lent to a third party company for cooperation on a TV series with stated term of one year and annual interest rate of 15%.

9. LONG-TERM DEPOSITS

Long term deposits consist of the following:

	As of December 31,	
	2011	2012
Concession fee deposits	\$ 14,505	\$ 21,633
Office rental deposits	537	674
	\$ 15,042	\$ 22,307

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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

10. ACQUIRED INTANGIBLE ASSETS, NET

Acquired intangible assets, net, consist of the following:

	2011			As of December 31,			2012		
	Gross carrying amount	Accumulated amortization	Impairment(1)	Net carrying amount	Gross carrying amount	Accumulated amortization	Impairment(1)	Net carrying amount	
TV program license	\$ 6,129	\$ (1,601)	\$ -	\$ 4,528	\$ 6,192	\$ (1,850)	\$ (4,342)	\$ -	
Audio-vision programming and broadcasting qualification	221	(30)	-	191	223	(38)	(185)	-	
Intangible assets arising from business combinations:									
- Customer relationships	1,494	(1,249)	-	245	1,509	(1,447)	(62)	-	
- Contract backlog	1,957	(1,835)	-	122	1,977	(1,946)	(31)	-	
- Concession agreements	16,869	(7,533)	(676)	8,660	16,138	(9,508)	(5,109)	1,521	
- Non-compete agreements	187	(145)	-	42	189	(179)	(10)	-	
	\$ 26,857	\$ (12,393)	\$ (676)	\$ 13,788	\$ 26,228	\$ (14,968)	\$ (9,739)	\$ 1,521	

- (1) The Group incurred impairment losses of \$1,000, \$656 and \$9,583 on finite-lived intangible assets the years ended December 31, 2010, 2011 and 2012, respectively. As the actual and expected sales and profits were below previously forecasted figures for fire station, air travel and outdoor advertising media, the carrying amounts of the finite-lived intangible assets exceeded the estimated future discounted cash flows associated with such assets. Accordingly, the amount of impairment expense recognized is equal to this excess.

The amortization expenses for the years ended December 31, 2010, 2011 and 2012 were \$3,749, \$3,791 and \$2,635, respectively. During fiscal years 2013, 2014, 2015 and 2016, the Group expects to record

amortization expenses for finite-lived intangible assets of \$777, \$460, \$142 and \$142 respectively.

11. GOODWILL

The movement of the goodwill for the years ended December 31, 2011 and 2012 is as follows:

Balance as of January 1, 2011	\$	20,736
Impairment of goodwill in relation to Dongding		(1,003)
Exchange differences		1,001
Balance as of December 31, 2011	\$	20,734
Impairment of goodwill in relation to Flying Dragon		(8,131)
Impairment of goodwill in relation to AM Outdoor		(7,753)
Impairment of goodwill in relation to Youtong		(4,727)
Exchange differences		(123)
Balance as of December 31, 2012		-

F-40

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

11. GOODWILL - continued

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. Similarly, the fair value of the air travel areas and outdoor advertising media reporting unit, as estimated using the income approach applying a discounted cash flows for its 2012 annual impairment test, was below the carrying amount of its net assets, and as such, the Group impaired all goodwill related to air travel areas reporting unit and outdoor media advertising media reporting unit and recorded an impairment loss of \$20,611 for the year ended December 31, 2012.

12. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	As of December 31,	
	2011	2012
Digital display network equipment	\$ 81,403	\$ 89,327
Gas station display network equipment	14,422	14,802
Furniture and fixture	816	847
Computer and office equipment	2,455	2,626
Vehicle	1,038	1,219
Software	10,250	10,355
Property	2,446	4,244
Leasehold improvement	1,272	1,351
	114,102	124,771
Less: accumulated depreciation and amortization	(57,673)	(78,841)
	\$ 56,429	\$ 45,930

Depreciation and amortization expenses recorded for the years ended December 31, 2010, 2011 and 2012 were \$19,730, \$21,347 and \$21,398, respectively.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the follows:

	As of December 31,	
	2011	2012
Accrued payroll and welfare	\$ 4,093	\$ 4,766
Deposit payable	3,513	698
Other tax payable	1,262	2,802
Deferred income from ADS depository	787	364
Accrued staff disbursement	755	824
Accrued professional fees	310	213
Accrued dividends to noncontrolling shareholders of Xianglong	-	663
Other liabilities	556	669
	\$ 11,276	\$ 10,999

14. 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, 2010, 2011 and 2012, 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

14. INCOME TAXES - continued

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 2010. AM Technology was subject to an EIT rate of 15% in 2011 and 2012, and is expected to be subject to an EIT rate of 15% 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.

Income tax benefits/(expenses) are as follows:

	For the years ended December 31,		
	2010	2011	2012
Income tax benefits/(expenses):			
Current	\$ (2,792)	\$ (1,585)	\$ (4,324)
Deferred	3,527	1,319	1,831
Total	\$ 735	\$ (266)	\$ (2,493)

F-43

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

14. INCOME TAXES - continued

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

	As of December 31,	
	2011	2012
Deferred tax assets:		
Current		
Allowance for doubtful accounts	\$ 5,119	\$ 1,338
Accrued payroll	942	1,107
Valuation allowance	-	(381)
Deferred tax assets - current	6,061	2,064
Non-current		
Depreciation of property and equipment	683	689
Amortization of intangible assets and concession fees	1,524	4,440
Taxable loss arising from a disposal of an equity method investment	215	217
Net operating loss carry forwards	12,255	11,063
Valuation allowance	(8,914)	(8,062)
Deferred tax assets - non-current	5,763	8,347
Deferred tax liabilities:		
Non-current		
Acquired intangible assets	3,800	380
Total deferred tax liabilities	\$ 3,800	\$ 380

The valuation allowance provided as of December 31, 2012 relates to the deferred tax assets generated by Shenzhen AM, AirTV United, 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. The Group's subsidiaries in the PRC had total net operating loss carry forwards of \$44,442 as of December 31, 2012. The net operating loss carry forwards for the PRC subsidiaries will expire on various dates through 2017.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

14. INCOME TAXES - continued

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,		
	2010	2011	2012
Net loss before provision for income taxes	\$ (8,608)	\$ (12,657)	\$ (29,770)
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	(2,152)	(3,164)	(7,443)
Expenses not deductible for tax purposes:			
Entertainment expenses exceeded the tax limit	207	180	315
Goodwill impairment	-	-	5,153
Tax effect of tax losses not recognized	-	-	2,791
Tax effect of deductible temporary difference not recognized	-	-	1,425
Non-taxable income	(256)	-	-
Changes in valuation allowance	1,006	3,213	(471)
Effect of income tax holidays in subsidiaries, VIEs and VIEs' subsidiaries in the PRC	(1,501)	(819)	(675)
Effect of income tax rate difference in other jurisdictions	1,961	856	1,398
Income tax (benefits)/expenses	\$ (735)	\$ 266	\$ 2,493
Effective tax rates	8.5%	(2.1%)	(8.4%)

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, 2010, 2011 and 2012, the impact to net loss per share amounts would be as follows:

	For the years ended December 31,		
	2010	2011	2012
Increase in income tax expenses	\$ 1,501	\$ 819	\$ 675
Decrease in net loss per ordinary share-basic	0.01	0.01	0.01
Decrease in net loss per ordinary share-diluted	0.01	0.01	0.01

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

14. INCOME TAXES - continued

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2010, 2011 and 2012. The Group did not incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2010, 2011 and 2012.

Since the commencement of operations in August 2005, only AM Technology and Shenzhen AM have been subjected to a tax examination by the relevant PRC tax authorities. The Group's subsidiaries, VIEs and VIEs' subsidiaries remain subject to tax examinations 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 taxpayers. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that its legal entities organized outside of China should be treated as residents for 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, 2011 and 2012, 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

15. NET LOSS PER SHARE

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

	For the years ended December 31,		
	2010	2011	2012
Net loss attributable to AirMedia Group Inc.'s ordinary shareholders (numerator)	\$ (4,917)	\$ (9,596)	\$ (32,728)
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing net loss per ordinary share - basic	131,252,115	129,537,955	124,269,245
Weighted average ordinary shares outstanding used in computing net loss per ordinary share - diluted ⁽ⁱ⁾	131,252,115	129,537,955	124,269,245
Net loss per ordinary share-basic	\$ (0.04)	\$ (0.07)	\$ (0.26)
Net loss per ordinary share-diluted	(0.04)	(0.07)	(0.26)

- (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, 2010, 2011 and 2012, as their effects would have been anti-dilutive. For the year 2010, 2011 and 2012, such outstanding securities consisted of weighted average share options of 14,408,559, 15,269,198 and 15,747,929, respectively.

16. SHARE BASED PAYMENTS***2007 Share incentive plan***

On July 2, 2007, the Board of Directors adopted the 2007 share incentive plan (the "2007 Option Plan"), which allows the Group to grant options to its employees and directors to purchase up to 12,000,000 ordinary shares of the Company subject to vesting requirement..

On December 29, 2008, the Board of Directors amended 2007 Option Plan to allow the Group to grant options to its employees and directors to purchase up to 17,000,000 ordinary shares.

By December 31, 2012, total number of options granted under the 2007 Option Plan was 17,907,038, and 14,715,300 were outstanding.

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.

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.

F-47

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

16. SHARE BASED PAYMENTS - continued

2007 Share incentive plan - continued

On July 20, 2007, the Board of Directors also granted options to certain consultants (the "Consultant Options") to purchase an aggregate of 340,000 ordinary shares of the Company at an exercise price of \$2.00 per share. The 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 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.

On September 1, 2012, the Board of Directors approved to grant options to the employees under 2007 Share Incentive Plan to purchase an aggregate of 1,857,538 ordinary shares of the Company, at an exercise price of \$0.72 per ordinary share. One twelfth of the options will vest each quarter from September 4, 2012. The expiration date will be 5 years from the grant date.

On October 10, 2012, the Board of Directors approved the Company to extend the expiration date of the options granted on July 2, 2007, November 29, 2007 and July 10, 2009 to November 29, 2015. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options, which was \$0.33 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was \$449, which was recognized as share-based compensation

expenses for the year ended December 31, 2012.

F-48

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

16. 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 options was 5 or 10 years. One twelfth of these options will vest each quarter through March 22, 2014. Subsequently on June 7, 2011, the Board of Directors approved to modify the exercise price of these stock options to \$1.57 per share. The fair value of these options at the modification date was estimated to be \$0.75 per option. The incremental share based compensation costs of the re-priced options was \$314, of which will be recognized over the remaining service period through March 22, 2014.

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. The incremental compensation cost of the re-priced options was \$1,259, of which \$950 was recognized on the modification date, and the remainder recognized over the remaining service period.

In September 2012, the former CFO of the Group resigned. Of the 600,000 options granted to her on March 22, 2011, 300,000 were vested through her date of resignation. In conjunction with her resignation, she signed a supplementary agreement with the Group that granted her 100,000 immediately exercisable options and 200,000 options that would vest through September 22, 2013. During the vesting period, she would provide consulting service as a consultant. For the 100,000 immediately exercisable options, a measurement date was reached upon grant and the Group immediately recognized \$35 share-based compensation expenses. For the 200,000 options that will vest through September 22, 2013, the Group will recognize expense based on the fair value of the options as of each reporting date through the measurement date, or September 23, 2013. For the year ended December 31, 2012, the Group recognized \$19 share-based compensation expense for these options.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

16. SHARE BASED PAYMENTS - continued*2012 Share incentive plan*

On November 30, 2012, the Board of Directors adopted 2012 Share Incentive Plan (the "2012 Option Plan"), which allows the Group to grant options to its employees and directors to purchase up to 6,000,000 ordinary shares of the Company subject to vesting requirement.

On November 1 and November 30, 2012, the Group granted 20,000 options to a consultant under the 2007 Option Plan and 60,000 options under the 2012 Option Plan to purchase the Company's ordinary shares at an exercise price of \$1.11 per share. The 20,000 share options vested immediately and one-third of the 60,000 share options will vest on February 1, May 1 and August 1, 2013, respectively.

The following summary of stock option activity under the 2007, 2011 and 2012 Share Incentive Plan as of December 31, 2011 and 2012, reflective of all modifications is presented below:

	Number of options	Weighted average exercise price per option	Outstanding Options Weighted average grant-date fair value	Weighted average remaining contractual terms	Aggregate intrinsic value
Outstanding at January 1, 2012	15,438,722	\$ 1.26	\$ 1.37		
Granted	1,937,538	0.74	0.33		
Exercised	(137,166)	1.17	2.13		
Forfeited	(517,828)	1.40	1.07		
Outstanding at December 31, 2012	16,721,266	1.19	1.27	3.79	446
Options vested and expected to vest as of December 31, 2012	16,657,308	\$ 1.19	\$ 1.22	3.77	446
Options exercisable as of December	14,273,734	\$ 1.25	\$ 1.31	3.54	74

31, 2012

The total intrinsic value of options exercised during the years ended December 31, 2010, 2011 and 2012 was \$1,416, \$54 and \$66, respectively. The total fair value of options vested during the years ended December 31, 2010, 2011 and 2012 was \$6,344, \$3,664 and \$3,503, respectively.

The Group recorded share-based compensation of \$7,971, \$4,614 and \$3,502 for the years ended December 31, 2010, 2011 and 2012, respectively. There was \$1,595 of total unrecognized compensation expense related to unvested share options granted as of December 31, 2012. The expense is expected to be recognized over a weighted-average period of 1.93 years on a straight-line basis.

F-50

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

16. SHARE BASED PAYMENTS - continued*2012 Share incentive plan* - continued

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.

	2010	For the years ended December 31, 2011	2012
Risk-free interest rate of return	2.03%-2.58%	0.00%-0.79%	0.12%-0.34%
Expected term	1.0-2.4 years	0.4-3.1 years	0.07-3.19 years
Volatility	73.48%-113.84%	70.64%-70.74%	67.57%-94.43%
Dividend yield	-	-	-

(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 based on a consideration of factors including 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.

F-51

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

17. FAIR VALUE MEASUREMENT

Measured on recurring basis

The Group had no financial assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2011 and 2012.

Measured on non-recurring basis

The Group measured the intangible assets at fair value on a nonrecurring basis as results of the impairment loss of \$9,583 recognized in 2012, as set out in Note 10. The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection on the discounted future cash flow and the discount rate.

The Group measured the goodwill at fair value on a nonrecurring basis when it is annually evaluated or whenever events or changes in circumstances indicate that carrying amount of a reporting unit exceeds its fair value as a result of the impairment assessments (Note 11). The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection on the discounted future cash flow and the discount rate. The impairment loss of \$20,611 was recognized for the year ended December 31, 2012.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

18. 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. On September 26, 2012, the Board of Directors approved to increase the amount of the share repurchase program to \$40 million of its own outstanding ADS and to extend the termination date of the share repurchase program to March 20, 2014.

As of December 31, 2012, the Group had repurchased an aggregate of 5,034,054 ADSs on the open market for a total consideration of \$14.6 million. As of December 31, 2012, 2,190,685 ADSs had been cancelled and 2,843,369 ADSs were recorded as treasury stock.

19. 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 \$2,779, \$2,955 and \$3,425 for the years ended December 31, 2010, 2011 and 2012, respectively.

20. STATUTORY RESERVES

As stipulated by the relevant law and regulations in the PRC, the Group's subsidiaries, VIEs and VIEs' 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. The Group allocated \$378 and \$2,095 to statutory reserves during the years ended December 31, 2011 and 2012, respectively. The statutory reserves cannot be transferred to the Company in the form of loans or advances and are not distributable as cash dividends except in the event of liquidation.

AIRMEDIA GROUP INC.**FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**
(In U.S. dollars in thousands, except share data)**21. RESTRICTED NET ASSETS**

Relevant PRC laws and regulations restrict the WFOEs, VIEs and VIEs' subsidiaries from transferring a portion of their net assets, equivalent to the balance of their statutory reserves and their paid-in-capital, to the Group in the form of loans, advances or cash dividends. Relevant PRC statutory laws and regulations restrict the payments of dividends by the Group's PRC subsidiaries and VIEs and VIEs' subsidiaries from their respective retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

As of December 31, 2012, the balance of restricted net assets was \$267,748, of which \$69,414 was attributed to the paid-in-capital and statutory reserves of the VIEs and VIEs' subsidiaries, and \$198,334 was attributed to the paid in capital and statutory reserves of WFOE, respectively. Under applicable PRC laws, loans from PRC companies to their offshore affiliated entities require governmental approval, and advances by PRC companies to their offshore affiliated entities must be supported by bona fide business transactions.

22. 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, 2010, 2011 and 2012 were \$2,626, \$2,528 and \$2,668, respectively.

Future minimum rental lease payments under non-cancellable operating leases agreements were as follows:

<u>Year</u>		
2013	\$	2,049
2014		646
2015		338
	\$	3,033

F-54

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

22. COMMITMENTS - continued

(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 2019 and are renewable upon negotiation. Concession fees charged into statements of operations for the years ended December 31, 2010, 2011 and 2012 were \$134,293, \$160,199 and \$177,996, respectively.

Future minimum concession fee payments under non-cancellable concession right agreements were as follows:

<u>Year</u>	
2013	\$ 176,827
2014	147,269
2015	83,781
2016	23,611
2017	16,997
2018 and thereafter	36,932
	\$ 485,417

(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 \$19,998 and \$8,427 for the year ending December 31, 2013 and 2014, respectively.

F-55

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

23. 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 these consolidated 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, 2012, 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

23. 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, 2012, 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.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

24. RELATED PARTY TRANSACTIONS

- (a) Details of outstanding balances with the Group's related parties as of December 31, 2011 and 2012 were as follows:

Amount due from related parties-trading:

<u>Name of related parties</u>	Relationship	As of December 31,	
		2011	2012
BEMC	Equity method investment of the Group	\$ 148	\$ 1,310
		\$ 148	\$ 1,310

The amount due from BEMC represents the uncollected advertising revenues earned from BEMC as of December 31, 2011 and 2012, respectively.

Amount due to related parties-trading:

<u>Name of related parties</u>	Relationship	As of December 31,	
		2011	2012
BEMC	Equity method investment of the Group	\$ 443	\$ 447
		\$ 443	\$ 447

The amount due to BEMC represents the deposits received for publishing advertisement as of December 31, 2011 and 2012.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012
(In U.S. dollars in thousands, except share data)

24. RELATED PARTY TRANSACTIONS - continued

- (b) Details of related party transactions occurred for the years ended December 31, 2010, 2011 and 2012 were as follows:

Advertising revenues earned from:

Name of related parties	Relationship	For the years ended December 31		
		2010	2011	2012
BEMC	Equity method investment of the Group	\$ 3,627	\$ 179	\$ 1,852
Zhangshangtong	Cost method investment of the Group	92	27	-
		\$ 3,719	\$ 206	\$ 1,852

Agency cost paid to:

Name of related parties	Relationship	For the years ended December 31		
		2010	2011	2012
BEMC	Equity method investment of the Group	\$ 747	\$ -	\$ -

F-59

AIRMEDIA GROUP INC.

**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
FINANCIAL INFORMATION OF PARENT COMPANY
BALANCE SHEETS**

(In U.S. dollars in thousands, except share related data)

	As of December 31,	
	2011	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 2,391	\$ 196
Investment in subsidiaries	86,887	60,514
Amount due from subsidiaries	183,701	181,204
Other current assets	181	778
TOTAL ASSETS	273,160	242,692
Liabilities		
Current liabilities		
Accounts payable	40	-
Amount due to subsidiaries	156	421
Accrued expenses and other liabilities	816	395
Total liabilities	1,012	816
Equity		
Ordinary Shares(\$0.001 par value; 900,000,000 shares authorized in 2011 and 2012; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2011 and 2012, respectively; 125,247,597 shares and 122,112,485 shares outstanding as of December 31, 2011 and 2012, respectively)	128	128
Additional paid in capital	275,150	278,652
Treasury stock(2,414,460 and 5,549,572 shares as of December 31, 2011 and 2012, respectively)	(3,775)	(7,035)
Accumulated deficits	(30,089)	(62,817)
Accumulated other comprehensive income	30,734	32,948
Total equity	272,148	241,876
TOTAL LIABILITIES AND EQUITY	\$ 273,160	\$ 242,692

F-60

AIRMEDIA GROUP INC.

**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,		
	2010	2011	2012
Operating expenses			
Selling and marketing	\$ (2,424)	\$ (1,421)	\$ (859)
General and administrative	(5,987)	(3,471)	(3,282)
Total operating expenses	(8,411)	(4,892)	(4,141)
Investment income/(loss)in subsidiaries	3,354	(4,795)	(28,587)
Interest income	140	91	-
Net loss attributable to holders of ordinary shares	\$ (4,917)	\$ (9,596)	\$ (32,728)

F-61

AIRMEDIA GROUP INC.

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 Shares	Ordinary shares Amount	Additional paid in capital	Treasury stock	Retained earnings/ (Accumulated deficits)	Accumulated other comprehensive income	Total equity	Comprehe income (
Balance as of January 1, 2010	131,179,487	132	268,542	-	(15,576)	9,944	263,042	(3
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	
Net loss	-	-	-	-	(4,917)	-	(4,917)	(
Balance as of December 31, 2010	131,905,011	132	277,676	-	(20,493)	18,353	275,668	
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	1
Net loss	-	-	-	-	(9,596)	-	(9,596)	(
	125,247,597 \$	128 \$	275,150 \$	(3,775)\$	(30,089)\$	30,734 \$	272,148 \$	

Balance as of December 31, 2011								
Ordinary shares issued for share based compensation	137,166	-	-	161	-	-	161	
Share repurchase held as treasury stock	(3,272,278)	-	-	(3,421)	-	-	(3,421)	
Share-based compensation	-	-	3,502	-	-	-	3,502	
Foreign currency translation adjustment	-	-	-	-	-	2,214	2,214	
Net loss	-	-	-	-	(32,728)	-	(32,728)	(3)
Balance as of December 31, 2012	122,112,485 \$	128 \$	278,652 \$	(7,035)\$	(62,817)\$	32,948 \$	241,876 \$	(3)

F-62

AIRMEDIA GROUP INC.

**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,		
	2010	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (4,917)	\$ (9,596)	\$ (32,728)
Investment loss/(income) in subsidiaries	(3,354)	4,795	28,587
Share-based compensation	7,971	4,614	3,502
CHANGES IN WORKING CAPITAL ACCOUNTS			
Other current assets	27	16	(597)
Accounts payable	4	36	(40)
Other current liabilities	767	(697)	(421)
Amount due to subsidiaries	53	25	265
Amount due from subsidiaries	(541)	482	2,497
Net cash provided by (used in) operating activities	10	(325)	1,065
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of subsidiaries	(12,178)	-	-
Advance payment / payment for contingent consideration in connection with a business combination	(2,415)	(2,966)	-
Net cash used in investing activities	(14,593)	(2,966)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Share repurchase	-	(7,373)	-
Treasury stock	-	(3,775)	(3,421)
Proceeds from exercises of stock options	1,163	229	161
Net cash provided by (used in) financing activities	1,163	(10,919)	(3,260)
Net decrease in cash	(13,420)	(14,210)	(2,195)
Cash, at beginning of year	30,021	16,601	2,391
Cash, at end of year	\$ 16,601	\$ 2,391	\$ 196

F-63

AIRMEDIA GROUP INC.

**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, ShengshiLianhe, AM Advertising, AirMedia UC and AM Yuehang, and VIEs' subsidiaries, AirTV United, AM Film, Flying Dragon, AM Wenzhou, Weimei Lianhe, Hainan Jinhui, Youtong, AM Jinshi, TJ Jinshi, TJ AM, Dongding, AM Outdoor, GreatView Media 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.

F-64
