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

FORM 20-F

(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act Of 1934

or

☒ Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2013.

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

or

☐ Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report

Commission file number 001-15148

Charm Communications Inc.

(Exact Name of Registrant as Specified in its Charter)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
American Depositary Shares, each representing 2 Class A Ordinary Shares	The NASDAQ Stock Market LLC (The NASDAQ Global Market)
Class A Ordinary Shares, par value US\$0.0001 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Market)*

* Not for trading, but only in connection with the registration of American Depositary Shares representing such Class A Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

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.

18,901,128 Class A ordinary shares and 62,500,000 Class B ordinary shares, par value US\$0.0001 per share, as of December 31, 2013.

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 ☒

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 responses 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 Securities Exchange Act of 1934). 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 ☐

FORM 20-F ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2013

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Conventions That Apply To This Annual Report On Form 20-F

Except where the context otherwise requires, for purposes of this annual report:

- “ADSs” refers to our American depositary shares, each of which represents two Class A ordinary shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs;
- “Aegis Media” refers to Aegis Group plc and its affiliates;
- “variable interest entities” refers to Qinghai Charm Advertising Co., Ltd., Shidai Charm Advertising Co, Ltd., and Beijing Charm Culture Co., Ltd., all of which are companies organized under the laws of China. Prior to 2011, substantially all of our advertising operations in China are conducted through our contractual arrangements with the variable interest entities, in which we do not own any equity interest. We have consolidated their financial results in our financial statements in accordance with U.S. GAAP;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan, Hong Kong and Macau;
- “PRC subsidiaries” refers to Nanning Jetlong, Charm Media Co., Ltd., Shang Xing Media Co., Ltd., Beijing Guozhi Travel & Culture Co., Ltd., Beijing Hongtu Zhuoyue Advertising Co., Ltd. and Beijing Vizeum Advertising Co., Ltd. From 2011 the majority of our advertising operations in China are conducted through our PRC subsidiaries.
- “RMB” or “Renminbi” refers to the legal currency of China; “\$,” “dollars,” “US\$” and “U.S. dollars” refer to the legal currency of the United States;
- “shares” or “ordinary shares” refers to our Class A ordinary shares, par value US\$0.0001 per share and our Class B ordinary shares, par value US\$0.0001 per share;
- “Series A preferred shares” refer to our Series A preferred shares, par value US\$0.0001 per share, which were all automatically converted into ordinary shares at the completion of our initial public offering; and
- “we,” “us,” “our company,” “the Group,” “our” and “Charm Communications” refer to Charm Communications Inc., a Cayman Islands company, and its subsidiaries and, unless the context otherwise requires, our variable interest entities in China.

Our ADSs are listed on the Nasdaq Global Market under the symbol “CHRM.”

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

The selected financial data shown below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects,” and the financial statements and the notes to those statements included elsewhere in this annual report. The selected statement of income data for the years ended December 31, 2011, 2012 and 2013 and the selected balance sheet data as of December 31, 2012 and 2013 have been derived from our audited financial statements included elsewhere in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2009 and 2010, and the selected condensed consolidated balance sheet data as of December 31, 2009, 2010 and 2011 have been derived from our audited financial statements not included in this annual report.

For the Year Ended December 31,				
2009	2010	2011	2012	2013
(US\$ in thousands, except share and per share data)				
87,275	162,623	238,837	112,786	128,436
15,301	24,776	34,285	46,234	50,356
3,466	5,002	7,016	6,478	5,011
106,042	192,401	280,138	165,498	183,803
68,538	118,224	187,878	107,976	117,578
2,057	2,867	3,737	4,864	4,243
1,568	2,715	4,015	4,303	3,765
72,163	123,806	195,630	117,143	125,586
33,879	68,595	84,508	48,355	58,217
10,979	20,314	27,119	36,026	38,204
5,560	6,748	9,704	16,234	17,748
16,539	27,062	36,823	52,260	55,952
—	—	2	350	75
—	—	—	654	521
—	—	—	345	285
17,340	41,533	47,687	(3,246)	2,576
575	1,255	2,497	2,255	1,026
—	(488)	—	—	—
(1,940)	(1,810)	—	—	—
—	—	—	—	—
44	—	—	(13)	(792)
16,019	40,490	50,184	(1,004)	2,810
752	1,998	2,158	1,472	1,409
15,267	38,492	48,026	(2,476)	1,401
—	525	1,572	1,518	706
—	—	307	711	299
15,267	37,967	46,147	(4,705)	396
7,800	1,215	—	—	—
7,467	36,752	46,147	(4,705)	396
0.07	0.51	0.59	(0.06)	0.00
0.07	0.49	0.56	(0.06)	0.00
50,000,000	70,483,686	78,266,839	77,498,250	79,871,761
52,011,34	73,475,901	82,113,765	77,498,250	80,639,506
17	7	4	1	—
1,481	1,468	1,979	1,506	1,905
786	1,024	1,086	707	1,086
54,737	123,320	139,406	116,589	121,228
142,600	286,632	424,617	358,630	371,229
61,897	106,357	181,486	131,254	148,378
59,576	—	—	—	—
21,127	179,398	235,959	217,735	211,837
—	877	2,449	4,207	5,281
80,703	180,275	238,408	221,942	217,118

Currency Translations and Exchange Rates

Our functional and reporting currency is the U.S. dollar. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are translated into the U.S. dollar at the exchange rates at the balance sheet date. Transactions in currencies other than the U.S. dollars during the year are converted into U.S. dollars at the applicable exchange rates prevailing at the first day of the month when the transactions occurred.

The financial records of our PRC subsidiaries and those of our variable interest entities are maintained in Renminbi, which is their functional currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average exchange rate for the relevant periods. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the statement of changes in equity.

A number of Renminbi-denominated figures used in this prospectus are accompanied with U.S. dollar translations. The rate we used for the translations was RMB6.0537 = US\$1.00, which was the noon buying rate as certified for customs purposes by the Federal Reserve Board on December 31, 2013. On, 2014, the exchange rate was RMB to US\$1.00. No representation is made that the Renminbi amounts referred to in this prospectus could have been or could be converted into U.S. dollars at any particular rate or at all.

Period	Noon Buying Rate			
	Period End	Average (1)	Low	High
		(RMB per US\$1.00)		
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4632	6.6364	6.2939
2012	6.2301	6.3088	6.2221	6.3879
2013	6.0537	6.1478	6.0537	6.2438
October	6.0943	6.1032	6.0815	6.1209
November	6.0922	6.0929	6.0903	6.0993
December	6.0537	6.0738	6.0537	6.0927
2014				
January	6.0590	6.0509	6.0402	6.0600
February	6.1448	6.0816	6.0591	6.1448
March	6.2164	6.1729	6.1183	6.2273
April	6.2591	6.2246	6.1966	6.2591
May (through May 9, 2014)	6.2270	6.2397	6.2255	6.2591

Source: The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board.

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

The People's Bank of China issued a public notice on July 21, 2005 increasing the exchange rate of the Renminbi against the U.S. dollar by approximately 2% to RMB8.11 per US\$1.00. Further to this notice, the PRC government has reformed its exchange rate regime by adopting a managed floating exchange rate regime based on market supply and demand with reference to a portfolio of currencies. Under this new regime, the Renminbi is no longer pegged to the U.S. dollar. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business and operations are subject to various risks, many of which are beyond our control. If any of the risks described below actually occurs, our services, financial condition or results of operations could be seriously harmed.

Risks Relating to Our Business

Our media investment management business may not produce the expected returns and may result in significant losses.

A significant part of our business has been our media investment management business, in which we typically act as the exclusive advertising agent for television channels or certain programs on them. In 2011, 2012 and 2013, our media investment management business accounted for approximately 85.3%, 68.2% and 69.9% of our total revenues, and approximately 60.3%, 9.9% and 18.7% of our gross profit, respectively. We have significantly expanded our media investment management business before year 2011 by entering into exclusive advertising agency agreements with respect to additional satellite and regional television channels.

Under our agreements with television channels regarding our media investment management business, we are typically obligated to pay amounts to the television channels for the relevant advertising time and other advertising rights, regardless of whether we can sell such advertising time and rights, at what prices we sell such advertising time and rights and whether we receive payments from advertisers. For example, as of December 31, 2013, we were obligated under our agreements with television stations to make payments of approximately US\$144.5 million in the aggregate for 2014 and thereafter. We will need to sell a significant amount of advertising time and other advertising rights on these television channels in order to produce the profits we expect. If we fail to sell the advertising time and other advertising rights at desired prices, we may not realize the expected returns, and we will incur losses to the extent that our revenues from sales of such advertising time and rights are less than our payment obligations to the television channels plus our related operating expenses. As the payment obligations under most of our current exclusive agency arrangements are negotiated on an annual basis, our payment obligations to television stations typically last for one year unless the arrangements are renewed or renegotiated. In the future, we may enter into exclusive agency arrangements with payment obligations for more than one year, in which case we would be subject to the increased risk that we may not realize the expected returns or could incur losses. Furthermore, we may not be able to renew our existing exclusive agency arrangements or enter into new exclusive agency arrangements on attractive terms or at all. Consequentially, our results of operations, financial condition and business prospects would be materially and adversely affected.

We may not be able to enter into new or renew the existing arrangements with television channels on commercially feasible terms, or at all.

Our exclusive advertising agency arrangements with respect to programs or events on television channels are typically for a limited term, without guarantee for renewal upon expiration. Our non-exclusive advertising agency arrangements are typically for a one-year term, without guarantee for renewal upon expiration. The agreements governing these arrangements may not be renewed upon expiration, and may be terminated prior to expiration if we commit a material breach or for other reasons. Since we do not have the protection of long-term agreements with television channels in connection with our media investment management business, we are subject to change in policies or practices by the television channels that have signed those agreements with us, as well as other uncertainties that could result in the termination of, or other changes in these agreements or arrangements. For example, our agreement with SMG governing our exclusive agency arrangement with Shanghai Dragon Television expired at the end of 2011 and we did not renew this agreement. We renewed our contract with Tianjin Television Station governing our exclusive agency arrangement with Tianjin Satellite Television for 2012, but we only signed exclusive agency arrangements for part of the time slots rather than for the entire channel. We also decided to terminate our exclusive arrangement with Hubei Provincial Economic TV at the end of 2011 even though we have priority to renew the contract per original terms. We didn't renew our exclusive arrangement with Shanghai Channel Young program at the end of 2012. We didn't renew our exclusive arrangement with Tianjing Satellite Channel and Beijing Gehua Cable Network at the end of 2013. If we are unable to enter into new, or renew our exclusive and non-exclusive advertising agency arrangements with the television channels on commercially feasible terms or at all, our results of operations, financial condition and business prospects would be materially and adversely affected.

Although there are a large number of television channels in China, the television channels with the potential to become our business partners are limited. The television programs or events that are suitable candidates for our media investment management business are also limited. In addition, we face competition for these desirable television advertising resources. While we intend to continue to seek opportunities for acting as the exclusive or non-exclusive advertising agent for desirable television programs, events or channels, we may not be successful in obtaining and retaining these television advertising resources. As a result, we may not be able to successfully expand our media investment management business on commercially feasible terms or at all, which may have a material adverse effect on our results of operations and business prospects.

Our CCTV-related business has been, and is expected to continue to be critical to our business and financial performance. Failure to maintain our relationship with CCTV would materially and adversely affect our business, results of operations, financial condition and prospects.

Our CCTV-related business has been, and is expected to continue to be critical to our business and financial performance. Our revenue derived from our CCTV-related business, which includes our advertising agency business and media investment management business, US\$87.1 million, or 31.1% of our total revenues, in 2011, US\$68.2 million, or 41.2% of our total revenues, in 2012 and US\$61.7 million, or 34.0% of our total revenues, in 2013. Our CCTV-related business accounted for approximately 43.8%, 62.2% and 54.3% of our total gross profit for 2011, 2012 and 2013, respectively. In particular, in our advertising agency business, we primarily derive revenues from representing advertising clients to place their advertisements on CCTV. Furthermore, we believe that our track record and performance in securing prime-time advertising time on CCTV have contributed, and may continue to contribute significantly to our brand name and the development of our blue-chip client base of Chinese advertisers, which are expected to have a substantial impact on our overall business. Consequently, the continued success in our business depends on our ability to maintain our relationship with CCTV, which is subject to a number of risks, including the following:

- CCTV may change its sales method at any time as it wishes and without prior notice to us, including its annual public auction for prime-time advertising time. For example, CCTV had implemented an auction-based system for selling non-prime time advertising time beginning in 2010 on certain channels, which were previously sold at predetermined prices. If CCTV introduces new methods of sales that are materially different from the methods it is currently using, we may lose our competitive advantage for CCTV's advertising time. It may take us a significant amount of time to develop expertise, if at all, in buying advertising time on CCTV under any new sales method.
- CCTV may begin to specify a limit on total advertising time that may be purchased by advertisers represented by one advertising agency in the future, in which case our growth potential would be limited as we would not be able to represent our advertising clients to purchase more CCTV advertising time when we exceed the limit.
- CCTV has sole discretion to set and adjust the amount of sales commissions and performance bonuses it pays to advertising agencies in the future, and CCTV may decide to stop paying such sales commissions or performance bonuses in a large portion or altogether at any time. In 2011, 2012 and 2013, sales commissions and performance bonuses from CCTV in the aggregate accounted for 2.8%, 5.8% and 6.1%, respectively, of our total revenues.
- CCTV's advertising time, particularly prime-time advertising time, is limited resources and are highly coveted by advertisers and advertising agencies. As a result, there is intense competition for such advertising time. In particular, we face intense competition for CCTV related advertising business from a number of domestic competitors, such as Walk-On Advertising Co., Ltd. (San Ren Xing) and Sinomedia, which may have competitive advantages, such as significantly greater financial, marketing or other resources or stronger market reputation.
- We do not have a long-term agreement with CCTV with respect to our television agency business on CCTV. In addition, our agreements with CCTV with respect to our media investment management business are entered into annually or on an event-by-event basis. Therefore, CCTV has no contractual obligations to continue its relationship with us and may decide to terminate this relationship at any time on its own.

Any of these risks could result in a failure to maintain our relationship with CCTV or a significant decrease in our revenues, which in turn would have a material adverse effect on our business, results of operations, financial condition and prospects.

Our media consultancy services for television channels may not be effective.

We intend to provide, as part of our media investment management business, media consultancy services to television channels that are expected to help the television channels enhance the attractiveness of their programs, expand these programs' viewer base and achieve higher ratings, which, in turn, would help increase advertising revenues. However, the consultancy services we provide to these television channels may not produce the expected results for various reasons. It may take an extended period of time to synergize our strengths with their strengths, if at all, and disputes may arise between us and these television channels, which could harm our working relationship with these television channels. Further, our ability to influence the programming and other decisions of these television channels is limited under applicable PRC laws, rules and regulations and our agreements with them. Therefore, we may not be able to implement the changes that we favor with respect to the programming on these television channels and our media consultancy services may not be effective. As a result, our media consultancy services may not produce the intended results, which could have a material adverse effect on our relationships with the television channels, our results of operations and our business prospects.

We face intense competition in China's advertising industry. If we do not compete successfully against our competitors, we may lose our market share and our business, results of operations, financial condition and prospects may be materially and adversely affected.

Competition in the advertising industry in China is intense. Key competitive considerations for retaining existing business and winning new business include our ability to obtain advertising time on CCTV, our ability to develop creative solutions that meet client needs, the scope, quality, effectiveness and cost of the services we offer and our ability to efficiently serve clients on a broad geographic basis. The competition we face is primarily associated with the following:

- *Chinese advertising companies* . Our competitors include Chinese advertising companies such as Walk-On Advertising Co. Ltd. (San Ren Xing), and Sinomedia. We compete with them primarily for Chinese advertising clients and for access to highly demanded advertising time in connection with our television agency business. We also compete with them for desirable television resources with respect to our media investment management business.
- *Multinational advertising companies* . We also face increasing competition from multinational advertising companies, such as Publicis Groupe S.A., WPP Group Plc. and Dentsu Inc., that are members of the American Association of Advertising Agencies or 4A advertising agencies. Most of the 4A advertising agencies operating in China offer a range of comprehensive advertising services to advertisers through their PRC subsidiaries or affiliates. We expect our competition with these multinational advertising companies to increase as these companies strive to increase their market share in the television advertising industry in China.
- *Players in new advertising media* . The spread of the internet and other new methods of communications have given rise to a number of new advertising media, such as media on public transportation systems and in-store media that compete with companies in the television advertising industry where we operate, for overall advertising spending in China.

Many of our existing and potential competitors may have competitive advantages, such as more established relationships with desirable advertising clients and television channels, significantly greater financial, marketing or other resources or stronger market reputation or may be able to better implement similar or competing business models. Increased competition could reduce our profitability and result in loss of market share. We cannot assure you that we will be able to successfully compete against new or existing competitors. We may not be able to maintain our existing clients or secure new clients if we fail to successfully respond to changes in the structure of the advertising industry and in business practices prompted by the intense competition. In addition, in connection with the formation of our consolidated joint venture with Aegis Media, we have agreed to restrictions on the solicitation to the clients and employees of Aegis Media or the joint venture. These restrictions could restrict our ability to recruit key personnel or expand our client base, which could limit our ability to compete successfully against our competitors. Our failure to compete would result in a loss of market share and would have a material adverse effect on our business, results of operations, financial condition and prospects.

We plan to secure media resources in new advertising media platforms. We may not be successful in that business due to our lack of experience and expertise with respect to those new media platforms and we may face many other risks and uncertainties.

Television viewing habits have evolved over time, and our continued reliance on the CCTV relationship may leave us vulnerable to disruptive media platforms such as the internet, mobile television and out-of-home media. As part of our strategy, we plan to secure media resources in such new advertising media platforms. For example, in October 2010, we entered into an agreement to establish a joint venture with Wasu Digital Group, or Wasu Group, China's largest operator and digital content providers for cable TV, 3G mobile TV and broadband TV and a supplier of IPTV services. The joint venture will seek to develop and set advertising industry standards on these new media network platforms, including the development of advertising products, product pricing, sales strategy, promotional materials as well as development of advertising sales and agency policies. Also, in 2011, we signed exclusive advertising agency agreements with Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting Co., Ltd. and Guangzhou Zhujiang Online Multimedia Co., Ltd. to operate digital media advertising on interactive HDTV digital cable platforms in Beijing, Shanghai and Guangzhou, respectively.

Traditionally, we have not been engaged in advertising businesses involving those new media platforms and, as a result, we have little or no expertise and experience in operating these businesses. In addition, our expertise and experience in television advertising may not be readily applied to advertising businesses involving those new media platforms. In contrast, our existing and potential competitors may have competitive advantages, such as significantly greater financial, marketing or other resource or expertise and experience with respect to new advertising media platforms. As a result, we may not be able to successfully secure media resources in new advertising media platforms on favorable terms, or at all.

Furthermore, the market in China for advertising services involving some of those new media platforms is relatively new and its potential is uncertain. Our success in securing and managing media resources in new advertising media platforms depends on the acceptance of advertising on those new media platforms by our advertising clients and their continuing interest in such advertising as a component of their advertising strategies.

Implementing our plan to secure media resources in new advertising media platforms will also require us to:

- continue to identify and obtain media resources in those new media platforms that are attractive to advertisers;
- significantly expand our capital expenditures to pay for media resources;
- obtain related governmental approvals; and
- expand the number of operations and sales staff that we employ.

We cannot assure you that we will be able to successfully secure media resources in new advertising media platforms or that the related business will generate new revenues to pay for increased operating costs, if any. If we are unable to successfully implement our strategy relating to new advertising media platforms, or if such expansion does not otherwise benefit our business, our prospects and competitive position may be materially harmed and our business, financial condition and results of operations may be materially and adversely affected.

The global financial crisis and economic downturn have had, and may continue to have a material adverse effect on our business, results of operations and financial condition.

The global financial crisis and economic downturn that unfolded in 2008 and continued in 2009 have adversely affected economies and businesses around the world, including those in China. In addition, the current European debt crisis and related financial restructuring efforts, including in Greece, Italy, Spain, Portugal and Ireland, are contributing to instability in global financial markets, which leads to higher unemployment, lower corporate earnings, lower business investment and lower consumer spending; consequently, the demand for advertising services may be materially and adversely affected. In the past, advertising clients have responded to weakening economic conditions with reductions to their advertising budgets, which include discretionary components that are easier to reduce in the short term than other operating expenses. Although the Asian economies have generally experienced a recovery beginning in 2012, this pattern of weakening economic conditions may recur in the future. Furthermore, any recovery of the advertising industry could lag that of the economy generally.

As a response to weakening economic conditions, some of our advertising clients reduced their advertising budgets and downsized or cancelled their advertising campaigns, which had a material adverse effect on the demand for our advertising services and, in turn, our business and results of operations. In addition, to the extent some of our advertising clients experience financial difficulties as a result of the changes in economic conditions, we may suffer reduced revenues and write-offs of accounts receivable, among others. The lingering effects of the global financial crisis and any future financial crises or economic downturns may materially and adversely affect our business, results of operations and financial condition.

We operate in the advertising industry in China, which is sensitive to and affected by changes in economic conditions and advertising trends.

Demand for advertising time and the resulting advertising spending by our clients are sensitive to and affected by changes in general economic conditions. Advertisers may reduce their advertising spending for a number of reasons, including:

- a general decline in economic conditions;
- a decline in the economic condition of industries where such advertisers operate;
- a decline in economic conditions in the regions that our exclusive advertising agency television channels primarily cover;
- their decision to shift advertising expenditures from television to other media; and
- a general decline in advertising spending in China.

A decrease in advertising spending by advertisers would reduce the demand for our services and the advertising time on our exclusive agency television channels and could materially impair our ability to generate revenues from our advertising business, which would have a material adverse effect on our results of operations and financial condition.

We do not have exclusive or long-term agreements with our advertising clients and they may terminate our services or stop engaging our services if they are not satisfied with our services or for other reasons.

As is customary in the advertising industry in China, we do not have exclusive or long-term agreements with our advertising clients, who typically engage us on an annual or campaign-by-campaign basis. As a result, we must rely on high-quality services, industry reputation, media relationships and favorable pricing to attract and retain advertising clients. We seek to serve as an effective link between media platforms and advertising clients and bring value to both parties. There is no assurance, however, that we will be able to maintain our relationships with current and future clients. Our advertising clients may elect to terminate their relationships with us if they are not satisfied with our services. In addition, companies conduct competitive reviews of their advertising and marketing services plans from time to time, typically on an annual basis. We lost client accounts in the past and may lose client accounts in the future as a result of these annual reviews. If a substantial number of our advertising clients choose not to continue to purchase advertising services from us, we would be unable to generate sufficient revenues and cash flows to operate our business, and our results of operations and financial condition would be materially and adversely affected. Further, in recent years, an increasing number of advertisers have sought to consolidate their media service activities with a smaller number of advertising agencies to increase the efficiency of their advertising spending and to reduce costs. This trend may result in a decrease or slowed growth in the number of our advertising client accounts, and could have a negative impact on our market position and materially and adversely affect our business, results of operations, financial condition and prospects.

We depend substantially on the continuing efforts of our senior executives and key personnel, and our business and prospects may be severely disrupted if we lose their services.

Our future success depends on the continued services of the key members of our management team, in particular, the continued service of Mr. He Dang, our founder, chairman and chief executive officer. We rely on his experience in our business operations, as well as his business vision, management skills and working relationships with our employees, clients, media platforms, particularly CCTV, and other media.

Our ability to attract and retain key personnel, in particular, senior management and key personnel in creative design and production, media consultancy and management, sales and marketing, is a critical aspect of our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating expenses and, in turn, could materially and adversely affect our results of operations and financial condition. We may be unable to attract or retain the personnel required to achieve our business objectives, and failure to do so could severely disrupt our business and prospects. The loss of any of our key employees could adversely affect our business or adversely impact the perception of us by our advertising clients, media and investors. We cannot make any assurances that the departure of any of our key employees will not have any adverse effect on our business or adversely impact our advertising clients', the media's and the investors' perception of our company. Our business may also be severely disrupted as our senior executives may have to divert their attention to recruiting replacements for key personnel.

If we lose the services of any senior management, we may not be able to locate suitable or qualified replacements and may therefore, incur additional expenses to recruit and train new personnel, which could severely disrupt our business and prospects. In addition, we do not maintain key-person insurance for members of our management team and the death or incapacity of one or more of these members could also severely disrupt our business and prospectus. Further, if any of our executive officers joins a competitor or forms a competing company, we may lose a significant number of our advertising clients, which could have a material adverse effect on our business and revenues. Although each of our executive officers has entered into an agreement with us that contains confidentiality and non-competition undertakings regarding their employment, disputes may arise between our executive officers and us, and in light of uncertainties associated with the PRC legal system, these agreements may not be enforced in accordance with their terms.

Our joint venture with Aegis Media, Wasu Group, and Chongqing Travel may not be successful and may not produce its intended benefits.

In January 2010, we formed a consolidated joint venture with international 4A advertising group, Aegis Media, which has since combined with Dentsu, Inc. to operate its brand, "Vizeum" in China. Also, in October 2010, we entered into an agreement to form a joint venture with Wasu Group, one of China's national operators of IPTV, 3G mobile TV and broadband TV to develop and set the advertising industry standards on new media network platforms, including the development of advertising products, product pricing, sales strategy, promotional materials as well as the development of advertising sales and agency policies. In April 2011, we formed a joint venture with Chongqing Travel & Culture Communications Co., Ltd., or Chongqing Travel, to explore and promote Chongqing's travel and tourism advertising market. Our joint ventures are subject to various risks and may not be successful. We have no prior experience in operating such joint ventures, which are governed by a series of contractual arrangements that have not yet been tested in practice. If we are unable to address, in a timely and effective manner, operational, legal, cultural and other material differences that may arise between us and our joint venture partners, or any other changes in the relationships between us and our joint venture partners, the business of the relevant joint venture could be significantly disrupted.

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In addition, we may not be able to realize intended benefits from the joint venture, including potential synergies from our alliance with our joint venture partners, as a result of numerous factors, some of which are beyond our control. These factors include, among other things:

- unforeseen contingent risks or latent liabilities relating to the existing operations of the joint venture that may not become apparent until a later time;
- increase in competition in the PRC advertising industry;
- changes in advertising clients' demand for, and perception of our services;
- diversion of financial or management resources from our existing businesses;
- in the case of our joint venture with Aegis Media, potential loss of our control over the joint venture beginning in 2016 as a result of the right of Aegis Media to acquire from us a controlling interest; and
- in the case of our joint ventures with Wasu Group and Chongqing Travel our lack of control over the joint ventures.

If our joint ventures are not successful or do not produce their intended benefits, our business, results of operations, financial condition and prospects could be materially and adversely affected.

Acquisition is expected to be a part of our growth strategy and could expose us to significant business risks.

To grow our business, we may continue to pursue acquisition opportunities that are complementary to our business. For example, in August 2011 we acquired a 60% stake in privately-held ClickPro, a leading performance and search engine marketing, or SEM firm in China, which has been integrated with our existing SEM business to form our fourth major brand, CharmClick.

In addition, we may not be able to identify and secure suitable acquisition opportunities in the future. In fact, since August 2011, we have yet to complete any additional acquisitions. Our ability to consummate and integrate effectively any future acquisitions on terms that are favorable to us may be limited by a number of factors, such as the number of attractive acquisition targets, internal demands on resources and, to the extent necessary, our ability to obtain financing on satisfactory terms for larger acquisitions, as well as our ability to obtain necessary shareholder or governmental approvals.

Moreover, even if an acquisition candidate is identified, we may fail to enter into an acquisition or purchase agreement on commercially acceptable terms or at all due to the lack of cooperation from counterparties or for other reasons. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, could also require significant diversion of management's time and resources and lead to potential disruption of our existing business. Further, the expected synergies from future acquisitions may not actually materialize. In addition, future acquisitions could result in the incurrence of additional indebtedness, costs and contingent liabilities and may also expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- ability to generate sufficient revenues to recover costs and expenses of the acquisitions; and
- potential loss of or harm to our relationships with our employees or clients.

Any of the above risks could significantly impair our ability to manage our business and materially and adversely affect our business, results of operations and financial condition.

We receive a significant portion of our revenues from a few large clients, and the loss of one or more of these clients could materially and adversely impact our business, results of operations and financial condition.

We derive a significant portion of our revenues from a limited number of large advertising clients. For example, our ten largest advertising clients accounted for approximately 17.0%, 20.0% and 33.0% of our total revenues in 2011, 2012 and 2013, respectively. Our clients generally are able to reduce advertising and marketing spending or cancel an advertising campaign at any time for any reason. It is possible that our clients could reduce their advertising spending in a given period in comparison with historical patterns and they could reduce their advertising spending for future periods. A significant reduction in advertising and marketing spending by our large clients or the loss of one or more of our large clients, to the extent the loss in our revenues resulting from the loss of these clients is not replaced by new client accounts or increased business from existing clients, would lead to a substantial decline in our revenues, which could have a material adverse effect on our business, results of operations and financial condition.

Any dispute with television stations or other media companies could disrupt our business and materially and adversely affect our results of operations and financial condition.

We have no control over the television stations or other media companies on whose networks we place advertisements on behalf of our advertisers. These television channels retain the ultimate control over their programming. Disputes may arise between us and these television channels or other media companies, such as CCTV and Beijing Gehua Cable Network from which we secure advertising time or other advertising rights relating to programming or other aspects of our business relationships with them. These disputes may not be resolved in our favor. These disputes may result in early termination or suspension of the performance of our exclusive advertising agency arrangements or other cooperation with the relevant television channels or other media companies. In some cases, we may have to rely on court proceedings to resolve the disputes between us and these television channels or other media companies. Any litigation will divert our resources and may result in judgment against us. If any dispute between us and these television channels or other media companies arises and is not properly resolved, our reputation could be harmed and consequently, our business operations could be disrupted and our results of operations and financial condition could be materially and adversely affected.

If we are unable to adapt to changing advertising trends and preferences of advertisers, television channels and viewers, we will not be able to compete effectively.

The market for television advertising requires us to continuously identify new advertising trends and preferences of advertisers, television channels and viewers, which may require us to develop new features and enhancements for our services. Our consultants follow the television advertising market and new trends or developments with respect to or affecting television channels. We also conduct in-depth market research to analyze the effectiveness of the marketing and advertising campaigns of our advertising clients and to project the trends of the television advertising market in the near future. We may incur development and acquisition costs or hire new managers or other personnel in order to keep pace with new market trends, but we may not have the financial and other resources necessary to fund and implement these development or acquisition projects or to hire suitable personnel. Further, we may fail to respond to changing market preferences in a timely fashion. If we cannot succeed in developing and introducing new services on a timely and cost-effective basis, the demand for our advertising services may decrease and we may not be able to compete effectively or attract advertising clients, which would have a material adverse effect on our business and prospects.

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

Advertising spending fluctuates during each year due to seasonal factors. For example, advertising spending in China generally tends to increase during the fourth quarter of each year. Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period based on the seasonality of consumer spending, television programs and advertising trends in China or other factors. Factors that are likely to cause our operating results to fluctuate include:

- our ability to maintain and increase sales to existing advertising clients, attract new advertising clients and satisfy our clients' demands;
- our ability to maintain and renew existing exclusive and non-exclusive agency television arrangements or enter into new arrangements with television channels;
- the frequency of our clients' engagement of our services;
- programming of television channels and the occurrence of special events that are attractive to advertisers;
- the agency fees we charge for our agency business and the price we charge for advertising time that we have the exclusive right to sell;
- changes in our pricing strategies or the pricing strategies of television channels or our competitors;
- effects of strategic alliances, potential acquisitions and other business combinations and our ability to successfully and timely integrate them into our business;
- changes in government regulation of the television and advertising industries; and
- economic and geopolitical conditions in China and elsewhere.

Many of the factors discussed above are beyond our control, making it difficult to predict our quarterly results, which could cause the trading price of our ADSs to decline below investor expectations. You should not rely on our operating results for any prior period as an indication of our future results. If our revenues for a particular quarter are lower than what we expected, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which would harm our operating results for that quarter relative to our operating results from other quarters.

Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.

We have entered into agreements to secure all of the advertising time as well as other advertising rights on television channels or programs as part of our media investment management business. We intend to continue entering into exclusive and non-exclusive agency arrangements with additional television channels in the future. The growth of our business will result in substantial demands on our management, operational and other resources. In particular, the management of our growth will require, among other things:

- our ability to synergize the strengths of our company and the television channels to enhance the attractiveness of the programming;
- our ability to attract more advertisers to the televisions and to increase advertising sales;
- continued constructive relationships with the television channels;

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- our ability to develop and improve our existing administrative and operational systems;
- stringent cost controls and sufficient working capital;
- strengthening of financial and management controls; and
- hiring, training and retaining our personnel.

As we execute this growth strategy, we may incur substantial costs and expend substantial resources. We may not be able to manage our current or future operations effectively and efficiently or compete effectively in new markets that we may enter. If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

We may need additional capital and we may not be able to obtain it at acceptable terms or at all, which could adversely affect our liquidity and financial condition.

We believe that our current cash, cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs for capital expenditures for the foreseeable future. We may, however, require additional cash due to changed business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities or convertible debt securities could dilute the shareholdings of our shareholders. The incurrence of debt would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

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 advertising agencies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of the television or advertising industries in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds that are necessary for our operations on terms favorable to us could have a material adverse effect on our liquidity and financial condition. Without additional capital, we may not be able to:

- further develop or enhance our services;
- expand operations through exclusive and non-exclusive agency arrangements with additional television channels;
- hire, train and retain employees;
- market our services; or
- respond to competitive pressures or unanticipated capital requirements.

Our failure to protect our intellectual property rights could have a negative impact on our business.

We believe our brand, trade names, trademarks and other intellectual property are critical to our success. The success of our business depends substantially upon our continued ability to use our brand, trade names and trademarks to increase brand awareness and to further develop our brand. The unauthorized reproduction of our trade names or trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill. In addition, our proprietary information, which has not been patented or otherwise registered as our property, is a component of our competitive advantage and our growth strategy.

Monitoring and preventing the unauthorized use of our intellectual property is difficult. The measures we take to protect our brand, trade names, trademarks and other intellectual property rights may not be adequate to prevent their unauthorized use by third parties. In addition, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. To our knowledge, the relevant authorities in China historically have not protected intellectual property rights to the same extent as the United States. If we are unable to adequately protect our brand, trade names, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially. Further, unauthorized use of our brand, trade names or trademarks could cause brand confusion among advertisers and harm our reputation as a provider of high quality and comprehensive advertising services. If our brand recognition decreases, we may lose advertisers and fail in our expansion strategies, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

We may be, or may be joined as a defendant in litigation brought against our clients by third parties, our clients' competitors, governmental or regulatory authorities or consumers, which could result in judgments against us and materially disrupt our business.

From time to time, we may be, or may be joined as a defendant in litigation brought against our clients by third parties, our clients' competitors, governmental or regulatory authorities or consumers. These actions could involve claims alleging, among other things, that:

- advertising claims made with respect to our clients' products or services are false, deceptive or misleading;
- our clients' products are defective or injurious and may be harmful to others; or
- marketing, communicating or advertising materials created for our clients infringe on the proprietary rights of third parties.

The damages, costs, expenses and attorneys' fees arising from any of these claims could have an adverse effect on our business, results of operations, financial condition and prospects to the extent that we are not adequately indemnified by our clients. In any case, our reputation may be negatively affected by these allegations.

We rely on computer software and hardware systems in our operations, the failure of which could adversely affect our business, results of operations and financial condition.

We are dependent upon our computer software and hardware systems in designing our advertisements and keeping important operational and market information. In addition, we rely on our computer hardware for the storage, delivery and transmission of data. Any system failure that causes interruptions to the input, retrieval and transmission of data or increase in service time could disrupt our normal operations. Although we have a disaster recovery plan that is designed to address the failures of our computer software and hardware systems, we may not be able to effectively carry out this disaster recovery plan or restore our operations within a sufficiently short time frame to avoid business disruptions. Any failure in our computer software or hardware systems could decrease our revenues and harm our relationships with advertisers, television channels and other media companies, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We do not maintain business liability or disruption, litigation or property insurance and any business liability or disruption, litigation or property damage we experience may result in substantial costs to us and the diversion of our resources.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business disruption, business liability or similar business insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of obtaining insurance coverage for these risks and the difficulties associated with obtaining such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China. Any occurrence of an uninsured loss or damage to our property or litigation or business disruption may result in substantial costs to us and the diversion of our resources, which could have an adverse effect on our operating results.

We may become a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. investors.

Based upon the past and projected composition of our income and valuation of our assets, including any goodwill, we do not believe we were a passive foreign investment company, or PFIC, for our taxable year ended December 31, 2013 and we do not expect to become one in the future, although there can be no assurance in this regard. If, however, we were a PFIC, such characterization could result in adverse United States federal income tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under United States federal income tax laws and regulations and will become subject to burdensome reporting requirements. Further, if we were a PFIC for any year during which a U.S. investor held our ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. investor held our ADSs or ordinary shares. Each U.S. investor is urged to consult its tax advisor regarding the U.S. federal income tax consequences of acquiring, holding, and disposing of ADSs or ordinary shares if we were or become classified as a PFIC.

The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for United States federal income tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (including cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of our ADSs and ordinary shares, which is subject to change. We cannot assure you that we were not a PFIC for 2013 or that we will not be a PFIC for any future taxable year. As the determination of PFIC status requires extensive factual investigation, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, this determination, although ultimately legal in nature, is beyond the scope of legal counsel's role and, accordingly, our U.S. counsel expresses no opinion with respect to our PFIC status.

We have identified one material weakness in our internal control over financial reporting and cannot assure you that such material weakness will be remedied or additional material weakness will not be identified in the future. Our failure to implement or maintain effective control over financial reporting could result in material misstatement in our financial statements which could require us to restate financial statement in the future, or cause us not to be able to provide timely financial information, which may cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, has 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.

In connection with management's assessment of the effectiveness of our internal over financial reporting for the period covered by this annual report, our management has identified one material weakness in our internal control over financial reporting and has concluded that as of December 31, 2013, our disclosure controls and procedures and our internal control over financial reporting were not effective. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our independent registered public accounting firm has expressed an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2013. See "Item 15 — Controls and Procedures."

The material weakness identified was that we failed to develop appropriate policies and procedures on barter transactions (i) to properly account for such transactions, and (ii) to properly monitor the safeguard and consumption of the goods received in such barter transactions.

As of the date of this filing, we are still in the process of addressing the material weakness identified as above and are taking the remedial actions. These remedial measures and any future enhancements, however, may not be adequate to prevent similar incidents from occurring or otherwise ensure that our internal controls are effective. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could harm our operating results and lead to a decline in the trading price of our ADSs.

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Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

Public shareholders of China-based, U.S.-listed companies and other market participants may no longer have access to a wide array of corporate records of such listed companies' PRC entities filed with local offices of the administration of industry and commerce in China. Loss of, or limit in, the access to such information may adversely affect overall investor confidence in China-based, U.S.-listed companies' reported results or other disclosures, including those of our company, and may cause the trading price of our ADSs to decline.

All PRC corporate entities, including our subsidiaries and our variable interest entities, maintain corporate records and filings with industry and commerce administration authorities in the cities where such PRC entities are registered. Information contained in such corporate records and filings includes, among other things, business address, registered capital, business scope, articles of association, equity interest holders, legal representative, changes to the above information, annual financial reports, matters relating to termination or dissolution, information relating to penalties imposed, and annual inspection records.

There have been regulations promulgated by various government authorities in China that govern public access to corporate records and filings. Under the *Measures for Accessing Corporate Records and Filings* promulgated on December 16, 1996 by the SAIC, as amended, or the SAIC measures, a wide range of basic corporate records, except for such restricted information as business results and financial reports, can be inspected by the public without restrictions. Under these SAIC measures, a company's restricted information can only be inspected by authorized government officers and officials from judicial authorities or lawyers involved in pending litigation relating to such company and with court-issued proof of such litigation. In practice, local industry and commerce administration authorities in different cities have adopted various regional regulations which impose more stringent restrictions than the SAIC measures by expanding the scope of restricted information that the public cannot freely access. Many local industry and commerce administration authorities only allow unrestricted public access to such basic corporate information as name, legal representative, registered capital and business scope of a company. Under these local regulations, access to the other corporate records and filings (many of which are not restricted information under the SAIC measures) is only granted to authorized government officers and officials from judicial authorities or lawyers involved in pending litigation relating to such company and with court-issued proof of such litigation.

However, neither the SAIC nor the local industry and commerce administration authorities were reported to have strictly implemented the restrictions under either the SAIC measures or the various regional regulations before early 2012. As a result, before early 2012, the public, including public shareholders of China-based, U.S.-listed companies and other market participants, such as lawyers and research firms, were reported to be able to access all or most corporate records and filings of these listed companies' PRC entities maintained with the industry and commerce administration authorities. Such records and filings were reported to have formed important components of research reports on certain China-based, U.S.-listed companies, which reports claimed to have uncovered wrongdoings and fraud committed by these companies on the basis of (i) the disparities found between the listed companies' reported results and their PRC entities' financial reports filed with industry and commerce administration authorities and (ii) information on material changes of the PRC entities, such as transfers of equity interests of significant PRC subsidiaries, that were filed with the industry and commerce administration authorities but not properly disclosed by such listed companies as required under the U.S. securities law and the SEC's disclosure requirements. The significant disparities found between (i) certain China-based, U.S.-listed companies' reported results and other disclosure and (ii) their PRC entities' financial reports and other records filed with industry and commerce administration authorities were also reported to have formed the basis of several class action lawsuits against such listed companies in the U.S.

It was reported that, since the first half of 2012, local industry and commerce administration authorities in a number of cities have started strictly implementing the above restrictions and have significantly curtailed public access to corporate records and filings. There have also been reports that only the limited scope of basic corporate records and filings are still accessible by the public, and much of the previously publically accessible information, such as financial reports and changes to equity interests, now can only be accessed by the parties specified in, and in strict accordance with the restrictions under the various regional regulations. Such reported limitation on the public access to corporate records and filings and the resulting concerns over the loss of, or limit in, an otherwise available source of information to verify and evaluate the soundness of China-based U.S.-listed companies' business operations in China may have a significant adverse effect on the overall investor confidence in China-based, U.S.-listed companies' reported results or other disclosures, including those of our company, and may cause the trading price of our ADSs to decline.

We are subject to risks relating to the nature of China's advertising industry, including frequent and sudden changes in advertising proposals.

The nature of the advertising business in China is such that sudden changes in advertising proposals and actual advertisements are frequent. In China, television stations remain responsible for the content of advertisements, and as a result, television stations may reject or recommend changes to the content of advertisements. We strive to minimize problems related to work for clients by encouraging the conclusion of basic written agreements, but we are exposed to the risk of unforeseen incidents or disputes with advertising clients. In addition, similar to other companies in our industry in the PRC where relationships between advertising clients within a particular industry and advertising companies are not typically exclusive, we are currently acting for multiple clients within a single industry in a number of industries. If this practice in China is to change in favor of exclusive relationships and if our efforts to respond to this change are ineffective, our business, results of operations and financial condition could be materially and adversely affected.

China regulates media content extensively and we may be subject to government actions based on the advertising content we design for advertising clients or services we provide to them.

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

Our business includes assisting advertising client in designing and producing advertisements, as well as executing their advertising campaign. We act as agent for our clients in dealing with television channels, such as CCTV, or other media on whose platform our clients want to display their advertisements. Under our agreements with television stations, such as CCTV, we are typically responsible for the compliance with applicable laws, rules and regulations with respect to advertising content that we provide to the media. In addition, some of our advertising clients provide completed advertisements for us to display on the television channels. Although these advertisements are subject to internal review and verification, their content may not fully comply with applicable laws, rules and regulations. Further, for advertising content related to special types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that our clients have obtained requisite government approvals, including operating qualifications, proof of quality inspection of the advertised products and services, government pre-approval of the content of the advertisement and filings with the local authorities. We endeavor to comply with such requirements, including by requesting relevant documents from the advertising clients and employing qualified advertising inspectors who are trained to review advertising content for compliance with applicable PRC laws, rules and regulations. However, we cannot assure you that violations or alleged violations of the content requirements will not occur with respect to our operations. If the relevant PRC governmental agencies determine the content of the advertisements that we represent violated any applicable laws, rules or regulations, we could be subject to penalties. Although our agreements with our clients normally require them to warrant the fairness, accuracy and compliance with relevant laws and regulations of their advertising content and agree to indemnify us for violations of these warranties, these contractual remedies may not cover all of our losses resulting from governmental penalties. Violations or alleged violations of the content requirements could also harm our reputation and impair our ability to conduct and expand our business.

Risks Relating to Our Corporate Structure

If the PRC government determines that the agreements that establish the structure for operating our China business otherwise do not comply with applicable PRC laws, rules and regulations, we could be subject to severe penalties.

The PRC government requires foreign entities that invest in the advertising services industry to have at least two years of direct operations in the advertising industry outside of China. Our subsidiary, Charm Hong Kong Limited has not directly operated any advertising business outside of China and therefore, its subsidiary, Nanning Jetlong, currently does not qualify under PRC regulations to directly provide advertising services. Accordingly, Nanning Jetlong is currently ineligible to apply for the required license for providing advertising services in China. We acquired all the outstanding equity interests of O'Master Communications (Hongkong) Ltd. in Hong Kong in June 2010, an entity qualified to set up entities in China to operate advertising business, which in turn holds all the outstanding equity interests of Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. Both Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. were incorporated by us in the PRC in November 2010 and October 2010, respectively, and have acquired license for providing advertising services in China. From 2011, we have begun operating the majority of our business through these two new entities — Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. Also in November 2011, our 60% owned entity, CharmClick Inc., acquired all the outstanding equity interests of Neudior Corporation Limited. Currently this entity is in the process to evaluate whether it's qualified to set up entities in China to operate an advertising business and then to obtain the related license. Prior to 2011, other than Beijing Vizeum Advertising Co., Ltd., in which we hold 60% of the outstanding equity interests, our advertising business was provided through our variable interest entities in China. Since 2011, the majority of the business has been carried out by PRC subsidiaries. Each of the variable interest entities is currently owned by individual shareholders who are PRC citizens, and holds the requisite license to provide advertising services in China. Their shareholders are set forth in "Item 4. Information on the Company — C. Organizational Structure — Our Corporate Structure." Our variable interest entities directly operate our advertising services in China, purchase advertising time from television channels and sell advertising time to advertisers. We do not have any equity interest in any of the variable interest entities but control their operations and receive the economic benefits and bear their economic risks through a series of contractual arrangements.

There are uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations, including but not limited to the laws, rules and regulations governing the validity and enforcement of our contractual arrangements with the variable interest entities. We have also been advised by our PRC counsel, Hylands Law Firm, that the structure for operating our business in China (including our corporate structure and contractual arrangements with the variable interest entities) complies with all applicable existing PRC laws, rules and regulations, and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations. However, we cannot assure you that the PRC regulatory authorities will not adopt any new regulation to restrict or prohibit foreign investment in advertising business through contractual arrangement in the future or will not determine that our corporate structure and contractual arrangements violate PRC laws, rules or regulations.

If we, any of the variable interest entities or any of their current or future subsidiaries are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business license of such entities;
- discontinuing or restricting the conduct of any transactions among our PRC subsidiary, Nanning Jetlong and variable interest entities;
- imposing fines, confiscating the income of the variable interest entities or our income, or imposing other requirements with which we or our PRC subsidiaries and variable interest entities may not be able to comply; or
- requiring us or our PRC subsidiaries and variable interest entities to restructure our ownership structure or operations.

The imposition of any of these penalties could preclude us from operating our business, which would have a material adverse effect on our financial condition and results of operations.

We rely on contractual arrangements with our variable interest entities in China and their shareholders to control their operation activities, which may not be as effective in providing operational control or enabling us to derive economic benefits as through ownership of controlling equity interest before 2011.

We rely on contractual arrangements with our variable interest entities in China and their respective shareholders to control their operation activities. These contractual arrangements may not be as effective in providing us with control over the variable interest entities as ownership of controlling equity interests would be in providing us with control over, or enabling us to derive economic benefits from the operations of the variable interest entities. If we had direct ownership of the variable interest entities, we would be able to exercise our rights as a shareholder to (i) effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations at the management level and (ii) derive economic benefits from the operations of the variable interest entities by causing them to declare and pay dividends. However, under the current contractual arrangements, if any of the variable interest entities or any of their shareholders fails to perform its, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements and rely on legal remedies available under PRC laws, including seeking specific performance or injunctive relief and claiming damages, which we cannot assure you will be effective. For example, if shareholders of a variable interest entity were to refuse to transfer their equity interests in such variable interest entity to us or our designated persons if we exercise the purchase option pursuant to these contractual arrangements, we may have to take legal action to compel them to fulfill their contractual obligations.

If (i) the applicable PRC authorities invalidate these contractual arrangements for violation of PRC laws, rules and regulations, (ii) any variable interest entity or its shareholders terminate the contractual arrangements or (iii) any variable interest entity or its shareholders fail to perform their obligations under these contractual arrangements, our business operations in China would be materially and adversely affected, and the value of your ADSs would substantially decrease. Further, if we fail to renew these contractual arrangements upon their expiration, we would not be able to continue our business operations unless the then current PRC law allows us to directly operate advertising businesses in China.

In addition, if any variable interest entity or all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of the variable interest entities undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, our ability to generate revenues and the market price of your ADSs.

All of these contractual arrangements are governed by PRC law and provided for the resolution of disputes through arbitration in the PRC. The legal environment in the PRC is not as developed as in some 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. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our operating entities and we may be precluded from operating our business, which would have a material adverse effect on our financial condition and results of operations.

Our joint venture partners may have potential conflicts of interest with us and our respective joint ventures.

The interests of our joint venture partners may conflict with the interests of our company and our respective joint venture. When conflicts of interest arise, our joint venture partners may not act in the best interests of our company or the joint venture and a conflict of interest may not be resolved in favor of us or the joint venture.

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For example, as one of the world's leading marketing communications groups, Aegis Media is an international provider of advertising services, including those provided by its other operations in China, which may directly or indirectly compete with us or the consolidated joint venture. Although, in connection with the formation of the consolidated joint venture, Aegis Media has agreed to restrictions on the solicitation of our or the joint venture's clients and employees, these restrictions may not be sufficient or effective to prevent Aegis Media from competing against us or the joint venture, and we and Aegis Media may disagree as to whether particular business opportunities belong to us, the joint venture or Aegis Media. In addition, Aegis Media may breach these restrictions. If we cannot resolve any conflicts of interest or disputes between our joint venture partners and us or the respective joint venture, we would have to rely on legal proceedings, the outcome of which is uncertain and, as a result, our business may be disrupted and our results of operations, financial condition and prospects could be materially and adversely affected.

Certain shareholders of our variable interest entities may have potential conflicts of interest with us, which may harm our business and financial condition.

Currently, our variable interest entities are owned by Mr. He Dang ("Mr. Dang") and Ms. Qingmei Bai ("Ms. Bai"), with Mr. Dang owning 67% of the outstanding equity of our variable interest entities and Ms. Bai owning the remainder. Mr. Dang is also a beneficial owner of 59% of our Company. Ms. Bai holds no equity interest in the Company. Ms. Bai is Mr. Dang's mother. Mr. Dang is the chairman of our board of directors and our chief executive officer and he also serves as the chairman of the board of directors of our variable interest entities. Ms. Bai serves as the supervisor (a compulsory inspector position required under PRC Company Law) of two of our variable interest entities, Shidai Charm Advertising Co., Ltd. and Beijing Charm Culture Co., Ltd. Conflicts of interest between (i) Mr. Dang's and Ms. Bai's duties to our company and shareholders (including the holders of our ADSs who are not otherwise affiliated with our variable interest entities) and (ii) their duties as the major shareholders, directors and officers of our variable interest entities may arise. We cannot assure you that when conflicts of interest arise, any or both of these individuals will act in the best interests of our company and our shareholders, or that conflicts will be resolved in our favor.

For example, Mr. Dang and/or Ms. Bai may decide to transfer significant business or assets of the variable interest entities to other legal entities they own or control that are not controlled by us, or opportunities may arise in the future for these individuals to sell the variable interest entities or its significant business or assets to third parties at a premium. In the event a sale takes place upon the occurrence of such circumstance(s) mentioned above, the consideration of such transfer or sale will be paid to Mr. Dang and/or Ms. Bai. Neither the Company nor our other shareholders will receive any proceeds from such sale of all or a significant portion of our underlying business, which will be materially detrimental to the Company and our public shareholders. To prevent such event from happening, decisions relating to material sales in connection with the variable interest entities are overseen and determined by the Company pursuant to the contractual arrangements with the variable interest entities, its shareholders and the WFOE (Nanning Jetlong). The board of directors of the Company consists of five directors, with four of them (other than Mr. Dang) holding no interest in any variable interest entity. These four directors' interests are independent in making decisions related to the variable interest entities and they are the fiduciaries our unaffiliated shareholders may rely on to safeguard their interests. However, the holders of a majority of the total outstanding equity interest of the Company have the right to appoint and remove members of the board (other than the one director, Mr. Nick Waters, appointed by Aegis Media, the shareholder holding no less than 10% of the Company's total outstanding share capital) pursuant to our Memorandum and Articles of Association, as amended. In other words, due to fact that Mr. Dang, our largest shareholder, chairman of our board of directors and chief executive officer, is also a majority shareholders of our variable interest entities, we cannot assure you that we will be able to prevent him from making decisions on behalf our company that only favor the shareholders of the variable interest entities.

In addition, Mr. Dang and/or Ms. Bai may breach or cause our variable interest entities or their subsidiaries to breach or refuse to renew existing contractual arrangements that allow us to effectively control and receive economic benefits from them. Currently, we do not have existing arrangements to address such potential conflicts of interest between these individuals and our Company. We rely on Mr. Dang and Ms. Bai to abide by the laws of the Cayman Islands and the PRC, both of which provide that a company's directors and officers owe a fiduciary duty to such company, which requires them to act in good faith and in the best interests of our company and not to use their positions for personal gain.

In the event any dispute arising out of the above-mentioned conflict of interest between us and the shareholders cannot be resolved amongst the parties, we may have to resort to legal proceedings, which may result in disruption of our business operation and there will be substantial uncertainty as to the outcome of any such legal proceedings.

The contractual arrangements with the variable interest entities may be subject to scrutiny by the PRC tax authorities and may result in a finding that we owe additional taxes or are ineligible for tax exemption, or both, which could substantially increase our taxes owed and thereby reduce our net income.

Under applicable PRC laws, rules and regulations, arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. We are not able to determine whether any of our transactions with our variable interest entities and their respective shareholders will be regarded by the PRC tax authorities as arm's length transactions because based on our knowledge, the PRC tax authorities have not issued a ruling or interpretation on how to determine an arm's length transaction in this context. The relevant tax authorities may determine that our contractual relationships with our variable interest entities and their respective shareholders were not entered into on an arm's length basis. If any of the transactions we have entered into among our subsidiaries, Nanning Jetlong and any of the variable interest entities and their respective shareholders are determined by the PRC tax authorities not to be on an arm's length basis, or are found to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, the PRC tax authorities may adjust the profits and losses of such variable interest entity and assess more taxes on it. In addition, the PRC tax authorities may impose late payment fees and other penalties to such variable interest entity for under-paid taxes. Our results of operations may be adversely and materially affected if the tax liabilities of any of the variable interest entities increase or if it is found to be subject to late payment fees or other penalties.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries in China 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 on dividends and other distributions on equity paid by our PRC subsidiaries for our cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries in China incur debt on its own behalf in the future, the instruments governing the debt may restrict its ability 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 Nanning Jetlong currently has in place with the variable interest entities in a manner that would materially and adversely affect the ability of Nanning Jetlong to pay dividends and other distributions to us. Further, relevant PRC laws, rules and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with accounting standards and regulations of China. Under PRC laws, rules and regulations, our PRC subsidiaries are also required to set aside a portion of their net income each year to fund specific reserve funds. In addition, the statutory general reserve fund requires annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends until the cumulative fund reaches 50% of the registered capital. As a result of these PRC laws, rules and regulations, our PRC subsidiaries are restricted from transferring a portion of its net assets to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

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

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

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

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

Risks Relating to Doing Business in China

Adverse changes in 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 materially and adversely affect our competitive position.

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

- degree of government involvement;
- level of development;
- growth rate;
- control of foreign exchange;
- access to financing; and
- allocation of resources.

While the Chinese economy has grown significantly in the past three decades, the growth has been uneven among various parts of the country and various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and to guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on our operations. For example, our results of operations and financial condition may be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In light of the global financial crisis and economic downturn, which also have a significant adverse impact on the Chinese economy beginning in September 2008, the PRC government began taking a series of measures to stimulate the Chinese economy. We cannot assure you that these measures will be effective. In addition, other economic measures, as well as future actions and policies of the PRC government, could also materially affect our liquidity and access to capital and our ability to operate our business. 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 subject, to a significant extent, to economic, political and legal developments in China.

Uncertainties with respect to the PRC legal system could limit the protections available to you and our company.

The PRC legal system more closely resembles civil law systems than common law systems. Unlike in the common law system, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct all of our business through our PRC subsidiaries and our variable interest entities established in China. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, rules and regulations are not always uniform and enforcement of these laws, rules and regulations involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract.

However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of Chinese administrative and court proceedings and the level of legal protection we enjoy in China than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Recent changes in regulatory restrictions on satellite television may adversely affect our business and results of operations.

The State Administration of Radio, Film, and Television issued the *Supplementary Provisions to the 'Radio and Television Advertising Broadcast Management Rules'*, which came into effect as of January 1, 2012, precluding all advertisements occurring in the middle of any television program broadcasts. Pursuant to this prohibition, the Company is restricted from selling advertisement time or other rights in the middle of television program broadcasts. A large majority of our revenues are attributable to television advertising historically. The percentage of our total revenues attributable to television advertising in fiscal years 2011, 2012 and 2013 is 93%, 93% and 94% respectively. Pursuant to the new Supplementary Provisions, the Company has shifted advertisements to before and after a television program broadcast. Such change in time slots for these advertisements does not change the amount of overall broadcast time, but it in effect impacts the efficacy and value of such moved advertisements. Because advertisements broadcast before and after a television broadcast are perceived as less effective and therefore carrying less value, the new regulation has indirectly resulted in the decreased demand and lowered prices for television advertising in the market. There may be further material adverse effect on our business and results of operations if the government continues to increase regulation in the satellite market, thus requiring the Company to further alter its business operations or reducing or restricting the Company's long-term ability to sell its products and services on a global basis.

Our ability to enforce the equity pledge agreements between us and the shareholders of our variable interest entities may be subject to limitations based on PRC laws and regulations.

Under the equity pledge agreements among Nanning Jetlong, our variable interest entities in the PRC and their respective shareholders, these shareholders have pledged all of their equity interests in our variable interest entities to Nanning Jetlong to secure the performance of the obligations by each variable interest entity and its shareholders under the contractual arrangements. According to the PRC Property Law and PRC Guarantee Law, the pledgee and the pledgor are prohibited from making an agreement prior to the expiration of the debt performance period to transfer the ownership of the pledged equity to the pledgee when the obligor fails to pay the debt due. However, under the PRC Property Law, when an obligor fails to pay its debt when due, the pledgee may choose to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sale of the pledged equity. If our variable interest entities or their shareholders fail to perform their obligations secured by the pledges under the equity pledge agreements, one remedy in the event of default under the agreements is to require the pledgor to sell the equity interests of our variable interest entities in an auction or private sale and remit the proceeds to our wholly owned subsidiaries in the PRC, net of related taxes and expenses. Such an auction or private sale may not result in our receipt of the full value of the equity interests in our variable interest entities.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from our initial public offering to make loans or additional capital contributions to our PRC subsidiaries.

We may make loans to our PRC subsidiaries and variable interest entities or we may make additional capital contributions to our PRC subsidiaries. Any loans to our subsidiaries or variable interest entities in China are subject to PRC regulations and approvals. For example:

- loans by us to our PRC subsidiaries cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local branch; and
- loans by us to domestic PRC enterprises, including our variable interest entities, must be approved by the relevant government authorities and must also be registered with the SAFE or its local branch.

We may also determine to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce, or the MOC, or its local counterpart. Because the variable interest entities are domestic PRC enterprises, we are not likely to finance their activities by means of capital contributions due to regulatory issues relating to foreign investment in domestic PRC enterprises, as well as the licensing and other regulatory issues. We cannot assure you that we can obtain the required government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries or any of the variable interest entities. If we fail to receive such registrations or approvals, our ability to use the proceeds from our initial public offering and to fund our operations in China would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

The SAFE issued a public notice in October 2005, or the SAFE notice, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an “offshore special purpose company.” PRC residents who are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. The SAFE notice further requires amendment to the registration in the event of any significant changes with respect to the offshore special purpose company, including an initial public offering by such company. Our shareholder who is a PRC citizen, Mr. He Dang, has registered with the local SAFE branch as required by the SAFE notice and has amended such registration to reflect recent developments of our company and our PRC subsidiaries, particularly the establishment of the contractual arrangements between Nanning Jetlong and our variable interest entities in China. Our current and future beneficial owners who are PRC citizens will be required to register with local SAFE branches and to amend their registrations to reflect recent developments with respect to our company and our PRC subsidiaries. The failure of our beneficial owner to amend his SAFE registrations in a timely fashion pursuant to the SAFE notice or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute dividends to our company or otherwise materially and adversely affect our business.

The approval of the China Securities Regulatory Commission, or the CSRC, may have been required with our initial public offering. Based on advice of our PRC counsel, we did not seek CSRC's approval for our initial public offering. Any requirement to obtain prior CSRC approval and a failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.

On August 8, 2006, six PRC regulatory agencies, including the CSRC promulgated a regulation entitled Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the SPV Regulation. The SPV Regulation provides that an offshore special purpose vehicle, or SPV, formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of the SPV's securities on an overseas stock exchange. The applicability of the SPV Regulation with respect to CSRC approval is unclear. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

At the time of our initial public offering in May 2010, our PRC counsel at that time advised us that:

- the CSRC approval requirement applies to SPVs that are seeking overseas listing and that had previously acquired equity interests in PRC companies through share exchanges and cash; and
- based on their understanding of the current PRC laws, rules and regulations, including the SPV Regulation, and that our wholly owned PRC subsidiary was established by foreign direct investment, rather than through a merger or acquisition prior to September 8, 2006, the effective date of the SPV Regulation, the SPV Regulation did not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the Nasdaq Global Market.

Based on the advice of our PRC counsel at that time, we did not seek CSRC's approval for our initial public offering. We, however, cannot assure you that the relevant PRC government agencies, including the CSRC, would have reached the same conclusion as our PRC counsel. If the CSRC subsequently determines that its prior approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict sending the proceeds from our initial public offering into China or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

The approval of the MOC may be required in connection with the establishment of our contractual arrangements with the variable interest entities. Our failure to obtain this approval, if required, could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.

The SPV Regulation also provides that an offshore SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the MOC prior to the listing and trading of the SPV's securities on an overseas stock exchange. The applicability of the SPV Regulation with respect to MOC approval is unclear.

Our then PRC counsel has advised us that MOC approval is not required in connection with:

- the establishment of Nanning Jetlong, our wholly owned PRC subsidiary because the equity interest in Nanning Jetlong was established by Jetlong Technology Limited, our wholly owned Marshall Islands subsidiary prior to September 8, 2006, the effective date of the SPV Regulation; or
- the contractual arrangements beginning in March 2008 entered into between Nanning Jetlong and our variable interest entities.

However, if the MOC subsequently determines that its prior approval was required for our contractual arrangements with the variable interest entities, we may face regulatory actions or other sanctions from the MOC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on us and the variable interest entities, limit our operations, delay or restrict sending the proceeds from our initial public offering into China or take other actions. These regulatory actions could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and in certain cases, the remittance of currency out of China. We receive all our revenues in Renminbi. Under our current corporate structure, our income may be derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us or otherwise satisfy its foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions may be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. In the future, the PRC government may exercise its discretion to restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

SAFE promulgated a circular on August 29, 2008, or Circular 142, a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into RMB. The notice requires that the capital of a foreign-invested company settled in RMB and converted from foreign currencies may be used only for purposes within the business scope stated on the business license of the company and, unless otherwise permitted by other regulations, may not be used for equity investments within the PRC. SAFE also strengthened its oversight of the flow and use of the capital of a foreign-invested company settled in RMB and converted from foreign currencies. The use of such RMB capital may not be changed without SAFE's approval and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, including the substantial fines set forth in the *Foreign Exchange Administration Rules*. In addition, SAFE promulgated a circular on November 9, 2010, or Circular 59, which requires the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents. Furthermore, SAFE issued a circular on November 9, 2011, or Circular 45, which requires SAFE's local counterparts to strengthen the control imposed by Circulars 142 and 59 over the conversion of a foreign-invested company's capital contributed in foreign currency into RMB. Circular 45 stipulates that a foreign-invested company's RMB funds, if converted from such company's capital contributed in foreign currency, may not be used by such company to

- (i) extend loans (in the form of entrusted loans),
- (ii) repay borrowings between enterprises, or
- (iii) repay bank loans it has obtained and on-lent to third parties.

Fluctuations in exchange rates of the Renminbi could materially affect our reported results of operations.

The exchange rates between the Renminbi and the U.S. dollar, Euro and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Since July 2008, however, the Renminbi has traded within a narrow range against the U.S. dollar. As a consequence, the Renminbi has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. On June 19, 2010, the People's Bank of China announced that it will allow a more flexible exchange rate for Renminbi without mentioning specific policy changes, although it ruled out any large-scale appreciation. It is difficult to predict how long the current situation may last and when and how Renminbi exchange rates may change going forward.

As we may rely on dividends and other fees paid to us by our PRC subsidiaries and our variable interest entities in China, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of and any dividends payable on our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi 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 the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, since our functional and reporting currency is the U.S. dollar while the functional currency of our subsidiaries and variable interest entities in China is Renminbi, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would have a positive or negative effect on our reported financial results, which may not reflect any underlying change in our business, results of operations or financial condition.

Dividends we receive from our PRC subsidiaries may be subject to PRC withholding tax.

The PRC Enterprise Income Tax Law, or the EIT Law, provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within the PRC. The State Council of the PRC has since reduced such rate to 10% through the implementation regulations. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our PRC subsidiaries. Thus, dividends paid to us by our PRC subsidiaries may be subject to the 10% income tax if we are considered to be a “non-resident enterprise” under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we receive from our PRC subsidiaries, it would materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

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According to the Double Taxation Arrangement (Hong Kong), Notice 112 and Notice 601, dividends paid to enterprises resident in Hong Kong are subject to a withholding tax of 5%, provided that the Hong Kong resident enterprise owns over 25% of the PRC enterprise distributing the dividend and can be considered a “beneficial owner” and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Because our PRC subsidiaries are 100% owned by enterprises incorporated in Hong Kong, under the aforementioned arrangement, dividends paid to us through these Hong Kong subsidiaries may be subject to the 5% income tax if (i) we and our Hong Kong subsidiaries are considered to be “non-resident enterprises” under the EIT Law and (ii) each respective Hong Kong subsidiary is considered to be a “beneficial owner” and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). If any Hong Kong subsidiary is not regarded as the beneficial owner of any such dividends, it will not be entitled to the treaty benefits under the Double Taxation Arrangement (Hong Kong). As a result, such dividends would be subject to normal withholding tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the Double Taxation Arrangement (Hong Kong).

We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income.

Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Although the term “de facto management bodies” is defined as “management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise,” the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China are currently unclear. A circular issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management bodies” located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (iv) at least half of the enterprise’s directors or senior management with voting rights reside in the PRC. In addition, the State Administration of Taxation recently promulgated the Interim Provisions on Administration of Income Tax of Chinese-Controlled Resident Enterprise Registered Overseas, effective from September 1, 2011, which clarified certain matters concerning the determination of resident status, administrative matters following this determination and competent tax authorities. These interim provisions also specify that when an enterprise which is both Chinese-controlled and incorporated outside of mainland China receives PRC-sourced incomes such as dividends and interests, no PRC withholding tax is applicable if such enterprise has obtained a certificate evidencing its status as a PRC resident enterprise which is registered overseas and controlled by Chinese.

Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise. To our knowledge, there is a lack of clear guidance regarding the criteria pursuant to which the PRC tax authorities will determine the tax residency of a company under the EIT Law. As a result, neither we nor our PRC counsel can be certain as to whether we will be subject to the tax applicable to resident enterprises or non-resident enterprises under the EIT Law. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations. If we are deemed to be a PRC resident enterprise, dividends distributed to our non-PRC entity investors by us, or the gain our non-PRC entity investors may realize from the transfer of our common shares or ADSs, may be treated as PRC-sourced income and therefore be subject to a 10% PRC withholding tax pursuant to the EIT Law and, as a result, the value of your investment may be materially and adversely affected.

Dividends payable by us to our foreign investors and gain on the sale of our ADSs or ordinary shares may become subject to taxes under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC “resident enterprise,” it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

We face risks related to natural disasters and health epidemics in China, which could have a material adverse effect on our business and results of operations.

Our business could be materially and adversely affected by natural disasters or the outbreak of health epidemics in China. For example, in May 2008, Sichuan Province suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. In particular, in assisting with emergency responses and disaster relief, broadcasting time, including advertisement broadcasting time, on many television channels was re-arranged during the period following the earthquake. As a result, we experienced disruptions of our advertising placement and loss of our advertising time purchased without being fully compensated. Our exclusive agency arrangements typically do not contain compensation clauses favorable to us in cases of natural disasters or other force majeure events. In addition, in the last decade, the PRC has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome. Since May 2009, outbreaks of H1N1 influenza or swine flu have been reported in Hong Kong and throughout China. Any future natural disasters or health epidemics in the PRC could have a material adverse effect on our business and results of operations.

The implementation of the PRC Labor Contract Law may significantly increase our operating expenses and adversely affect our business and results of operations.

On June 29, 2007, the PRC National People’s Congress enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law formalizes workers’ rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions and provides for specific standards and procedure for the termination of an employment contract. In addition, the Labor Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed-term employment contract. As there has been little guidance as to how the Labor Contract Law will be interpreted and enforced by the relevant PRC authorities, there remains substantial uncertainty as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law may significantly increase our operating expenses, in particular our personnel expenses as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law may also limit our ability to effect these changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

Proceedings instituted by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese affiliates of the “big four” accounting firms, (including our auditors) and also against Dahua (the former BDO affiliate in China). The Rule 102(e) proceedings initiated by the SEC relate to these firms’ inability to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in the PRC are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the China Securities Regulatory Commission. The issues raised by the proceedings are not specific to our auditors or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States.

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In January 2014, the administrative judge reached an Initial Decision that the “big four” accounting firms should be barred from practicing before the Commission for six months. However, it is currently impossible to determine the ultimate outcome of this matter as the accounting firms have filed a Petition for Review of the Initial Decision and pending that review the effect of the Initial Decision is suspended. The SEC Commissioners will review the Initial Decision, determine whether there has been any violation and, if so, determine the appropriate remedy to be placed on these audit firms. Once such an order was made, the accounting firms would have a further right to appeal to the US Federal courts, and the effect of the order might be further stayed pending the outcome of that appeal.

Depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

Risks Relating to our ADSs

The market price for our ADSs may be volatile which could result in a loss to you.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors, including the following:

- announcements of competitive developments;
- regulatory developments in China affecting us, our clients or our competitors;
- announcements regarding litigation or administrative proceedings involving us;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other advertising companies;
- addition or departure of our executive officers;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs;
- sales or perceived sales of additional ordinary shares or ADSs; and
- the proposed acquisition of all of the outstanding shares of the Company not currently owned or controlled by (as applicable) Mr. He Dang in a “going private” transaction.

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

A significant percentage of our outstanding ordinary shares is beneficially owned by Mr. He Dang, our founder, chairman and chief executive officer, and as a result, he may have significantly greater influence on us and our corporate actions by nature of the size of his shareholdings relative to our public shareholders

Mr. He Dang beneficially owned approximately 57.5% of our outstanding ordinary shares as of the date of this annual report on Form 20-F. Accordingly, Mr. He Dang has significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In particular, on September 30, 2013, our board of directors received a preliminary non-binding proposal letter from Mr. He Dang, Merry Circle Trading Limited, a British Virgin Islands company controlled by Mr. He Dang, Honour Idea Limited, a Brash Virgin Islands company owned by Mr. He Dang and CMC Capital Partners HK Limited relating to a “going private” transaction. See “Item 4. Information on the Company — A. History and Development of the Company — Going Private Transaction.” Immediately following the proposed “going private” transaction contemplated thereby, our company, as the surviving company, will be beneficially owned by Mr. He Dang, among others.

Thus, Mr. He Dang’s interests as an officer and employee may differ from his interests as a shareholder or from the interests of our other shareholders, including you.

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

Sales of our ADSs or ordinary shares in the public market or the perception that these sales could occur could cause the market price of our ADSs to decline. As of December 31, 2013, we have 18,901,128 Class A ordinary shares and 62,500,000 Class B ordinary shares outstanding, including 18,901,128 Class A ordinary shares represented by 9,450,564 ADSs. All ADSs are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding are available for sale upon the expiration of certain lock-up arrangements. In addition, ordinary shares that certain option holders will receive when they exercise their share options will not be available for sale until the expiration of relevant lock-up periods, subject to volume and other restrictions that may be applicable under Rule 144 and Rule 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

Anti-takeover provisions in our memorandum and articles of association may discourage a third party from offering to acquire our company, which could limit your opportunity to sell your ADSs at a premium.

Our amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of our company, modify our structure or cause us to engage in change of control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

For example, our board of directors will have the authority, without further action by our shareholders, to issue preference shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preference shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues preference shares, the market price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected.

Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change in control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our amended and restated memorandum and articles of association provide for a dual-class ordinary share structure with Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. See “Item 10. Additional Information — B. Memorandum and Articles of Association.”

Class B ordinary shares consist of the ordinary shares held by our shareholders prior to our initial public offering and any ordinary shares issued upon the exercise of options granted under our 2008 Share Incentive Plan. Each Class A ordinary share will be entitled to one vote on all matters subject to shareholders’ vote and each Class B ordinary share will be entitled to five votes on all matters subject to shareholders’ vote. We issued Class A ordinary shares represented by our ADSs in our initial public offering. Due to the disparate voting rights attached to these two classes of ordinary shares, our existing shareholders will have significant voting rights over matters requiring shareholder approval, including the election and removal of directors and certain corporate transactions, such as mergers, consolidations and other business combinations. This concentrated control could discourage others from pursuing any potential merger, takeover or other change in control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

We are a Cayman Islands company and because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you may have less protection of your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent, governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive but not binding authority on a court in 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 precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. Furthermore, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. As a result, our public shareholders may have more difficulties in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a Delaware company.

Judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. All of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to bring an action in the United States against us or against these individuals in the event that you believe that your rights have been violated under U.S. securities law or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands or the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Holders of ADSs must act through the depositary to exercise their rights as shareholders of our company.

Holders of our ADSs do not have the same rights as our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement for the ADSs. Under our amended and restated memorandum and articles of association, the minimum notice period required to convene a general meeting is 21 days. When a general meeting is convened, holders of our ADSs may not receive sufficient notice of a shareholders' meeting to permit a holder to withdraw its ordinary shares to allow such holder to cast its vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to such holders of our ADSs or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of our ADSs in a timely manner, but we cannot assure such holders that they will receive the voting materials in time to ensure that you can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of our ADSs may not be able to exercise their right to vote and may lack recourse if such ADSs are not voted as requested. In addition, in the capacity of an ADS holder, they will not be able to call a shareholders' meeting.

The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying the ADSs if holders of such ADSs do not vote at a shareholders' meeting except in limited circumstances, which could adversely affect their interests.

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying the ADSs at shareholders' meeting if holders of such ADSs do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that holders of our ADSs cannot prevent our ordinary shares underlying such ADSs from being voted, absent the situations described above and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

Holders of our ADSs may be subject to limitations on transfers of their ADSs.

Our ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed or at any time if we or the depositary deems 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.

The rights of holders of our ADSs to participate in any future rights offerings may be limited, which may cause dilution to their holdings and they may not receive cash dividends if it is impractical to make future rights offerings available to them.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to holders of our ADSs, unless either both the rights and any related securities are registered under the Securities Act or the distribution of them to ADS holders is exempted 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. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

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

Item 4. Information on the Company

A. History and Development of the Company

Our company, Charm Communications Inc., was formed under the laws of the Cayman Islands in January 2008. Our ADSs have been listed on the Nasdaq Global Market under the symbol “CHRM” since May 2010. Our principal executive offices are located at Legend Town CN01, No.1 Ba Li Zhuang Dong Li, Chaoyang District, Beijing 100025, People’s Republic of China. Our telephone number at this address is (86-10)8556-2666 and our fax number is (86-10)8556-2600. Our registered office in the Cayman Islands is located at the offices of Maples, Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Charm Communications Inc. holds all of the outstanding equity interest in Movie-Forward Ltd., a company incorporated under the laws of the British Virgin Islands in June 2007, Media Port Holdings Limited, a company incorporated under the laws of the British Virgin Islands in November 2009, Media Talent International Limited, a company incorporated under the laws of the British Virgin Islands in May 2010 and Best Ranking Limited, a company incorporated under the laws of the British Virgin Islands in October 2011. Charm Communications Inc. also holds all of the outstanding equity interest in Charm Digital Media Company Limited, Charm E Media Company Limited, Charm Future Media Company Limited and Charm New Media Company Limited, all of which are incorporated under the laws of the Hong Kong in November 2011.

Movie-Forward Ltd. in turn holds all of the outstanding equity interest in Charm Hong Kong Limited, a company incorporated under the laws of Hong Kong in April 2008. Charm Hong Kong Limited holds all of the outstanding equity interest in Nanning Jetlong Technology Co., Ltd., or Nanning Jetlong, a company established in October 2005 under PRC law as a wholly foreign owned enterprise. In January 2010, Media Port Holdings Limited, one of our wholly owned subsidiaries located in British Virgin Islands, entered into agreements with Posterscope Advertising Limited, an affiliate of Aegis Media, to establish a consolidated joint venture, Posterscope (Hong Kong) Ltd. (the Aegis Joint Venture) to carry out the business of media planning and buying on behalf of advertising clients or their advertising agents in the PRC, pursuant to which, Media Port acquired 60% of the Aegis Joint Venture for a consideration of RMB3,600,000. As part of the joint venture transaction, Aegis Media transferred all of its rights and interests in Beijing Vizeum Advertising Co., Ltd. to the Aegis Joint Venture. There are five seats on the Board of directors of Aegis Joint Venture. We take three out of the five seats. Significant operating and financial decisions require the approval of a simple majority of the directors of the Aegis Joint Venture. We consolidate its financial statements accordingly.

Media Talent International Limited, which was established in May 2010, holds all the outstanding equity interest in O’Master Communications (Hongkong) Ltd., which in turn holds all the outstanding equity interests of Charm Media Co., Ltd., which was incorporated in the PRC in November 2010. Charm Media Co., Ltd. in turn holds all the outstanding equity interests of Shang Xing Media Co., Ltd. and Beijing Hongtu Zhuoyue Advertising Co., Ltd. Both companies were incorporated in the PRC in October 2010 and September 2012, respectively. Charm Media Co., Ltd. also holds 90% outstanding equity interests of Beijing Guozhi Travel & Culture Co., Ltd., which was incorporated in the PRC in September 2012.

Best Ranking Limited holds 60% of the outstanding equity interests in CharmClick Inc., a company incorporated under the laws of the Cayman Islands in July 2011. In November 2011, CharmClick Inc. acquired all the outstanding equity interests of Neudior Corporation Limited, a company under the laws of Hong Kong, which is qualified to set up entities in China to operate advertising business. This entity is still in the process of acquiring the related licenses.

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From 2011, we have begun operating the majority of our business through these two new entities — Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. Prior to 2011, other than Beijing Vizeum Advertising Co., Ltd., in which we hold 60% of the outstanding equity interests, we primarily operated our business in China through our variable interest entities due to PRC regulations that impose some restrictions on foreign investments in the advertising industry. We have three variable interest entities in China that operate our businesses, each of which is an entity duly formed under PRC law. These variable interest entities were established in the years set forth below:

<u>Year of Establishment</u>	<u>Variable Interest Entities or VIE's subsidiaries</u>
2006:	Shidai Charm Advertising Co., Ltd.
2008:	Qinghai Charm Advertising Co., Ltd.
2010:	Beijing Charm Culture Co., Ltd.

Beginning on March 28, 2008, Nanning Jetlong has entered into a series of contractual arrangements with each of the variable interest entities and their respective shareholders to govern our relationships with the variable interest entities and operate our business in China. These contractual arrangements allow us to effectively control the variable interest entities and to derive substantially all of the economic benefits from them. See “Item 10. Additional Information — C. Material Contracts.” Accordingly, we have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP since the inception of these affiliated entities.

On May 10, 2010, we completed our initial public offering, in which we offered and sold 15,625,000 ordinary shares in the form of 7,812,500 ADSs, raising US\$69,023,437 in pre-expenses proceeds.

In October 2010, Beijing Charm Culture Co., Ltd., one of our PRC Subsidiaries, entered into an agreement to establish a limited liability company in the PRC, Wasu Digital Co., Ltd. (the Wasu Joint Venture) with a PRC affiliate of Wasu Digital Group, or Wasu Group. The Wasu Joint Venture, which has the right to operate all advertising-related businesses across Wasu Group’s three-network platform of IPTV, 3G mobile TV and broadband TV for 20 years, is 65% owned by us and 35% owned by Wasu Group. Our capital injection in the Wasu Joint Venture was RMB4,062,500 and we share dividends and undertake risks and losses with Wasu Group in accordance with our respective percentages in the registered capital contribution of the Wasu Joint Venture under PRC laws. There are five seats on the Board of Wasu Joint Venture and we take three of them. According to Wasu Joint Venture’s Articles of Association, all actions require the approval of two-thirds of the directors. We have significant influence but do not have control over Wasu Joint Venture.

In April 2011, Shang Xing Media Co., Ltd., one of our PRC Subsidiaries, formed a PRC company limited by shares, Chongqing Changhui Culture Co., Ltd. (the Chongqing Joint Venture) with Chongqing Travel & Culture Communications Co., Ltd., or Chongqing Travel, to explore and promote Chongqing’s travel and tourism advertising market. The Chongqing Joint Venture is 45% owned by us and 55% owned by Chongqing Travel. Our capital injection in the Chongqing Joint Venture was RMB4,500,000 and we share dividends and undertake risks and losses with Chongqing Travel in accordance with our respective shareholding percentages in the Chongqing Joint Venture under PRC laws. There are five seats on the Board of Chongqing Joint Venture and we take two of them. According to Chongqing Joint Venture’s Articles of Association, all actions require the approval of two-thirds of the directors. We have significant influence but do not have control over Chongqing Joint Venture.

In May 2011, Beijing Charm Culture Co., Ltd. entered into an agreement to establish a limited liability company in the PRC, Chunqiu Charm Culture Co., Ltd. (the Chunqiu Joint Venture) with Beijing Chunqiu International Movie Culture Corporation, or Chunqiu International, to explore and promote the advertising-related business in filming industry. The Chunqiu Joint Venture is 51% owned by us and 49% owned by Chunqiu International. Our capital injection in the Chunqiu Joint Venture was RMB510,000 and we share dividends and undertake risks and losses with Chunqiu International in accordance with our respective shareholding percentages in the Chunqiu Joint Venture under PRC laws. There are seven seats on the Board of Chunqiu Joint Venture and we take three of them. According to Chunqiu Joint Venture’s Articles of Association, all actions require the approval of a simple majority of the directors. We have significant influence but do not have control over Chunqiu Joint Venture.

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In December 1, 2011, in connection with our acquisition of 60% stake in ClickPro in August 2011 and for business development purposes, Best Ranking Limited, one of our wholly owned subsidiaries incorporated in British Virgin Islands, entered into agreements with CharmClick Limited, a British Virgin Islands company owned by Honggang Zhu, Xiaofen Li, Ye Yuan, Yuejie Han, Zongjian Xu, Di Kong, Xiaodan Cai and Shumin Wang, all of which were employees of ClickPro at the time, to form CharmClick, Inc., a Cayman Islands company, with Best Ranking Limited holding 60% of its total outstanding equity interest and CharmClick Limited holding the remaining 40%. Under these agreements, Best Ranking Limited has the call option to purchase all or any part of CharmClick Limited's equity interest in CharmClick Inc. if an initial public offering of CharmClick Inc. fails to occur by December 1, 2016, five years from closing; in the event Best Ranking Limited does not elect to exercise such call right by December 1, 2017, CharmClick Limited shall have a put option to sell all but not less than all of its equity interest in CharmClick Inc. to Best Ranking Limited. Directors of CharmClick Inc. shall be elected by a simple majority vote of the shareholders, who may resolve to pay dividends and other distribution on CharmClick Inc.'s shares. Available assets of ours upon winding up shall be distributed amongst the shareholders in proportion to the par value of the shares held by them. Mr. He Dang, the chairman of our company, was appointed as its sole director and all of the shareholders of CharmClick Limited have since joined us as our employees. Neudior Corporation Limited, the wholly owned Hong Kong subsidiary of CharmClick Inc., is qualified to set up entities in China to operate advertising business. However, we are still in the process of obtaining relevant licenses and permits for Neudior Corporation Limited to operate in China via PRC subsidiaries yet to be established. There has been no business conducted or revenues generated by either CharmClick Inc. or Neudior Corporation Limited to date.

In December, 2012, Shang Xing Media Co., Ltd. formed a PRC company limited by shares, Guangdong Nanfang Media New Broadcast Co., Ltd. (the Nanfang Media Joint Venture) with Guangdong Nanfang International Media Advertising Co., Ltd. or Guangdong Nanfang, to explore the advertising-related business in the broadcast industry. The Nanfang Media Joint Venture is 40% owned by us and 60% owned by Guangdong Nanfang. Our capital injection in the Nanfang Media Joint Venture was RMB2,000,000 and we share dividends and undertake risks and losses with Guangdong Nanfang in accordance with our respective shareholding percentages in the Nanfang Media Joint Venture under PRC laws. There are five seats on the Board of Nanfang Media Joint Venture and we take two of them. According to Nanfang Media Joint Venture's Articles of Association, all actions require the approval of two-thirds of the directors. We have significant influence but do not have control over Nanfang Media Joint Venture.

In September, 2013, Charm Media Co., Ltd. Formed a PRC company limited by shares, Jiangsu Heli Charm Advertising Media Co. Ltd. ("Jiangsu Heli") with an individual to explore the local advertising business in Anhui Province and Jiangsu Province. Jiangsu Heli is 60% owned by us and 40% owned by the individual. The capital injection in the Jiangsu Heli is RMB3.0 million and we share dividends and undertake risks and losses in accordance with our respective shareholding percentages in Jiangsu Heli.

Going Private Transaction

In September 2013, Mr. He Dang, the chairman of the board of directors (the "Founder"), Merry Circle Trading Limited, a British Virgin Islands company controlled by the Founder, Honour Idea Limited, a British Virgin Islands company owned by the Founder ("Honour Idea" and, collectively with Merry Circle, the "Founder Shareholders"), and CMC Capital Partners HK Limited (collectively, the "Consortium") proposed to acquire all of the outstanding shares of the Company not currently owned by the Founder Shareholders in a "going private" transaction (the "Transaction") at a price of US\$4.70 in cash per American Depositary Share of the Company ("ADS", each ADS representing two (2) Class A ordinary shares of the Company), or US\$2.35 in cash per Class A ordinary share of the Company, and US\$2.35 in cash per Class B ordinary share of the Company, subject to certain conditions. The Company's board of directors has formed a special committee of disinterested directors (the "Special Committee") to consider the proposal, consisting of independent directors Mr. Zhan Wang, Mr. Andrew J. Rickards and Mr. Gang Chen. Effective April 9, 2014, Mr. Rickards ceased to be a member of the Special Committee upon his resignation from our board of directors at the conclusion of the term of his independent director agreement. In connection with Mr. Rickards' resignation, the Special Committee has reexamined the qualifications of its members and determined that the Special Committee will consist of the remaining members Mr. Wang and Mr. Chen following Mr. Rickards' departure.

B. Business Overview

Our Business

We are a leading advertising agency in China. We (i) offer a broad range of advertising agency services from planning and managing advertising campaigns to creating and placing advertisements and (ii) engage in media investment management through identifying, securing and selling advertising resources. We believe we are also the leading domestic television advertising agency in China, as measured by the total value of successful bids of the prime-time advertising time for 2013 on CCTV, which is generally regarded as the most coveted television advertising time in China. According to CCTV, we ranked first in terms of the total advertising spending for advertisements we placed on behalf of clients on CCTV channels in each of the ten consecutive years from 2004 to 2013. In addition, we believe that we have established a leading media investment management business in China. For 2013, we have exclusive agency arrangements with Tianjin Satellite Television, Nanfang Satellite TV, BTV sports TV, and certain CCTV programs for TV resources. And we also have exclusive agency agreements with Shanghai New Media Information Broadcasting Co. Ltd., Beijing Gehua Cable Network, and Guangzhou Zhujiang Online Multimedia Co., Ltd. to operate digital media advertising on interactive HDTV digital cable platforms in Shanghai, Beijing, and Guangzhou.

Advertising Agency and Branding and Identity Services

We place advertisements for our clients on a broad array of media platforms, including CCTV, satellite and regional television channels, the internet and out-of-home media. The total advertising spending for the advertisements we placed on behalf of the clients under our advertising agency business increased from US\$ US\$635.7 million in 2011 to US\$711.1 million in 2012 and to US\$758.2 million in 2013. We derive our advertising agency revenues from commissions paid by clients for the planning and placement of these advertisements and from commissions and performance bonuses received from television channels and other advertising media platforms on which we place the advertisements. Such commissions are generally calculated as a percentage of the total advertising spending by our clients.

We have established a diversified client base of Chinese companies that includes many of the leading brand names in China. Our clients include well-recognized brand names in China across many industries, such as China Telecom, Bank of Communications, China Post Life Insurance, Snowbeer, COFCO, Cheng De Lolo, Povos, Monmilk, Insurance Association of China and Chery Automobile. In the aggregate, these ten clients accounted for approximately 13% of our total revenues in 2013. Our clients also include emerging domestic leading brands, such as Brilliance-auto, Robam, Eral, that have used our services to further build their brands on a national scale.

We have expertise in helping our clients secure prime-time advertising time on CCTV, which is generally regarded as the most coveted television advertising time in China. The prime-time advertising time on CCTV includes advertising times during prime-time television programs and special events and is sold pursuant to CCTV's annual Golden-Time Public Auction process. According to CCTV, for each of the ten consecutive years from 2004 to 2013, we ranked first out of all advertising agencies for the total value of successful bids of prime-time advertising time on CCTV. In each of the ten consecutive years from 2004 to 2013, we also ranked first in terms of total advertising spending for advertisements we placed on behalf of clients on CCTV channels.

We distinguish ourselves from many of our domestic competitors with our ability to offer integrated advertising solutions to our advertising clients covering a wide range of advertising agency services, including: (i) market research; (ii) branding strategies; (iii) creative design, development and production of advertisements; (iv) procurement of advertising media resources and placement of advertisements; (v) public relations; and (vi) overall management of advertising campaigns, all specifically tailored for the Chinese market. Furthermore, we utilize an information-based approach to understand the advertising industry through our database of market research data, ratings information and past campaign performance, as well as expert systems and algorithms that we have developed internally.

Media Investment Management

Under our media investment management business, through a series of exclusive agency arrangements, we secure all or a portion of the advertising time and other advertising rights, which include soft advertising, such as sponsorship, on specific television channels or television programs and sell such advertising media resources. The total advertising spending for the advertisements that were placed on our advertising media resources decreased from US\$238.8 million in 2011 to US\$112.8 million in 2012 and increase to US\$128.4 million to 2013. Under this business, we recognize total advertising spending as our revenue. Through the media investment management business, we provide clients with access to our advertising media resources that we have secured on a network of television channels with targeted geographic coverage and viewership. For 2011, we had exclusive agency arrangements with Shanghai Dragon Television, Tianjin Satellite Television, Hubei Provincial Economic TV and Beijing Gehua Cable Network to secure all or a portion of the advertising time on these satellite television channels, as well as with CCTV to secure advertising rights on several programs on CCTV. For 2012, we did not renew our exclusive agency arrangements with Shanghai Dragon Television and Hubei Provincial Economic TV. For 2012, we have exclusive agency arrangements with Tianjin Satellite Television, Nanfang Satellite TV, Beijing Sports TV, a Shanghai Channel Young program, Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting and Guangzhou Zhujiang Online Multimedia to secure all or a portion of the advertising time on these channels, as well as with CCTV to secure advertising rights on several programs on CCTV. For 2013, we did not renew our exclusive agency arrangements with a Shanghai Channel Young program. For 2013, we have exclusive agency arrangements with Tianjin Satellite Television, Nanfang Satellite TV, Beijing Sports TV, Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting and Guangzhou Zhujiang Online Multimedia to secure all or a portion of the advertising time on these channels, as well as with CCTV to secure advertising rights on several programs on CCTV.

We offer the television channels with which we have exclusive arrangements to attract our blue-chip clients in advertising spending. We also work with television channels and programs to help enhance the attractiveness of their programs, expand their viewer base and achieve higher ratings. As a result, we have established a network of media resources that we believe are attractive not only to our core client base but also new advertising clients.

We believe that there is a mutually beneficial relationship between our agency and media investment businesses. Our cross-selling of advertising media resources from our media investment management business to blue-chip clients from our agency business benefits both our clients and television channels or programs, as channels or programs can gain more blue-chip advertisers while our clients can have more targeted advertising options. We believe that the media investment management business will also help introduce us to more advertising clients, so that we can cross-sell our agency services and help increase clients' total advertising spending with us.

The total amount of advertising turnover for our advertising agency and media investment management businesses was, US\$874.5 million and US\$823.9 million and US\$886.7 million in 2011, 2012 and 2013, respectively. Overall, we generated total revenues of US\$280.1 million, US\$165.5 million and US\$183.8 million in 2011, 2012 and 2013, respectively.

Advertising on New Media Platforms

We have begun to complement our core expertise in television advertising by continuing to expand our advertising service offerings to internet advertising and other new advertising media platforms.

In 2010, we set up an independent business unit which offers full-service digital marketing services under the Charm Interactive brand, which offers the following internet marketing services: digital creative, planning and buying, ePR, online video, search engine marketing, or SEM, search engine optimization, or SEO, social and viral marketing and integrated TV/online brand campaigns and product launches. We have provided interactive marketing services to clients in the following industries: commercial service, financial service, fast-moving consumer goods, pharmaceutical, home appliances and touring. In August 2011, we acquired a 60% stake in ClickPro, a leading Chinese performance and SEM firm with proprietary technology and full-service capabilities. The newly acquired company has strengthened our performance marketing platform by integrating with our existing SEM business, which operates under Charm's digital marketing agency, Charm Interactive, to form our fourth major brand, Charm Click.

In October 2010, we entered into an agreement to establish a joint venture with Wasu Digital Group, or Wasu Group, China's largest operator and digital content provider for cable TV, 3G mobile TV and broadband TV and a supplier of IPTV services. The joint venture has the right to operate all advertising-related businesses across Wasu Group's three-network platform of IPTV, 3G mobile TV and broadband TV for 20 years. The joint venture will seek to develop and set advertising industry standards on these new advertising media platforms, including the development of advertising products, product pricing, sales strategy, promotional materials as well as the development of advertising sales and agency policies.

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In December 2010, we entered into an exclusive advertising agency agreement with Beijing Gehua Cable TV Network Co., Ltd., or Beijing Gehua Cable Network, to operate digital media advertising on its interactive HDTV digital cable platforms. We didn't renew our agreement with Beijing Gehua at the end of 2013. In June 2011, we signed exclusive advertising agency agreements with Shanghai New Media Information Broadcasting Co. Ltd. and Guangzhou Zhujiang Online Multimedia Co., Ltd. to operate digital media advertising on interactive HDTV digital cable platforms in Shanghai and Guangzhou, respectively.

Our Competitive Strengths

We believe that the following strengths give us a competitive advantage and set us apart from our competitors:

Leading domestic television advertising agency in China

We believe we are the leading domestic television advertising agency in China according to the 2010 report issued by China Advertising Association, as measured by both the total advertising spending and advertising revenue. In particular, we have become the largest advertising agency on CCTV, the single largest national television network in China, in terms of the total advertising spending for the advertisements we placed on behalf of our advertising clients on CCTV. We were selected as one of CCTV's Top Ten Advertising Agencies, initially in 1996 and subsequently from 2000 to 2013. In addition, according to CCTV, for each of the ten consecutive years from 2004 to 2013, we ranked first out of all advertising agencies in terms of total advertising spending on CCTV for advertisements we placed on behalf of our advertising clients. We also ranked first out of all advertising agencies in China for successful bids of the prime-time advertising time on CCTV-1, which is generally regarded as the most coveted television advertising time in China, for each of the ten consecutive years from 2004 to 2013. Moreover, we have a broad array of television channel coverage and have placed advertisements on behalf of our clients on satellite and regional channels in addition to CCTV.

Diversified client base of both blue-chip and emerging leading brands

We have established a diversified client base of Chinese corporate clients, many of whom represent the leading brands in their respective industries in China. For example, one of our largest clients is China Telecom, which is one of the three major telecommunications operators in China. Our significant clients include many other well-known brand names in China, such as China Telecom, Bank of Communications, China Post Life Insurance, Snowbeer, COFCO, Cheng De Lolo, Povos, Monmilk, Insurance Association of China and Chery Automobile. Our clients also include emerging domestic leading brands, such as Bosideng, Fenjiu Group and Sunshine Insurance group that have used our service to further build their brands on a national scale. For the year ended December 31, 2013, we provided services to a total of over 700 advertising clients.

Since we represent a significant percentage of the successful bids for the CCTV prime-time advertising time and offer alternative media resources, we generally have been able to satisfy the demands of multiple clients vying for the same advertising time by coordinating and arranging solutions. Our ability to satisfy our clients' demands and offer a broad range of services allows us to develop and strengthen our clients' trust in our company as we assist them in the management of their advertising strategies and the allocation of their advertising budgets. As a result, these capabilities have generated a high level of recurring businesses for us. Six of our top ten advertising clients in 2013, which were measured by the total advertising spending for advertisements placed by us, have been our clients for over five years.

Broad range of integrated and customized advertising agency solutions

We distinguish ourselves from many of our competitors with our ability to provide a broad range of integrated advertising solutions. Our integrated solutions include: (i) market research; (ii) branding strategies; (iii) creative design, development and production of advertisements; (iv) procurement of advertising media resources and placement of advertisements; (v) public relations; and (vi) overall management of advertising campaigns, all specifically tailored for the Chinese market. We believe our broad range of integrated and customized advertising solutions, specifically tailored for the Chinese market, provide us a competitive advantage over many other domestic advertising agencies, and has thus allowed us to establish a diversified client base of blue-chip Chinese companies. For example, we have expanded the scope of our business relationship with China Telecom over time to provide it with advertising services that include creation, production and placement of its advertisements as well as participation in the management of its branding and advertising strategies. In some cases, China Telecom selected our services in a competitive review process that included other agencies including international 4A advertising agencies.

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Our deep understanding of the advertising industry, advertising media and culture in China distinguishes us from larger overseas advertising agencies, as well as smaller domestic advertising agencies, in competing for advertisers targeting the Chinese market. In particular, to enhance the effectiveness of our advertising agency solutions, we have established a database of market research data, ratings information and past campaign performance that are derived from both internal and third-party sources. Coupled with expert systems and algorithms that we have developed internally, as well as our experience and expertise in the Chinese advertising market, our database provides us the ability to analyze and integrate large amounts of data to identify insights that enhance our ability to place effective advertisements on behalf of our clients while optimizing cost. We supplement this quantitative market data with qualitative research by organizing periodic gatherings of key clients and industry leaders to exchange insights and uncover trends in the Chinese advertising market. We believe that this information-based approach provides us a competitive advantage in providing effective advertising services.

Experience with managing television media resources

We believe our close relationship with our advertising clients and deep knowledge of the television advertising industry in China help us identify and secure additional advertising media resources under our exclusive agency arrangements. In addition, our prior experience with operating exclusive agency arrangements with respect to certain television programs and special events on CCTV as well as other television stations prepared us well to expand our media investment management business. In addition to our exclusive agency arrangements, we have also entered into non-exclusive arrangements with selected television stations to secure advertising media assets. These arrangements allow us to offer to our clients the advertising time and other advertising rights we have secured. These arrangements are expected to bring additional revenues to us from existing clients and also attract new clients, as well as provide valuable opportunities for our clients to gain more exposure and reinforce their advertising campaigns outside of the CCTV network. In addition, we believe that our ability to anticipate industry trends and identify promising advertising media resources allows us to offer our clients effective and more economical advertising solutions.

In addition, our ability to cross-sell the advertising media resources we have access to under our exclusive and non-exclusive agency arrangements to our blue-chip client base benefits both our advertising clients and the media resources. We believe that our exclusive agency arrangements with the television channels and programs provide more options to our advertising clients to execute advertising campaigns, reaching a wide audience, while specifically targeting designated geographic areas or populations.

We also provide media consultancy services for our exclusive agency television channels to help them enhance the attractiveness of their programs, expand their viewer base and achieve higher ratings, which in turn may make their advertising time more valuable. As part of these services, our advisory team, which includes leading experts from the television and advertising industries, provides advice on television programming. Tianjin Satellite Television's viewership rating improved from the sixth among provincial satellite TVs in 2010 to sixth in 2011, and 2012. Tianjin Satellite Television maintained its ranking during year 2013. We believe that our media consultancy services contributed to that improvement in viewership rankings and improved the competitiveness among satellite television channels as a result of our subsequent services in 2011, 2012 and 2013 with respect to programming and distribution strategies.

Strategic alliance with an international 4A advertising agency that provides an enhanced service platform

In January 2010, we formed a consolidated joint venture with international 4A advertising group, Aegis Media to operate its brand "Vizeum" in China. We believe that our consolidated joint venture complements our existing businesses and provides us with an enhanced service platform that enables us to attract new advertising clients and expand our customer base. Our consolidated joint venture provides us with immediate access to not only international customers including Nikon, Carlsberg and Mango, but also an established international 4A advertising agency that has been in China for over six years. As part of the global network of Vizeum, our consolidated joint venture also provides a platform for us to expand our services to domestic clients that value the services and expertise of international 4A advertising agencies, and serves as a gateway for our domestic clients seeking to advertise internationally, which enables us to further customize our strategies to address the differing needs of our clients. In addition, our collaboration with Aegis Media enables us to leverage the experience and expertise of Aegis Media to further enhance our capabilities in offering integrated marketing solutions and adopting industry best practices. By combining our deep understanding of the advertising industry, advertising media and culture in China with the international expertise and global resources of an international 4A advertising agency, we believe that our consolidated joint venture further distinguishes us from domestic and international 4A advertising agencies and enhances the competitiveness of our services. For example, the consolidated joint venture recently successfully pitched for a full media account with TOTO, a Japanese company that produces bathroom fixtures.

Strong management team and professionals with industry expertise

We have a strong management team that possesses intimate knowledge of the television and advertising industries in China and has helped us evolve our business model over time. In particular, our founder, chairman and chief executive officer, Mr. He Dang, has over sixteen years of experience in the television advertising industry and has developed close relationships with the television channels in China and with Chinese advertising clients. Mr. He Dang has won many industry awards during his career. He was named one of the ten persons of the year in the Chinese advertising industry jointly by Advertising Pointer, a magazine focusing on advertising in China, and several other organizations in 2004 and 2005 and an outstanding young entrepreneur by Beijing Municipal Bureau of Personnel and Beijing Association of Youth in 2007. Mr. Dang was also named the 2008 Top Contributor in Affecting and Promoting Chinese Brand by the Chief Brand Officer magazine and won the Jin Yuan Award for Top 10 Leaders in Advertising Industry in 2009 awarded by the Advertiser Market Observer Magazine. In 2006, Mr. He Dang was nominated for “Advertiser of the Year” in China by the China Advertising Association. Mr. Dang was named the 2009-2010 Top 10 Advertising Personnel by News Advertising and the 2010 China Advertising Influential Leader by 21st Century Advertising.

In addition, we have assembled a professional team consisting of experienced managers and personnel for advertisement design and production, advertising campaign management, media planning, market research, television programming and media consultancy to serve our advertising clients and exclusive agency television channels. Many of these professionals have won various awards and are recognized in the Chinese advertising industry. Our professionals have established a reputation for effectively planning, creating, managing and executing complex advertising solutions for our clients across different media channels. Our team’s ability to generate creative ideas and develop these ideas into advertising campaigns has allowed our clients to rely on us for integrated advertising services and solutions. Many of the advertisements we created and designed have won various industry awards. Our management team and professionals have led the growth of our company by establishing us as a leading integrated advertising agency in China and implementing our expansion of our media investment management business.

Our Strategies

We believe that our advertising media resources, our capabilities to offer integrated advertising solutions and our customer base are the three fundamental elements that are expected to drive the growth of our business. Our goal is to be the leading integrated advertising agency by implementing the following strategies:

Expand and enhance our portfolio of television advertising media resources to further broaden coverage

We plan to further expand and enhance our portfolio of television advertising media resources in connection with our agency arrangements to address the demands of different advertisers. To offer more options to our clients, we plan to amass a network of television advertising resources with geographic coverage and viewer access comparable to that of CCTV. At the same time, we plan to expand our exclusive agency arrangements with CCTV to secure other advertising rights on specific television channels or special events. We believe that our diversified client base positions us well to negotiate favorable terms with desirable television channels in China for exclusive as well as non-exclusive agency arrangements. These arrangements have the potential to attract new advertising clients, increase our opportunities for cross-selling and improve our margins. Furthermore, we believe that our strategic alliance with Aegis Media will help us harness the media tools and research of Aegis Media to generate synergies with our media investment management business by bolstering our ability to identify and pursue investments in, or strategic alliance with, attractive media assets.

Furthermore, we intend to take advantage of the industry trend towards auction-based sales of television advertising time. CCTV has recently implemented an auction-based system for selling nonprime-time advertising time beginning in 2010 on certain channels, which were previously sold at predetermined prices. Several satellite television channels, such as Hunan Satellite Television and Jiangsu Satellite Television also implemented auction-based systems for selling prime-time advertising time slots. We believe that we can apply our experience and expertise in successfully bidding for prime-time advertising time to the auction process for these additional channels and advertising times, which we believe will provide us with a competitive advantage over other competitors. In connection with the 2013 auction process, we successfully secured certain prime-time slots at the satellite channels. As television channels also shift towards auction or other arrangements to sell advertising time, we believe that our proven track record in the auction process of CCTV and satellite television channels will help position us to successfully place advertising on these television channels and attract new clients.

We also plan to gradually make transitions from our media investment management business to reduce our risk exposure customary to operations involving the sale of media inventory. As part of this transition, we will gradually take on a more prominent role in media service agency business, which we believe will generate stronger business prospects under the challenges presented by China's current overall media environment. Because media investment management business still accounts for a large portion of our overall business, ensuring a smooth and stable transition while maintaining our business prospects and growth will be our primary focus.

Expand additional advertising services in new advertising media platforms

We plan to complement our core expertise in television advertising by continuing to expand our advertising service offerings on new advertising media platforms, including the internet, mobile phones and out-of-home media. We believe that our existing client base of blue-chip Chinese companies will enable us to attract and enter into favorable arrangements with new advertising media platforms. In 2010, we set up an independent business unit which offers full-service digital marketing services under the Charm Interactive brand, which offers the following internet marketing services: digital creative, planning and buying, ePR, online video, search engine marketing, or SEM, search engine optimization, or SEO, social and viral marketing and integrated TV/online brand campaigns and product launches. We have provided interactive marketing services to clients in the following industries: commercial service, financial service, fast moving consumer goods, pharmaceutical, home appliances and touring. In August 2011, we acquired a 60% stake in ClickPro, a leading Chinese performance and SEM firm with proprietary technology and full-service capabilities. The newly acquired company has strengthened our performance marketing platform by integrating with our existing SEM business, which operates under Charm's digital marketing agency, Charm Interactive, to form our fourth major brand, Charm Click.

We also plan to take advantage of the highly fragmented advertising industry in China to acquire attractive businesses that provide new advertising media resources, such as businesses that have access to desirable advertising platforms but lack strong customer relationships. In addition, through our strategic alliance with Aegis Media, we expect to leverage Aegis Media's multimedia service platform and global media network to strengthen our advertising service offerings, in particular in digital and other new media platforms.

By continuing to broaden our portfolio of advertising media platforms, we expect to strengthen our ability to conduct integrated advertising campaigns across a broad range of advertising media platforms so as to capture a greater share of our clients' advertising budget, which we believe will further enhance our value to our existing clients and attract new clients, and which in turn will enhance our ability to secure additional advertising media platforms.

Strengthen capabilities to offer integrated advertising solutions

We plan to strengthen our internal consulting, creative and branding capabilities to offer better services to clients. In particular, we have been building a team of professions to develop our internet advertising agency business. In addition, we plan to hire more industry-leading experts with media consultancy experience, expand our sales and marketing teams and strengthen our media consultancy and advertising sales capabilities. We also intend to expand our advertising service teams to include professionals with an industry focus with creative talents and intimate knowledge of the market trends and Chinese culture to strengthen our ability to deliver integrated advertising solutions. We will continue to enhance the coordination among different teams including creative teams and dedicated client service teams to better serve our clients.

In addition, we plan to strengthen our collaboration with Aegis Media so as to enhance our consolidated joint venture's ability to provide integrated solutions to our clients and to enhance our overall ability to address the differing needs of clients, in particular the needs of domestic companies seeking to enter the international market, by tapping into the global resource network of Vizeum. Our consolidated joint venture provides a platform for us to expand our services to domestic clients that value the services and expertise of international 4A advertising agencies and serves as a gateway for our domestic clients seeking to advertise internationally, which will enable us to further customize our strategies to address the differing needs of clients.

Continue to expand our advertising customer base and budget allocation from our customers

Our ability to provide integrated advertising solutions to our clients differentiates us from many other domestic advertising agencies. With our integrated service platform, we endeavor to continue building long-term synergistic relationships with our clients by working closely together to better understand their unique needs, guide their advertising strategies, influence their advertising budgets and effectively execute their advertising plans. We help them formulate and execute branding or sales strategies, obtain advertising media resources on favorable terms and evaluate the effectiveness of such strategies. For new clients who come to us for one of our services, such as placement of advertising on CCTV, we intend to make tailored offerings and cross-sell our other services to them. We believe our clients have benefited from the value of our broad range of advertising services and have become increasingly loyal to us. As such, we have built a diversified client base of blue-chip Chinese companies, many of whom represent the leading brands in their respective industries. In addition, we plan to expand our client base by cross-selling our services and building loyal relationships with them on our exclusive and non-exclusive agency television channels.

In addition, we plan to position our consolidated joint venture with Aegis Media as an international advertising agency with local roots in China by marketing the “Vizeum” global brand along with our “Charm” local brand, which we believe will be instrumental in attracting additional domestic clients that value the services and expertise of an international 4A advertising agency or that seek to advertise internationally. Our advertising agency business also plans to collaborate with Aegis Media’s global network to jointly attract and service international clients seeking to advertise in China.

Our Services

We generate our revenues from (i) media investment management, (ii) advertising agency and (iii) branding and identity services.

- We derive our media investment management revenues from the sale of advertising time and other advertising rights that we have secured on a television channel, program or special event typically pursuant to exclusive agency arrangements;
- We derive our advertising agency revenues from commissions received for representing advertising clients in placing their advertisements on various types of media platforms, including CCTV, other television channels and other new media, such as the internet; and
- We derive our branding and identity services revenues by providing creative design and production management services for the development and production of advertisements and marketing consulting services.

We offer integrated advertising solutions that may include all stages of the process from the initial planning and development of the advertising campaign, to placing the advertisement across multiple media platforms in multiple cities and to evaluating and refining the advertising campaign. Our advertising agency services include: (i) market research; (ii) branding strategies; (iii) creative design, development and production of advertisements; (iv) procurement of advertising media resources and placement of advertisements; (v) public relations; and (vi) overall management of advertising campaigns. Our clients may choose to retain us for only one or any combination of our services.

The stages of an advertising campaign include (i) planning, (ii) production and (iii) media procurement and placement.

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Planning. The planning stage typically requires two to six weeks and starts with the conceptualization of a marketing campaign for a product or a branding strategy for an advertiser. Our creative design and production and client service teams work closely together with our clients to understand their unique demands in order to deliver highly customized and effective advertising solutions. Our dedicated client service team strives to understand what our clients want to achieve in their advertising campaign. For a new client, we typically spend significant resources familiarizing ourselves with the industry and business of the client. Based on the combination of the information we gain from interacting with our clients and our extensive knowledge of the advertising and television industries, we present our proposal, which may include any range of services from the initial creative design to the overall execution plan of the advertising campaign. After further discussions with the client, we finalize the proposal and conclude the first step of the process.

Production. After the client decides on a creative design, we choose from three options to produce the advertisement:

- outsource the entire production to a production house specializing in filming and producing advertisements in the particular industry of the client;
- retain a reputable director experienced in making advertisements of the same type on a predetermined fee basis and let the director assemble the other resources, such as actors, needed for the production process; or
- assemble a production team by hiring a director and actors and procuring other resources, such as post-production processing services.

Usually, we have discretion in choosing the production method. We consider many factors in making the decision, including (i) whether the production of the advertisement requires any special expertise, (ii) whether we have the personnel capacity and (iii) whether the solution fits the client's production budget.

Media procurement and placement. Our ability to secure the most desired advertising media resources helps our clients achieve an effective advertising campaign. We act as the agent of our clients in their dealings with television channels and other media companies by negotiating prices and discounts, overseeing the placement of our clients' advertisement, procuring and examining the placement reports and working out alternative plans in the cases of changes in respect of programming schedules. Due in part to our knowledge of television channels and the advertising industry in general, we have attained favorable terms for many of our clients. In addition, we help our clients decide whether the campaign will be run on national television channels, regional television channels, new media or a combination of both, depending on the clients' goals. We also help our clients place soft advertising, such as product placement or sponsorship of programs. We have been particularly successful in recent years in obtaining prime-time advertising time on CCTV, which are generally regarded as the most coveted television advertising time in China and other CCTV advertising resources. Our cooperation with our exclusive agency television channels gives us the flexibility in offering to our clients a greater variety of advertising media resources. In addition, our strong market reputation facilitates our access to advertising time on other regional or satellite television stations if such time is part of the clients' advertising campaign. Furthermore, we have the ability to obtain advertising media resources other than television advertising time upon our clients' requests. We also purchase advertising resources on behalf of our clients from other media companies, such as internet companies, newspaper publishers, radio stations, mobile carriers and out-of-home media companies.

Other supplemental services. We supplement our client services by providing relevant market intelligence to our clients. We have established a database of market research data, rating information and past campaign performance that are derived from both internal and third-party sources. In addition, we have developed internal expert systems and algorithms for analyzing industry data. Our information infrastructure enables us to identify insights that may help enhance our ability to place effective advertising on behalf of our clients while optimizing the cost.

Our team of research specialists utilizes our information infrastructure to generate reports tailored to our clients' preferences for their use. These reports cover new products or services, competition, market trends, consumer habits and effectiveness of advertising campaign. With respect to some of these projects, we work with third party intelligence companies or research institutions to collect and analyze the data and create the reports. These reports provide important market intelligence for our clients, which helps them in designing and timing the introduction of new products, planning marketing campaigns, formulating competition strategies, anticipating market movements and reacting to sudden changes in the market. In addition, we provide public relations consulting services and advice to our clients from time to time, including brand management and public relations to respond to and mitigate negative publicity.

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While most of our clients initially retain us to provide one of our services, we cross-sell our other advertising services to them. For example, a client initially attracted to our media procurement and placement services may expand their relationship with us for our design and production services. Once a client engages us for any of our services, we strive to understand the client's special needs and introduce our other services that may be helpful to their overall marketing plan. We tailor such proposals in accordance with the clients' business and marketing plan based on our understanding of the foregoing. Many of our clients become increasingly loyal to us through our ongoing cooperation with them and rely on us to provide a tailored integrated advertising solution for them.

Our Relationships with Media Platforms

China Central Television

One of our core strengths is our ability to help our advertising clients obtain the most desired advertising time on CCTV. Advertisers covet time on CCTV, particularly CCTV-1 for many reasons, including CCTV's extensive and diverse viewership in China, the privilege of being an advertiser associated with CCTV and the high ratings of CCTV programs.

Advertising agency business on CCTV

Our business started with the representation of our advertising clients in obtaining advertising time on CCTV. We have established a successful track record in representing blue-chip Chinese companies in purchasing prime-time advertising time. Since 1995, CCTV has held an auction each year in November for the sale of all prime-time advertising time in the following year. The auction is open to all advertisers and advertising agencies that paid a deposit to CCTV and are approved by the CCTV's advertising department.

In preparation for the auction process each year, our dedicated client service teams meet our clients who purchased prime-time advertising time for the current year and clients who are considering purchasing the prime-time advertising time for next year. We update ourselves with the clients' overall advertising strategies and their advertising budget for the following year. In some instances, we help our clients create their advertising budgets and determine the allocations to different advertising media including the budget they plan to spend on purchasing CCTV's prime-time advertising time.

CCTV organizes a series of activities to promote the prime-time advertising time auction each year in anticipation of the auction. Typically, CCTV invites advertising agencies and advertisers to conferences and meetings to introduce the advertising time up for auction and to hear requests and suggestions from the agencies and advertisers. In October, CCTV sends all potential participants an auction book that sets forth the prime-time advertising time on its network for the upcoming year that are subject to auction and the minimum bidding prices for such advertising time. We refer to our database of the historical bids made for comparable advertising time and the information we have collected regarding CCTV's target sales with respect to the advertising time chosen by our clients. We also survey and study potential participating advertisers and help our clients to evaluate the relevant advertising time and formulate an appropriate bidding strategy. If we have multiple clients interested in the same prime-time advertising time, we communicate and propose solutions that are acceptable to each of them. Based on the analysis of historical bids and intelligence on CCTV's target and potential competing bids, we recommend bidding prices to our clients.

After our client wins a bid, a three-party agreement will be signed among our client, CCTV and us. Under this agreement, our client is obligated to pay the cost of the advertising time one month prior to the placement of the advertisement and a commission to us. We manage the ongoing relationships with CCTV, including monitoring the placements of the advertisements, handling unanticipated changes in programming schedules and negotiating the purchase of advertising time that are bundled together with the prime-time advertising time purchased by our clients.

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Our advertising agency services also include purchasing regular advertising time on CCTV channels that is not auctioned and that is directly operated by CCTV's advertising department.

Media investment management business on CCTV

Some of the advertising time and other advertising rights on CCTV channels, other than the prime-time advertising time, are sold to advertising agencies. These time and rights are not as highly demanded by advertisers as the prime-time advertising time, but many of them are highly valuable assets given the national coverage of CCTV channels and the high popularity of certain programs. We have selectively entered into agreements with CCTV to secure all or a portion of the advertising time and other advertising rights on some programs and special events on CCTV. In each of the twelve years from 2002 to 2013, we secured all of the advertising time and other advertising rights such as product placement and sponsorship during CCTV's special event coverage on March 15, the Consumers' Day in China. Chinese advertisers generally believe that exposure in this special event helps promote their products and corporate image. We have also secured all the advertising time for three other CCTV programs in 2013.

We typically secure the right to sell all or a portion of the advertising time and other advertising rights associated with a program or event by paying a predetermined price, which is based on the listed price set by CCTV after an agreed discount rate is considered. CCTV has recently implemented an auction-based system for selling non-prime-time advertising time beginning in 2010 on certain channels, which were previously sold at predetermined prices. The advertising time we secure consists of regular advertising time broadcasted during breaks in the programs and soft advertising, such as product placement and sponsorship. Many of the advertisers choose to associate with the March 15 event through soft advertising such as product placement imbedded in the coverage of the event. We have more discretion over pricing and promotion of soft advertising compared to the regular advertising time during the breaks of a program.

Our exclusive agency television channels and other non-exclusive agency arrangements

In order to expand our advertising media resources and to offer our advertising clients additional options in formulating and carrying out their advertising campaigns, we have entered into exclusive agency arrangements with some television channels. As part of our media investment management business, we typically secure the right to sell all or a portion of the advertising time and other advertising rights on a television channel by agreeing to pay a predetermined annual fee. The amount of the fee is determined through negotiations between the parties and in some cases, also by referring to the advertising revenues of the exclusive agency television channels in prior years.

In choosing our exclusive agency television channels, we consider a number of factors with respect to potential television channels that include, among others, advertising revenue growth potential, programming quality and potential for improvement, management style, opportunities for synergy with our existing exclusive agency television channels and advertising client base.

For 2011 we had exclusive agency arrangements with Shanghai Dragon Television, Tianjin Satellite Television, Hubei Provincial Economic TV and Beijing Gehua Cable Network to secure all or a portion of the advertising time on these satellite television channels, as well as with CCTV to secure advertising rights on several programs on CCTV. For 2012, we did not renew our exclusive agency arrangements with Shanghai Dragon Television and Hubei Provincial Economic TV. For 2012, we have exclusive agency arrangements with certain CCTV programs, Tianjin Satellite Television, Nanfang Satellite TV, Beijing Sports TV and a Shanghai Channel Young program. All of these agreements give us flexibility with respect to pricing of advertising time and other advertising rights and the offering of incentives. For 2013, we did not renew our exclusive agency arrangements with a Shanghai Channel Young program. For 2013, we have exclusive agency arrangements with Tianjin Satellite Television, Nanfang Satellite TV, Beijing Sports TV, Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting and Guangzhou Zhujiang Online Multimedia to secure all or a portion of the advertising time on these channels, as well as with CCTV to secure advertising rights on several programs on CCTV. In December 2012, we entered into an exclusive agency agreement with Tianjin Satellite Channel, which expired at the end of 2013, and we did not renew it thereafter. Under this revised exclusive agency agreement:

- we have the exclusive right to sell a portion of the advertising time on Tianjin Satellite Television's network to certain clients; and
- we must pay a predetermined amount to Tianjin Satellite Television;

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In December 2011 we entered into a new exclusive agency agreement with Nanfang Satellite TV for the 2012, 2013 and 2014. Under this exclusive agency agreement:

- we have the exclusive right to sell all of the advertising time as well as other advertising rights on Nanfang Satellite TV; and
- after three years, the agreement will be re-signed for up to an additional two years on an annual basis if we fulfill our obligations for the previous year and the parties agree upon the price for the subsequent years.

In December 2011, we entered into an exclusive agency agreement with Shanghai Channel Young, which expired at the end of 2012, and we did not renew it thereafter. Under this exclusive agency agreement:

- we have the exclusive right to the advertising time of a program on Shanghai Channel Young TV from January 1, 2012 to December 31, 2012; and
- we must pay a predetermined amount to Shanghai Channel Young.

In May 2012, we entered into a new exclusive agency agreement with Beijing TV station regarding the Beijing Sports Channel, which expires at the end of 2014. Under this exclusive agency agreement:

- we have the exclusive right to sell all of the advertising time as well as other advertising rights on Beijing Sports Channel; and
- When expired, we have priority to renew the contract under same term.

Relying on our extensive industry knowledge and knowledge of advertisers, we also provide media consultancy services to exclusive agency television channels from time to time to assist them in enhancing the attractiveness of their programs, expanding their viewer base and achieving higher ratings. As the television channels expand their viewer base and achieve higher ratings, the commercial value of their advertising time increases accordingly. Thus, we expect these services to help us maximize advertising revenues derived from our arrangements with the television channels and help us enhance our relationship with these television channels.

For 2013 we also signed exclusive advertising agency agreements with Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting Co., Ltd. and Guangzhou Zhujiang Online Multimedia Co., Ltd. to operate digital media advertising on its interactive HDTV digital cable platforms in Beijing, Shanghai and Guangzhou, respectively. The agreement with Beijing Gehua was expired at the end of 2013, and we did not renew it.

For 2013, we also have non-exclusive agency arrangements with Hubei Satellite Television, Shenzhen Satellite Television, Liaoning Satellite Television, Hunan Satellite Television, Anhui Satellite Television, Jiangsu Satellite Television, Guizhou Satellite Television and Zhejiang Satellite Television and have entered into annual framework agreements with several of these television stations. Under those framework agreements, our clients may purchase advertising at pre-negotiated rates as provided in the framework agreement and we are entitled to a specified amount of commission. We are also required to pay a relatively small fee as a performance guarantee. If we place the minimum level of advertising specified in the agreements, we are entitled to the refund of the performance guarantee and may receive sales commissions. In addition, we have entered into non-exclusive agency arrangements with other advertising platforms, predominantly on the internet, which we believe will further benefit our clients' advertising campaigns. We have existing arrangements with several of the leading internet websites in China, including Baidu and Google for search portals, Sina, Sohu and Tencent for traditional portals, and YouTu, Qiyi and Sohu for online video sites. We believe our non-exclusive advertising arrangements enable us to not only expand the portfolio of advertising media resources available to our clients, but also provide us with the opportunity to deepen our relationships with satellite and regional television channels and other advertising media resources and enter into exclusive agency arrangements with them in the future.

We intend to expand our portfolio of advertising media resources using non-exclusive agency arrangements with additional satellite and regional television channels, as well as other new advertising media platforms. We believe that this portfolio of advertising media resources, together with our CCTV-related business, will position us well to efficiently offer advertising clients the advertising media resources that they desire.

Our Advertising Clients

Our ability to provide integrated advertising solutions has attracted a diverse client base of blue-chip Chinese advertisers that include many of the leading brands in their respective industries. We regularly work with some of the largest blue-chip Chinese advertisers to plan and execute customized advertising campaigns. Our significant clients include China Telecom, Bank of Communications, China Post Life Insurance, Snowbeer, COFCO, Cheng De Lolo, Povos, Monmilk, Insurance Association of China and Chery Automobile. In the aggregate, these ten clients accounted for approximately 13% of our total revenues in 2013. For the year ended December 31, 2013, we provided services to around 700 advertising clients.

In 2011, 2012 and 2013, our top ten advertising clients accounted for approximately 17.0%, 20.0% and 33.0%, respectively, of our total revenues and no client accounted for more than 10% of our total revenues in this period.

The following table sets forth a breakdown of our clients by industry for total advertising spending for 2013:

<u>Industry</u>	<u>Percentage of Total Spending for Advertisements Placed Through Us for 2013</u>
Consumer goods	35.7%
Pharmaceuticals	7.6%
Electronics and Home Appliances	10.4%
Communications	9.6%
Financial Service	13.7%
Telecommunications	6.3%
Others	16.7%

Sales and Marketing

Our sales and marketing activities focus on acquiring new clients, leveraging our existing clients and selling our advertising media resources we have secured in our media investment management business. We intend to devote our sales and marketing resources to understanding the demands and trends of our client base in order to better anticipate, identify and secure the appropriate advertising media resources for our clients to execute effective advertising campaigns.

After we have entered into an agency agreement to secure a media resource, our sales team will survey our client base and other companies that may be interested in running advertisements on that media resource. The sales team will then develop a list of potential advertising clients for the media resource and will create proposals specifically tailored for each of the potential advertising clients. We often cross-sell the agency advertising time we have acquired to our clients that have retained us for other services.

As of December 31, 2013, our sales and marketing force consisted of 624 employees located in Beijing, Shanghai, Guangzhou, Tianjin, and Hubei. We provide in-house education and training to our sales force to ensure that they provide our clients with comprehensive information about our services, the advantages of using our integrated advertising services and purchasing advertising media resources and relevant information regarding the advertising industry as a whole. We organize our sales force into teams to provide specialized coverage for geographic regions and specific industries as well as services. We believe that our industry-specific and regional coverage teams provide better service for our advertising clients and allow our sales and marketing teams to focus on building close relationships and staying abreast of regional market trends.

As a supplement to our sales efforts, we may provide our clients with certain complementary services, such as updates of media information, information and evaluation regarding new media opportunities that our clients might be interested in, advertisement placement report and invitation to conferences we host from time to time that are frequented by major television channels, including CCTV, large advertisers and leading industry experts. We also compile a monthly newsletter updating our clients with respect to recent market developments.

Competition

Competition in the television advertising industry in China is intense. Key competitive considerations for retaining existing business and winning new business include our ability to obtain advertising time on CCTV, develop creative solutions that meet the clients' needs, the scope, quality, effectiveness and pricing of the services we offer and our ability to efficiently serve clients on a broad geographic basis. Our major competitors include large Chinese advertising service companies, such as Walk-On Advertising Co., Ltd. (San Ren Xing) and Sinomedia. We compete with them for advertising clients and for access to highly demanded advertising time in connection with our television agency business, as well as desirable television resources with respect to our media investment business. We also face increased competition from multinational advertising companies, such as the 4A advertising agencies, as these companies strive to get a share of the advertising spending on the PRC television channels. In addition, we may face competition from new entrants into the television advertising agency industry in the future. Customary with the practice in the advertising industry, we do not have exclusive or long-term arrangements with our advertising clients; rather, our agreements with our advertising clients are signed on a campaign-by-campaign basis. While most of our client relationships are stable, there are no long-term agreements governing our client relationships, which we instead maintain by offering excellent and customized services.

Seasonality

Aside from fluctuations in the level of advertising spending resulting from changes in the overall economic and market conditions in China, our revenues are affected by seasonal fluctuations in consumer spending that also affect the level of advertising spending over time in China. The first and second quarters of each year are expected to be slower seasons for the Chinese advertising industry in general. As a result, our quarterly results of operations may fluctuate significantly from period to period.

Employees

See "Item 6. Directors, Senior Management and Employees — D. Employees" for certain information relating to our employees.

Facilities

See "— C. Property, Plant and Equipment" for certain information relating to our employees.

Insurance

We do not maintain any property insurance policies covering equipment and facilities for losses due to fire, earthquake, flood or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key employee insurance for our executive officers. Uninsured damage to any of our equipment or buildings or a significant product liability claim could have a material adverse effect on our results of operations. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business — We do not maintain business liability or disruption, litigation or property insurance and any business liability or disruption, litigation or property damage we experience might result in substantial costs to us and the diversion of our resources."

Legal and Administrative Proceedings

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

Regulations of Our Industry

The PRC government imposes extensive controls and regulations over the media industry, including television, advertising, media content production and the market research industry. This section summarizes the principal PRC regulations that are relevant to our lines of business.

Regulations on the Television Industry

- *Television Content*

According to the Regulations on the Administration of Radio and Television Stations and the Provisions on the Administration of Radio and Television Program Production promulgated by the State Administration of Radio, Film and Television, or SARFT, on July 19, 2004, entities engaging in (i) the production of television programs, such as feature programs, general programs, drama series and animations and (ii) the trading activities and agency services on the copyrights of such programs, must first obtain preliminary approval from the SARFT or its provincial branches for license. The entity must then register with the SAIC to obtain or update its business license.

Regulations on the Advertising Industry

- *Foreign Investments in the Advertising Industry*

Under the Catalog and the Administrative Provision on Foreign Investment in the Advertising Industry, jointly promulgated by the SAIC and the MOC on March 2, 2004, and amended on August 22, 2008, foreign investors can invest in PRC advertising companies through either wholly owned enterprises or joint ventures with Chinese parties. Since December 10, 2005, foreign investors have been allowed to own up to 100% equity interest in PRC advertising companies. However, the foreign investors must have at least three years of direct operations in the advertising industry as their core businesses outside of China. This requirement is reduced to two years if foreign investment in the advertising company is in the form of a joint venture. Foreign invested advertising companies can engage in advertising design, production, publishing and agency, provided that certain conditions are met and necessary approvals are obtained.

We are a Cayman Islands company and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly provide advertising services. Accordingly, our subsidiary, Nanning Jetlong is ineligible to apply for the required license for providing advertising services in China. We acquired all the outstanding equity interests of O'Master Communications (Hongkong) Ltd. in Hong Kong in June 2010, which in turn holds all the outstanding equity interests of Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. Both Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. were incorporated by us in the PRC in November 2010 and October 2010, respectively, and have acquired license for providing advertising services in China. From 2011, we have begun operating the majority of our business through these two new entities — Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. In addition, in November 2011, CharmClick Inc. acquired all the outstanding equity interests of Neudior Corporation Limited, which is qualified to set up entities in China to operate advertising business. This entity is still in the process of acquiring the related license. Prior to 2011, other than Beijing Vizeum Advertising Co., Ltd., in which we hold 60% of the outstanding equity interests, our advertising business was operated by our variable interest entities in China. The variable interest entities are currently owned by individual shareholders who are citizens of China and hold the requisite license to provide advertising services in China. The variable interest entities directly operate our advertising business, enter into advertising agreements with our advertisers, purchase advertising time and other advertising rights from television stations and sell such advertising time and rights to the advertisers. We do not have any equity interest in any of the variable interest entities but effectively control and receive their economic benefits through various contractual arrangements. See “ — C. Organizational Structure.”

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- *Advertising Content*

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

Advertisers, advertising agencies and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertisers, advertising agencies and advertising distributors must review the prescribed supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws, rules and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving severe violations, the SAIC or its local branches may revoke violators' license or permits for advertising business operations. Further, advertisers, advertising agencies or advertising distributors may be subject to civil and criminal liability if they infringe on the legal rights and interests of third parties in the course of their advertising business.

- *Advertising Broadcasting*

Administrative Provisions on Broadcasting of Radio and TV Advertising, or SARFT Rule 61 and Rule 66 were promulgated by SARFT on September 8, 2009, as amended on November 25, 2011. In addition to setting forth certain content requirements for advertisements in China, SARFT Rule 61 and Rule 66 also set forth certain requirements for broadcasting radio and TV advertising in China, including, among other things, the maximum time for advertisements, the intervals between advertisements and the timing for broadcasting certain advertisements with particular content.

Supplementary Provisions to the *Radio and Television Advertising Broadcast Management Rules* were promulgated by SARFT and became effective as of January 1, 2012. These provisions set forth prohibitions for advertisements in China, precluding all advertisements in the middle of any television program broadcasts. As a result of these provisions, our company is effectively prohibited from selling advertisement time or other rights in the middle of television program broadcasts.

Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements. In circumstances involving severe violations, violators' license or permits for operations, like the Radio and Television Channel Permit and Radio and Television Broadcasting Institution Permit, may be revoked.

- *Operational Matters of the Advertising Business*

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

Regulations on Foreign Currency Exchange

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules promulgated on January 29, 1996 and amended on January 14, 1997 and August 5, 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment require the prior approval from the SAFE or its local branch for conversion of RMB into a foreign currency, such as U.S. dollar, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local branch. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

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

Foreign Exchange Registration of Offshore Investment by PRC Residents

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

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

Further, *SAFE Circular on Further Improvement and Amendment of Foreign Exchange Control Policies on Direct Investment*, or Circular No. 59, issued on November 21, 2012 and effective as of December 17, 2012, implemented certain changes to relax foreign exchange control policies on capital account transactions in foreign direct investment transactions and mergers and acquisitions activities involving foreign investors. Pursuant to Circular No. 59, a PRC resident may make the following outbound payments without SAFE approvals: (i) remit preliminary costs as foreign exchange funds for outbound investments to an offshore bank account (up to 15% of the total investment amount) and (ii) use foreign exchange loans obtained in China to extend loans to an offshore entity or foreign persons.

Dividend Distribution

The principal laws, rules and regulations governing dividends paid by our PRC subsidiaries include the Company Law of the PRC (1993), as amended in 2014, Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, each of our PRC subsidiaries and our variable interest entities in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and variable interest entities is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserve reaches 50% of its respective registered capital. These reserves are not distributable as cash dividends.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

Six PRC regulatory agencies, including the CSRC and the MOC, promulgated a rule entitled *Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the SPV Regulation, to regulate foreign investment in PRC domestic enterprises. The SPV Regulation, effective on September 8, 2006, as amended on June 22, 2009, provides that an offshore SPV, formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC. The application of the SPV Regulation with respect to CSRC approval is unclear. Our PRC counsel has advised us that the CSRC approval requirement applies to overseas SPVs that are seeking overseas listing and that had previously acquired equity interests in PRC companies through share exchanges and cash; and based on their understanding of the PRC laws, rules and regulations and the SPV Regulation, the SPV Regulation did not require us to obtain prior CSRC approval for the listing and trading of our ADSs on the Nasdaq Global Market.

The SPV Regulation also provides that an SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the MOC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

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The applicability of the SPV Regulation with respect to MOC approval is unclear. Our then PRC counsel also advised us that MOC approval is not required in connection with either (i) the establishment of Nanning Jetlong, our wholly owned PRC subsidiary, because the equity interest in Nanning Jetlong was established by Jetlong Technology Limited, our wholly owned Marshall Islands subsidiary, prior to September 8, 2006, the effective date of the SPV Regulation; or (ii) the contractual arrangements entered into on March 28, 2008 between Nanning Jetlong and our variable interest entities.

Taxation

For a discussion of applicable PRC tax regulations, see “Item 5. Operating and Financial Review and Prospects.”

C. Organizational Structure

The following diagram illustrates certain information as of the date of this annual report regarding certain companies which we consolidated.

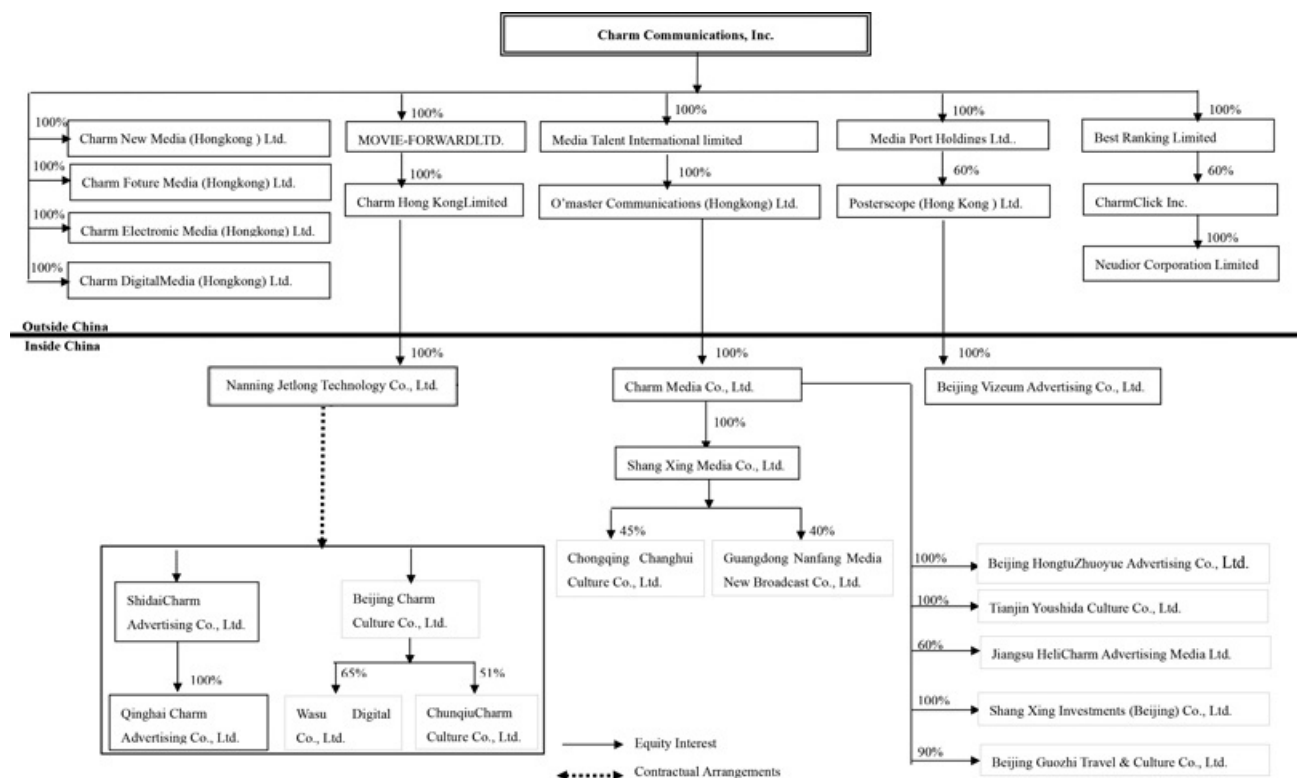


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The following table sets forth the names of the legal representative, shareholders, general manager, board member and supervisor of our variable interest entities and of the other equity owners of our joint ventures corresponding to the above organizational structure, as well as such parties' percentage ownership.

No.	Company Name	Legal Representative	Shareholders	Equity percentage	General Manager	Board Members (Executive Director)
1	Nanning Jetlong Technology Co., Ltd.	He DANG	Charm Hong Kong Limited	100%	He DANG	He DANG
2	Charm Media Co., Ltd.	Min WU	O'Master Communications (Hong Kong) Ltd.	100%	Min WU	Min WU
3	Shang Xing Media Co., Ltd.	He DANG	Charm Media Co., Ltd.	100%	Jianzhong LING	He DANG
4	Chongqing Changhui Culture Co., Ltd.	Xuhua XIA	Chongqing Travel Culture Media (Group) Co., Ltd.	55%	Xuhua XIA	Opposing Director: Xuhua XIA, Teng LI, Xiaogang HAN Charm Director: Yan WANG, Dan LIU
			Shang Xing Media Co., Ltd.	45%		
5	Shidai Charm Advertising Co., Ltd.	Haifeng WANG	He DANG Qingmei BAI(1)	67% 33%	Haifeng WANG	Haifeng WANG
6	Qinghai Charm Advertising Co., Ltd.	He DANG	Shidai Charm Advertising Co., Ltd	100%	He DANG	He DANG
7	Beijing Charm Culture Co., Ltd.	He DANG	He DANG Qingmei BAI	67% 33%	He DANG	He DANG
8	Wasu Digital Co., Ltd.	He DANG	Huashu Communication Network Co., Ltd.	35%	Yan WANG	Charm Director: He DANG, Dan LIU, Jianzhong LING Opposing Director: Yiqing LI, Xuedong LI
			Beijing Charm Culture Co., Ltd.	65%		
9	Chunqiu Charm Culture Co., Ltd.	He DANG	Beijing Chunqiu International Movie Culture Stock Company	49%	Di WU	Opposing Director: Meng AN, Yun WANG Other Director: Di WU, Junxue ZHAO Charm Director: He DANG, Dan LIU,
			Beijing Charm Culture Co., Ltd.	51%		
10	Beijing Vizeum Advertising Co., Ltd.	He DANG	Posterscope (Hong Kong) Ltd.	100%	Hongmei Zheng	Charm Director: Xi CHEN, Yan WANG, He DANG Opposing Director: Kym Richard Pfitzner, LEE Kwei Fen
11	Beijing Guozhi Travel & Culture Co., Ltd.	He DANG	Charm Media Co., Ltd. Rao FU	90% 10%	Rao FU	He DANG
12	CharmClick Inc.	N/A	Best Ranking Limited CharmClick Limited	60% 40%	N/A	Sole Director: He DANG
13	Posterscope (Hong Kong) Ltd.	N/A	Media Port Holdings Limited	60%	N/A	Charm Director: He DANG, Dina LIU, Cindy WANG Opposing Director: HOLTHAM David, LEE Kweifen
			Posterscope Advertising Limited	40%		
14	Beijing Hongtu Zhuoyue Advertising Co., Ltd.	He DANG	Charm Media Co., Ltd.	100%	He DANG	Sole Director: He DANG
15	Guangdong Nanfang Media New Broadcast Co., Ltd.	Shaoqiang QIU	Shang Xing Media Co., Ltd. Guangdong Nanfang International Media Advertising Co., Ltd.	40% 60%	Bao LI	Charm Director: Bao LI, Fan ZHANG Opposing Director: Shaoqiang QIU, Jianliang ZHOU, Biao ZHANG
16	Tianjin Youshida Culture Co., Ltd.	He DANG	Charm Media Co., Ltd.	100%	He DANG	He DANG
17	Jiangsu Heli Charm Advertising Co., Ltd.	Tengfei GONG	Charm Media Co., Ltd. Tengfei GONG	60% 40%	Tengfei GONG	Tengfei GONG
18	Shang Xing Investment (Beijing) Co., Ltd.	He DANG	Charm Media Co., Ltd.	100%	He DANG	He DANG

(1) Qingmei Bai is He Dang's mother.

(2) Dan Liu is He Dang's wife.

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The follow table sets forth variable interest entities and joint ventures of the Company that are no longer active in conducting business.

VIE & Joint Ventures	Nature of Company	Status of Business Inactivity
Shidai Charm Advertising Co., Ltd.	VIE	No business has been conducted since 2010
Qinghai Charm Advertising Co., Ltd.	VIE	No business has been conducted since 2013
Beijing Charm Culture Co., Ltd.	VIE	No business being conducted
Wasu Digital Co., Ltd.	Joint Venture	Only Hangzhou Digital TV is in active operation
Chunqiu Charm Culture Co., Ltd.	Joint Venture	No business has been conducted since 2013

Under applicable PRC laws, rules and regulations, to invest in the advertising industry, foreign investors must have at least three years of direct operations in the advertising industry as their core businesses outside of the PRC. We are a Cayman Islands company and a foreign legal person under PRC laws and we have not directly operated any advertising business outside of China. Therefore, we do not qualify under PRC regulations to directly own equity interest in advertising services providers in China. Accordingly, our subsidiary, Nanning Jetlong is ineligible to apply for the required license for providing advertising services in China. We acquired all the outstanding equity interests of O'Master Communications (Hongkong) Ltd. in Hong Kong in June 2010, which in turn holds all the outstanding equity interests of Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. Both Charm Media Co., Ltd. and Shang Xing Media Co., Ltd were incorporated by us in the PRC in November 2010 and October 2010, respectively, and have acquired license for providing advertising services in China. From 2011, we have begun operating the majority of our business through these two new entities – Charm Media Co., Ltd. and Shang Xing Media Co., Ltd. In addition, in November 2011, CharmClick Inc., (60% held by us through the wholly owned subsidiary Best Ranking Limited and 40% held by CharmClick Limited, a British Virgin Islands company beneficially owned by Honggang Zhu, Xiaofen Li, Ye Yuan, Yuejie Han, Zongjian Xu, Di Kong, Xiaodan Cai and Shumin Wang, all of which are presently employees of ours) acquired all the outstanding equity interests of Neudior Corporation Limited, which is qualified to set up entities in China to operate advertising business.

Our goal is to have Neudior Corporation Limited set up a wholly foreign owned enterprise, or a WFOE, to further expand our advertising business in China. However, pursuant to Circular No. 75, each PRC beneficial owner of Neudior Corporation Limited shall apply for and complete his/her registration of his/her equity interest in offshore special purpose vehicles before Neudior Corporation Limited is permitted to set up a WFOE. Out of the eight individuals who beneficially own CharmClick Limited, seven of which are PRC citizens and are required to submit and apply for such Circular No.75 registration. We have been notified that these shareholders have started the application process with applicable local branch of SAFE and are currently supplementing additional documentation in connection therewith pursuant to local SAFE's requests. We are uncertain as to the amount of time it may take for each of the seven PRC citizens to complete his/her Circular No. 75 registration. Once such registrations have been completed, Neudior Corporation Limited may start applying to set up a WFOE in China. The WFOE set-up process typically takes approximately 2 to 3 months, which consists of such key procedures including:

- (i) applying for and obtaining approval from the local branch of the Ministry of Commerce, as part of which the PRC shareholders' Circular No.75 registration forms need to be submitted for review;
- (ii) applying for and obtaining a foreign exchange registration certificate, or an IC card, from SAFE;
- (iii) contributing capital to the WFOE as its partial or full registered capital; and
- (iv) applying for and obtaining a business license from the local Administration for Industry and Commerce.

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Upon receipt of the WFOE's business license, each of the seven PRC individuals will need to update his/her Circular No.75 registration form to reflect WFOE's establishment, which process may take up to a few months.

Prior to 2011, other than Beijing Vizeum Advertising Co., Ltd., our advertising business was operated through contractual arrangements with our variable interest entities. These contractual arrangements enable us to exercise effective control over these entities and receive substantially all of the economic benefits from them. Beijing Vizeum Advertising Co., Ltd. is wholly owned by Posterscope (Hong Kong) Ltd., which is 60% held by us through our wholly owned subsidiary Media Post Holdings Limited, with the remaining 40% held by Posterscope Advertising Limited, a company incorporated in Hong Kong and an affiliate of Aegis Media. Pursuant to the agreements governing the arrangement between Posterscope Advertising Limited and Media Post Holdings Limited, during the two-year period from January 1, 2013, Aegis Media shall have the right to acquire a majority of the shares of Posterscope (Hong Kong) Ltd., by purchasing from us 11% of its total outstanding equity interest. In addition, if Aegis Media exercises such right to acquire a majority interest, it will have the right to purchase additional shares from us beginning on January 1, 2018. In the ten-year period from January 1, 2024, Aegis Media will have the right to purchase from us all of our remaining shares of Posterscope (Hong Kong) Ltd.

Agreements that Transfer Economic Benefits to Us

Trademark, Trade Name and Domain Name License Agreements

Under the trademark, trade name and domain name license agreements between Nanning Jetlong and each of the variable interest entities, Nanning Jetlong grants a non-exclusive license to use its trademark, trade name and domain name to the variable interest entities, in exchange for a quarterly license fee calculated based on each variable interest entity's profit in the corresponding quarter. Nanning Jetlong is entitled to adjust the license fees in its sole discretion. The trademark, trade name and domain name license agreements remain in effect until the expiration of the trademark, trade name and domain name.

Exclusive Technology Support Agreements

Under the exclusive technical support agreements between Nanning Jetlong and each of the variable interest entities, Nanning Jetlong provides technology services and consulting services to the variable interest entities, in exchange for a quarterly service fee based on a predetermined formula. Nanning Jetlong is entitled to adjust the service fees in its sole discretion. The term of each exclusive technology support agreement is twenty years from the effective date thereof and the agreement will be automatically renewed for an additional twenty years upon expiration unless Nanning Jetlong gives prior written notice to the variable interest entities not to renew the agreements.

Equity Pledge Agreements

With respect to each variable interest entity, Nanning Jetlong, the variable interest entity and the nominee shareholders of the variable interest entity have entered into an equity pledge agreement. Under the equity pledge agreement, the nominee shareholders have pledged their respective equity interests in the variable interest entity to Nanning Jetlong to secure the obligations of the variable interest entity under its trademark, trade name and domain name license agreement and the exclusive technology support agreement with Nanning Jetlong. In addition, the nominee shareholders agreed not to transfer, sell, pledge, dispose of or create any encumbrance on their equity interests in the variable interest entity. The variable interest entity covenants that without prior consent of Nanning Jetlong, it will not distribute any dividends. The equity pledge agreement will expire two years after the variable interest entity has fully performed its obligations under its trademark, trade name and domain name license agreement and the exclusive technical support agreement with Nanning Jetlong.

Agreements that Provide Us with Effective Control

Option and Cooperation Agreements

With respect to each variable interest entity, Nanning Jetlong, the variable interest entity and the nominee shareholders of each variable interest entity have entered into an option and cooperation agreement. Pursuant to the option and cooperation agreement, Nanning Jetlong has an exclusive option to purchase or to designate other persons to purchase, to the extent permitted by applicable PRC laws, rules and regulations, all or part of the equity interest in the variable interest entity from the nominee shareholders. The purchase price for the entire equity interest shall be the minimum price permitted by applicable PRC laws, rules and regulations. Each shareholder of the variable interest entity agreed to pay the purchase price received from Nanning Jetlong to the variable interest entity after Nanning Jetlong exercised its option. The term of the option and cooperation agreement is twenty years from the effective date thereof and the agreement will be automatically renewed for an additional twenty years upon expiration until the completion of the transfer of all of the equity interest provided therein.

Voting Rights Agreements

The nominee shareholders of each variable interest entity have signed a voting rights agreements, pursuant to which the nominee shareholders have granted Nanning Jetlong or a person designated by Nanning Jetlong, the right to exercise all of the voting rights as shareholders of the variable interest entity. The voting rights agreements will remain in effect until all of the equity interests in variable interest entities have been transferred to Nanning Jetlong pursuant to the option agreements described above.

In the opinion of our PRC legal counsel:

- the reorganization to establish our corporate structure, including the shareholding structure of each of our variable interest entities incorporated in the PRC, has not been challenged by any court, governmental agency or body or any other regulatory authorities in the PRC and there are no legal, arbitration, governmental or other proceedings, including without limitation, governmental investigations or inquiries pending before or threatened or contemplated by any PRC government agency in respect of our corporate structure;

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- the reorganization to establish our corporate structure, including the shareholding structure of each of our variable interest entities incorporated in the PRC, has been carried out and completed in compliance with all applicable PRC laws, rules and regulations and our current corporate structure is in compliance with all applicable PRC laws, rules and regulations and does not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations;
- the contractual arrangements between Nanning Jetlong and our variable interest entities as described in this annual report will not result in any violation of PRC laws, rules or regulations currently in effect and are valid, binding and enforceable obligations of each of the contractual parties, except that the pledges under the equity pledge agreements by and among Nanning Jetlong, the variable interest entities and their respective shareholders will not become enforceable until they are registered with the relevant government authorities; and
- the business operations of Nanning Jetlong and our variable interest entities, as described in this annual report, are in compliance with existing PRC laws, rules and regulations in all material respects.

Our PRC legal counsel has also advised us that there are uncertainties regarding the interpretation and application of PRC laws, rules and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to the above opinion of our PRC legal counsel. Our PRC legal counsel has further advised that if a PRC government authority determines that our corporate structure, the contractual arrangements or the reorganization to establish our current corporate structure violates any applicable PRC laws, rules or regulations, the contractual arrangements will become invalid or unenforceable and we could be subject to severe penalties and required to obtain additional governmental approvals from the PRC regulatory authorities. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Corporate Structure — If the PRC government determines that the agreements that establish the structure for operating our China business otherwise do not comply with applicable PRC laws, rules and regulations, we could be subject to severe penalties” and “— Risks Relating to Doing Business in China — Uncertainties with respect to the PRC legal system could limit the protections available to you and our company.”

In addition to the series of contractual arrangements discussed above, Mr. He Dang, our chairman and chief executive officer has issued to us a deed of undertaking, whereby Mr. He Dang has irrevocably covenanted and undertaken to us that:

- as long as the shares in the Company Mr. He Dang owns, whether legally or beneficially, and directly or indirectly (including shares held through Mr. Dang’s personal holding company, or any other company, trust, nominee or agent, if any), represent more than 50% of the aggregate voting power of the then total issued and outstanding shares of the Company,
 - Mr. He Dang shall not and will not, directly or indirectly, (i) requisition or call any meeting of the Company’s shareholders for the purpose of removing or replacing any of the directors of the Company or appointing any new director of the Company, or (ii) propose any resolution at any meeting of the Company’s shareholders to remove or replace any of the directors of the Company or appoint any new director of the Company; and
 - should any meeting of the Company’s shareholders be called by the board of directors or requisitioned or called by other shareholders of the Company for the purpose of removing or replacing any of the directors or appointing any new director, or if any resolution is proposed at any meeting of the Company’s shareholders to remove or replace any of the directors or appoint any new director, Mr. He Dang shall not and will not, in his capacity as a shareholder of the Company, exercise his voting rights attaching to his shares in excess of (i) the total aggregate voting power of the then total issued and outstanding shares of the Company held by all members of the Company less the shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. He Dang (including shares held through Mr. He Dang’s personal holding company, or any other company, trust, nominee or agent, if any), less (ii) one vote.
- Mr. He Dang shall not and will not cast any votes he has as a director or shareholder (if applicable) on any resolutions or matters concerning enforcing, amending or otherwise relating the deed of undertaking being considered or voted upon by the board of directors or the shareholders, as the case may be.

In the opinion of Maples and Calder, our Cayman Islands legal counsel, the deed of undertaking constitutes the legal, valid and binding obligations of Mr. He Dang, which cannot be unilaterally revoked by Mr. He Dang, and is enforceable in accordance with its terms under existing Cayman Islands laws.

C. Property, Plant and Equipment

Our principal executive offices are located at our headquarters at Legend Town CN01 Floor 4, No.1 Ba Li Zhuang Dong Li, Chaoyang District, Beijing 100025, People’s Republic of China. We also maintain offices at other addresses in Beijing, Shanghai, Guangzhou, Tianjing, and Anhui. In aggregate, we maintained a total of approximately 9,487 square meters for our offices as of December 31, 2013. We lease some of our facilities from our related parties and do not own any real property. See “Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions — Other Transactions with Shareholders.” We believe that our leased facilities are adequate to meet our needs for the foreseeable future and that we will be able to obtain adequate facilities, principally through leasing of additional properties to accommodate our future expansions.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

Unless stated otherwise, the discussion and analysis of our financial condition and results of operations in this section apply to our financial information as prepared according to U.S. GAAP. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth under “Item 3.D. Risk Factors” or in other parts of this annual report. You should read the following discussion of our financial condition and results of operations together with the financial statements and the notes to these statements included in this annual report.

A. Operating Results

Overview

We believe we are the leading domestic television advertising agency in China, as measured by the total advertising spending for 2013. According to CCTV, we ranked first in terms of the total advertising spending for the advertisements we placed on behalf of clients on CCTV channels in each of the ten consecutive years from 2004 to 2013. In addition, we believe that, with exclusive agency arrangements with three television channels, Tianjin Satellite Television, Beijing Sport Channel, and Nanfang Satellite TV, and CCTV programs and an exclusive agency agreement with Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting and Guangzhou Zhujiang Online Multimedia to operate digital media advertising on its interactive HDTV digital cable platforms, we have established a leading media investment management business in China. We (i) offer a broad range of advertising agency services from planning and managing advertising campaigns to creating and placing advertisements and (ii) engage in media investment management through identifying, securing and selling advertising resources.

We derive our revenues from three operating segments: (i) media investment management, (ii) advertising agency and (iii) branding and identity services.

Our advertising agency business places advertisements for our clients on a broad array of television channels, including CCTV and satellite and regional television channels and on other media platforms, including internet and out-of-home media. We derive our advertising agency revenues from the commissions paid by clients for planning and placing advertisements and from the sales commissions and performance bonuses received from the television channels and other advertising media platforms on which we place the advertisements. We account for our advertising agency revenues on a net basis. The total advertising spending for the advertisements we placed on behalf of our clients increased from US\$635.7 million in 2011 to US\$711.1 million in 2012 and to US\$758.2 million in 2013, which drove the increase in our advertising agency revenues from US\$34.3 million in 2011 to US\$46.2 million in 2012 and to US\$50.4 million in 2013.

Our media investment management business secures all or a portion of the advertising time and other advertising rights, which include soft advertising such as sponsorship on a specific television channel or program. We derive our media investment management revenues from selling advertising media resources we acquired to advertisers. We account for our media investment management revenues on a gross basis because we acquire the advertising media resources in advance at a predetermined price and bear the inventory risk of being a principal in acquiring the advertising media resources from the television stations. We also have the ability to establish the prices that we charge for selling these advertising media resources to our clients. The growth in our media investment management business after 2008 when we began to secure advertising media resources on television channels has been one of the primary drivers for the increase in our total revenues.

We also work with television channels that we have secured under our media investment management business to help enhance the attractiveness of their programs, expand their viewer base and achieve higher ratings. We do not receive any direct compensation for providing these services to the television stations, but we believe that our efforts may help increase the price that we can charge for selling our advertising media resources under our media investment business.

Our branding and identity services business provide our advertising clients with creative design, development and production of advertisements and marketing consulting services. We derive our branding and identity revenues primarily from the production fees we charge our clients to produce advertisements or from the monthly retainer fees we charge for providing consulting services to help manage the overall advertising strategy of our clients.

As we believe that our clients have served as one of our primary growth drivers, we have focused on providing a broad range of integrated advertising solutions to our clients. We have endeavored to capture a greater portion of the total advertising spending of each of our clients by forming long-term relationships with our clients and cross-selling other services and advertising media resources to our clients when we believe that we can further their advertising campaigns. Our diversified client base includes well-recognized brand names in China across many industries, such as China Telecom, Bank of Communications, China Post Life Insurance, Snowbeer, COFCO, Cheng De Lolo, Povos, Monmilk, Insurance Association of China and Chery Automobile. Our clients also include emerging domestic leading brands, such as Bosideng, Lolo and Suning Appliances, that have used our services to further build their brands on a national scale.

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Our total revenues have increased to US\$183.8 million in 2013 from US\$165.5 million in 2012 and US\$280.1 million in 2011, mainly as a result of regulatory changes in the satellite TV business that affected our media investment management business and the overall soft demand in the marketplace.

Factors Affecting Our Results of Operations

Our business, results of operations and financial condition are significantly affected by a number of factors and trends, including:

Our ability to renew existing and enter into new exclusive agency arrangements to secure more advertising media resources on television channels

In connection with our media investment management business, we secure desirable advertising media resources consisting of advertising time and other advertising rights typically on an exclusive basis. By selling these coveted advertising media resources to advertisers directly, we can generate more business from our existing advertising clients and attract new advertising clients. We have focused our growth strategy on our media investment management business because this business provides us with the potential to generate substantial revenues from sales of our advertising media resources, which we have secured at predetermined costs. For 2013, we have exclusive agency arrangements with respect to certain advertising time and rights on Tianjin Satellite Television, Nanfang Satellite TV, and Beijing Sports TV. We have also secured the advertising time during several CCTV programs and resources. If, after expiration, we are unable to renew or enter into new exclusive agency arrangements with respect to advertising rights on attractive terms or at all, our growth strategy, results of operations, financial condition and business prospects would be materially and adversely affected. We will continue to explore and pursue opportunities to renew existing and enter into additional exclusive agency arrangements with other television channels and our ability to secure desirable advertising media resources will affect our results of operations.

Our ability to sell our advertising media resources we secure under our exclusive agency arrangements at favorable prices

Under our media investment management business, we sell advertising media resources that we have secured. As part of the exclusive agency arrangements, we also provide advice to television channels in order to improve the attractiveness of the programs broadcasted on these television channels, maximize the viewer base and increase average ratings. These will help increase the demand for the advertising media resources and consequently allow us to increase our revenues and our ability to generate sufficient revenues from the sale of these advertising media resources to cover the costs of acquiring such advertising media resources, which will affect our results of operations. We plan to leverage our high-quality client base in selling the advertising media resources that we have secured, and our ability to cross-sell such advertising time and rights will affect our media investment management revenues. Our ability to maximize the sales revenues for the advertising media resources that we secure will affect our future results of operations.

Our ability to respond to changes in sales methods of CCTV and other media platforms

In general, our advertising agency business receives commissions that are calculated as a percentage of the total advertising spending successfully placed by us for our advertising clients. Part of our advertising agency business specializes in securing prime-time advertising time on CCTV through its annual public auction. Media platforms such as television channels, including CCTV, may change their sales methods at any time as they wish and without providing us prior notice. If CCTV introduces new sales methods that are materially different from the methods it is currently using, we may lose our competitive advantage for CCTV's advertising time. Our ability to adapt to future trends to continue to place advertisements on media platforms for our clients and secure exclusive advertising rights will affect our business prospects, results of operations and financial condition.

The commission rates from our advertising clients and the sales commission rates from media platforms

The level of competition in the advertising industry in China has increased substantially in recent years as many domestic and international advertising service providers have commenced or expanded operations in the PRC advertising market, which could affect the commissions we receive from our advertising clients. The average sales commission rates from the internet are generally higher than the commission rates from the television channels but we cannot ascertain whether this trend will continue. We plan to continue our strategy of growing our internet advertising operations while maintaining our strong position with respect to CCTV's prime-time advertising time. We believe that our successful track record and future performance in securing coveted advertising time on CCTV will help us further enhance our brand name and expand our blue-chip client base of Chinese advertisers. In addition to our expansion on internet advertising spending, it may help maintain and improve our commission rates and performance bonuses. The future trends of our commission rates from our advertising clients and sales commission rates from media platforms will affect our business prospects and future results of operations.

Other factors

Our gross margin may fluctuate depending on the new advertising media assets that we acquire and the ramping up of business by our sales teams for such new media assets. Generally, our gross margins may be depressed in the initial year in which we acquire new advertising media assets because of the time taken to ramp up the business, this may be set off by other media assets for which the business has already been ramped up and is operating at increased gross margins. For example, in 2013, our business relating to the Nanfang Satellite TV exclusive agency arrangement was sufficiently ramped up in its initial year of operations in 2012 and contributed towards our increased gross margins in 2013. However, our acquisitions of new media assets such as Beijing Sports TV in mid 2012 caused our gross margins to decrease in 2013 as it was still not sufficiently ramped up in 2013.

Demand for our services and correspondingly, growth in our revenues are driven by overall advertising spending in China, which is influenced by the pace of overall economic growth. We expect that the overall economic growth in China will contribute to an increase in advertising spending by international and domestic brand names looking to reach a growing consumer market. The global financial crisis and economic downturn adversely affected economies and businesses around the world, including those in China. We believe that, as the Chinese economy recovers from the adverse effects of the global financial crisis, advertising spending will increase in both urban areas and smaller cities in China. However, if the global or Chinese economy does not fully recover from the recent financial crisis or another economic downturn occurs, our business, results of operations and financial condition could continue to be materially and adversely affected. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business — The global financial crisis and economic downturn have had, and may continue to have, a material adverse effect on our business, results of operations and financial condition."

Aside from fluctuations in the level of advertising spending resulting from changes in the overall economic and market conditions in China, our revenues are affected by seasonal fluctuations in consumer spending that also affect the level of advertising spending over time in China. The first and second quarters of each year are expected to be slower seasons for the Chinese advertising industry in general. As a result, our quarterly results of operations may fluctuate significantly from period to period.

In January 2010, we formed a consolidated joint venture with an international 4A advertising group Aegis Media to operate its brand "Vizeum" in China. Prior to the establishment of the consolidated joint venture, Beijing Vizeum Advertising Co., Ltd. primarily served international customers such as Nikon, Carlsberg and Mango, while our existing businesses primarily focused on providing advertising services to blue-chip Chinese companies. As part of the global network of Vizeum, our consolidated joint venture provides a platform for us to expand our services to domestic clients that value the services and expertise of international 4A advertising agencies and serves as a gateway for our domestic clients seeking to advertise internationally, which enables us to further customize our strategies to address the differing needs of clients. As a result, we believe that our consolidated joint venture complements our existing businesses and provides us with an enhanced service platform that enables us to attract new advertising clients and expand our customer base. For example, the joint venture successfully pitched for a full media account with TOTO, a Japanese company that produces bathroom fixtures.

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In October 2010, we entered into an agreement to establish a joint venture with Wasu Digital Group, or Wasu Group, China's largest operator and digital content provider for cable TV, 3G mobile TV and broadband TV and a supplier of IPTV services. The joint venture has the right to operate all advertising-related businesses across Wasu Group's three-network platform of IPTV, 3G mobile TV and broadband TV for 20 years. The joint venture will seek to develop and set advertising industry standards on these new advertising media platforms, including the development of advertising products, product pricing, sales strategy, promotional materials as well as the development of advertising sales and agency policies. In 2011, we signed exclusive advertising agency agreements with Beijing Gehua Cable Network, Shanghai New Media Information Broadcasting Co., Ltd. and Guangzhou Zhujiang Online Multimedia Co., Ltd. to operate digital media advertising on interactive HDTV digital cable platforms in Beijing, Shanghai and Guangzhou, respectively.

In April 2011, we formed a joint venture with Chongqing Travel & Culture Communications Co., Ltd. whereby we have a 49% equity interest to explore and promote the travel and tourism advertising market of Chongqing.

In September, 2013, Charm Media Co., Ltd. Formed a PRC company limited by shares, Jiangsu Heli Charm Advertising Media Co. Ltd. with an individual to explore the local advertising business in Anhui Province and Jiangsu Province. Jiangsu Heli is 60% owned by us and 40% owned by the individual.

In addition to the factors discussed above, our reported results are also affected by the fluctuations in the value of the Renminbi against the U.S. dollar because our reporting currency is the U.S. dollar while the functional currency of our subsidiaries and variable interest entities in China, which operate substantially all of our business, is the Renminbi. The fluctuation of the Renminbi against the U.S. dollar contributed to the fluctuation in our net income reported in U.S. dollar terms. For additional information relating to the fluctuations in the value of the Renminbi against the U.S. dollar, see "Item 3. Key Information — A. Selected Financial Data — Currency Translation and Exchange," "Item 3. Key Information — D. Risk Factors — Risks Relating to Doing Business in China — Fluctuations in exchange rates of the Renminbi could materially affect our reported results of operations" and "Item 11. Quantitative and Qualitative Disclosure About Market Risk — Foreign Exchange Risk."

Description of Revenue and Cost Items

Revenues

We generated revenues of US\$280.1 million, US\$165.5 million and US\$183.8 million in 2011, 2012 and 2013, respectively. Prior to 2011, we primarily operated our business through variable interest entities. Starting from 2011, we have begun operating the majority of our business through these two new wholly foreign owned enterprises — Charm Media Co., Ltd. and Shang Xing Media Co., Ltd., which are qualified to operate advertising businesses in the PRC. The two wholly foreign owned enterprises assumed the agreements with each of our contractual counterparties, and the agreements were transferred from the variable interest entities to the wholly foreign owned enterprises. For the years ended December 31, 2011, 2012 and 2013, we generated approximately 13.1%, 0.1% and 0.00%, respectively, of our revenues from our variable interest entities. We derive revenues from our three operating segments: media investment management, advertising agency and branding and identity services. The following table sets forth a breakdown of our revenues by our three operating segments:

	For the Year Ended December 31,					
	2011		2012		2013	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
(US\$ in thousands, except percentages)						
Revenues:						
Media investment management	238,837	85.3%	112,786	68.2%	128,436	69.9%
Advertising agency	34,285	12.2%	46,234	27.9%	50,356	27.4%
Branding and identity services	7,016	2.5%	6,478	3.9%	5,011	2.7%
Total revenues	280,138	100.0%	165,498	100.0%	183,803	100.0%

Media Investment Management. Our media investment management revenues amounted to US\$128.4 million in 2013 compared to US\$112.8 million in 2012 and US\$238.8 million in 2011. Under our media investment business, we enter into agreements to secure all or a portion of the advertising time and other advertising rights, which include soft advertising such as sponsorship on television channels, specific television programs, special television events and other media platforms. We derive our media investment management business revenues from the sale of advertising time and other advertising rights that we have secured pursuant to these agreements to advertisers directly or through their agencies. We account for media investment management business revenues and related costs on a gross basis. After evaluating the profitability and risk of certain exclusive agency arrangements and discussing with the satellite television stations, we did not renew our agreements with Shanghai Dragon Television and Hubei Provincial Economic TV in 2012. We also did not renew our Shanghai Channel Young program at the end of 2012. At the end of 2013, we did not renew our Tianjing Satellite Channel resources and Beijing Gehua Cable Network. In addition, in 2012, we purchased less advertising time and other advertising rights under exclusive arrangements. The media investment management revenues also were affected by regulatory changes in the satellite TV business as well as by soft overall demand in the marketplace. At the beginning of 2012, we dropped several media assets to modify our media inventory mix. As a result of the foregoing, our media investment management revenues decreased in 2012.

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As we entered into exclusive agreement with BTV Sport Channel from June 2012, we operated this channel for full year in 2013 compared to 7 months in 2012. As a result, our media investment management revenues increased in 2013. If we excluded BTV Sport Channel, our media investment management revenues slightly decrease in 2013. During the third quarter of 2013, television ratings recorded a sudden drop, which negatively impacted our media investment management revenues. The drop in television ratings was mainly attributed to ratings underperformance associated with broadcast coverage of China's National Games, a quadrennial sporting event for which media comparisons and benchmarks are extremely limited. Projecting television ratings regularly involves certain risks and uncertainties, in particular, with respect to non-recurring special events such as China's National Games. While the drop of media inventory in 2012 and the sudden drop in televisions ratings in 2013 had a negative impact on our media investment management revenues, we remain cautiously optimistic in the performance of our media investment management business and conservative in our projections in this business.

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Advertising Agency. Our advertising agency revenues increased to US\$50.4 million in 2013 from US\$46.2 million in 2012 and US\$34.3 million in 2011. We derive our advertising agency revenues from representing advertising clients to place their advertisements on media platforms, primarily television channels. We account for advertising agency revenues on a net basis. In general, we receive commissions which are calculated as a percentage of the total advertising spending placed by us for our advertising clients. We also receive sales commissions from the media platforms calculated as a percentage of the total advertising spending that we place on the media platforms on behalf of our advertising clients. While we receive sales commissions from the media platforms where we place advertisements on behalf of our clients, CCTV has historically accounted for the vast majority of the sales commissions that we have received. In addition to the sales commissions, CCTV also pays a performance bonus to advertising agencies that qualify as one of its top ten advertising agencies for a calendar year. CCTV ranks the top ten advertising agencies based primarily on the aggregate value of advertisements placed on CCTV channels.

We received sales commissions and performance bonuses from CCTV in each of 2011, 2012 and 2013. In the aggregate, the sales commissions and bonuses from CCTV accounted for approximately 2.8%, 5.7% and 6.1% of our total revenues in 2011, 2012 and 2013, respectively. However, CCTV and some other television stations have sole discretion in setting and adjusting the future amount of the sales commissions and performance bonuses they pay to advertising agencies at any time. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business — Our CCTV-related business has been, and is expected to continue to be critical to our business and financial performance. Failure to maintain our relationship with CCTV would continue to materially and adversely affect our business, results of operations, financial condition and prospects.”

We expect our advertising agency revenues to increase as we expand our agency business, especially through the expansion of spending on other TV media platform and internet advertising.

Branding and Identity Services. Our branding and identity revenues amounted to US\$5.0 million in 2013 compared to US\$6.5 million in 2012 and US\$7.0 million in 2011. We derive our branding and identity services revenues from providing creative design and production management services for the development of an advertisement. We account for the total amount of payments we receive from advertising clients for such services as our branding and identity services revenues.

Cost of Revenues

Our total cost of revenues amounted to US\$195.6 million, US\$117.1 million and US\$125.6 million in 2011, 2012 and 2013, respectively. We account for our cost of revenues separately for our three operating segments. The following table sets forth a breakdown of our cost of revenues by our three operating segments for the periods indicated:

	For the Year Ended December 31,					
	2011	2012		2013		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
	(US\$ in thousands, except percentages)					
Cost of revenues:						
Media investment management	187,878	67.1%	107,976	65.3%	117,578	64.0%
Advertising agency	3,737	1.3%	4,864	2.9%	4,243	2.3%
Branding and identity services	4,015	1.4%	4,303	2.6%	3,765	2.0%
Total cost of revenues	195,630	69.8%	117,143	70.8%	125,586	68.3%

Media Investment Management. The cost of revenues for our media investment management business decreased from US\$187.9 million in 2011 to US\$108.0 million in 2012 and increased to US\$ 117.6 million in 2013. For our media investment management business, we enter into exclusive advertising agency agreements to secure all or a portion of the advertising time and other advertising rights on various media platforms, including television channels, specific television programs, special events and interactive HDTV digital cable platforms. Our cost of revenues for our media investment management business primarily consists of the media costs that we must pay to secure the advertising time and other advertising rights under the exclusive agency arrangements and related business taxes, value added taxes (“VAT”) and surcharges. After evaluating the profitability and risk of certain exclusive agency arrangements and discussing with the satellite television stations, we did not renew our agreements with Shanghai Dragon Television and Hubei Provincial Economic TV in 2012. And we didn’t renew the Shanghai Channel Young program at the end of 2012. In addition, in 2012, we purchased less advertising time and other advertising rights under exclusive arrangements. The media investment management revenues also were affected by regulatory changes in the satellite TV business as well as by soft overall demand in the marketplace. At the beginning of 2012, we dropped several media assets to modify our media inventory mix and to reduce risk following regulatory changes in the satellite TV market. As a result of the foregoing, our media investment management cost of revenues decreased in 2012. In 2013, we have our exclusive agency arrangements with respect to advertising rights on three television channels (Tianjin Satellite Television, Nanfang Satellite Television and Beijing Sport Channel), certain CCTV programs and the interactive HDTV digital cable platforms in Beijing, Shanghai and Guangzhou.

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Advertising Agency. The cost of revenues for our advertising agency business increased from US\$3.7 million in 2011 to US\$4.9 million in 2012 and US\$4.2 million in 2013. The cost of revenues for our advertising agency business primarily consists of salaries and benefits for our advertising agency professionals and related business taxes, VAT and surcharges. We account for our advertising agency revenues on a net basis. Accordingly, our cost of revenues for our advertising agency business has remained a relatively small percentage of our advertising agency revenues. While we expect our advertising agency revenues to increase in the near future, we anticipate that our cost of revenues for this business segment will remain relatively small as a percentage of our total cost of revenues.

Branding and Identity Services. The cost of revenues for our branding and identity services business increased from US\$4.0 million in 2011 to US\$4.3 million in 2012 and decreased to US\$3.8 million in 2013. The cost of revenues for our branding and identity services business primarily consists of the production costs for the advertisements that we design and related business taxes, VAT and surcharges. It also includes the costs of salaries and benefits for our branding and identity professionals. The amount of the cost of our revenues for our branding and identity services tracked the corresponding increase and decrease in revenues from our branding and identity services.

Business taxes and surcharges include the 5.0% business tax and 3%-3.5% surcharges that our PRC subsidiaries and variable interest entities must pay for revenues earned from services provided in China. Business taxes and surcharges are levied on our revenues net of our media costs. We also incurred business taxes and surcharges in connection with the business operations of our variable interest entities in China. Starting in March 2008, as a result of the establishment of the contractual arrangements between Nanning Jetlong, our wholly owned PRC subsidiary and our variable interest entities, we incurred business taxes and surcharges on fees paid by our variable interest entities to Nanning Jetlong under these contractual arrangements. The purpose of these contractual arrangements is to allow Nanning Jetlong to receive substantially all of the economic benefits from the variable interest entities, which led to the levy of the business taxes and surcharges.

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 a pilot program has been phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, one PRC subsidiary and one VIE of the Group became subject to VAT at the rate of 6%, on certain service revenues which were previously subject to business tax. Two other PRC subsidiaries, which were founded in September 2012, are subject to VAT since the inception of both subsidiaries.

Gross Profit

The following table sets forth our gross profit by our operating segments for the periods indicated.

	For the Year Ended December 31.		
	2011	2012	2013
	(US\$ in thousands, except percentages)		
Gross profit:			
Media investment management	50,959	4,810	10,858
Advertising agency	30,548	41,370	46,113
Branding and identity services	3,001	2,175	1,246
Total gross profit	84,508	48,355	58,217

Our gross profit amounted to US\$58.2 million in 2013 from US\$48.4 million in 2012 and US\$84.5 million in 2011.

Media Investment Management. The gross profit from our media investment management business decreased significantly from 2011 to 2012, primarily as a result of the effect of the satellite TV operating environment in 2011 and 2012. The gross profit from our media investment management business increased from 2012 to 2013 primarily as a result of change in media investment resources. We entered into exclusive agreement with BTV Sport Channel from June 2012, thus we operated this channel for full year in 2013 compared to 7 months in 2012. As a result, our media investment management revenues increased in 2013. If we excluded BTV Sport Channel, our media investment management revenues slightly decrease in 2013. After evaluating the profitability and risk of certain exclusive agency arrangements and discussing with the satellite television stations, we did not renew our agreements with Shanghai Dragon Television and Hubei Provincial Economic TV in 2012. And we didn't renew Shanghai Channel Young at the end of 2012. In addition, in 2012, we entered into exclusive agency arrangements with several new parties but overall, purchased less advertising time and other advertising rights under exclusive arrangements. In 2013, we have our exclusive agency arrangements with respect to advertising rights on three television channels (Tianjin Satellite Television, Nanfang Satellite Television and Beijing Sport Channel), certain CCTV programs and the interactive HDTV digital cable platforms in Beijing, Shanghai and Guangzhou. And we expect that our gross profit for Media Investment Management may maintain at the same level in 2013 as 2012.

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Advertising Agency Business. The gross profit from our advertising agency business increased from 2011 to 2012 and 2013 due to increases in our advertising agency revenues, which were driven by an increase in the total advertising spending for advertisements we placed for our clients. The gross profit from our advertising agency business may increase to the extent we continue to receive more clients and more engagements from our clients to place advertisements on a variety of television stations and other advertising platforms, such as internet advertising, and these engagements lead to an overall increase in the total advertising spending placed by our clients.

Branding and Identity Services. The gross profit from our branding and identity services have fluctuated as a result of changes in revenue from branding and identity services. As a substantial portion of our cost of revenues for our branding and identity services is directly tied to the number and type of advertisements that we create and produce for our clients, our cost of revenues for our branding and identity services has also fluctuated together with revenues from our branding and identity services.

Operating Expenses

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

	For the Year Ended December 31,					
	2011		2012		2013	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
(US\$ in thousands, except percentages)						
Operating expenses:						
Selling and marketing expenses	27,119	9.7%	36,026	21.8%	38,204	20.8%
General and administrative expenses	9,704	3.4%	16,234	9.8%	17,748	9.7%
Total operating expenses	36,823	13.1%	52,260	31.6%	55,952	30.5%

Selling and Marketing. Our selling and marketing expenses primarily consist of salaries and benefits for our sales staff, marketing and promotional expenses and business development expenses. We also account for the cost of procuring market research and data from third party industry sources as selling and marketing expenses because we routinely use such research and data in connection with our selling and marketing activities. Selling and marketing expenses accounted for approximately 9.7%, 21.8% and 20.8% of our total revenues in 2011, 2012 and 2013, respectively. We expect the amount of our selling and marketing expenses to decrease as an absolute amount but increase as a percentage of our total revenues in the near future.

General and Administrative. Our general and administrative expenses primarily consist of salaries and benefits for management, accounting and administrative personnel, office rentals, depreciation of office equipment, professional service fees, maintenance and utilities. General and administrative expenses accounted for approximately 3.4%, 9.8% and 9.7% of our total revenues in 2011, 2012 and 2013, respectively. We expect our general and administrative expenses to increase as an absolute amount but maintain at current level as a percentage of our total revenues in the near future.

Inflation/Deflation

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2011, 2012 and 2013 were an increase of 5.4%, an increase of 2.6% and a decrease of 0.02%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Taxation

We are incorporated in the Cayman Islands. Under the current law 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. Our intermediate holding company incorporated in the British Virgin Islands is not subject to income or capital gains taxes or withholding taxes on dividend payments. No Hong Kong profits tax has been provided as we do not have assessable profits earned in or derived from Hong Kong for the years ended December 31, 2011, 2012 and 2013. Our subsidiaries incorporated in Hong Kong are not subject to capital gains taxes or withholding taxes on dividend payment under the current laws of Hong Kong.

Under the PRC EIT Law, which has been effective since January 1, 2008, and related implementing rules, dividends paid from our PRC subsidiaries are subject to a withholding tax at 10%. This new dividend withholding tax, however, will only be levied on our PRC subsidiaries in respect of profits earned in 2008 onwards. Profits distributed after January 1, 2008 but related to financial results generated in the year ended December 31, 2007 and prior years will not be subject to dividend withholding tax. The dividend withholding tax rate can be lower than 10% subject to tax treaties between China and foreign countries or regions.

Our subsidiaries and variable interest entities in China are subject to 5% business taxes or 6% value-added tax and 3%-3.5% related surcharges levied on our revenues net of our media costs by various local tax authorities.

Under the EIT law, PRC enterprises that were subject to a 33% enterprise income tax rate are subject to a 25% enterprise income tax rate commencing January 1, 2008.

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 has been phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, one PRC subsidiary and one VIE of the Group became subject to VAT at the rate of 6%, on certain service revenues which were previously subject to business tax. Two other PRC subsidiaries, which were founded in September 2012, are subject to VAT since the inception of both subsidiaries. After August 2013, all subsidiaries in China are subject to VAT.

Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Although the term “de facto management bodies” is defined as “management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise,” the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China are currently unclear. A circular issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management bodies” located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (iv) at least half of the enterprise’s directors or senior management with voting rights reside in the PRC. In addition, the State Administration of Taxation recently promulgated the Interim Provisions on Administration of Income Tax of Chinese-Controlled Resident Enterprise Registered Overseas, effective from September 1, 2011, which clarified certain matters concerning the determination of resident status, administrative matters following this determination and competent tax authorities. These interim provisions also specify that when an enterprise which is both Chinese-controlled and incorporated outside of mainland China receives PRC-sourced incomes such as dividends and interests, no PRC withholding tax is applicable if such enterprise has obtained a certificate evidencing its status as a PRC resident enterprise which is registered overseas and controlled by Chinese.

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Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise. To our knowledge, there is a lack of clear guidance regarding the criteria pursuant to which the PRC tax authorities will determine the tax residency of a company under the EIT Law. As a result, neither we nor our PRC counsel can be certain as to whether we will be subject to the tax applicable to resident enterprises or non-resident enterprises under the EIT Law. If we and our offshore holding companies are considered to be PRC resident enterprises, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income while dividends distributed to our non-PRC entity investors by us or the gain our non-PRC entity investors may realize from the transfer of our common shares or ADSs may be treated as PRC-sourced income and therefore, be subject to a 10% PRC withholding tax pursuant to the EIT Law. As a result, the value of your investment may be materially and adversely affected.

Critical Accounting Policies

We prepare our financial statements in accordance 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 net 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 relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

Revenue Recognition

Our revenues are derived from three operating segments: media investment management, advertising agency and branding and identity services.

Media Investment Management

We derive media investment management revenues from the sale of advertising time or other advertising rights that we secure under our media investment management business. The revenues for these sales are recognized when the related advertisement time or right is utilized by our client.

We evaluate our media investment management contracts to determine whether to recognize our revenues on a gross basis or net of the costs of obtaining the associated time slots from the television stations. Our determination is based upon an assessment as to whether we act as a principal or agent when providing our services. We have concluded that we act as principal in media investment management business. Factors that support our conclusion mainly include:

- we secure advertising media resources from the media platforms, including television channels and, as a result, we bear the risk of ownership and are exposed to the risk that we may not be able to sell the purchased resources;
- we are able to establish the prices charged to our customers;
- we are obligated to pay the media platforms, including television stations regardless of the collection from the advertising customers, and, as a result, we bear the delivery and billing risks for the revenues generated with respect to our services.

Based on these factors, we believe that recognizing revenues from media investment management business on a gross basis is appropriate.

We occasionally engage in barter transactions where we trade advertising time slots for goods or advertising resources. For advertising-for-good barter transactions, revenues are recorded based on the fair value of goods received, which is more clearly evident than the fair value of the advertising time slots surrendered. For advertising-for-advertising barter transactions, revenues are recorded based on the our own historical practice of receiving cash for similar advertising time slots from customers unrelated to the party in the barter transaction, if available, or the carrying amount of the advertising time slots surrendered. The amounts of revenue recognized for barter transactions for the years ended December 31, 2011, 2012 and 2013 were US\$0.1 million, nil and US\$3.1 million.

Advertising Agency

Advertising agency revenues are derived from commissions received for assisting advertising clients in obtaining advertisement time on media platforms, including primarily, television stations. In general, the commission received is based on a percentage of the cost of the advertising time purchased by the client. In many cases, the client pays the media owner for the advertising resource through us, however we act as an agent for the client for these transactions, and accordingly, the revenue from these transactions is recognized on a net of cost basis. The commission revenue is recognized when the related advertisement resource is utilized by the client.

We evaluate our advertising agency contracts to determine whether to recognize our revenues on a gross basis or net of the costs of obtaining the associated time slots from the media platforms, including primarily, television stations. Our determination is based upon an assessment as to whether we act as a principal or agent when providing our services. We have concluded that we act as an agent in advertising agency business. Factors that support our conclusion mainly include:

- we are not the primary obligor in the related arrangements;
- we place orders on behalf of the advertising customers, and, as a result, we do not have general inventory risk;
- we are not able to independently establish prices charged to the advertising customers because such prices are established and negotiated on the basis of the amount charged by the media platforms;
- we cannot change the specifications of the services we will be rendering; and
- we are not able to control the selection of our content suppliers.

Based on these factors, we believe that recognizing revenues from our advertising agency business on a net of cost basis is appropriate.

We also receive performance-based sales commissions from the media platforms, equal to a percentage of the purchase price for qualifying advertising resource purchased and utilized by advertising clients we represent. The amount of the additional commissions earned may be subject to adjustments based on various performance factors. Revenue is accrued and recognized when the amounts of the additional commissions are probable and reasonably estimable. These estimations are based on our past experience and various performance factors set by the media platforms. Actual amounts of commissions that we will receive from the media platforms could differ from our estimations. Historically, adjustments to our estimations for the actual amounts of commissions have not been material.

Branding and Identity Services

We derive branding and identity services revenues by providing creative design and production management services for the development of advertisements and marketing consulting services. These types of revenues do not involve significant estimates and judgment.

Allowance for Doubtful Accounts

We regularly evaluate the collectability of our accounts receivable. We maintain allowances for doubtful accounts when we believe there is a risk to the collectability of accounts receivable. We review the aging analysis of accounts receivable and make an assessment of the collectability of specific customer accounts, including evaluating the credit worthiness and financial condition of our customers and considering our historical experience with bad debts. Actual collections of the accounts receivable could differ significantly from the original estimates.

Taxation

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a certain period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provisions for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The valuation allowance is based on our estimates of taxable income as determined by the jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations. During the year ended December 31, 2013, considering the increased profitability of our certain PRC entities, we have increased our estimates of future taxable income for such entities, which resulted in a reduction of valuation allowance by \$3.2 million and a reduction of income tax expenses in the same amount.

U.S. GAAP requires that the impact of an uncertain income tax position on the income tax return be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. If we ultimately determine that the payment of these liabilities will be unnecessary, we will reverse the liability and recognize a tax benefit during that period. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. We did not identify significant unrecognized tax benefits for the years ended December 31, 2011, 2012 and 2013.

Uncertainties exist with respect to how the PRC's EIT Law applies to our overall operations and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered to be residents for PRC income tax purposes if their place of effective management or control is within the PRC. The implementation rules under the EIT Law provide that non-resident legal entities will be considered to be PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting or properties, among others, occur within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, for the purposes of preparing our financial statements, we have assumed that our legal entities organized outside of the PRC will not be treated as residents for purpose of the EIT Law. If one or more of our legal entities organized outside of the PRC were characterized as PRC tax residents, our results of operations could be materially and adversely affected.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed and any non-controlling 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 non-controlling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. 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 at 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.

Impairment of goodwill and indefinite-lived assets

We review the carrying value of intangible assets not subject to amortization, including goodwill, annually or more frequently if events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable.

Specifically, goodwill impairment is determined using a two-step process. The first step compares the fair values 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 goodwill to the carrying value of a reporting unit's 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 impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

We perform the annual impairment tests on December 31 of each year and no impairment was considered necessary.

Share-Based Compensation

Our share-based payment transactions with directors, employees and consultants are measured based on the grant date fair value of the equity instrument we issued and recognized as compensation expense over the requisite service period based on a straight line bases, with a corresponding impact reflected in additional paid-in capital.

In 2009 and 2010, we granted options to purchase our ordinary shares to our directors, employees and consultants. See "Item 6. Directors, Senior Management and Employees — B. Compensation of Directors, Supervisors and Executive Officers — 2008 Share Incentive Plan."

In 2011, 2012 and 2013, we granted 372,000, 190,668 and 800,000 restricted shares, respectively, to our employees and consultants. The fair value of restricted shares was esimated based upon the market price of our ADSs which were listed on the Nasdaq Global Market.

On April 2, 2013, our board of directors authorized to amend the 2008 Share Incentive Plan terms and also approved some 2008 grants amendment. The contractual term of the options granted under the 2008 plan was extended from five years to ten years. Five option agreements with total 930,000 share options were modified to 625,000 share options, and the exercise prices in the five option agreements were modified from \$3.4 or 3.15 per share to nil per share. This amendment was accounted for as a modification to share awards.

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In determining the fair value of our stock options immediately before the modification and on the modification date, we used the Black-Scholes option pricing model and considered a valuation report prepared by American Appraisal China Limited, or AAC, an independent third-party appraisal firm, based on data we provided.

The assumptions used to determine the fair value of the options in relationed to the modification were as follows:

Grant Date	2013
Expected volatility	0.691~0.872
Risk-free interest rate	0.48%~0.79%
Expected dividend yield	0%
Expected term (in years)	1.01~2.71
Fair value of underlying ordinary share	US\$5.20

The volatility of the underlying ordinary shares during the expected term of the options was estimated based on the historical stock price volatility of the Company and comparable listed companies over a period comparable to the expected term of the options. The risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the expected term of the options. The dividend yield was estimated based on its expected dividend policy over the expected term of the options. The expected term were estimated based on the vesting and contractual terms, employee demographics and the expected term of the similar companies. The closing market price of the ordinary shares of our company as of the modification date was used as the fair value of the ordinary shares on that date. We are required to estimate forfeitures at the time of grant and record share-based compensation expenses only for those awards that are expected to vest. If actual forfeitures differ from these estimates, we may need to revise those estimates used in subsequent periods.

If factors change and we employ different assumptions for estimating share-based compensation expenses in future periods or if we decide to use a different valuation model, our share-based compensation in future periods may differ significantly from what we have recorded in prior periods and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, which are characteristics not presented in our option grants. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair value of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may be significantly different from the actual values realized upon the exercise, expiration, early termination or forfeiture of those share-based payments in the future. Certain share-based compensation awards, such as employee share options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair value originally estimated on the grant date and reported in our financial statements. Alternatively, values that are significantly higher than fair values originally estimated on the grant date and reported in our financial statements may be realized from these instruments. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

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Results of Operations
Selected Consolidated Financial Information

The following table sets forth selected consolidated statements of operations for the relevant periods:

	For the Year Ended December 31,					
	2011		2012		2013	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
(US\$ in thousands, except share and per share data and percentages)						
Revenues:						
Media investment management	238,837	85.3%	112,786	68.2%	128,436	69.9%
Advertising agency	34,285	12.2%	46,234	27.9%	50,356	27.4%
Branding and identity services	7,016	2.5%	6,478	3.9%	5,011	2.7%
Total revenues	280,138	100.0%	165,498	100.0%	183,803	100%
Cost of revenues:						
Media investment management	187,878	67.1%	107,976	65.3%	117,578	64.0%
Advertising agency	3,737	1.3%	4,864	2.9%	4,243	2.3%
Branding and identity services	4,015	1.4%	4,303	2.6%	3,765	2.0%
Total cost of revenues	195,630	69.8%	117,143	70.8%	125,586	68.3%
Gross profit	84,508	30.2%	48,355	29.2%	58,217	31.7%
Operating expenses						
Selling and marketing expenses	27,119	9.7%	36,026	21.8%	38,204	20.8%
General and administrative expenses	9,704	3.4%	16,234	9.8%	17,748	9.7%
Total operating expenses	36,823	13.1%	52,260	31.6%	55,952	30.4%
Share of earnings from equity method investees	2	—	350	0.2%	75	0.0%
Changes in fair value of consideration payable	—	—	654	0.4%	521	0.3%
Impairment on call option	—	—	345	0.2%	285	0.2%
Operating profit (loss)	47,687	17.0%	(3,246)	(2.0)%	2,576	1.4%
Interest income	2,497	0.9%	2,255	1.4%	1,026	0.6%
Interest expense	—	—	—	—	—	—
Impairment on cost method investments	—	—	—	—	—	—
Other expense	—	—	(13)	—	(792)	(0.4)%
Income (loss) before income tax expense	50,184	17.9%	(1,004)	(0.6)%	2,810	1.5%
Income tax expense	2,158	0.8%	1,472	0.9%	1,409	0.8%
Net income (loss)	48,026	17.1%	(2,476)	(1.5)%	1,401	0.8%
Net income attributable to noncontrolling interest	1,572	0.9%	1,518	0.9%	706	0.4%
Net income attributable to redeemable noncontrolling interest	307	0.2%	711	0.4%	299	0.2%
Net income (loss) attributable to Charm Communications Inc.	46,147	16.5%	(4,705)	(2.8)%	396	0.2%
Net income (loss) per share:						
Basic	0.59		(0.06)		0.00	
Diluted	0.56		(0.06)		0.00	
Shares used in computation of net income (loss) per share:						
Basic	78,266,839		77,498,250		79,871,761	
Diluted	82,113,765		77,498,250		80,639,506	
Net income (loss) per ADS:						
Basic	1.18		(0.12)		0.01	
Diluted	1.12		(0.12)		0.01	
ADS used in computation of net income (loss) per share:						
Basic	39,133,419		38,749,125		39,935,880	
Diluted	41,056,882		38,749,125		40,319,753	

Year Ended 2013 Compared to Year Ended 2012

Total Revenues. Our total revenues increased by 11.1% to US\$183.8 million in 2013 from US\$165.5 million in 2012.

- Our media investment management revenues increased by 13.9% to US\$128.4 million in 2013 from US\$112.8 million in 2012, mainly due to the change in media investment business mixture that we operated full year of BTV Sport Channel in 2013 compared to 7 months in 2012. Our media investment management revenues decreased slightly in 2013 compared to 2012 after excluding the BTV Sport Channel.
- Our advertising agency revenues increased by 8.9% to US\$50.4 million in 2013 from US\$46.2 million in 2012, mainly because we intend to strengthen our agency business, and increase advertising spending on non-CCTV media platforms, such as the Internet and satellite channels, all of which exhibited higher extraction rates relative to those associated with CCTV.
- Our branding and identity services revenues decreased by 22.6% to US\$5.0 million in 2013 from US\$6.5 million in 2012 primarily due to a decrease in client demand for our creative services in 2013.

Cost of Revenues. Our cost of revenues increased by 7.2% to US\$125.6 million in 2013 from US\$117.1 million in 2012.

- Our cost of revenues for our media investment management business increased by 8.9% to US\$117.6 million in 2013 from US\$108.0 million in 2012 is in line with the increase in media investment management revenue.
- Our cost of revenues for our advertising agency business decreased by 12.8% to US\$4.2 million in 2013 from US\$4.9 million in 2012. The decrease in the cost of our revenues for our advertising agency business is primarily due to less VAT incurred in 2013 as a result of some timing difference in offsetting the purchase VAT invoices.
- Our cost of revenues for our branding and identity services business decreased by 12.5% to US\$3.8 million in 2013 from US\$4.3 million in 2012 primarily due to an increase in branding and identity revenue.

Gross Profit. As a result of the foregoing, our overall gross profit increased by 20.4% to US\$58.2 million in 2013 from US\$48.4 million in 2012. Our gross margin increased to 31.7% in 2013 from 29.2% in 2012.

- Our media investment management business generated a gross profit of US\$10.9 million in 2013, representing a gross margin of 8.5%, and US\$4.8 million in 2012, representing a gross margin of 4.3%. Since we account for our media investment management revenues on a gross basis, we realize a lower gross margin from this business compared to our advertising agency business. The gross margin for our media investment management business increased in 2013 primarily due to sufficiently ramp up of business in Nanfang Satellite Channel and HDTV resources in year 2013.
- Our advertising agency business generated a gross profit of US\$46.1 million in 2013, representing a gross margin of 91.6%, and US\$41.4 million in 2012, representing a gross margin of 89.5%. Since we account for our advertising agency revenues on a net basis, we realize a higher gross margin for this business than our other businesses.
- Our branding and identity business generated a gross profit of US\$1.2 million in 2013, representing a gross margin of 24.9%, and US\$2.2 million in 2012, representing a gross margin of 33.6%.

Operating Expenses. Our operating expenses increased significantly by 7.1% to US\$56.0 million in 2013 from US\$52.3 million in 2012.

- Our selling and marketing expenses increased by 6.0% to US\$38.2 million in 2013 from US\$36.0 million in 2012 primarily due to increased selling related activities as a result of increased revenues.
- Our general and administrative expenses increased by 9.3% to US\$17.7 million in 2013 from US\$16.2 million in 2012, was mainly attributed to higher personnel expense in 2013.

Operating Profit (Loss). As a result of the foregoing, our operating profit(loss) increased by 179.4% to operating profit of US\$2.6 million in 2013 from operating loss of US\$3.2 million in 2012.

Interest Income. Our interest income decreased by 54.5% to US\$1.0 million in 2013 from US\$2.3 million in 2012 primarily because we have lower deposits in 2013 than 2012 due to high liquidity requirements in operation.

Net Income (loss). As a result of the foregoing, our net income increased by 156.6% to net income of US\$1.4 million in 2013 from net loss of US\$2.5 million in 2012.

Net Income attributable to noncontrolling interest. In 2013, our net income attributable to noncontrolling interest was US\$0.7 million compared to US\$1.5 million in 2012.

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Net Income attributable to redeemable noncontrolling interest. In 2013, our net income attributable to noncontrolling interest was US\$0.3 million compared to US\$0.7 million in 2012.

Net Income (loss) attributable to Charm Communications Inc. As a result of the foregoing, our net income (loss) attributable to Charm Communications Inc. increased by 108.4% to net income of US\$0.4 million in 2013 from net loss of US\$4.7 million in 2012.

Year Ended 2012 Compared to Year Ended 2011

Total Revenues. Our total revenues decreased by 40.9% to US\$165.5 million in 2012 from US\$280.1 million in 2011.

- Our media investment management revenues decreased by 52.8% to US\$112.8 million in 2012 from US\$238.8 million in 2011, mainly due to the effects of regulatory change in the satellite TV business as well as by soft overall demand in the marketplace. At the beginning of 2012, we dropped several media assets to modify our media resources mix and to reduce risk following regulatory changes in the satellite TV market.
- Our advertising agency revenues increased by 34.9% to US\$46.2 million in 2012 from US\$34.3 million in 2011, mainly because we intend to strengthen our agency business, and increase advertising spending on non-CCTV media platforms, such as the Internet and satellite channels, all of which exhibited higher extraction rates relative to those associated with CCTV.
- Our branding and identity services revenues decreased by 7.7% to US\$6.5 million in 2012 from US\$7.0 million in 2011 primarily due to a decrease in client demand for our creative services in 2012.

Cost of Revenues. Our cost of revenues decreased by 40.1% to US\$117.1 million in 2012 from US\$195.6 million in 2011.

- Our cost of revenues for our media investment management business decreased by 42.5% to US\$108.0 million in 2012 from US\$187.9 million in 2011, mainly due to the effects of regulatory change in the satellite TV business as well as by soft overall demand in the marketplace. At the beginning of 2012, we dropped several media assets to modify our media resources mix and to reduce risk following regulatory changes in the satellite TV market.
- Our cost of revenues for our advertising agency business increased by 30.2% to US\$4.9 million in 2012 from US\$3.7 million in 2011. The increase in the cost of our revenues for our advertising agency business is primarily due to we delivered on our revenue guidance due in large part to our strong agency business, and an increased advertising spending on non-CCTV media platforms, such as the Internet and satellite channels, all of which exhibited higher extraction rates relative to those associated with CCTV.
- Our cost of revenues for our branding and identity services business increased by 7.2% to US\$4.3 million in 2012 from US\$4.0 million in 2011 primarily due to an increase in branding and identity revenue.

Gross Profit. As a result of the foregoing, our overall gross profit decreased by 42.8% to US\$48.4 million in 2012 from US\$84.5 million in 2011. Our gross margin decreased to 29.2% in 2012 from 30.2% in 2011.

- Our media investment management business generated a gross profit of US\$4.8 million in 2012, representing a gross margin of 4.3%, and US\$51.0 million in 2011, representing a gross margin of 21.3%. Since we account for our media investment management revenues on a gross basis, we realize a lower gross margin from this business compared to our advertising agency business. The gross margin for our media investment management business decreased in 2012 primarily due to dropping of several media assets in order to modify our media resources mix following the aforementioned regulatory changes.
- Our advertising agency business generated a gross profit of US\$41.4 million in 2012, representing a gross margin of 89.5%, and US\$30.5 million in 2011, representing a gross margin of 89.1%. Since we account for our advertising agency revenues on a net basis, we realize a higher gross margin for this business than our other businesses.
- Our branding and identity business generated a gross profit of US\$2.2 million in 2012, representing a gross margin of 33.6%, and US\$3.0 million in 2011, representing a gross margin of 42.8%.

Operating Expenses. Our operating expenses increased significantly by 41.9% to US\$52.3 million in 2012 from US\$36.8 million in 2011.

- Our selling and marketing expenses increased significantly by 32.8% to US\$36.0 million in 2012 from US\$27.1 million in 2011 primarily due to increased headcount, including executive hires within our agency business.
- Our general and administrative expenses increased significantly by 67.3% to US\$16.2 million in 2012 from US\$9.7 million in 2011, was mainly attributed to a bad debt provision in 2012.

Operating Profit (Loss). As a result of the foregoing, our operating profit (loss) decreased by 106.8% to operating loss of US\$3.2 million in 2012 from operating profit of US\$47.7 million in 2011.

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Interest Income. Our interest income decreased by 9.7% to US\$2.3 million in 2012 from US\$2.5 million in 2011 primarily because we have lower average cash balances in 2012 than 2011.

Net Income (loss). As a result of the foregoing, our net income decreased by 105.2% to net loss of US\$2.5 million in 2012 from net income of US\$48.0 million in 2011.

Net Income attributable to noncontrolling interest. In 2012, our net income attributable to noncontrolling interest was US\$1.5 million compared to US\$1.6 million in 2011.

Net Income attributable to redeemable noncontrolling interest. In 2012, our net income attributable to noncontrolling interest was US\$0.7 million compared to US\$0.3 million in 2011.

Net Income (loss) attributable to Charm Communications Inc. As a result of the foregoing, our net income (loss) attributable to Charm Communications Inc. decreased by 110.2% to net loss of US\$4.7 million in 2012 from net income of US\$46.1 million in 2011.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board, or 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.

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 will adopt this pronouncement on January 1, 2014 and do not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations.

In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this Accounting Standards Update, or ASU, is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP.

The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

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This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We will adopt this pronouncement on January 1, 2014 and do not expect the adoption of this pronouncement will have a significant impact on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". ASU 2014-08 limits the requirement to report discontinued operations to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The amendments also require expanded disclosures concerning discontinued operations and disclosures of certain financial results attributable to a disposal of a significant component of an entity that does not qualify for discontinued operations reporting. The amendments in this ASU are effective prospectively for reporting periods beginning on or after December 15, 2014, with early adoption permitted. We will adopt this pronouncement on January 1, 2015 and do not expect the adoption of this pronouncement will have a significant impact on our consolidated financial statements.

B. Liquidity and Capital Resources

Our primary sources of liquidity is cash generated from our operations and our financing activities, including proceeds from our initial public offering. As of December 31, 2013, we had approximately US\$121.2 million in cash and cash equivalents. Our cash and cash equivalents generally consist of cash on hand. We expect to require cash to fund our ongoing business needs, particularly media payments due to the media platforms, including television channels with which we have entered into exclusive advertising agency agreements, payments to directors and other service providers for the production of advertisements, salary and benefits and material costs and expenses. Other cash needs include primarily the working capital for our daily operations and securing advertising media resources under our media investment management business. In addition, we also announced a special dividend out of our additional paid-in capital to shareholders on March 19, 2013. In March 2013, we distributed US\$19.9 million to our shareholders as a special dividend.

We expect to use cash generated in our media investment management business to make payments under our exclusive agency arrangements with respect to advertising rights on three television channels (Tianjin Satellite Television, Nanfang Satellite Television and Beijing Sport Channel), certain CCTV programs and the interactive HDTV digital cable platforms in Shanghai and Guangzhou. As of December 31, 2013, we were obligated under our agreements with television stations to make payments of approximately US\$665.0 million in the aggregate for 2014 and afterwards. Under our exclusive agency arrangements, we use cash to pay for the advertising time and other advertising rights in advance and we generate cash from selling these advertising media resources to advertisers. If we fail to generate enough cash from the sales of these advertising media resources to meet our payment obligations to the television channels, our liquidity, financial condition and results of operations would be adversely affected. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business — Our media investment management business may not produce the expected returns and may result in significant losses." As we continue to expand our media investment management business, we expect an increase in our cash needs. However, we expect to generate revenues as we sell the advertising time and other advertising rights secured under the exclusive agency arrangements and expect these revenues to largely offset the cost of revenues incurred under these exclusive agency arrangements.

We believe that our cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs through 2014.

We have fully repaid the promissory note in the principal amount of US\$19.6 million due on January 20, 2011, with an annual interest rate of 4.75%. This promissory note was issued to Mr. He Dang in connection with the investment by Aegis Media.

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

	For the Year Ended December 31.		
	2011	2012	2013
	(US\$ in thousands)		
Net cash provided by operating activities	24,138	293	21,385
Net cash used in investing activities	(5,464)	(5,469)	(3,738)
Net cash used in financing activities	(7,549)	(18,697)	(17,267)
Effect of changes in exchange rate	4,961	1,056	4,259
Net increase/decrease in cash and cash equivalents	16,086	(22,817)	4,639
Cash and cash equivalents at the beginning of the year	123,320	139,406	116,589
Cash and cash equivalents at the end of the year	139,406	116,589	121,228

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Operating Activities

Our net cash provided by operating activities was US\$0.3 million in 2012 compared to net cash provided by operating activities US\$24.1 million in 2011, primarily as a result of a increase in net income, decrease in notes receivable, accounts receivable and prepaid expenses in 2012, which was partially offset by decrease in accounts payable and advances from customers. Our decrease of these accounts in 2012 was mainly due to the decrease in media investment management revenue.

Our net cash provided by operating activities was US\$21.4 million in 2013 compared to net cash provided by operating activities US\$0.3 million in 2012, primarily as a result of increase in net income, and increase in advances from customers. In 2013 the increase in advances from customers was primarily due to the early payment from customers to secure some hot demand agency resources in 2013.

Investing Activities

Net cash used in investing activities largely reflects our capital expenditures, which consists of purchases of fixed assets, such as computers and other office equipment. Our net cash used in investing activities amounted to US\$5.5 million in 2011, US\$5.5 million in 2012 and US\$3.7 million in 2013. The cash used in investing activities in 2011 was primarily due to acquisition of Clickpro and investments to set up joint ventures of Wasu Digital Co., Ltd and Chongqing Changhui. The cash used in investing activities in 2012 was primarily due to acquisition of fixed assets and set up subsidiaries of Beijing Hongtu Zhuoyue Advertising Co., Ltd. and Beijing Guozhi Travel & Culture Co., Ltd., joint ventures of Guangdong Nanfang Media New Broadcast Co., Ltd. and cost method investment of Shanxi Jiuyuanji Culture Industry Investment Co., Ltd. The cash used in investing activities in 2013 was primarily due to acquisition of fixed assets.

Financing Activities

In 2011, we had net cash used in financing activities of US\$7.5 million, which was primarily consisted of the final payment of previously declared dividend to our shareholder and our share repurchase program starting from September 2011. In 2012, we had net cash used in financing activities of US\$18.7 million, which was primarily consisted of the final payment of previously declared dividend to our shareholder and our share repurchase program. In 2013, we had net cash used in financing activities of US\$17.3 million, which was primarily, consisted of the final payment of previously declared dividend to our shareholder and payment of acquisition consideration.

C. Research and Development, Patents and License, etc.

None.

D. Trend Information

Please refer to “— A. Operating Results — Overview” for a discussion of the most significant recent trends in our services, sales and marketing since the end of 2013. In addition, please refer to discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonably likely to have a material effect on our net sales or operating 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. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholder’s equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2013. Other than such obligations and the contractual obligations described below, we had no other contractual obligations or commercial commitments as of December 31, 2013:

	Payments Due by Period				
	Total	Less than 1 Year	1-2 Years	2-3 Years	More than 3 Years
	(US\$ in thousands)				
Operating lease obligations	6,066	2,412	1,890	1,059	705
Purchase obligation (1)	144,544	106,489	38,055	—	—
Acquisition consideration payable (2)	2,266	950	1,316	—	—

- (1) We also entered into agreements with certain television stations to purchase advertising time. As of December 31, 2013, under these agreements, we are contractually obligated to make total minimum payments US\$144.5 million for the years ending December 31, 2014 and 2015.
- (2) In August 2011, we acquired 60% of Clickpro's business for the purpose of strengthening our performance marketing business. Pursuant to the acquisition agreement, the contingent consideration for the acquisition will be paid in several installments based on the net income of the acquired business. The total outstanding contingent consideration payable as of December 31, 2013 was estimated to be US\$2.3 million.

G. Safe Harbor

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

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

- our growth strategies, including, among other things, our plans to expand and enhance our portfolio of television advertising media resources to further broaden coverage, secure additional resources from new advertising media platforms, strengthen capabilities to offer integrated advertising solutions and continue to expand our advertising customer base and budget allocation from our customers;
- our plans and expectations with respect to our strategic alliances and joint ventures;
- our relationships with joint venture partners and shareholders of our variable interest entities;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- our ability to manage the expansion of our operations;
- possibility of the PRC government's tightening regulation and increasing restriction over satellite television;
- changes in general economic and business conditions in China; and
- trends and competition in the advertising industry in China.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we reference or incorporate in this annual report and have filed as exhibits to this annual report with the understanding that our actual future results may be materially different from what we expect. You should not rely upon forward-looking statements as predictions of future events.

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Other sections of this annual report include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

Directors and Executive Officers	Age	Position/Title
He Dang	47	Chairman of the board of directors and chief executive officer of our company
Zhan Wang	37	Independent director
Gang Chen	49	Independent director
Nick Waters	46	Director
Cathy Chen	44	President of agency business
Linna Li	37	Vice president
Lei Wu	41	Vice president
Johnny Zhu	39	Vice president
Cindy Wang	36	Vice president of finance

He Dang is the founder and chief executive officer of our company and the chairman of our board of directors. Prior to founding our company in 1995, he worked at the Ministry of Culture of China and China Culture and Art Development Company. Mr. Dang has over sixteen years of experience in the television advertising industry. Mr. Dang has won many industry awards during his career. He was named one of the ten persons of the year in the Chinese advertising industry jointly by Advertising Pointer, a magazine focusing on advertising in China, and several other organizations in 2004 and 2005, and an outstanding young entrepreneur by Beijing Municipal Bureau of Personnel and Beijing Association of Youth in 2007. Mr. Dang was also named the 2008 Top Contributor in Affecting and Promoting Chinese Brand by Chief Brand Officer Magazine, and won the Jin Yuan Award for Top 10 Leaders in Advertising Industry in 2009 awarded by the Advertiser Market Observer Magazine. In 2006, Mr. Dang was nominated for Advertiser of the Year in China by the China Advertising Association. Mr. Dang received his bachelor's degree in philosophy from Beijing Normal University in 1989.

Zhan Wang has been a director of our company since April 2010. Mr. Wang is currently a vice president at Baidu, Inc., a Nasdaq listed company based in China. Mr. Wang joined Baidu as the head of commercial products in 2000. At Baidu, Mr. Wang has focused on the development of commercial products, operations and service management and participated in many of Baidu's innovations, including as chief product designer of the Phoenix Nest system launched in 2009. Mr. Wang's responsibilities at Baidu have also included developing improvements to commercial products and search marketing services. Mr. Wang received his bachelor's degree in physics from Peking University in 1999.

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Gang Chen has been a director of our company since April 2011. Mr. Chen is currently the deputy dean of the School of Journalism and Communication of Peking University. Mr. Chen has been deputy dean at Peking University since March 2006. Mr. Chen also serves in high-level positions with multiple organizations in the advertising industry, such as deputy director of the Academic Committee of the China Advertising Association, deputy director at the Media Committee of China Association of National Advertisers and vice president of the China Advertising Education and Research Committee. Mr. Chen has also provided consulting expertise to many major enterprises in media and other sectors, including China Central Television, Sina Corporation, the People's Insurance Company of China and China Merchants Bank. Mr. Chen received a bachelor's degree in philosophy in 1990 and a Ph.D. in philosophy in 1998 from Peking University.

Nick Waters has been a director of our company since December 2011. Mr. Waters is currently the chief executive officer of Aegis Media Asia Pacific. Prior to joining Aegis Media, Mr. Waters held several management roles from 1997 to 2010 at the WPP-owned media agency Mindshare in Europe and Asia, including time as CEO of Southeast Asia (2001-2005), CEO of Asia Pacific (2005-2006) and CEO of Europe, Middle East and Africa (2006-2010). Mr. Waters received his bachelor's degree from University of Nottingham in 1992.

Cathy Chen has been our president of agency business from August 2012. Prior to joining Charm, she worked as consultant with several private funds such as FountainVest Partners and BaoFeng Partners from 2010. Before that she served as chief marketing officer at GE HealthCare (China) Co. Ltd ("GE Healthcare") from 2009 to 2010, where she was responsible for planning and expanding GE Healthcare's Greater China marketing strategy. Prior to working at GE Healthcare, Ms. Chen served as general manager of Eastern China for Motorola (North Asia) Co. Ltd. from 2007 to 2009, cluster marketing director of Greater China for Shell (China) Co., Ltd. from 2005 to 2007, national marketing director and general manager of kitchen appliances at Electrolux (China) Co., Ltd. from 1997 to 2004 and marketing manager of North China for PepsiCo Foods International Co., Ltd. from 1996 to 1997. Ms. Chen received her master's degree in business management from Peking University in 2003 and graduated from Chengdu Electronic Technology University in 1992.

Linna Li has been our vice president in our CCTV buying platform since June 2010. Ms. Li has a wealth of experience in the advertising industry from over 15 years with our company and has extensive specialist knowledge of media buying. Her knowledge and dedication have made a significant contribution to building our agency business and helped make us the largest buyer of CCTV media resources for each of the last seven years. Ms. Li received her graduate degree in Economics from the Chinese Academy of Social Science Graduate School in 1998.

Lei Wu has been our group vice president and the general manager of our sports marketing department since May 2013. Before joining the company in 2012, Mr. Wu served as the planning manager and sporting event director for China International Television Corporation and the Beijing Organizing Committee for the Olympic Games from 2005 to 2010. From 2000 to 2005, Mr. Wu worked at CCTV Sports. Mr. Wu has extensive knowledge and experience in operating sports resources after successfully running domestic and international sporting events. Mr. Wu received his MBA degree from Nankai University in 2010 and his bachelor's degree in ideological and political education from Nanjing University of Science and Technology in 1994.

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Johnny Zhu has been our vice president since March 2013. Johnny Honggang Zhu was the founder and general manager of ClickPro, which was acquired by Charm and integrated into Charm Click in 2011. Prior to Clickpro, Mr. Zhu was head of sales support at Google China, where he developed and trained the company's first SEM team from Sep 2005 to Nov 2007. Prior to that, Mr. Zhu was a senior marketing director and head of digital marketing activities at eBay China from 2000 to 2005. Johnny received his master degree in management from Shanghai University of Finance and Economics and bachelor degree in management from Shanghai Institute of Foreign Trade in 1997.

Cindy Wang has been our vice president of finance since August 2013. Prior to joining Charm in April 2008, Ms. Wang served as finance controller in VisionChina Media Inc. Prior to joining in VisionChina in April 2007, Ms. Wang was an audit manager in the technology, communication and entertainment industry group at Ernst & Young Beijing office providing accounting and audit services, Sarbanes-Oxley Act Section 404 compliance requirements to clients seeking access to U.S. capital markets. Ms. Wang received her bachelor's degree in finance from Zhejiang University in 1999, and Master of Science in Accounting from University of Missouri – Kansas City in 2001.

Mr. Wei Zhou served as our chief financial officer from November 2009 to November 2013. He resigned on November 1, 2013 upon the expiration of his employment contract. There were no disagreements between Mr. Zhou and the Company on any matter relating to the Company's operations, policies or practices.

Mr. Andrew J. Rickards served as a member of our board of directors and its audit, compensation and corporate governance and nominating committees from April 2010 to April 2014. On April 9, 2014, he resigned from our board of directors and ceased to be a member of its audit, compensation and corporate governance and nominating committees due to other business commitments. There were no disagreements between Mr. Rickards and the Company on any matter relating to the Company's operations, policies or practices.

The address of our directors and executive officers is: c/o Charm Communications Inc., Legend Town, CN01 Floor 4, No.1 Ba Li Zhuang Dong Li, Chaoyang District, Beijing 100025, China.

B. Compensation of Directors, Supervisors and Executive Officers

Compensation

For the year ended December 31, 2013, we paid an aggregate of approximately US\$1.4 million in cash to our executive officers. We also granted options to purchase an aggregate of 709,250 ordinary shares to our existing directors and executive officers pursuant to our equity incentive plan adopted in March 2008. See “— 2008 Share Incentive Plan.” We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors except our contributions on behalf of our executive officers to a government-mandated multi-employer defined contribution plan. Our total contribution to such plan, including contributions made on behalf of our executive officers and other employees, was US\$4.4 million for 2013.

2008 Share Incentive Plan

In April 2008, we adopted our 2008 Share Incentive Plan, or the 2008 Share Incentive Plan, to attract and retain personnel, provide additional incentives to our employees, directors and consultants and promote the success of our business. The 2008 Share Incentive Plan provides for the grant of options, restricted shares and restricted share units, collectively referred to as awards. Our board of directors has authorized the issuance of up to 15% of the issued and outstanding ordinary shares upon exercise of awards granted under our 2008 Share Incentive Plan.

Plan Administration. The compensation committee of our board of directors, or before the compensation committee is established, our board of directors, will administer the 2008 Share Incentive Plan. The compensation committee or the full board of directors, as appropriate, will determine the participants to receive awards, the type and number of awards to be granted and the terms and conditions of each award grant.

Award Agreements. Awards granted under our 2008 Share Incentive Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Transfer Restrictions. The right of a grantee in an award granted under our 2008 Share Incentive Plan may not be transferred in any manner by the grantee other than by will or the laws of succession and with limited exceptions, may be exercised during the lifetime of the grantee only by the grantee.

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Option Exercise. The term of options granted under the 2008 Share Incentive Plan may not exceed five years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, ordinary shares, consideration received by us in a cashless exercise or any combination of the foregoing methods of payment. In April 2013, we have amended the term of options granted under the 2008 Share Incentive Plan which shall not exceed ten years from the date of grant.

Acceleration upon a Change of Control. If a change of control of our company occurs, the award agreement may provide for acceleration of the vesting of the awards pursuant to the agreement. Our compensation committee or our board of directors may (i) cancel the awards for fair market value, (ii) provide for issuance of substitute awards or (iii) provide that for at least 15 days prior to the change of control, the awards shall be exercisable as to all shares subject thereto and such awards shall terminate after the change of control.

Termination and Amendment. Unless terminated earlier, our 2008 Share Incentive Plan will expire after ten years. Our board of directors has the authority to amend or terminate our 2008 Share Incentive Plan, subject to shareholder approval to the extent necessary to comply with applicable law.

Our board of directors has granted options to participants in our 2008 Share Incentive Plan. As of December 31, 2013, there were 1,989,444 ordinary shares issuable upon the exercise of outstanding share options at a weighted average exercise price of US\$0.43 per share and there were 544,727 ordinary shares available for future issuance under our 2008 Share Incentive Plan. The following table summarizes, as of December 31, 2013 the options granted to our directors and executive officers and other individuals as a group, without giving effect to options that were exercised or terminated.

Name	Options or Restricted Shares Awarded	Exercise Price or Purchase Price (US\$/Share)	Date of Grant	Date of Expiration
Andrew J. Rickards#	*	Nil**	April 9, 2010	April 9, 2015
Zhan Wang	*	Nil**	April 9, 2010 April 2, 2013	April 9, 2015 April 2, 2018
Gang Chen	*	1.00/Nil	April 8, 2008 July 25, 2011 May 5, 2013	April 8, 2018** July 25, 2016 May 5, 2023
Li Linna	*	1.00	April 8, 2008	April 8, 2018**
Cindy Wang	*	Nil	April 2, 2013	April 2, 2018
Other individuals as a group	1,280,194	Nil-4.45	Various dates	Various dates

* Less than 1% of our outstanding ordinary shares

** The grants amended in April 2013.

Mr. Rickards resigned from the board of directors of the Company at the conclusion of the term of his independent director agreement, effective April 9, 2014.

2011 Share Incentive Plan

In December 2011, we adopted our 2011 Share Incentive Plan, or the 2011 Share Incentive Plan, to attract and retain personnel, provide additional incentives to our employees, directors and consultants and promote the success of our business. The 2011 Share Incentive Plan provides for the grant of options, restricted shares and restricted share units, collectively referred to as awards. Our board of directors has authorized the issuance of up to 2,000,000 outstanding ordinary shares upon exercise of awards granted under our 2011 Share Incentive Plan.

Plan Administration. The compensation committee of our board of directors will administer the 2011 Share Incentive Plan. The compensation committee will determine the participants to receive awards, the type and number of awards to be granted and the terms and conditions of each award grant.

Award Agreements. Awards granted under our 2011 Share Incentive Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

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Transfer Restrictions. The right of a grantee in an award granted under our 2011 Share Incentive Plan may not be transferred in any manner by the grantee other than by will or the laws of succession and with limited exceptions, may be exercised during the lifetime of the grantee only by the grantee.

Option Exercise. The term of options granted under the 2011 Share Incentive Plan may not exceed five years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, ordinary shares, consideration received by us in a cashless exercise or any combination of the foregoing methods of payment.

Termination and Amendment. Unless terminated earlier, our 2011 Share Incentive Plan will expire after ten years from the date of grant. Our board of directors has the authority to amend or terminate our 2011 Share Incentive Plan, subject to shareholder approval to the extent necessary to comply with applicable law.

C. Board Practices

Board of Directors

Our board of directors currently consists of four directors. Under our amended and restated articles of association, which came into effect upon the closing of our initial public offering in May 2010, our board of directors should consist of at least three directors. Our directors are appointed by ordinary resolution. A director is not required to hold any shares in us by way of qualification.

Rule 5615(a)(3) of the Nasdaq Listing Rules permits foreign private issuers such as our company to follow “home country practice” with respect to certain corporate governance matters. As a result, we follow the corporate governance practice in our home country, the Cayman Islands, in respect of the oversight of our executive officer compensation and director nominations matters. As our home country practice does not require independent director oversight of executive officer compensation and director nominations matters, our compensation committee and corporate governance and nomination committees are not comprised solely of independent directors. Each committee’s members and functions are described below.

Audit Committee. The members of our audit committee during 2013 were Mr. Andrew J. Rickards, Mr. Zhan Wang and Mr. Gang Chen. Mr. Rickards resigned from our board of directors and its audit committee on April 9, 2014. Our board of directors has determined that each of Andrew J. Rickards, Zhan Wang and Gang Chen satisfies the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Rule 5605(a)(2) of the Nasdaq Listing Rules. Prior to Mr. Rickards’ resignation from our board of directors and its audit committee, he was the chairman of our audit committee and met the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. Following Mr. Rickards’ resignation, we elected to follow the practices of the Cayman Islands, our home jurisdiction, in lieu of Nasdaq Listing Rules’ audit committee requirement, under which an audit committee must be comprised of at least three members, with at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication. Our audit committee will oversee 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, as defined in Item 404 of Regulation S-K under the Securities Act;

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- 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;
- meeting separately and periodically with management and the independent auditors; and
- reporting regularly to our board of directors.

Compensation Committee. The members of our compensation committee during 2013 were Andrew J. Rickards, Zhan Wang and He Dang. He Dang is the chairman of our compensation committee. Mr. Rickards resigned from our board of directors and its compensation committee on April 9, 2014 and was replaced by Mr. Gang Chen who resumed the vacancy in the compensation committee from Mr. Rickards' departure. Our board of directors has determined that each of Gang Chen, Andrew J. Rickards and Zhan Wang satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Listing Rules. Our compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The compensation committee is responsible for, among other things:

- reviewing and recommending to the board with respect to the total compensation package for our three most senior executives;
- approving and overseeing the total compensation package for our executives other than the three most senior executives;
- reviewing and recommending to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee. The member of our corporate governance and nominating committee were Andrew J. Rickards, Zhan Wang and He Dang. He Dang is the chairman of our corporate governance and nominating committee. Mr. Rickards resigned from our board of directors and its corporate governance and nominating committee on April 9, 2014 and was replaced by Mr. Gang Chen who resumed the vacancy in the corporate governance and nominating committee from Mr. Rickards' departure. Our board of directors has determined that each of Gang Chen, Andrew J. Rickards and Zhan Wang satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Listing Rules. Our corporate governance and nominating committee assist the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- selecting and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the corporate governance and nominating committee itself;
- advising the board periodically with regard to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Duties of Directors

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

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

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- issuing authorized but unissued shares and redeem or purchase outstanding shares of our company in accordance with applicable Cayman Islands laws and our memorandum and articles of association;
- declaring dividends and other distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of our shareholders and the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by special resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

Appointment of Directors

Under the terms of the amended and restated shareholders agreement, dated January 20, 2010, among us, Mr. He Dang and certain of his affiliated entities, Chaview Investments Limited and Aegis Media, after the completion of our initial public offering, Aegis Media continues to have the right to designate one of our directors if Aegis Media holds no less than 10% of our issued share capital. The director currently designated on our board of directors by Aegis Media is Nick Waters.

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate an executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a conviction or plea of guilty to a felony, willful misconduct to our detriment or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause by a 30-day prior written notice. An executive officer may terminate his or her employment with or without cause by a three-month prior written notice. We agreed to indemnify an executive officer for his or her losses based on or related to his or her acts and decisions made in the performance of duties within the scope of his or her employment. Our executive officers have also agreed not to engage in any activities that compete with us for a period of two years after termination of employment. The employment agreements also require each of our executive officers to strictly maintain his or her confidentiality obligations for the duration of his or her employment and for a period of two years after termination of employment.

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

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling us pursuant to these indemnification agreements, we have been informed that in the opinion of the SEC, such indemnification is against public policy and is therefore unenforceable.

Interested Transactions

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company shall declare the nature of his interest at a meeting of the directors. A general notice given to the directors by any director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract, which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made. A director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so, his vote shall be counted and he may be counted in the quorum at any meeting of the directors at which any such contract or proposed contract or arrangement shall come before the meeting for consideration.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party.

Qualification

A director is not required to hold any shares in our company by way of qualification.

D. Employees

As of December 31, 2011, 2012 and 2013, we had 691, 813 and 753 full-time employees, respectively. As of December 31, 2011, we had 25 professionals engaged in creative roles, 546 professionals engaged in sales and marketing roles and 120 professionals engaged in providing supporting services, such as finance and administration. As of December 31, 2012, we had 34 professionals engaged in creative roles, 644 professionals engaged in sales and marketing roles and 135 professionals engaged in providing supporting services, such as finance and administration. As of December 31, 2013, we had 17 professionals engaged in creative roles, 607 professionals engaged in sales and marketing roles and 129 professionals engaged in providing supporting services, such as finance and administration. We plan to hire additional employees in all functions as we grow our business. None of our employees are represented by a labor union or other collective bargaining agreements. Since our inception, we have never experienced a strike or other disruption of employment. We believe our relationships with our employees are good.

The remuneration package of our employees includes salary, bonus, stock options, other cash benefits and benefits in-kind. In accordance with applicable regulations in China, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a personal injury insurance plan and a housing reserve fund for the benefit of all of our employees. Our total contribution for such employee benefits required by applicable regulations amounted to approximately US\$2.6 million, US\$3.4 million and US\$4.4 million for 2011, 2012 and 2013, respectively.

E. Share Ownership

Each of our directors, supervisors and executive officers holds our shares either directly for their own account or indirectly as the representative of another legal entity on our board of directors. The following table sets forth the share ownership of our directors, supervisors and executive officers as of March 31, 2014, our most recent record date by:

- each of our directors and executive officers;
- all of our directors and executive officers as a group; or
- each person known to us to own beneficially more than 5.0% of either Class A ordinary shares or Class B ordinary shares.

The calculations in the table below assume there are 81,600,545 ordinary shares (including both Class A ordinary shares and Class B ordinary shares on a combined basis) outstanding as of April 30, 2014, our most recent record date. Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Exchange Act. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of April 30, 2014, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

Name	Ordinary Shares Beneficially Owned	
	Number	%
Directors and Executive Officers:		
He Dang (1)	47,260,000	57.9
Nick Waters (2)	12,390,000	15.2
Andrew J. Rickards (10)	*	*
Zhan Wang	*	*
Gang Chen	*	*
Cathy Chen	*	*
Linna Li	*	*
Lei Wu	*	*
Johnny Zhu	*	*
Cindy Wang	*	*
Wei Zhou (9)	*	*
All directors and executive officers as a group (3)	60,253,383	73.8
Other Principal Shareholders:		
Merry Circle Trading Limited (4)	44,016,250	55.0
Aegis Media Pacific Ltd (5).	12,390,000	15.5
Chaview Investments Limited (6)	5,000,000	6.2
Invesco Ltd. (7)	2,216,980	2.6
Aberdeen Asset Management PLC (8)	1,751,515	2.4

* Less than 1%.

- (1) Includes 44,016,250 Class B ordinary shares owned by Merry Circle Trading Limited, a British Virgin Islands company and 1,093,750 Class B ordinary shares owned by Honour Idea Limited, a British Virgin Islands company. Mr. He Dang is the sole shareholder and sole director of Honour Idea Limited. Mr. He Dang is the sole director of Merry Circle Trading Limited, which is owned by Full Quantum Investments Limited, a Bahamian company. Full Quantum Investments Limited is in turn wholly owned by the Dang Family Trust. Credit Suisse Trust Limited is the trustee of the Dang Family Trust, which is a discretionary trust constituted under the laws of Singapore with Mr. He Dang as settlor and Mr. He Dang and certain of his family members as beneficiaries. The business address of Mr. He Dang is c/o Charm Communications Inc., Legend Town, CN01 Floor 4, No.1 Ba Li Zhuang Dong Li, Chaoyang District, Beijing 100025, China.
- (2) Includes 12,390,000 Class B ordinary shares held by Aegis Media Pacific Ltd. Mr. Waters disclaims beneficial ownership of these shares except to the extent of any pecuniary interests therein.

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- (3) Includes (i) ordinary shares beneficially owned by all of our directors and executive officers as a group and (ii) ordinary shares issuable upon the exercise of all options that are exercisable within 60 days of April 30, 2011 held by all of our directors and executive officers as a group.
- (4) The mailing address of Merry Circle Trading Limited, a British Virgin Islands company is 21st Floor, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong. Mr. He Dang is the sole director of Merry Circle Trading Limited, which is owned by Full Quantum Investments Limited, a Bahamian company. Full Quantum Investments Limited is in turn wholly owned by the Dang Family Trust. Credit Suisse Trust Limited is the trustee of the Dang Family Trust, which is a discretionary trust constituted under the laws of Singapore with Mr. He Dang as settlor and Mr. He Dang and certain of his family members as beneficiaries. The business address of Mr. He Dang is c/o Charm Communications Inc., Legend Town, CN01 Floor 4, No.1 Ba Li Zhuang Dong Li, Chaoyang District, Beijing 100025, China.
- (5) The mailing address of Aegis Media Pacific Ltd. is Parker Tower, 43-49 Parker Street, London, England, WC2B 5P5. Aegis Media Pacific Ltd. is a wholly-owned subsidiary of Aegis Group plc. Nick Waters is the chief executive officer of Aegis Media Asia Pacific Management Ltd., an affiliate of Aegis Media, and disclaims beneficial ownership of the ordinary shares held by Aegis Media except to the extent of any pecuniary interest therein.
- (6) Includes 5,000,000 Class B ordinary shares held by Chaview Investments Limited. The mailing address of Chaview Investments Limited is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Chaview Investments Limited is a wholly owned subsidiary of AIF Capital Asia III, L.P., whose general partner is AIF Capital Asia III GP Limited. The mailing address of AIF Capital Asia III GP Limited is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (7) Represents 2,216,980 Class A ordinary shares held by Invesco Ltd., as reported on a Schedule 13G/A filed by Invesco Ltd. on February 11, 2014. The 2,216,980 Class A ordinary shares beneficially owned by Invesco Ltd. represent 14.6% of Class A ordinary shares.
- (8) Represents 1,751,515 Class A ordinary shares held by Aberdeen Asset Management PLC, as reported on a Schedule 13G/A filed by Aberdeen Asset Management PLC on January 24, 2014. The 1,906,515 Class A ordinary shares beneficially owned by Aberdeen Asset Management PLC represent 25.08% of Class A ordinary shares.
- (9) Mr. Wei Zhou is our former chief financial officer; he departed the Company at the expiration of his employment contract, effective November 1, 2013.
- (10) Mr. Rickards resigned from the board of directors of the Company at the conclusion of the term of his independent director agreement, effective April 9, 2014.

As of April 30, 2014, 81,600,545 ordinary shares (all of the outstanding Class A ordinary shares in the form of ADSs) or 21.9% of our outstanding ordinary shares including both Class A ordinary shares and Class B ordinary shares on a combined basis are held by four record holder in the United States. Because many of these shares are held by brokers or other nominees, we cannot ascertain the exact number of beneficial shareholders with addresses in the United States.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to five votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

B. Related Party Transactions

Consolidated Joint Venture with Aegis Media

In January 2010, we formed a consolidated joint venture with international 4A advertising group Aegis Media to operate its brand “Vizeum” in China. The legal ownership of all of the outstanding equity interests of Beijing Vizeum are held by Posterscope. Our subsidiary Media Port holds 60% of the outstanding equity interests in Posterscope, which were subscribed for a purchase price of RMB3.6 million. During the two-year period from January 1, 2016, Aegis Media will have the right to acquire a majority of the shares of Posterscope by purchasing from us 11% of the outstanding shares of Posterscope. If Aegis Media so acquires a majority of the shares of Posterscope, then beginning on January 1, 2018, Aegis Media will have the right to purchase an additional number of our shares of Posterscope and we will have the right to sell an additional number of our shares of Posterscope to Aegis Media. In addition, in the ten-year period from January 1, 2024, Aegis Media will have the right to purchase all of our remaining shares of Posterscope and we will have the right to sell all of our remaining shares of Posterscope to Aegis Media. The consideration for the transfers described above will be based on a multiple of the average after-tax profits of Posterscope for the two-year period prior to a transfer. Since its formation, our revenues attributable to the Posterscope joint venture have been historically relatively insignificant. For example, in the fiscal years ended December 31, 2011, December 31, 2012 and December 31, 2013, our revenues come from the Posterscope joint venture were 4.4%, 7.8% and 5.2% respectively.

Going Private Transaction

In September 2013, Mr. He Dang, the chairman of the board of directors (the “Founder”), Merry Circle Trading Limited, a British Virgin Islands company controlled by the Founder (“Merry Circle”), Honour Idea Limited, a British Virgin Islands company owned by the Founder (collectively with Merry Circle, the “Founder Shareholders”), and CMC Capital Partners HK Limited proposed to acquire all of the outstanding shares of the Company not currently owned by the Founder Shareholders in a “going private” transaction (the “Transaction”) at a price of US\$4.70 in cash per American Depositary Share of the Company (“ADS”, each ADS representing two (2) Class A ordinary shares of the Company), or US\$2.35 in cash per Class A ordinary share of the Company, and US\$2.35 in cash per Class B ordinary share of the Company, subject to certain conditions. The Company’s board of directors has formed a special committee of disinterested directors (the “Special Committee”) to consider the proposal, consisting of independent directors Mr. Zhan Wang, Mr. Andrew J. Rickards and Mr. Gang Chen. Effective April 9, 2014, Mr. Rickards ceased to be a member of the Special Committee upon his resignation from our board of directors at the conclusion of the term of his independent director agreement. In connection with Mr. Rickards’ resignation, the Special Committee has reexamined the qualifications of its members and determined that the Special Committee will consist of the remaining members Mr. Wang and Mr. Chen following Mr. Rickards’ departure.

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Other Transactions with Shareholders

Advertising Service

We received or provided certain advertising service to one of our shareholder's subsidiary and our one equity investment entity and paid or received cash accordingly. The price was determined based on market price. Such transactions are related to the advertising agency business and hence the corresponding provision of advertising services is recognized in the net revenues under advertising agency on a net basis in the consolidated statements of operations. Revenue from the related parties recognized in the consolidated financial statements for the year ended December 31, 2013 was US\$8.2 million.

The related party balance as of December 31, 2013 in connection with the advertising service received or provided was US\$2.8 million receivable and US\$7.7 million in accounts payable mostly in connection with the advertising service provided or received from the shareholder's subsidiary. The balance with related parties is due within one year.

Office and Automobile Leases

We leased office space and automobiles from the controlling shareholder and his family member. The rental amount was determined based on market prices. Rental expenses for the years ended December 31, 2011, 2012 and 2013 were US\$0.9 million, nil and nil, respectively.

The related party balances at the end of the year 2011, 2012 and 2013 were nil, respectively in connection with the unpaid rental expenses to the controlling shareholder.

Other Transactions

During the year 2011, we received a deposit of US\$159 from Chongqing Changhui, which acted as an agent of customers placing advertisement through us. There was no such transaction in 2012 and 2013. The related party balances at the end of the years 2011, 2012 and 2013 were US\$159, US\$159 and nil in amounts due to related party in connection with this.

During the year 2011, we received injection of capital of US\$162, for an entity to be established, from Mr. Zhu Hong Gang, the noncontrolling shareholder of Clickpro and the management responsible for Clickpro's business. The related party balances at the end of the years 2011, 2012 and 2013 were US\$162, US\$164 and US\$168, respectively, in amounts due to related party in connection with this. On the other hand, Mr. Zhu Hong Gang received an advertising fee of US\$346 on behalf of us during the year 2011, which was paid back to us in 2012. The related party balances at the end of the years 2011, 2012 and 2013 were US\$346, nil and US\$121, respectively, in amounts due from related party in connection with this.

Staff cost and the royalty fee of Vizeum paid by Aegis Media during the years of 2011, 2012 and 2013, were US\$799, US\$1,191 and US\$1,277, respectively. The related party balance at the end of the year 2011, 2012 and 2013 were nil, US\$1,206 and US\$1,297, respectively, in connection with this.

Transactions Related to Our Corporate Structure

See "Item 4. Information on the Company — C. Organizational Structure."

Share Incentives

See "Item 6. Directors, Senior Management and Employees — B. Compensation of Directors and Executive Officers – 2008 Share Incentive Plan."

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Please refer to Item 18 for a list of all financial statements filed as part of this annual report on Form 20-F.

Litigation

See “Item 4. Information on the Company — B. Business Overview — Legal and Administrative Proceedings.”

Dividend Policy and Distributions

In March 2012 we announced a special cash dividend of US\$0.16 per ordinary share out of our additional paid-in capital to our shareholders, of which US\$12.6 million was paid in April, 2012. Also, in March 2013 we announced a special cash dividend of US\$0.25 per ordinary share (US\$0.5 per ADS) to our shareholders, of which US\$19.9 million was paid in May, 2013.

We will continue to evaluate our dividend policy as appropriate, taking into account our operating performance, long-term capital requirements relating to investments and acquisitions, as well as potential business risks. We, however, have no present plan to declare and pay any regular dividends on our ordinary shares or ADSs in the future. We still 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 will have complete discretion as to whether to distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China, which in some cases in turn rely on the payments received from our variable interest entities in China pursuant to the contractual arrangements between our PRC subsidiary, Nanning Jetlong and these entities. Current PRC laws, rules and regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiaries in China are required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Further, if any of our subsidiaries in China incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us.

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

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Our ADSs, each representing two of our ordinary shares, have been listed on the Nasdaq Global Market since May 5, 2010 under the symbol “CHRM”. The table below shows, for the periods indicated, the high and low market prices on the Nasdaq Global Market.

Period	Market Price for Each ADS (1)	
	High	Low
2010 (from May 5, 2010)	12.60	6.12
2011	12.69	6.19
2012	11.64	3.14
First Quarter	10.42	7.95
Second Quarter	11.64	5.49
Third Quarter	6.97	3.67
Fourth Quarter	6.00	3.14
2013	5.89	3.40
First Quarter	5.75	3.40
Second Quarter	5.89	4.01
Third Quarter	5.00	3.81
Fourth Quarter	4.65	4.10
October	4.53	4.21
November	4.65	4.22
December	4.49	4.10
2014 (through May 14, 2014)	4.43	3.91
First Quarter	4.43	3.91
January	4.35	4.15
February	4.23	3.91
March	4.43	4.00
April	4.29	4.11
May (through May 14, 2014)	4.31	4.14

Source: Nasdaq Global Market.

(1) As reported.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing two of our ordinary shares, have been listed on the Nasdaq Global Market since May 5, 2010 under the symbol “CHRM”.

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

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our registration statement under the heading “Description of Share Capital” on Form F-1 (File No. 333-165987), as amended, initially filed with the SEC on April 9, 2010. Our shareholders adopted our amended and restated memorandum of association by unanimous resolution on April 9, 2010 which became effective upon the completion of our initial public offering on May 10, 2010.

C. Material Contracts

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

D. Exchange Controls

See “Item 4. Information on the Company — B. Business Overview — Regulation of Our Industry.

E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

British Virgin Islands

Under the current laws of the British Virgin Islands, we are not subject to income tax.

Hong Kong

No Hong Kong profits tax has been provided as we do not have assessable profits earned in or derived from Hong Kong for the years ended December 31, 2011, 2012 and 2013.

People’s Republic of China Taxation

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. On April 22, 2009, State Administration of Taxation issued “Notice On Issues Regarding Determination of PRC Resident Enterprise by Using the Criteria of ‘De Facto Management Bodies’,” or Circular 82, which sets forth more detailed and specific standards for determining PRC resident enterprise. However, Circular 82 only applies to those offshore companies which are controlled by enterprises or enterprise groups established in China. Although substantially all of our operational management is currently based in the PRC given that we are incorporated and controlled by PRC individuals instead of PRC enterprises, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise. To our knowledge, there is a lack of clear guidance regarding the criteria pursuant to which the PRC tax authorities will determine the tax residency of a company under the EIT Law. As a result, neither we nor our PRC counsel can be certain as to whether we will be subject to the tax applicable to resident enterprises or non-resident enterprises.

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Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC “resident enterprise,” it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. It is also unclear whether, if we are considered a PRC “resident enterprise,” holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other countries.

Material United States Federal Income Tax Consequences

The following summary describes material United States federal income tax consequences of the ownership and disposition of our ordinary shares and ADSs as of the date hereof. The discussion is applicable only to United States Holders (as defined below) who hold our ordinary shares or ADSs as capital assets. As used herein, the term “United States Holder” means a beneficial owner of an ordinary share or ADS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (i) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ordinary shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary to us and assumes that the deposit agreement and all other related agreements will be performed in accordance with their terms.

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If a partnership holds ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisors.

This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-United States tax laws. *If you are considering the purchase, ownership or disposition of our ordinary shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.*

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with claiming foreign tax credits for United States Holders of ADSs. Such actions would also be inconsistent with claiming the reduced tax rate, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of PRC taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the discussion under “— Passive Foreign Investment Company” below, the gross amount of distributions on the ADSs or ordinary shares will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. In the case of the ordinary shares or by the depository, in the case of ADSs, such income shall be included in your gross income as ordinary income on the day you actually or constructively received such income. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be treated as a “dividend” for United States federal income tax purposes. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received in taxable years beginning before January 1, 2013 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign 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) is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs (but not our ordinary shares) are regarded as readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our ordinary shares that are represented by ADSs, but not on our ordinary shares that are not so represented, will meet such conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC “resident enterprise” under the PRC tax law (see discussion under “— People’s Republic of China Taxation”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC, and if we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by ADSs, would be subject to the reduced rates of taxation unless we are a PFIC in the year in which the dividend is paid or the preceding taxable year. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

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

Taxation of Capital Gains

For United States federal income tax purposes and subject to the discussion under “— Passive Foreign Investment Company” below, you will recognize taxable gain or loss on any sale or exchange of ADSs or ordinary shares in an amount equal to the difference between the U.S. dollar value of the amount realized for the ADSs or ordinary shares and your tax basis, determined in U.S. dollars, in the ADSs or ordinary shares. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. In the event that we are deemed to be a PRC resident enterprise under the PRC EIT Law and gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, you may be eligible to elect to treat such gain as PRC source gain under the income tax treaty between the United States and the PRC. If we are not eligible for the benefits of the treaty or you fail to make the election to treat any gain as PRC source, then you may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of our ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against tax due on other income derived from foreign sources. You are urged to consult your tax advisors regarding the tax consequences if any PRC tax is imposed on gain on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit and the election to treat any gain as PRC source under your particular circumstances.

Passive Foreign Investment Company

Based on the past and projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a “passive foreign investment company,” or PFIC, for our taxable year ended December 31, 2012, and we do not expect to become one in the future, although there can be no assurance in this regard. As the determination of PFIC status requires extensive factual investigation, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, this determination, although ultimately legal in nature, is beyond the scope of legal counsel’s role and, accordingly, our U.S. counsel expresses no opinion with respect to our PFIC status and also expresses no opinion with respect to our expectations contained in this paragraph.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

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The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ADSs may also result in our becoming a PFIC. If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules, regardless of whether we remain a PFIC, with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a pledge of ADSs or ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning before January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our ADSs or ordinary shares in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares and any of our foreign subsidiaries is also a PFIC, you would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You should consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs are listed on the Nasdaq Global Market, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be “regularly traded” for purposes of the mark-to-market election. It should also be noted that only the ADSs and not our ordinary shares are listed on the Nasdaq Global Market. If you make an effective mark-to-market election, you will include in each year that we are a PFIC, as ordinary income, the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct, as an ordinary loss, each year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of your ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election and whether making the election would be advisable in your particular circumstances.

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Alternatively, you can sometimes avoid the rules described above with respect to the stock you own in a PFIC by electing to treat such PFIC as a “qualified electing fund” under Section 1295 of the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election. You should consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our ADSs or ordinary shares and the proceeds from the sale, exchange or redemption of our ADSs or ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC’s regional offices in New York, New York, and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing to the SEC’s Public Reference Room for information.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this website.

I. Subsidiary Information

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

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates of financial instruments. We are exposed to various types of market risks, including changes in interest rates and foreign currency exchange rates in the normal course of business.

Foreign Exchange Risk

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under that policy, the Renminbi was permitted to fluctuate within a band against a basket of certain foreign currencies. As a result, the Renminbi has substantially appreciated against the U.S. dollar from July 21, 2005 to December 31, 2013. There remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar.

We use the U.S. dollar as our functional and reporting currency for our financial statements. All transactions in currencies other than the U.S. dollar during the year are re-measured at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than the U.S. dollar are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. The financial records of our PRC subsidiaries and variable interest entities are maintained in local currency, the Renminbi, which is their functional currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of accumulated other comprehensive income in the statement of shareholders' equity and comprehensive income. Transaction gains and losses are recognized in the statements of operations in other income (expenses).

Fluctuations in exchange rates also affect our balance sheet. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount that we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of paying dividends on our ordinary shares or ADSs or for other business purposes, depreciation of the Renminbi against the U.S. dollar would have a negative effect on the corresponding U.S. dollar amount available to us. Considering the amount of our cash and cash equivalents as of December 31, 2013, a 1.0% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of approximately US\$1.2 million to our total cash and cash equivalents.

Interest Rate Risk

We do not have any outstanding long-term or short-term loans. Our exposure to interest rate risk primarily relates to interest income generated by excess cash invested in liquid investments with original maturities of three months or less. We have not used any derivative financial instruments to manage our interest risk exposure. 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 interest rates. However, our future interest income may be lower than expected due to changes in market interest rates.

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

Depository Fees

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, \$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be.

Under the terms of the deposit agreement for our ADSs, an ADS holder may have to pay the following service fees to the depositary:

Service	Fees
Issuance of ADSs	Up to US\$0.05 per ADS issued
Cancellation of ADSs	Up to US\$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US\$0.05 per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights	Up to US\$0.05 per ADS held

Depository Charges

In addition, an ADS holder shall be responsible for the following charges:

- a fee of US\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to US\$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- such fees, charges and expenses as are incurred by the depositary and/or any of the depositary's agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;

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- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary 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 depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services or otherwise are paid.

Payments by Depositary

In 2013, we didn't receive any payments from JP Morgan Chase Bank, N.A., the depositary bank for our ADR program. **PART II**

Item 13. Defaults, Dividend Arrearages and Delinquencies

None of these events occurred in any of the years ended December 31, 2011, 2012 and 2013.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Material Modification to the Rights of Security Holders.

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

Use of Proceeds

We completed our initial public offering of 15,625,000 Class A ordinary shares, in the form of ADSs, at a price of US\$9.50 per ADS, on May 10, 2010, after our Class A ordinary shares and American Depositary Receipts were registered under the Securities Act. The aggregate price of the offering amount registered and sold was US\$74.2 million, of which we received net proceeds of US\$65.2 million. The effective date of our registration statement on Form F-1 (File number: 333-165987) was May 4, 2010. Credit Suisse was the lead underwriter for the initial public offering of our ADSs.

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As of December 31, 2013, we have used US\$17.9 million cash from our initial public offering proceeds for expansion of our media investment business in obtaining our exclusive agency agreement with Nanfang Satellite TV and Beijing Sports Channel, and US\$2.0 million cash for acquisition of Clickpro to strengthen our performance marketing platform in internet agency business. As of December 31, 2013, we have also used US\$7.7 million to repurchase our ADSs under our 2011 Share Repurchase Program, and used US\$22.5 million for the payment of dividend to our shareholders, including our ADS holders in April 2012 and May 2013. We still intend to use the remainder of our initial public offering proceeds, as disclosed in our registration statement on Form F-1 (File number 333-165987), to expand our business, including our media investment management business, and for other general corporate purposes.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and Vice president of finance, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our management has concluded that, as of December 31, 2013, our disclosure controls and procedures were not effective.

Management's Annual Report on Internal Control over Financial Reporting

During the year ended December 31, 2013, our management identified the following material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In 2013, we substantially increased the volume of transactions in which we sold our advertising time in exchange for the receipt of goods and other advertising resources ("barter transactions"). As explained in Note 2 to our consolidated financial statements the revenue we recognized from barter transactions in 2013 amounted to US\$3.1 million whereas the amounts in prior year were not material. However, we had failed to develop appropriate policies and procedures (i) to properly account for such transactions, and (ii) to properly monitor the safeguard and consumption of the goods received in such barter transactions.

As of the date of this filing, we are still in the process of addressing the material weakness identified as above and are taking the following remedial actions:

- We have set up a mandatory semi-monthly communication routine between different departments involved in barter transactions to ensure timely communication on transaction information.
- We have improved the accounting assessment and recording processes regarding barter transactions by assigning a financial analyst in our accounting department to fully understand the pertinent accounting literature and be responsible for the appropriate accounting related to barter transactions.

We also plan to take other measures to remedy this weakness in the year of 2014.

Based on our assessment, and because of the material weakness described above, we have concluded that our internal control over financial reporting was not effective at December 31, 2013.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CHARM COMMUNICATIONS INC.

We have audited the internal control over financial reporting of Charm Communications Inc. (the "Company"), its subsidiaries and its variable interest entities (collectively, the "Group") as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992) 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.

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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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: the Group failed to develop appropriate policies and procedures on barter transactions (i) to properly account for such transactions, and (ii) to properly monitor the safeguard and consumption of the goods received in such barter transactions.

This material weakness was considered in determining the nature, timing, extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Group and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Group has not maintained effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control — Integrated Framework (1992) 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 related financial statement schedule as of and for the year ended December 31, 2013 of the Group and our report dated May 15, 2014 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China
May 15, 2014

Changes in Internal Control over Financial Reporting

As disclosed in the above Management's Annual Report on Internal Control Over Financial Reporting, in 2013, we have identified one material weakness in our internal control over financial reporting as we failed to develop appropriate policies and procedures on barter transactions (i) to properly account for such transactions, and (ii) to properly monitor the safeguard and consumption of the goods received in such barter transactions.

Other than as described in the above Management's Annual Report on Internal Control Over Financial Reporting, there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Prior to Mr. Rickards' resignation from our board of directors and its audit committee, he was our audit committee financial expert. As of the date of this annual report, we do not have an audit committee financial expert because following Mr. Rickards' resignation, pursuant to Nasdaq Listing Rule 5615(a)(3), we elected to follow practices of the Cayman Islands, our home country jurisdiction, in lieu Nasdaq Listing Rules 5600's audit committee requirement. In accordance with the legal opinion issued by our Cayman Islands counsel, Maples & Calder, attached to the notification of noncompliance submitted to Nasdaq on April 3, 2014, practices of the Cayman Islands do not require an audit committee financial expert to serve on a company's audit committee. See "Item 6. Directors, Senior Management and Employees — C. Board Practices — Audit Committee."

Item 16B. Code of Ethics

We have adopted a code of business conduct and ethics which applies to our directors, employees and officers, including our Chief Executive Officer and Chief Financial Officers (our principal accounting officer). No changes have been made to the code of business conduct and ethics since its adoption and no waivers have been granted therefrom to our directors or employees. We have filed this code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (File number 333-165987), which exhibit is incorporated by reference as an exhibit to this annual report and a copy is available to any shareholder upon request. This code of business conduct and ethics is also available on our website at <http://ir.charmgroup.cn/phoenix.zhtml?c=234933&p=irol-govHighlights>.

Item 16C. Principal Accountant Fees and Services

At the direction of the government of the People's Republic of China in accordance with the Scheme of the Localization Restructuring of Chinese-Foreign Cooperative Accounting Firms, Deloitte Touche Tohmatsu CPA Limited, our principal external auditors, has restructured to a new partnership and changed its name to Deloitte Touche Tohmatsu Certified Public Accountants LLP, effective from January 1, 2013. Deloitte Touche Tohmatsu Certified Public Accountants LLP has succeeded Deloitte Touche Tohmatsu CPA Limited for all purposes and assumed all of the obligations and rights of Deloitte Touche Tohmatsu CPA Limited with effect from January 1, 2013.

The following table presents the aggregate fees for professional services and other services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, to us in 2011, 2012 and 2013.

	2011	2012	2013
	US\$	US\$ (in thousands)	US\$
Audit Fees (1)	850	850	850
Tax Fees (2)	26	—	—
Total	876	850	850

(1) Audit fees consist of fees billed for the audit or review of our annual financial statements, quarterly financial statements and related regulatory filings.

(2) Tax fees include fees billed for tax advice services.

Pre-approval Policies and Procedures

Our audit committee is responsible for the oversight of our independent accountants' work. 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.

All audit and non-audit services performed by Deloitte Touche Tohmatsu Certified Public Accountants LLP for 2013 were pre-approved by the Audit Committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees

None.

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

On September 14, 2011, our board of directors authorized a share repurchase program, or the 2011 Share Repurchase Program, under which we may repurchase up to US\$10 million worth of our issued and outstanding ADSs from the open market from time to time and before September 14, 2012. As of December 31, 2012, we have repurchased 1,237,243 of our ADSs for a total purchase price of approximately US\$7.8 million pursuant to the 2011 Share Repurchase Program. All of the repurchased shares have been retired from our outstanding common shares. The repurchases were made on the open market at prevailing market prices or in block trades and subject to restrictions relating to volume, price and timing.

Set forth below contains certain information regarding our aforementioned share repurchase programs.

Period	Total Number of ADSs Purchased Under the Program	Average Price Paid per ADS (US\$)	Approximate Value of ADSs that May Yet be Purchased Under the Program (US\$ in thousands)
2011 Share Repurchase Program			
2011			
September	14,000	8.79	9,876
October	119,162	8.36	8,874
November	58,974	9.73	8,297
December	24,189	8.75	8,085
2012			
January	24,832	8.49	7,873
February	24,014	8.79	7,660
March	27,834	9.39	7,398
April	31,316	10.33	7,077
May	21,502	9.31	6,872
June	209,867	7.04	5,325
July	87,195	5.57	4,844
August	16,200	5.33	4,758
September	468,687	5.06	2,811
October	95,571	5.11	2,265
November	13,900	4.36	2,202
Total	1,237,243	6.25	2,202

Item 16F. Change in Registrant's Certifying Accountant

Previously reported on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010.

Item 16G. Corporate Governance

Rule 5615(a)(3) of the Nasdaq Listing Rules permits foreign private issuers such as our company to follow "home country practice" with respect to certain corporate governance matters. As a result, we follow the corporate governance practice in our home country, the Cayman Islands, in respect of the following matters:

- the Oversight of our executive officer compensation and director nominations;
- the Composition of our board of directors; and
- the Composition of our audit committee.

Hence, our corporate governance practices differ from those followed by domestic companies under the Nasdaq Listing Rules in that our board of directors is not comprised of a majority of independent directors, our compensation committee and corporate governance and nomination committees are not comprised solely of independent directors and our audit committee is not comprised of at least three members, with at least one member who is deemed financially sophisticated.

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In addition, Rule 5635(c) and IM-5635-1 of the Nasdaq Listing Rules require each issuer to seek shareholder approval for any material amendments to the issuer's equity compensation plans or other equity compensation arrangements, including a repricing of outstanding options. When we amended the 2008 Share Incentive Plan in April 2013, we followed home country practice and such amendment was approved by our board of directors only. We therefore filed a notification of noncompliance to Nasdaq, along with an opinion letter issued to the Nasdaq Stock Market from Maples and Calder, our Cayman Islands counsel, certifying that under Cayman Islands law, we are not required to seek shareholder approval for amendments to our existing equity incentive plans or arrangements.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

We have elected to provide the financial statements and related information specified in Item 18.

Item 18. Financial Statements

The following audited financial statements and reports of independent registered public accounting firm are included in this annual report beginning on page F-1.

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2012 and 2013
- Consolidated Statements of Operations for the Years Ended December 31, 2011, 2012 and 2013
- Consolidated Statements of Changes in Equity and Comprehensive Income for the Years Ended December 31, 2011, 2012 and 2013
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2012 and 2013
- Notes to Consolidated Financial Statements
- Additional Information—Financial Statement Schedule I

Item 19. Exhibit Index

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
2.1	Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
2.2	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
2.3	Form of Deposit Agreement among the Registrant, the Depositary and holders of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
2.4	Second Amended and Restated Shareholders Agreement, dated January 20, 2010, among the Registrant, Mr. He Dang, Merry Circle Trading Limited, Honour Idea Limited, Aegis Media Pacific Ltd. and Chaview Investments Limited (incorporated by reference to Exhibit 4.8 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
2.5	Second Amended and Restated Registration Rights Agreement, dated January 20, 2010, among the Registrant, Mr. He Dang, Chaview Investments Limited and Aegis Media Pacific Ltd (incorporated by reference to Exhibit 4.9 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).

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<u>Exhibit Number</u>	<u>Description of Exhibits</u>
2.10	Joint Venture Agreement regarding Posterscope (Hong Kong) Limited and Beijing Vizeum Advertising Co. Ltd., dated January 20, 2010, among the Registrant, Posterscope Advertising Limited, Aegis Media Pacific Ltd., Media Port Holdings Limited and Posterscope (Hong Kong) Limited (incorporated by reference to Exhibit 4.10 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
2.11	Shareholders' Agreement, dated January 20, 2010, among the Registrant, Media Port Holdings Limited, Posterscope Advertising Limited, Posterscope (Hong Kong) Limited and Aegis Media Pacific Ltd (incorporated by reference to Exhibit 4.11 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.1.1	Registrant's 2008 Share Incentive Plan, (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.1.2	Registrant's 2011 Share Incentive Plan (incorporated by reference to Exhibit 4.1.2 to our Registration Statement on Form F-1 (File No. 001-34701), filed with the Securities and Exchange Commission on April 27, 2012).
4.2	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.3.1	Translation of the Advertising Agency Agreement, dated May 12, 2012, between Shang Xing Media Co., Ltd. and Beijing Television Station (incorporated by reference to Exhibit 4.3.2 to our annual report on Form 20-F (File No. 001-34701), filed with the Securities and Exchange Commission on April 26, 2013). (Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 83 (17 C.F.R. Section 200.83). The omitted materials have been filed separately with the Securities and Exchange Commission.)
4.3.2	Translation of the Agreement dated February 5, 2012, between Shang Xing Media Co., Ltd. and TJTV Satellite Intermediary Co., Ltd (incorporated by reference to Exhibit 4.3.2 to our annual report on Form 20-F (File No. 001-34701), filed with the Securities and Exchange Commission on April 26, 2013). (Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 83 (17 C.F.R. Section 200.83). The omitted materials have been filed separately with the Securities and Exchange Commission.)

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<u>Exhibit Number</u>	<u>Description of Exhibits</u>
4.3.3	Translation of the Exclusive Agency Agreement for Tianjin Satellite TV Advertisements, dated October 20, 2010, between Shang Xing Media Co., Ltd. and Tianjin Television Station (incorporated by reference to Exhibit 4.3.7 to our Registration Statement on Form F-1 (File No. 001-34701), filed with the Securities and Exchange Commission on May 3, 2011).
4.4	Translation of Form of Exclusive Technology Support Agreements with respect to each of the variable interest entities, between Nanning Jetlong Technology Co., Ltd. and each variable interest entity (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.5	Translation of Form of Trademark, Trade Name and Domain Name License Agreements with respect to each of the variable interest entities, between Nanning Jetlong Technology Co., Ltd. and each variable interest entity (incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.6	Translation of Form of Option and Cooperation Agreements with respect to each of the variable interest entities among Nanning Jetlong Technology Co., Ltd., the variable interest entity, and nominee shareholders of the variable interest entity (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.7	Translation of Form of Voting Rights Agreements with respect to each of the variable interest entities among Nanning Jetlong Technology Co., Ltd., the variable interest entity, and nominee shareholders of the variable interest entity (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.8	Translation of Form of Equity Pledge Agreements with respect to each of the variable interest entities among Nanning Jetlong Technology Co., Ltd., the variable interest entity, and nominee shareholders of the variable interest entity (incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
4.9	Promissory Note, dated January 20, 2010, issued by the Registrant to Merry Circle Trading Limited (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
*4.10	Deed of Undertaking issued by He Dang dated December 26, 2013
*8.1	List of Significant Subsidiaries of Charm Communications Inc.
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form F-1 (File No. 333-165987), as amended, initially filed with the Securities and Exchange Commission on April 9, 2010).
*12.1	Certification of our Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*12.2	Certification of our Vice President of Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*13.1	Certification by our Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*13.2	Certification by our Vice President of Finance pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*15.1	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP, an Independent Registered Public Accounting Firm.
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.

SIGNATURES

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

CHARM COMMUNICATIONS INC.

By: /s/ Cindy Wang

Name: Cindy Wang

Title: **Vice President of Finance**

Date: May 15, 2014

CHARM COMMUNICATIONS INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
CHARM COMMUNICATIONS INC.

We have audited the accompanying consolidated balance sheets of Charm Communications Inc., its subsidiaries, and its variable interest entities (collectively, the “Group”) as of December 31, 2012 and 2013, 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, 2013, and the 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 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 consolidated 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 financial position of the Group as of December 31, 2012 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 15, 2014 expressed an adverse opinion on the Company’s internal control over financial reporting because of a material weakness.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People’s Republic of China
May 15, 2014

CHARM COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of U.S. dollars ("US\$"), except for number of shares and per share data)

	December 31, 2012	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	116,589	121,228
Notes receivable	6,993	5,940
Prepaid expenses	93,838	57,168
Deposits	24,723	32,546
Accounts receivable, net of allowance for doubtful accounts of US\$5,624 and US\$10,379 as of December 31, 2012 and 2013	89,964	117,307
Amounts due from related parties	1,938	3,480
Deferred tax assets	191	1,034
Other current assets	4,021	12,958
Total current assets	338,257	351,661
Fixed assets, net	7,638	7,841
Intangible assets, net	2,375	1,519
Equity method investments	2,133	2,267
Cost method investments	803	826
Goodwill	4,379	4,507
Other non-current assets	3,045	2,608
Total non-current assets	20,373	19,568
TOTAL ASSETS	358,630	371,229
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities:		
Accounts payable (of which US\$53 and US\$55 as of December 31, 2012 and December 31, 2013 of the consolidated VIEs without recourse to the Company, respectively)	38,855	28,516
Amounts due to related parties (of which US\$313 and nil as of December 31, 2012 and December 31, 2013 of the consolidated VIEs without recourse to the Company, respectively)	13,310	9,144
Advances from customers (of which US\$1,408 and US\$1,167 as of December 31, 2012 and December 31, 2013 of the consolidated VIE without recourse to the Company, respectively)	56,343	85,818
Accrued expenses and other current liabilities (of which US\$3,246 and US\$3,178 as of December 31, 2012 and December 31, 2013 of the consolidated VIEs without recourse to the Company, respectively)	18,912	22,634

CHARM COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS - (continued)

(Amounts in thousands of U.S. dollars (“US\$”), except for number of shares and per share data)

	December 31, 2012	December 31, 2013
Consideration payable	2,507	950
Total current liabilities	129,927	147,062
Consideration payable	1,327	1,316
Total non-current liabilities	1,327	1,316
Total liabilities	131,254	148,378
Commitments (Note 20)		
Redeemable noncontrolling interest	5,434	5,733
Equity		
Charm Communications Inc.’s equity		
Ordinary shares (US\$0.0001 par value per share; 207,000,000 and 207,000,000 shares authorized; 76,669,573 and 81,401,128 shares issued and outstanding as of December 31, 2012 and December 31, 2013, respectively)	8	8
Additional paid-in capital	100,850	87,597
Statutory reserve	9,013	9,645
Retained earnings	92,212	91,976
Accumulated other comprehensive income	15,652	22,611
Total Charm Communications Inc. shareholders’ equity	217,735	211,837
Noncontrolling interest	4,207	5,281
Total equity	221,942	217,118
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY	358,630	371,229

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

CHARM COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of U.S. dollars (“US\$”), except for number of shares and per share data)

	2011	2012	2013
Revenues			
Media investment management	238,837	112,786	128,436
Advertising agency	34,285	46,234	50,356
Branding and identity services	7,016	6,478	5,011
Total revenues	280,138	165,498	183,803
Cost of revenues			
Media investment management	187,878	107,976	117,578
Advertising agency	3,737	4,864	4,243
Branding and identity services	4,015	4,303	3,765
Total cost of revenues	195,630	117,143	125,586
Gross profit	84,508	48,355	58,217
Operating expenses			
Selling and marketing expenses	27,119	36,026	38,204
General and administrative expenses	9,704	16,234	17,748
Total operating expenses	36,823	52,260	55,952
Share of earnings from equity method investees	2	350	75
Changes in fair value of consideration payable	—	654	521
Impairment on call option	—	345	285
Operating profit (loss)	47,687	(3,246)	2,576
Interest income	2,497	2,255	1,026
Other expense	—	13	792
Income (loss) before income tax expense	50,184	(1,004)	2,810
Income tax expense	2,158	1,472	1,409
Net income (loss)	48,026	(2,476)	1,401
Net income attributable to noncontrolling interest	1,572	1,518	706
Net income attributable to redeemable noncontrolling interest	307	711	299
Net income (loss) attributable to Charm Communications Inc.’s ordinary shareholders	46,147	(4,705)	396
Net income (loss) per share:			
Basic	0.59	(0.06)	0.00
Diluted	0.56	(0.06)	0.00
Shares used in computation of net income (loss) per share:			
Basic	78,266,839	77,498,250	79,871,761
Diluted	82,113,765	77,498,250	80,639,506

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

CHARM COMMUNICATIONS INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
(Amounts in thousands of U.S. dollars (“US\$”), except for number of shares and per share data)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net income (loss)	48,026	(2,476)	1,401
Other comprehensive income, net of tax of nil			
Foreign currency translation adjustments	9,065	2,268	7,212
Comprehensive income (loss)	57,091	(208)	8,613
Comprehensive income attributable to noncontrolling interest	(1,572)	(1,518)	(959)
Comprehensive income attributable to redeemable noncontrolling interest	(307)	(711)	(299)
Comprehensive income (loss) attributable to Charm Communications Inc.’s shareholders	<u>55,212</u>	<u>(2,437)</u>	<u>7,355</u>

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

CHARM COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands of U.S. dollars (“US\$”), except for number of shares)

	Charm Communications Inc.’s shareholders								
	Ordinary shares		Additional paid-in capital	Statutory reserve	Retained earnings	Accumulated other comprehensive income	Total Charm Communications Inc.’s shareholders’ equity	Noncontrolling interest	Total equity
	Number	Amount							
Balance at December 31, 2010	<u>78,260,102</u>	<u>8</u>	<u>115,288</u>	<u>3,047</u>	<u>56,736</u>	<u>4,319</u>	<u>179,398</u>	<u>877</u>	<u>180,275</u>
Cumulative translation adjustment	—	—	—	—	—	9,065	9,065	—	9,065
Net income (excludes US\$307 of net income attributable to redeemable noncontrolling interest)	—	—	—	—	46,147	—	46,147	1,572	47,719
Repurchase of ordinary shares	(432,650)	—	(1,906)	—	—	—	(1,906)	—	(1,906)
Share-based compensation	—	—	3,069	—	—	—	3,069	—	3,069
Exercise of options	138,724	—	186	—	—	—	186	—	186
Provision of statutory reserve	—	—	—	4,978	(4,978)	—	—	—	—
Balance at December 31, 2011	<u>77,966,176</u>	<u>8</u>	<u>116,637</u>	<u>8,025</u>	<u>97,905</u>	<u>13,384</u>	<u>235,959</u>	<u>2,449</u>	<u>238,408</u>
Cumulative translation adjustment	—	—	—	—	—	2,268	2,268	—	2,268
Net income (loss) (excludes US\$711 of net income attributable to redeemable noncontrolling interest)	—	—	—	—	(4,705)	—	(4,705)	1,518	(3,187)
Addition of noncontrolling interest	—	—	—	—	—	—	—	240	240
Repurchase of ordinary shares	(2,041,836)	—	(5,825)	—	—	—	(5,825)	—	(5,825)
Share-based compensation	—	—	2,213	—	—	—	2,213	—	2,213
Vesting of restricted shares	403,793	—	—	—	—	—	—	—	—
Exercise of options	341,440	—	381	—	—	—	381	—	381
Dividend (Note 12)	—	—	(12,556)	—	—	—	(12,556)	—	(12,556)
Provision of statutory reserve	—	—	—	988	(988)	—	—	—	—
Balance at December 31, 2012	<u>76,669,573</u>	<u>8</u>	<u>100,850</u>	<u>9,013</u>	<u>92,212</u>	<u>15,652</u>	<u>217,735</u>	<u>4,207</u>	<u>221,942</u>
Cumulative translation adjustment	—	—	—	—	—	6,959	6,959	253	7,212
Net income (loss) (excludes US\$299 of net income attributable to redeemable noncontrolling interest)	—	—	—	—	396	—	396	706	1,102
Purchase of noncontrolling interest	—	—	(278)	—	—	—	(278)	115	(163)
Share-based compensation	—	—	2,991	—	—	—	2,991	—	2,991
Vesting of restricted shares	482,125	—	—	—	—	—	—	—	—
Exercise of options	4,249,430	—	3,932	—	—	—	3,932	—	3,932
Dividend (Note 12)	—	—	(19,898)	—	—	—	(19,898)	—	(19,898)
Provision of statutory reserve	—	—	—	632	(632)	—	—	—	—
Balance at December 31, 2013	<u>81,401,128</u>	<u>8</u>	<u>87,597</u>	<u>9,645</u>	<u>91,976</u>	<u>22,611</u>	<u>211,837</u>	<u>5,281</u>	<u>217,118</u>

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

CHARM COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of U.S. dollars ("US\$"))

	2011	2012	2013
Cash flows from operating activities:			
Net income (loss)	48,026	(2,476)	1,401
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	659	1,067	1,961
Amortization of intangible assets	665	1,043	911
Allowance for doubtful accounts	937	5,622	4,697
Share-based compensation	3,069	2,214	2,991
Deferred tax assets	125	(66)	(829)
Non-monetary revenue transactions	(96)	—	(281)
Loss on disposals of fixed assets	473	17	1,193
Changes in fair value of consideration payable	—	(654)	(521)
Impairment of call option	—	345	285
Share of earnings from equity method investees	—	(350)	(75)
Changes in operating assets and liabilities:			
Accounts and notes receivables	(60,388)	31,141	(28,020)
Prepaid expenses, deposits and other current assets	(34,696)	12,868	23,481
Other non-current assets	—	(2,347)	621
Amounts due from related parties	(865)	1,300	(1,471)
Accounts payable	39,977	(24,569)	(10,988)
Advances from customers	24,334	(29,483)	27,128
Accrued expenses and other current liabilities	2,342	(4,166)	3,153
Amounts due to related parties	(424)	8,787	(4,252)
Net cash provided by operating activities	24,138	293	21,385
Cash flows from investing activities:			
Acquisition of fixed assets	(3,220)	(4,345)	(3,138)
Investment in equity method investees	(1,210)	(1,124)	(201)
Acquisition of ClickPro (net of cash acquired of US\$373)	(1,111)	—	—
Proceeds from disposal of Zhizhonghe, a cost method investment (Note 9)	77	—	—
Prepayment of investment in a new joint venture	—	—	(399)
Net cash used in investing activities	(5,464)	(5,469)	(3,738)
Cash flows from financing activities:			
Distributions paid to shareholders	(5,829)	(12,556)	(19,898)
Proceeds from option exercise	186	381	3,932
Repurchase of ordinary shares	(1,906)	(5,825)	—
Payments of deferred consideration for acquisition of Clickpro	—	(853)	(1,138)
Contribution of noncontrolling interest of Guozhi	—	156	—
Purchase of noncontrolling interest of Guozhi	—	—	(163)
Net cash used in financing activities	(7,549)	(18,697)	(17,267)
Effect of exchange rates on cash and cash equivalents	4,961	1,056	4,259
Net increase (decrease) in cash and cash equivalents	16,086	(22,817)	4,639
Cash and cash equivalents at the beginning of the year	123,320	139,406	116,589
Cash and cash equivalents at the end of the year	139,406	116,589	121,228
Supplementary disclosure of cash flow information			
Income taxes paid	1,543	1,908	185
Non-cash investing and financing activities			
Payable for investment in Wasu Digital	199	201	—
Payable for acquisition of ClickPro	5,289	3,834	2,266

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

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands of U.S. dollars, except for number of shares and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Charm Communications Inc. (the “Company”) was incorporated under the laws of the Cayman Islands on January 25, 2008. The Company, together with its variable interest entities (“VIEs”) and subsidiaries (collectively the “Group”), is an integrated advertising agency in the People’s Republic of China (the “PRC”). For management purposes, the Group is currently organized into three operating segments - media investment management, advertising agency, and branding and identity services. The Group’s principal geographic market is in the PRC.

As of December 31, 2013, the Company’s subsidiaries and the Group’s variable interest entities included the following entities:

Companies	Place of Incorporation	Later of Establishment or Acquisition	Percentage of Legal Ownership
Subsidiaries:			
Movie-Forward Ltd. (“Movie”)	BVI	June 2007	100%
Media Port Holding Limited (“Media Port”)	BVI	November 2009	100%
Media Talent International Limited (“Talent”)	BVI	May 2010	100%
Best Ranking Limited (“Best”)	BVI	October 2011	100%
CharmClick Inc. (“Click”)	Cayman Islands	July 2011	60%
Charm Hong Kong Limited (“Charm Hong Kong”)	Hong Kong	April 2008	100%
O’Master Communications (Hong Kong) Ltd. (“O’Master”)	Hong Kong	June 2010	100%
Posterscope (Hong Kong) Ltd. (“Posterscope”)	Hong Kong	January 2010	60%
Charm New Media (Hong Kong) Ltd. (“New”)	Hong Kong	November 2011	100%
Charm Future Media (Hong Kong) Ltd. (“Future”)	Hong Kong	November 2011	100%
Charm Electronic Media (Hong Kong) Ltd. (“Elec”)	Hong Kong	November 2011	100%
Charm Digital Media (Hong Kong) Ltd. (“Digital”)	Hong Kong	November 2011	100%
Neudior Corporation Limited (“Neudior”)	Hong Kong	November 2011	60%
Nanning Jetlong Technology Co., Ltd. (“NJTC”)	PRC	October 2005	100%
Beijing Vizeum Advertising Co., Ltd. (“Vizeum”)	PRC	January 2010	60%
Charm Media Co., Ltd. (“Charm Media”)	PRC	November 2010	100%
Shang Xing Media Co., Ltd. (“Shang Xing”)	PRC	October 2010	100%
Beijing Guozhi Travel & Culture Co., Ltd. (“Guozhi”)	PRC	September 2012	90%
Beijing Hongtu Zhuoyue Advertising Co., Ltd. (“Hongtu”)	PRC	September 2012	100%
Tianjing Youshida Culture & Media Co., Ltd. (“Youshida”)	PRC	May 2013	100%
Jiangsu Heli Charm Advertising Co., Ltd. (“Jiangsu”)	PRC	August 2013	60%
Beijing Shangxing Investment Co., Ltd. (“BJSXI”)	PRC	December 2013	100%
VIEs and VIEs owned enterprises:			
Shidai Charm Advertising Co., Ltd. (“ShiDai”)	PRC	November 2006	Nil*
QingHai Charm Advertising Co., Ltd. (“QingHai”)	PRC	August 2008	Nil*
Beijing Charm Culture Co., Ltd (“Charm Culture”)	PRC	November 2010	Nil*

* These entities are controlled by the Company pursuant to the contractual arrangements described below.

Media Port holds 60% ownership of Posterscope, which holds all of the outstanding equity interest in Vizeum.

O’Master is a wholly owned subsidiary of Talent. O’Master holds all of the outstanding equity interest in Charm Media. Charm Media holds all of the outstanding equity interest in Shang Xing, Hongtu, BJSXI and Youshida, and holds 90% equity interest in Guozhi, 60% equity interest in Jiangsu.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

NJTC, Charm Media and Shang Xing are wholly foreign owned enterprises (“WFOEs”).

PRC laws and regulations have certain restrictions on foreign ownership of media content and advertising business. To comply with these foreign ownership restrictions, prior to January 1, 2011, the Company conducted substantively all of its operations in the PRC through VIEs and their subsidiaries. As presented below, NJTC has entered into a series of exclusive contractual agreements with the VIEs and the shareholders of these VIEs. Under these agreements, NJTC has the ability to receive substantially all of the expected residual returns of the VIEs and their subsidiaries and also has the power to control the VIEs.

In June 2010, the Company acquired O’Master, which had more than three years’ operating history of an advertising business in Hong Kong, and accordingly it and its subsidiaries are not subject to the restrictions on foreign invested enterprises undertaking a media content and advertising business in the PRC. Starting January 2011 the Company has primarily conducted its business through Charm Media and Shang Xing. Charm Media is wholly owned by O’Master and Shang Xing is wholly owned by Charm Media as of December 31, 2013.

Agreements that transfer economic benefits to NJTC***Trademark, Trade Name and Domain Name License Agreements***

Under the trademark, trade name and domain name license agreements between NJTC and each of the VIEs, NJTC grants a non-exclusive license to use its trademark, trade name and domain name to the VIEs, in exchange for a quarterly license fee calculated based on each VIE’s profit in the corresponding quarter. NJTC is entitled to adjust the license fees in its sole discretion. The trademark, trade name and domain name license agreements remain in effect until the expiration of the trademark, trade name and domain name.

Exclusive Technology Support Agreements

Under the exclusive technical support agreements between NJTC and each of the VIEs, NJTC provides technology services and consulting services to the VIEs, in exchange for a quarterly service fee based on a predetermined formula. NJTC is entitled to adjust the service fees in its sole discretion. The term of each exclusive technology support agreement is twenty years from the effective date thereof, and the agreement will be automatically renewed for an additional twenty years upon expiration unless NJTC gives prior written notice to the VIEs not to renew the agreements.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**Agreements that transfer economic benefits to NJTC - continued***Equity Pledge Agreements***

With respect to each of VIE and NJTC, the VIE and the nominee shareholders of the VIE have entered into an equity pledge agreement. Under the equity pledge agreement, the nominee shareholders have pledged their respective equity interests in the VIE to NJTC to secure the obligations of the VIE under its trademark, trade name and domain name license agreement and the exclusive technology support agreement with NJTC. In addition, the nominee shareholders agreed not to transfer, sell, pledge, dispose of or create any encumbrance on their equity interests in the VIE. The VIE covenants that without prior consent of NJTC, it will not distribute any dividends. The equity pledge agreement will expire two years after the VIE has fully performed its obligations under its trademark, trade name and domain name license agreement and the exclusive technical support agreement with NJTC.

Agreements that provide NJTC effective control over VIEs***Option and Cooperation Agreements***

With respect to each of VIE and NJTC, the VIE and the nominee shareholders of the VIE have entered into an option and cooperation agreement. Pursuant to the option and cooperation agreement, NJTC has an exclusive option to purchase or to designate other persons to purchase, to the extent permitted by applicable PRC laws, rules and regulations, all or part of the equity interest in the VIE from the nominee shareholders. The purchase price for the entire equity interest shall be the minimum price permitted by applicable PRC laws, rules and regulations. Each shareholder of the VIE agreed to pay the purchase price received from NJTC to the VIE after NJTC exercised its option. The term of the option and cooperation agreement is twenty years from the effective date thereof, and the agreement will be automatically renewed for an additional twenty years upon expiration until the completion of the transfer of all of the equity interest provided therein.

Voting rights agreements

The nominee shareholders of each VIE have signed a voting rights agreements, pursuant to which the nominee shareholders have granted NJTC, or a person designated by NJTC, the right to exercise all of the voting rights as shareholders of the VIE. The voting rights agreements will remain in effect until all of the equity interests in VIEs have been transferred to NJTC pursuant to the option agreements described above.

These contractual arrangements provide the Company, through its wholly owned subsidiary, NJTC, (1) the power to direct the activities of the VIEs that most significantly affect their economic performance and (2) the right to receive the benefits from them. As a result the Company has consolidated the financial results of the VIEs since the establishment of VIEs.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**Risks in relation to the VIE structure

The shareholders of the VIEs are also beneficial owners of the Company. Their interests as shareholders of the 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 shareholder of the VIEs, on the one hand, and as beneficial owners of the Company, on the other hand. The Company believes the shareholders of the VIEs will not act contrary to any of the contractual arrangements. If any conflict of interest or dispute between the Company and the shareholders of the 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 Company's ability to control the VIEs depends on the powers of attorney that enable the Company to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes this power of attorney is legally enforceable but may not be as effective as direct equity ownership.

The Company believes that the contractual arrangements with the VIEs are in compliance with PRC laws and are legally enforceable. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations. Accordingly if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the regulatory authorities may exercise their discretion to deal with such violations, including:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict operations;
- restrict the Group's right to collect revenues;
- block the Group's websites;
- require the Group to restructure the operations in such a way as to compel the Group to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of the VIE and its subsidiaries or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIEs.

The following financial statement balances and amounts of the Company's VIEs, which were after the intercompany eliminations, were included in the accompanying consolidated financial statements:

	December 31, 2012	December 31, 2013	
Total assets	17,746	6,247	
Total liabilities	5,020	4,400	
	2011	2012	2013
Revenue	36,734	112	1
Net loss	(5,331)	(3,228)	(330)
	2011	2012	2013
Net cash used in operating activities	(16,297)	(2,903)	(1,995)
Net cash used in investing activities	(641)	(793)	(6,811)
Net cash used in financing activities	(5,829)	—	—

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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").

Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the VIEs and their wholly owned enterprises. All inter-company transactions and balances have been eliminated on consolidation.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and cash equivalents

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

Accounts receivable and allowance for doubtful accounts

The Group provides specific provision for bad debts when facts and circumstances indicate that the receivable is unlikely to be collected. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In evaluating the collectability of individual receivable balances, the Group considers many factors, including the age of the balance, the customer's historical payment history, the customer's current credit-worthiness and the current economic trends.

Notes receivable

Notes receivable represent bank drafts which may be drawn upon financial institutions. The Group receives these notes receivable as a form of payment from its customers. These notes are transferable and are generally payable after three to six months.

Prepaid expenses

Prepaid expenses mainly represent the prepayments of media costs made to television stations and intermediate parties in advance of the airing of an advertisement.

Deposits

Deposits consist of the deposits that are required to bid for advertising slots with China Central Television ("CCTV"). The Group makes these deposits in advance of the bidding. If the bid is successful, the deposit will be used against future purchases of advertising time; if the bid is unsuccessful, the deposits will be returned.

Deposits also represent amounts paid by the Group to other television stations in order to secure advertising time on the respective television channels.

Other current assets

Other current assets include staff advances, bank interest receivables, rental deposits and prepaid rent.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**Fixed assets, net

Fixed assets are carried at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Computers, software and office equipment	3-5 years
Leasehold improvements	lesser of lease terms or 5 years, the estimated useful lives of the asset

Intangible assets, net

Intangible assets, which consist of customer base, technology and non-compete agreements are carried at cost less accumulated amortization. Customer base is amortized based on the estimated attrition pattern of the acquired intangible; technology and non-compete agreements are calculated using the straight-line method over their respective expected useful lives as follows:

Customer base	6 years
Technology	3 years
Non-compete agreements	7 years

Equity method investments

Equity method investments relate to affiliated companies over which the Company has the ability to exercise significant influence, but does not have control. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock of the investee of 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. The Company's share of earnings of equity affiliate is included in the accompanying consolidated statements of operations.

Cost method investments

Cost method investments are 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 received from the distribution of the investee's earnings.

The Company reviews the investment for other-than temporary impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable based on the specific identification method. The Company considers available quantitative and qualitative evidence in evaluating potential impairment and recognize the impairment loss if the carrying value exceeds fair value.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**Goodwill

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized, but is tested for impairment at the reporting unit level at least on an annual basis at the balance sheet date or more frequently if certain indicators arise. Goodwill impairment is tested using a two-step approach. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step is not required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with 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. This allocation process is only performed for the purpose of evaluating goodwill impairment and does not result in an entry to implied fair value of goodwill. Management performed an annual goodwill impairment test as of December 31, 2012 and 2013, and no impairment loss was required.

Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable when these events occur. The Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group will recognize an impairment loss based on the fair value of the assets.

Advances from customers

Advances from customers represent the customers' prepayment of advertising costs to the Group. The customers will generally pay the Group a month in advance of their advertisements being aired.

Financial instruments

Financial instruments include cash and cash equivalents, accounts and notes receivable, amounts due from related parties, cost method investments, equity method investments, accounts payable and amounts due to related parties. The carrying value of financial instruments, except for cost method investments or equity method investments, approximate their fair values, principally because of the short-term maturity of these instruments. Fair values of cost method investments and equity method investments are not readily determinable.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value measurements

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 I - Observable inputs such as quoted prices in active markets for identical, unrestricted assets or liabilities.

Level II - Quoted prices for similar assets or liabilities, or inputs other than quoted prices in active markets that are observable, either directly or indirectly.

Level III - Unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions about the assumptions market participants would use in pricing the asset or liability. Valuation techniques include use of option-pricing models, discounted cash flows models and similar techniques.

Revenue recognition

The Group recognizes revenues based on the following revenue recognition principles.

Revenues are recognized when the following four criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products or services has occurred and risks and rewards of ownership have been passed to the customer; (iii) the selling price is fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured.

More specifically, the Group derives revenue from three operating segments. The revenue recognition policies for those segments are as follows:

(1) Media investment management

Media investment management revenues are derived from the sale of advertising time or other advertising rights owned by the Group. The advertising time or rights are purchased from television networks and as a result the Group has the risk of ownership. Accordingly, the sale of these advertising time or rights is recorded on a gross basis. The revenues for these sales are recognized when the related advertisement time or right is utilized by the client.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**Revenue recognition - continued

The Group occasionally engages in barter transactions where it trades advertising time slots for goods or advertising resources. For advertising-for-good barter transactions, revenues are recorded based on the fair value of goods received, which is more clearly evident than the fair value of the advertising time slots surrendered. For advertising-for-advertising barter transactions, revenues are recorded based on the Group's own historical practice of receiving cash for similar advertising time slots from customers unrelated to the party in the barter transaction, if available, or the carrying amount of the advertising time slots surrendered. The amounts of revenue recognized for barter transactions for the years ended December 31, 2011, 2012 and 2013 were US\$145, nil and US\$3,125.

(2) Advertising Agency

Advertising agency revenues are derived from commissions received for assisting advertising clients in obtaining advertisement time on media platforms, primarily television stations. In general, the commission received is based on certain percentage of the cost of the advertising time purchased by the client. In many cases, the client pays the media owner for the advertising resource through the Group. As the Group acts as an agent for the client in such transactions, the revenue from these transactions is recognized on a net of cost basis when the related advertisement resource is utilized by the client.

The Group also receives performance-based sales commissions from the media platforms, equal to certain percentage of the purchase price for qualifying advertising resource purchased and utilized by advertising clients the Group represents. The amount of the additional commissions earned may be subject to adjustment based on various performance factors. Revenue is accrued and recognized when the amounts of the additional commissions are probable and reasonably estimable.

(3) Branding and Identity Services

Branding and identity service revenues are derived from creative design and production management services for the development of advertisements and marketing consulting services. These revenues are recognized either upon delivery of the completed advertisement or ratably over the marketing consulting service period.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

Rebates to customers

The Group provides incentives to certain customers based on their media spending volume on the Company's media investment business, and accounts for it as a reduction of revenue. The payables of rebate to customers are included in the advances from customers on the consolidated balance sheets. The Group has estimated and recorded rebates to customers of US\$5,383, US\$6,064 and US\$8,017 for the years ended December 31, 2011, 2012 and 2013, respectively.

Cost of revenues

(1) Media investment management

Cost of revenues related to media investment management is primarily the cost of advertising time or other advertising rights sold, business taxes and value added taxes ("VAT"). The cost of advertising time or other rights is expensed when the right is utilized by the client or expires unused. The cost of business taxes are expensed as incurred.

(2) Advertising agency

Cost of revenues related to advertising agency is primarily personnel related costs, business taxes, VAT and equipment depreciation expense. These costs are expensed as incurred.

(3) Branding and identity services

Cost of revenues related to branding and identity services is primarily costs incurred for advertisement production, personnel related costs and business taxes. These costs are expensed as incurred.

The total amount of business taxes, VAT and surcharges included in cost of revenues were US\$8,340, US\$6,613 and US\$10,495 for the years ended December 31, 2011, 2012 and 2013, respectively.

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 has been phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, three PRC subsidiaries and one VIE of the Group became subject to VAT at the rate of 6%, on certain service revenues which were previously subject to business tax. Since August 1, 2013, all PRC entities became subject to VAT. VAT is recorded in cost of revenue when incurred and amounted to US\$2,892 and US\$6,861 for the years ended December 31, 2012 and 2013, respectively.

Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in other current liabilities on the consolidated balance sheets.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

Operating leases

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

Foreign currency translation

The functional and reporting currency of the Company is the United States dollar. The functional currency of the Company's overseas subsidiaries is either United States dollar or Hong Kong dollar. The Company's PRC subsidiaries and VIEs and their wholly owned enterprises determine their functional currencies to be the Chinese Renminbi ("RMB").

Assets and liabilities are translated from each entity's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative foreign currency translation adjustments and are shown as a separate component of other comprehensive income in the consolidated statements of comprehensive income (loss).

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

Net income per share

Basic net income per share is computed by dividing net income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted net income per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options and the conversion of convertible redeemable preferred shares.

Holders of Class A and Class B ordinary shares have the same dividend rights. Accordingly, the Company has not used the two-class method in computing net income per share.

Income taxes

The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The Group records a valuation allowance against the amount of deferred tax assets that it determines is not more likely than not of being realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The impact of an uncertain income tax position is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes are classified as a component of the provisions for income taxes.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based compensation

Share-based payments to employees are measured based on the fair values of share option on the grant dates and recognized as compensation expense over the requisite service periods on a straight-line basis with a corresponding addition to paid-in capital provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the options that are vested at that date.

Share awards issued to consultants are measured at fair value at the earlier of the commitment date or the date the services is completed and recognized over the period the service is provided or as goods are received. The Group uses the Black-Scholes option pricing model to measure the value of options granted to consultants and employees at each measurement date.

For the share options granted with performance condition, share-based compensation expense is recognized based on the probable outcome of the performance condition. A performance condition is not taken into consideration in determining fair value of the options granted.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

Comprehensive income (loss)

Comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments. The Group presents the components of net income, the components of other comprehensive income and total comprehensive income (loss) in two separate but consecutive statements.

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include revenue recognition, allowance for doubtful accounts, income taxes, fair value and impairment of goodwill and intangible assets, business acquisition and share-based compensation.

Significant risks and uncertainties

Foreign currency risk

RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The Group's cash balances in RMB as of December 31, 2012 and 2013 were RMB703.7 million (an equivalent of US\$113.0 million) and RMB634.8 million (an equivalent of US\$104.9 million), representing 96.9% and 86.5% of the cash and cash equivalents as of December 31, 2012 and 2013 respectively.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**Significant risks and uncertainties - continued*Concentration of credit risk*

Financial instruments that potentially subject the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable and notes receivable. As of December 31, 2012 and 2013, substantially all of the Group's cash and cash equivalents were deposited in the financial institutions located in the PRC. Notes receivable represents bank drafts drawn upon the financial institutions located in the PRC. The Group uses state-owned financial institutions that management believes are of high credit quality to mitigate the risks associated with cash and cash equivalents and notes receivable. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and ongoing monitoring process on outstanding balances. Customer A and customer B accounted for more than 10% of accounts receivable as of December 31, 2013 and customer C accounted for more than 10% of accounts receivable as of December 31, 2012. For the years ended December 31, 2011, 2012 and 2013, there were no customers who accounted for 10% or more of the Group's revenues.

Recent accounting pronouncements

In March 2013, the Financial Accounting Standards Board ("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.

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.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements - continued

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 will adopt this pronouncement on January 1, 2014 and does not expect the adoption of this pronouncement will have a significant impact on its financial condition or results of operations.

In July 2013, the FASB issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this Accounting Standards Update ("ASU") is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP.

The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Group will adopt this pronouncement on January 1, 2014 and does not expect the adoption of this pronouncement will have a significant impact on its consolidated financial statements.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**Recent accounting pronouncements - continued

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". ASU 2014-08 limits the requirement to report discontinued operations to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The amendments also require expanded disclosures concerning discontinued operations and disclosures of certain financial results attributable to a disposal of a significant component of an entity that does not qualify for discontinued operations reporting. The amendments in this ASU are effective prospectively for reporting periods beginning on or after December 15, 2014, with early adoption permitted. The Group will adopt this pronouncement on January 1, 2015 and does not expect the adoption of this pronouncement will have a significant impact on its consolidated financial statements.

3. ACQUISITION2011 Acquisition

On August 21, 2011, the Group acquired 60% of Shanghai Clickpro Advertising Company Limited's and Shanghai Zhiqi Advertising Company Limited's ("Clickpro") business, a leading Chinese performance and SEM firm with proprietary technology and full-service capabilities, for the purpose of strengthening the Group's performance marketing platform by integrating with existing search and performance marketing business. Pursuant to the acquisition agreement, the consideration for the acquisition includes (1) cash consideration of RMB22.4 million (US\$3,476), which had been fully paid as of December 31, 2013; (2) three contingent consideration based on the net income of the acquired business of the next three twelve-month period ending June 30th from the acquisition date.

The changes in contingent consideration payable during the years ended December 31, 2011, 2012 and 2013 were as follows:

Balance at January 1, 2010	—
Contingent consideration payable recorded in connection with acquisition of Clickpro	<u>3,297</u>
Balance at December 31, 2011	3,297
Changes in fair value	(654)
Exchange difference	<u>65</u>
Balance at December 31, 2012	2,708
Changes in fair value	(521)
Exchange difference	<u>79</u>
Balance at December 31, 2013	<u>2,266</u>

CHARM COMMUNICATIONS INC.

Pursuant to the acquisition agreement, the Group granted a put option to Clickpro's shareholders which allow them to sell the remaining 40% equity interest to the Group. The option is exercisable six years later at a per share price computed by a formula valuing the entire enterprise based on the Clickpro's performance for the trailing 3 years. Accordingly, on the acquisition date, the remaining 40% interest of Clickpro is recorded as redeemable noncontrolling interest, outside of the permanent equity on the consolidated balance sheet, at fair value of US\$4,416. Subsequently, the noncontrolling interest was carried at the higher of (1) the initial carrying amount, increased or decreased for the noncontrolling interest's share of net income or loss or (2) the accreted amount to the expected redemption value. The increase of US\$307, US\$711 and US\$299 in the carrying amounts of the redeemable noncontrolling interest were recognized as the net income attributable redeemable noncontrolling interest in the consolidated statements of operations for the years ended December 31, 2011, 2012 and 2013, respectively.

In addition pursuant to the acquisition agreement in 5 years following the acquisition, the Group shall have a call option to acquire all of the remaining 40% equity interest from the former shareholders of ClickPro, at a per share price based on a formula valuing the entire enterprise at certain times of the after-tax profit of the average for the trailing 3 years. The call option was initially recorded under the non-current assets at the estimated fair value as of the acquisition date of RMB6.4 million (US\$994). For the years ended December 31, 2012 and 2013, impairment losses of RMB2.2 million (US\$345) and RMB1.7 million (US\$285) on the call option were recognized in the consolidated statements of operations as ClickPro did not reach the financial performance projection.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**3. ACQUISITION - continued**2011 Acquisition - continued

The pro forma effects of the Clickpro acquisition as if the acquisition period had occurred on January 1, 2010 on the Group's consolidated financial statements were:

	2011 (unaudited)
Total revenues	281,897
Net income attributable to Charm Communications Inc.	46,594
Income per share - basic	0.60
Income per share - diluted	0.57

These pro forma results are not necessarily indicative of the results that actually would have been obtained had the acquisition been in effect for the periods described or that may be obtained in the future.

The acquisition was recorded using the acquisition method of accounting and, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The net revenue and net income of Clickpro in the amount of US\$1,828 and US\$719, respectively, have been included in the consolidated statement of operations for the year ended December 31, 2011.

With the assistance of a third party appraiser, the Group allocated the purchase price to assets acquired and liabilities assumed as follows:

Cash and cash equivalents	373
Current assets	4,977
Fixed assets	16
Intangible assets	3,986
Goodwill	4,269
Call option	994
Current liabilities	(3,426)
Redeemable noncontrolling interest	(4,416)
Total consideration	6,773

The identifiable intangible assets are being amortized over their respective useful lives of 3 to 7 years.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

4. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Net accounts receivable consist of the following for the years ended December 31, 2012 and 2013:

	December 31, 2012	December 31, 2013
Accounts receivable	95,588	127,686
Less: allowance for doubtful accounts	5,624	10,379
Accounts receivable, net	89,964	117,307

Movement of allowance for doubtful accounts was as follows:

	2011	2012	2013
Balance at beginning of the year	—	658	5,624
Charge to expenses	937	5,622	4,735
Reversal	—	—	(38)
Written-off	(279)	(656)	(145)
Exchange difference	—	—	203
Balance at end of the year	658	5,624	10,379

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**5. FIXED ASSETS, NET**

Fixed assets consist of the following:

	December 31, 2012	December 31, 2013
Computers, software and office equipment	4,622	3,113
Leasehold improvements	5,211	8,024
Sub-total	9,833	11,137
Less: accumulated depreciation	2,195	3,296
	<u>7,638</u>	<u>7,841</u>

Depreciation expense was US\$659, US\$1,067 and US\$1,961 for the years ended December 31, 2011, 2012 and 2013 respectively.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

6. INTANGIBLE ASSETS, NET

Intangible assets consist of the following:

	December 31, 2012	December 31, 2013
Costs:		
Customer base	1,638	1,638
Technology	1,151	1,151
Non-competence agreements	1,197	1,197
Exchange differences	109	227
	<u>4,095</u>	<u>4,213</u>
Accumulated amortization:		
Customer base	(867)	(1,231)
Technology	(590)	(1,012)
Non-competence agreements	(263)	(451)
	<u>(1,720)</u>	<u>(2,694)</u>
Net carrying amount:		
Customer base	771	407
Technology	561	139
Non-competence agreements	934	746
Exchange differences	109	227
	<u>2,375</u>	<u>1,519</u>

The amortization expenses for acquired intangible assets for the years ended December 31, 2011, 2012 and 2013 were US\$665, US\$1,043 and US\$911, respectively. The Group expects to record amortization expenses of US\$649, US\$335, US\$254, US\$185 and US\$96 for the next five years through December 31, 2018, respectively. No impairment loss has been recorded by the Group.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

7. GOODWILL

The changes in the carrying amount of goodwill for fiscal year 2012 and 2013 are as follows:

As of January 1, 2012	4,335
Exchange differences	44
As of December 31, 2012	4,379
Exchange differences	128
As of December 31, 2013	4,507

The Group has only one reporting unit that carries goodwill. The Group performs its annual goodwill impairment tests on December 31 of each year. Based on the assessment, no impairment charges were recognized for the years ended December 31, 2012 and 2013.

8. EQUITY METHOD INVESTMENTS

	December 31, 2012	December 31, 2013
Chongqing Changhui Culture Co., Ltd.	1,450	1,577
Wasu Digital Co., Ltd.	362	376
Chunqiu Charm Culture Co., Ltd	—	—
Guangdong Nanfang Media New Broadcast Co., Ltd.	321	314
Total	2,133	2,267

In April 2011, the Group formed an entity named Chongqing Changhui Culture Co., Ltd. (“Chongqing Changhui”) with a third party, Chongqing Travel & Culture Communications Co., Ltd., (“Chongqing Travel”), to explore and promote the travel and tourism advertising market. The Group owned 45% equity interest with a total cash contribution of US\$697. The Group shares dividends and undertakes risks and losses with Chongqing Travel in accordance with the Group’s respective shareholding percentages in the Chongqing Changhui under PRC laws. There are five seats on the Board of Chongqing Changhui and the Group takes two of them. According to Chongqing Changhui’s Articles of Association, all actions require the approval of two-thirds of the directors. The Group has significant influence but does not have control over Chongqing Changhui. And accordingly the Group recorded it as an equity method investment. The Group recorded its shares of the earnings of Chongqing Changhui at US\$207, US\$507 and US\$84 for the years ended December 31, 2011, 2012 and 2013.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**8. EQUITY METHOD INVESTMENTS - continued**

In May 2011, the Group formed an entity named Wasu Digital Co., Ltd. (“Wasu Digital”) with a third party, Wasu Digital Group, (“Wasu Group”) to enhance its digital media. The Group owned 65% equity interest with a total cash contribution of US\$640, in which US\$206 was paid in 2013. The Group shares dividends and undertakes risks and losses with Wasu Group in accordance with the Group’s respective percentages in the registered capital contribution of the Wasu Digital under PRC laws. There are five seats on the Board of Wasu Digital and the Group takes three of them. According to Wasu Digital’s Articles of Association, all actions require the approval of two-thirds of the directors. The Group has significant influence but does not have control over Wasu Digital. And accordingly the Group recorded it as an equity method investment. The Group recorded its shares of the (loss) earnings in Wasu Digital at US\$(183), US\$(98) and US\$3 for the years ended December 31, 2011, 2012, 2013.

In July 2011, the Group formed an entity named of Chunqiu Charm Culture Co., Ltd. (“Chunqiu Charm Culture”) with a third party, Beijing Chunqiu International Movie Culture Corporation, (“Chunqiu International”), to explore the film industry. The Group owned 51% equity interest with a total cash contribution of US\$79. The Group shares dividends and undertakes risks and losses with Chunqiu International in accordance with the Group’s respective shareholding percentages in the Chunqiu Charm Culture under PRC laws. There are seven seats on the Board of Chunqiu Charm Culture and the Group takes three of them. According to Chunqiu Charm Culture’s Articles of Association, all actions require the approval of a simple majority of the directors. The Company has significant influence but does not have control over Chunqiu Charm Culture. And accordingly the Group recorded it as an equity method investment. Chunqiu Charm Culture has not had any significant operations and was in operation loss during the period from July 2011 to December 31, 2012. The Group recorded its shares of the loss at US\$22, US\$59 and nil for the years ended December 31, 2011, 2012 and 2013.

On December 25, 2012, the Group formed an entity named of Guangdong Nanfang Media New Broadcast Co., Ltd. (“Nanfang Media”) with a third party, Guangdong Nanfang International Media Advertising Co., Ltd. (“Guangdong Nanfang”), to explore the broadcast industry. The Group owned 40% equity interest with a total cash contribution of US\$321. The Group shares dividends and undertakes risks and losses with Guangdong Nanfang in accordance with the Group’s respective percentages in the registered capital contribution of the Nanfang Media under PRC laws. There are five seats on the Board of Nanfang Media and the Group takes two of them. According to Nanfang Media’s Articles of Association, all actions require the approval of two-thirds of the directors. The Group has significant influence but does not have control over Nanfang Media. And accordingly the Group recorded it as an equity method investment. The Group recorded its shares of the loss in Nanfang Media at nil, nil and US\$12 for the years ended December 31, 2011, 2012 and 2013.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

8. EQUITY METHOD INVESTMENTS - continued

A summary of financial information for our equity method investees in aggregate is as follows:

	As of and for the year ended December 31,	
	2012	2013
Current assets	14,003	7,942
Non-current asset	392	501
Total assets	14,395	8,443
Current liabilities	10,656	3,655
Noncurrent liabilities	—	—
Total liabilities	10,656	3,655
Total equity	3,739	4,788

	As of and for the year ended December 31,		
	2011	2012	2013
Revenues	1,472	3,112	2,801
Cost of revenues	114	266	75
Gross profit	1,358	2,846	2,726
Operating income	219	993	249
Net income	137	793	150

9. COST METHOD INVESTMENTS

In June 2012, Charm Culture and other shareholders established Shanxi Jiuyuanji Culture Industry Investment Co., Ltd. (“Shanxi Jiuyuanji”). The Group owned 8.93% equity interest with a total cash contribution of RMB5 million (US\$803). Shanxi Jiuyuanji operates culture-related businesses and explores culture tourism market of Shanxi Province.

The Group uses the cost method of accounting to record its cost method investments since the Group does not have the ability to exercise significant influence over the operating and financing policies.

No impairment loss has been recognized by the Group during the years ended December 31, 2011, 2012 and 2013.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**10. ACCOUNTS PAYABLE**

Accounts payable consist of the following:

	December 31, 2012	December 31, 2013
Advertising agency business(1)	37,857	27,454
Media investment management business	998	1,062
	<u>38,855</u>	<u>28,516</u>

- (1) For advertising agency business, the Group records revenues and costs on a net basis and the related accounts receivable and payable amounts on a gross basis.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 31, 2012	December 31, 2013
Taxes payable	2,635	4,524
Deposits from customers	6,996	8,308
Accrued professional costs	1,210	1,897
Accrued staff expenses	5,866	5,323
Accrued selling expenses	995	664
Payable to employees related to option exercise(1)	4	682
Others	1,206	1,236
	<u>18,912</u>	<u>22,634</u>

- (1) Payable to employees related to option exercise represents the amounts of the proceeds from sale of ordinary shares in excess of exercise price upon the employees' option exercise, which are held by the Company and will be paid to employees.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**12. DIVIDENDS PAYABLE**

In February 2012, the board of directors of the Company approved to distribute a dividend of US\$0.16 per share, which is equivalent to US\$0.32 per American depositary share, in an aggregate amount of US\$12,556 out of the Company's additional paid-in capital to the shareholders including the holders of American Depositary Share. The dividend was paid in April 2012.

In March 2013, the board of directors of the Company approved to distribute a dividend of US\$0.25 per share, which is equivalent to US\$0.50 per American Depositary Share, in an aggregate amount of approximately US\$19,898 out of the Company's additional paid-in capital to the holders of American Depositary Shares. The dividend was paid in May 2013.

13. INCOME TAX EXPENSE

The current and deferred components of income tax expense (benefit) were as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Current	2,283	1,537	2,249
Deferred	(125)	(65)	(840)
Total income tax expense	<u>2,158</u>	<u>1,472</u>	<u>1,409</u>

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

13. INCOME TAX EXPENSE - continued

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands, the Group is not subject to income tax.

Hong Kong

The entities in Hong Kong are subject to 16.5% income tax rate. No Hong Kong income tax has been provided as the Group does not have assessable profits that are earned in or derived from Hong Kong for the years ended December 31, 2011, 2012 and 2013.

PRC

The Group's subsidiaries and VIEs 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.

Under the PRC Enterprise Income Tax Law ("the EIT Law") the standard income tax rate for domestic-invested and foreign-invested enterprises in the PRC is 25%.

The Group has two WFOEs and a VIE which are entitled to certain preferential tax rate.

NJTC, registered in Nanning, a city of the PRC, was granted to a two-year EIT exemption from its first profitable year, which is 2007 and 2008, followed by a 50% reduction of its applicable EIT rate for the succeeding three years. Therefore, it was subject to EIT rate of 12.5% for 2011, and 25% for 2012 and thereafter.

Qinghai, registered in Qinghai, a province of the PRC, was entitled to a two year EIT exemption from its first profitable year, which is 2009 and 2010, followed by a 50% reduction of its applicable EIT rate for the succeeding three years.

Charm Media, registered in Qinghai, a province of the PRC, was entitled to a two year EIT exemption from its first profitable year, which is 2011 and 2012, followed by a 50% reduction of its applicable EIT rate for the succeeding three years.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

13. INCOME TAX EXPENSE - continued

PRC - continued

Shang Xing, registered in Yunnan, was entitled to a two year EIT exemption from its first profitable year of 2011, followed by a 50% reduction of its applicable EIT rate for the succeeding three years.

The Group had minimal operations in jurisdictions other than the PRC.

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

	December 31, 2012	December 31, 2013
Deferred tax assets:		
Current		
Accrued payroll	476	470
Accrued expense	673	629
Allowance for doubtful accounts	827	840
Non-current		
Net operating loss	1,943	267
Intangible assets	21	18
Total deferred tax assets	3,940	2,224
Valuation allowance	(3,749)	(1,190)
Net deferred tax assets	191	1,034

Changes in the balances of valuation allowance on deferred tax assets are as follows:

	2011	2012	2013
Beginning balance as of January 1	—	456	3,749
Additional allowance	508	3,616	546
Reversal of allowance	—	(388)	(3,214)
Exchange difference	(52)	65	109
Ending balance as of December 31	456	3,749	1,190

The Group operates through subsidiaries and VIE entities and the valuation allowance is considered on each entity's basis. A valuation allowance of US\$3,749 and US\$1,190 was established as of December 31, 2012 and 2013, respectively. The Group believes that it is more likely than not that the related deferred tax assets will not be realized in the future.

CHARM COMMUNICATIONS INC.

A reconciliation of the income tax expense computed by applying the current tax rate to the income before income tax expense in the statements of operations is as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expected income tax expense at PRC EIT statutory rate of 25%	12,546	(251)	703
Non-deductible expenses	2,188	259	1,376
Effect of income tax rate differences in jurisdictions other than the PRC	1,184	1,141	1,227
Changes in valuation allowance	456	3,293	(1,530)
Effect of tax holiday inside PRC	<u>(14,216)</u>	<u>(2,970)</u>	<u>(367)</u>
Total income tax expense	<u>2,158</u>	<u>1,472</u>	<u>1,409</u>

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

13. INCOME TAX EXPENSE - continued

PRC - continued

If the tax holidays granted to Shang Xing, Charm Media and Qinghai were not available, income tax provision and earnings per share amounts would be as follows:

	Year ended December 31,		
	2011	2012	2013
Increase in income tax expense	14,216	2,970	367
(Reduction in net income) increase in net loss per share-basic	(0.18)	0.04	0.01
(Reduction in net income) increase in net loss per share-diluted	(0.17)	0.04	0.01

Aggregate undistributed earnings of the Company's VIEs and its VIEs' subsidiaries located in the PRC that are available for distribution to the Company were approximately US\$2,306 as of December 31, 2013. The Group did not record any deferred tax liability attributable to the undistributed earnings of its financial interest in VIEs because the Group believes such excess earnings can be distributed in a tax-free manner using a means permitted under the PRC tax law and expects that it will ultimately use that means.

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. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within the PRC. On April 22, 2009, the State Administration of Taxation (the "SAT") issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, on August 3, 2011, the SAT issued a bulletin to made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. The Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. However, 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 taxes, at a rate of 25%.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

13. INCOME TAX EXPENSE - continued

PRC - continued

If any entity within the Group that is outside the PRC were to be a non-resident for PRC tax purposes dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with the PRC. Aggregate undistributed earnings of the Company's subsidiaries located in the PRC that are available for distribution were US\$129,771 at December, 2013 and 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 any entity within the Group that is outside the PRC.

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2011, 2012 and 2013. The Group did not incur any interest and penalties related to potential underpaid income tax expenses and also believed that the adoption of pronouncement issued by FASB regarding accounting for uncertainty in income taxes did not have a significant impact on the unrecognized tax benefits within the next 12 months from December 31, 2013.

Since January 1, 2008, the relevant tax authorities of the Group's subsidiaries have not conducted a tax examination on Charm Media, Shang Xing, and Charm Culture. In accordance with relevant PRC tax administration laws, tax years from 2009 to 2013 of the Group's PRC subsidiaries and VIEs remain subject to tax audits as of December 31, 2013, at the tax authority's discretion.

14. FAIR VALUE MEASUREMENTS

Measured on recurring basis

The Group's financial instrument measured at fair value on a recurring basis is related to the contingent consideration in connection with the acquisition of Clickpro, as presented in the following table (note 3).

	Liabilities at carrying values	Total fair value	Active market for identical liabilities (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of December 31, 2012					
Liabilities-Contingent acquisition consideration payable	2,708	2,708	—	—	2,708
	Liabilities at carrying values	Total fair value	Active market for identical liabilities (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As of December 31, 2013					
Liabilities-Contingent acquisition consideration payable	\$ 2,266	\$2,266	—	—	\$ 2,266

The Group measured the fair value of contingent consideration as of December 31, 2013 using the income approach based on the scenario-based projections relevant to revenue and net income, which required the use of unobservable inputs including assumptions of projected revenue, cost, operating expenses, and other expenses, as well as a discount rate calculated based on average cost of equity of internet advertising industry.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

14. FAIR VALUE MEASUREMENTS - continued

Measured at fair value on a non-recurring basis

The Group measured the call option acquired with the acquisition of Clickpro at fair value on a nonrecurring basis when it wrote down the carrying amounts to fair value as a result of the impairment assessments. The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management estimation on the future performance of the investees and the recoverability of the investment.

15. NET INCOME PER SHARE

Basic net income per share and diluted net income per share have been calculated as follows:

	2011	2012	2013
Net income (loss) attributable to ordinary shareholders for computing basic and diluted net income per ordinary share	46,147	(4,705)	396
Denominator:			
Weighted average ordinary shares outstanding used in computing basic net income (loss) per share	78,266,839	77,498,250	79,871,761
Employee stock options (treasury effect)	3,846,926	—	767,745
Number of ordinary shares outstanding used in computing diluted net income (loss) per share	82,113,765	77,498,250	80,639,506
Net income (loss) per share - basic	0.59	(0.06)	0.00
Net income (loss) per share - diluted	0.56	(0.06)	0.00

A total of nil, 2,350,418 and 1,321,785 employee stock option and nonvested shares have been excluded from the dilutive share calculation for the year ended December 31, 2011, 2012 and 2013, respectively, as their effect was anti-dilutive.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

16. ORDINARY SHARES

The Company's Memorandum and Articles of Association, as amended in April 9, 2010, authorizes the Company to issue 205,000,000 ordinary shares with a nominal or par value of \$0.0001 each and comprising of (a) 122,500,000 Class A ordinary shares and (b) 82,500,000 Class B ordinary shares. Upon the completion of the IPO, all of the Company's ordinary shares held prior to the completion of the IPO and ordinary shares issued upon the exercise of options granted under the 2008 share incentive plan were designed into Class B ordinary shares, which are entitled to five votes per share, and ordinary shares issued upon or after the completion of the IPO are designated into Class A ordinary shares which are entitled to one vote per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Holders of Class A and Class B ordinary shares have the same rights except for voting and conversion rights.

On September 14, 2011, the Board of Directors authorized the repurchase of up to US\$10 million of the ordinary shares. During fiscal year 2011 the Company has repurchased 432,650 Class A ordinary shares from the market at an average price of US\$8.8 per share for a total of US\$1,906. During fiscal year 2012 the Company has repurchased 2,041,836 Class A ordinary shares from the market at an average price of US\$7.33 per share for a total of US\$5,825. Such repurchased shares were immediately cancelled and were accounted for as a reduction in additional paid-in capital.

On November 30, 2011, the Board of Directors increased the authorized number of Class A ordinary shares of the Company by 2,000,000, par value US\$0.0001 per share, for future grants of options, restricted shares or restricted share units.

As of December 31, 2012 and 2013, there are 124,500,000 Class A ordinary shares and 82,500,000 Class B ordinary shares authorized, respectively.

As of December 31, 2012, there are 14,169,573 Class A ordinary shares and 62,500,000 Class B ordinary shares outstanding. As of December 31, 2013, there are 18,901,128 Class A ordinary shares and 62,500,000 Class B ordinary shares outstanding.

CHARM COMMUNICATIONS INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued**
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**17. STOCK BASED COMPENSATION**

On April 1, 2008, the Group adopted the 2008 share incentive plan ("2008 Plan") which allows the Group to offer a variety of incentive awards to directors, employees and consultants. The Group has reserved 7,500,000 ordinary shares for issuance under the 2008 Plan. Out of these 7,500,000 shares, 6,955,273 shares had been issued to the employees upon exercise of their share options as of December 31, 2013. 544,727 shares remain available for future issuances, which were not considered as outstanding shares as of December 31, 2013, and therefore were excluded from the computation of earnings per share.

On December 30, 2011, the Group adopted the 2011 share incentive plan ("2011 Plan") which allows the Group to offer a variety of incentive awards to directors, employees and consultants. On February 20, 2012, the Group reserved 2,000,000 ordinary shares under the 2011 Plan. Out of these 2,000,000 shares, 28,668 shares had been issued to the employees upon exercise of their share options as of December 31, 2013. 1,971,332 shares remain available for future issuances.

Stock Option2013 modification

The Company's board of directors approved to amend the terms of certain stock options granted to employees and directors in April, 2013. The amendments included: (i) for 917,958 outstanding options granted to 28 employees, the contract term were extended from 5 years to 10 years; (ii) for 930,000 outstanding options that were granted to the five individuals including employees and directors, the exercise price of 625,000 options was reduced from a range of \$3.4 or \$3.15 per share to nil per share, with the other 305,000 options being cancelled. The amendments did not change the vesting provisions.

The modification resulted in a total incremental share-based compensation of \$1.3 million, of which \$0.7 million was recognized in the year ended December 31, 2013 and the remaining is recognized ratably over the remaining vesting period of the award.

The fair value of share options after the modification in 2013 was ranged from US\$0.66 to US\$2.60 per share. Management used Black-Scholes option pricing model to estimate the fair value of options immediately before the modification and on the modification date with the following assumptions:

	2013
Expected volatility	0.691~0.872
Risk-free interest rate	0.48%~0.79%
Expected dividend yield	0%
Expected term (in years)	1.01~2.71
Fair value of underlying ordinary share	US\$5.20

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

17. STOCK BASED COMPENSATION - continued

(1) Volatility

The volatility of the underlying ordinary shares during the expected term of the options was estimated based on the historical stock price volatility of the Company and comparable listed companies over a period comparable to the expected term of the options.

(2) Risk-free interest rate

Risk-free interest rate was estimated based on the yield of international government bonds of China with a maturity period similar to the expected term of the options.

(3) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(4) Expected term

The expected term were estimated based on the vesting and contractual terms, employee demographics and the expected term of the similar companies.

(5) Fair value of underlying ordinary shares

When estimating the fair value, the closing market price of the ordinary shares of the Company as of the modification date was used as the fair value of the ordinary shares on that date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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17. STOCK BASED COMPENSATION - continued

Stock Option - continued

The following table summarizes the Company's share option activity as of and for the year ended December 31, 2013:

	Number of options	Weighted average exercise price US\$	Weighted average grant-date fair value US\$	Weighted average remaining contractual life (Years)	Aggregate intrinsic value US\$
Outstanding as of January 1, 2013	5,639,571	1.55	1.63	0.54	4,422
Granted	1,542,958	0.59	1.56		
Exercised	4,249,430	1.18	1.53		
Forfeited	485,865	3.31	1.88		
Cancelled	1,847,958	2.20	1.81		
Outstanding as of December 31, 2013	599,276	1.64	1.72	3.08	522
Vested and expected to vest at December 31, 2013	598,638	1.64	1.72	3.09	522
Exercisable at December 31, 2013	571,689	1.62	1.69	3.17	297

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes information about stock options outstanding for the year ended December 31, 2013:

Exercise prices	Options Outstanding			Options Exercisable		
	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual life (years)
0.00	41,633	0.00	1.26	31,200	0.00	1.25
1.00	379,874	1.00	4.27	379,801	1.00	4.27
3.40	177,769	3.40	0.99	160,688	3.40	0.96
	599,276	1.64	3.08	571,689	1.62	3.17

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

17. STOCK BASED COMPENSATION - continued

Stock Option - continued

As of December 31, 2013, there was US\$231 of total unrecognized compensation cost related to unvested share options. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 0.41 years.

For the years ended December 31, 2011, 2012 and 2013, the aggregate intrinsic value of options exercised under the Company's stock option plans were US\$407, US\$315 and US\$4,090, respectively, determined as of the date of option exercise.

Nonvested Shares

In 2011, 2012 and 2013, the Company granted 372,000, 190,668 and 800,000 nonvested shares to employees and consultants, respectively. The vesting periods of the nonvested shares under the plan were determined based on individual share agreements. Generally nonvested shares vest over two or four years. Out of nonvested shares granted, the vesting of 250,000 shares is subject to certain performance conditions, which are consistent with the terms for stock options. The total fair value of shares vested during the year ended December 31, 2011, 2012 and 2013 was nil, US\$1,767 and US\$1,773, respectively. As of December 31, 2013, there was US\$1,982 of total unrecognized compensation cost related to nonvested shares. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.55 years.

The following table summarizes the nonvested shares activity for the year ended December 31, 2013:

	Number of Shares	Weighted average grant date fair value	Aggregate intrinsic value
Nonvested stock as of January 1, 2013	635,250	4.86	1,999
Granted	800,000	2.60	
Vested	(482,125)	3.68	
Forfeited	(294,000)	4.81	
Nonvested stock as of December 31, 2013	659,125	3.01	1,411
Nonvested stock vested and expected to vest at December 31, 2013	461,387	3.01	987

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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17. STOCK BASED COMPENSATION - continued

Nonvested Shares - continued

The following table shows total stock-based compensation expense included in the consolidated statements of operations for the year ended December 31, 2011, 2012 and 2013:

	2011	2012	2013
Cost of revenue	4	1	—
Selling and marketing expenses	1,979	1,505	1,905
General and administrative expenses	1,086	707	1,086
Total	<u>3,069</u>	<u>2,213</u>	<u>2,991</u>

18. PRC CONTRIBUTION PLAN

The Group's full time employees in the PRC participate in a government-mandated defined contribution plan pursuant to which certain 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' salaries. The total contribution for such employee benefits for the years ended December 31, 2011, 2012 and 2013 were US\$2,575, US\$3,398 and US\$4,439, respectively.

19. Noncontrolling interest

	Vizeum	Beijing Guozhi	Total
Balance as of December 31, 2011	2,449	—	2,449
Injection of a noncontrolling shareholder(1)	—	240	240
Net income	1,686	(168)	1,518
Balance as of December 31, 2012	4,135	72	4,207
Foreign currency translation adjustment	250	3	253
Purchase of noncontrolling interest	—	115	115
Net income	975	(269)	706
Balance as of December 31, 2013	<u>5,360</u>	<u>(79)</u>	<u>5,281</u>

- (1) On September 14, 2012, Beijing Guozhi was established with a 70% interest held by Charm Media for the purpose of expanding its tourism advertising businesses. The remaining 30% interest held by other shareholders was recorded as noncontrolling interest in the consolidated financial statements. In September 2013, the Group purchased additional 20% equity interest of Beijing Guozhi from its noncontrolling interest holder, Beijing Davost, with cash of US\$163, which was accounted for as an equity transaction with no gain or loss recognized. As of December 31, 2013, the Group held 90% of the equity interest of Beijing Guozhi.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)**20. COMMITMENTS****(a) Lease commitments**

The Group has entered into certain leasing arrangements relating to the lease of office premises. Rental expenses under operating leases for the years ended December 31, 2011, 2012 and 2013 were US\$3,094, US\$4,165 and US\$4,066, respectively. The Group recognizes rent expenses under such arrangements on a straight-line basis over the term of the lease.

As of December 31, 2013, the Group was obligated under operating leases, which relate to office premises, requiring minimum lease payments as follows:

Years ended December 31,	
2014	2,412
2015	1,890
2016	1,059
Thereafter	705
	<u>6,066</u>

(b) Purchase commitments

The Group entered into agreements with certain television stations to purchase advertising time. As of December 31, 2013, under these agreements, the Group is contractually obligated to make total minimum payments of US\$106,489 and US\$38,055 for the years ending December 31, 2014 and 2015, respectively.

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

21. SEGMENT AND GEOGRAPHIC INFORMATION

Segment information

The Group's 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. The Group uses the management approach to determine the operating segments. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker for making decisions, allocating resources and assessing the performance. The Group has three operating segments and determined that these three operating segments for the years ended December 31, 2011, 2012 and 2013 are media investment management, advertising agency, and branding and identity services.

The Group's chief operating decision maker does not assign assets to these segments. Consequently, it is not practical to show assets by reportable segments.

The following table presents selected financial information relating to the Group's segments:

Year ended December 31, 2013:

	Media Investment Management	Advertising Agency	Branding and Identity Services	Consolidated
Revenues	128,436	50,356	5,011	183,803
Cost of revenues	117,578	4,243	3,765	125,586
Gross profit	10,858	46,113	1,246	58,217
Unallocated operating expenses				55,952
Unallocated non-operating income, net				545
Income before income tax expense				2,810

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

21. SEGMENT AND GEOGRAPHIC INFORMATION - continued

Segment information - continued

Year ended December 31, 2012:

	Media Investment Management	Advertising Agency	Branding and Identity Services	Consolidated
Revenues	112,786	46,234	6,478	165,498
Cost of revenues	107,976	4,864	4,303	117,143
Gross profit	4,810	41,370	2,175	48,355
Unallocated operating expenses				52,260
Unallocated non-operating income, net				2,901
Income before income tax expense				(1,004)

Year ended December 31, 2011:

	Media Investment Management	Advertising Agency	Branding and Identity Services	Consolidated
Revenues	238,837	34,285	7,016	280,138
Cost of revenues	187,878	3,737	4,015	195,630
Gross profit	50,959	30,548	3,001	84,508
Unallocated operating expenses				36,823
Unallocated non-operating income, net				2,499
Loss before income tax expense				50,184

Geographical information

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

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

22. RELATED PARTY TRANSACTIONS

Advertising service

During the year 2012 and 2013, the Group received or provided certain advertising service to the Group's subsidiary's noncontrolling interest holders' group companies and equity investment investees, and paid or received cash accordingly.

Such transactions are related to the advertising agency business and hence the corresponding provision of advertising services is recognized in the revenues under advertising agency on a net basis in the consolidated statements of operations.

Revenue from the related parties recognized in the consolidated financial statements and the corresponding payments received from the related parties for the year ended December 31, 2011, 2012 and 2013 are as follows:

	2011	2012	2013
Revenue from related parties			
Chongqing Changhui (Equity method investee)	1,107	114	407
Aegis Media (Noncontrolling interest holder of Vizeum)	5,841	6,923	7,778
Wasu Digital (Equity method investee)	—	477	—
Total	6,948	7,514	8,185
Receipts of payments from related parties			
Chongqing Changhui (Equity method investee)	5,626	8,114	8,321
Aegis Media (Noncontrolling interest holder of Vizeum)	3,257	28,867	20,355
Wasu Digital (Equity method investee)	—	76	—
Total	8,883	37,057	28,676

In respect of the purchase of advertising services, the payments made to the related parties for the purchase of advertising services for the year ended December 31, 2011, 2012 and 2013 are as follows:

	2011	2012	2013
Aegis Media (Noncontrolling interest holder of Vizeum)	5,109	21,615	3,748
Wasu Digital (Equity method investee)	385	43	378
Total	5,494	21,658	4,126

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

22. RELATED PARTY TRANSACTIONS - continued

Rental expenses

The Group leased office space and cars from the Company's controlling shareholder and his family member. The rental amount was determined based on market prices. Rental expenses for the years ended December 31, 2011, 2012 and 2013 were US\$853, nil and US\$198 respectively.

Other Transactions

During the year 2011, the Group received a deposit of US\$159 from Chongqing Changhui, which acted as an agent of customers placing advertisement through the Group.

In 2011, the Group also received injection of capital of US\$162, for an entity to be established, from Mr. Zhu Hong Gang, who is the noncontrolling interest holder of Clickpro and the management responsible for Clickpro's business.

Staff cost and the royalty fee of Vizeum paid by Aegis Media during the years of 2011, 2012 and 2013, were US\$799, US\$1,191 and 1,277, respectively.

The related party balances as of December 31, 2012 and 2013 were US\$1,938 and US\$3,480 in amount due from related parties and US\$13,310 and US\$9,144 in amount due to related parties mostly in connection with the advertising services provided to or received from the following related parties, respectively. The balances with related parties were due within one year.

	December 31, 2012	December 31, 2013
Amount due from related parties		
Mr. Zhu Hong Gang (shareholder)	—	121
Aegis Media (Noncontrolling interest holder of Vizeum)	571	2,797
Chongqing Changhui (Equity method investee)	1,133	320
Wasu Digital (Equity method investee)	154	159
Mr. Fu Rao (shareholder)	80	83
Total	1,938	3,480
	December 31, 2012	December 31, 2013
Amount due to related parties		
Wasu Digital(Equity method investee)	751	524
Mr. Zhu Hong Gang(shareholder)	164	168
Aegis Media (Noncontrolling interest holder of Vizeum)	12,226	8,439
Chongqing Changhui (Equity method investee)	169	13
Total	13,310	9,144

CHARM COMMUNICATIONS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
(Amounts in thousands of U.S. dollars, except for number of shares and per share data)

23. STATUTORY RESERVE

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's subsidiary being foreign-invested enterprises established in China, is required to provide for certain statutory reserves, namely general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. They are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the PRC Company Laws, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely statutory surplus fund, statutory public welfare fund and discretionary surplus fund. They are required to allocate at least 10% of their after-tax profits to the statutory surplus fund until such fund has reached 50% of their respective registered capital. Appropriation to other surplus funds is made at the discretion of the Company's VIEs and its subsidiaries.

General reserve fund and statutory surplus fund are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare fund are restricted to the capital expenditures for the collective welfare of employees. These reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation. The company provided US\$4,978, US\$988 and US\$632 statutory reserve for the years ended December 31, 2011, 2012 and 2013.

24. RESTRICTED NET ASSETS

Under PRC laws and regulations, there are certain restrictions on the Company's PRC subsidiary and VIEs with respect to transferring certain of their net assets either in the form of dividends, loans, or advances. Amounts restricted include paid-in capital and statutory reserves of the Company's PRC subsidiary, VIEs and their wholly owned subsidiaries, totaling approximately US\$79,677 and US\$77,913 as of December 31, 2012 and 2013, respectively. Therefore, the Financial Statement Schedule I - Condensed financial information of the Company is included with the consolidated financial statements.

CHARM COMMUNICATIONS INC.

**ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF THE COMPANY
BALANCE SHEETS**

	December 31, 2012	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	2,227	14,564
Due from subsidiaries	67,175	37,600
Investment in subsidiaries and variable interest entities	147,535	158,933
Other current assets	1,206	461
Total current assets	218,143	211,558
Non-current asset:		
Other non-current asset	357	1,593
Total non-current asset	357	1,593
TOTAL ASSETS	218,500	213,151
LIABILITIES AND EQUITY		
Current Liabilities:		
Accrued expenses and other current liabilities	765	1,314
Total liabilities	765	1,314
Equity		
Charm Communications Inc.'s Equity		
Ordinary shares (US\$0.0001 par value per share; 207,000,000 and 207,000,000 shares authorized; 76,669,573 and 81,401,128 shares issued and outstanding as of December 31, 2012 and December 31, 2013, respectively)	8	8
Additional paid-in capital	100,850	87,597
Retained earnings	101,225	101,621
Accumulated other comprehensive income	15,652	22,611
Total Equity	217,735	211,837
TOTAL LIABILITIES AND EQUITY	218,500	213,151

CHARM COMMUNICATIONS INC.**ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF THE COMPANY
STATEMENTS OF OPERATIONS**

	Years ended December 31		
	2011	2012	2013
Total operating expenses	(5,110)	(4,706)	(5,990)
Operating loss	(5,110)	(4,706)	(5,990)
Equity in profit of subsidiaries and variable interest entities	50,863	(115)	6,333
Interest income	394	116	53
Net income (loss)	<u>46,147</u>	<u>(4,705)</u>	<u>396</u>

CHARM COMMUNICATIONS INC.**ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF THE COMPANY
STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net income (loss)	46,147	(4,705)	396
Other comprehensive income, net of tax of nil			
Foreign currency translation adjustments	9,065	2,268	6,959
Comprehensive income (loss)	55,212	(2,437)	7,355
Comprehensive income (loss) attributable to Charm Communications Inc.'s ordinary shareholders	<u>55,212</u>	<u>(2,437)</u>	<u>7,355</u>

CHARM COMMUNICATIONS INC.

ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE 1
CONDENSED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands of U.S. dollars (“US\$”), except for number of shares)

	Charm Communications Inc.'s shareholders						
	Ordinary shares		Additional paid-in capital	Statutory reserve	Retained earnings	Accumulated other comprehensive income	Total Charm Communications Inc.'s shareholders' equity
	Number	Amount					
Balance at December 31, 2010	<u>78,260,102</u>	<u>8</u>	<u>115,288</u>	<u>3,047</u>	<u>56,736</u>	<u>4,319</u>	<u>179,398</u>
Cumulative translation adjustment	—	—	—	—	—	9,065	9,065
Net income	—	—	—	—	46,147	—	46,147
Repurchase of ordinary shares	(432,650)	—	(1,906)	—	—	—	(1,906)
Share-based compensation	—	—	3,069	—	—	—	3,069
Exercise of options	138,724	—	186	—	—	—	186
Provision of statutory reserve	—	—	—	4,978	(4,978)	—	—
Balance at December 31, 2011	<u>77,966,176</u>	<u>8</u>	<u>116,637</u>	<u>8,025</u>	<u>97,905</u>	<u>13,384</u>	<u>235,959</u>
Cumulative translation adjustment	—	—	—	—	—	2,268	2,268
Net income (loss)	—	—	—	—	(4,705)	—	(4,705)
Repurchase of ordinary shares	(2,041,836)	—	(5,825)	—	—	—	(5,825)
Share-based compensation	—	—	2,213	—	—	—	2,213
Vesting of restricted shares	403,793	—	—	—	—	—	—
Exercise of options	341,440	—	381	—	—	—	381
Dividend (Note 12)	—	—	(12,556)	—	—	—	(12,556)
Provision of statutory reserve	—	—	—	988	(988)	—	—
Balance at December 31, 2012	<u>76,669,573</u>	<u>8</u>	<u>100,850</u>	<u>9,013</u>	<u>92,212</u>	<u>15,652</u>	<u>217,735</u>
Cumulative translation adjustment	—	—	—	—	—	6,959	6,959
Net income (loss)	—	—	—	—	396	—	396
Purchase of noncontrolling interest	—	—	(278)	—	—	—	(278)
Share-based compensation	—	—	2,991	—	—	—	2,991
Vesting of restricted shares	482,125	—	—	—	—	—	—
Exercise of options	4,249,430	—	3,932	—	—	—	3,932
Dividend (Note 12)	—	—	(19,898)	—	—	—	(19,898)
Provision of statutory reserve	—	—	—	632	(632)	—	—
Balance at December 31, 2013	<u>81,401,128</u>	<u>8</u>	<u>87,597</u>	<u>9,645</u>	<u>91,976</u>	<u>22,611</u>	<u>211,837</u>

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

CHARM COMMUNICATIONS INC.

**ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE 1
CONDENSED FINANCIAL INFORMATION OF THE COMPANY
CASH FLOW STATEMENTS**

	Years ended December 31		
	2011	2012	2013
Cash flows from operating activities			
Net income	46,147	(4,705)	396
Adjustments to reconcile net income to net cash used in operating activities:			
Equity income from subsidiaries and variable interest entities	(50,863)	115	(6,333)
Share-based compensation cost	3,069	2,214	2,991
Changes in operating assets and liabilities:			
Due from subsidiaries	(7,231)	7,292	31,191
Other current assets	83	1,064	745
Other non-current asset	—	(357)	549
Accrued expenses and other current liabilities	136	(509)	(1,236)
Net cash used in operating activities	(8,659)	5,114	28,303
Cash flows from financing activities			
Proceeds from option exercise	186	381	3,932
Repurchase of ordinary shares	(1,906)	(5,825)	—
Payments of dividend	—	(12,556)	(19,898)
Net cash provided by (used in) financing activities	(1,720)	(18,000)	(15,966)
Net increase (decrease) in cash and cash equivalents	(10,379)	(12,886)	12,337
Cash and cash equivalents at the beginning of the year	25,492	15,113	2,227
Cash and cash equivalents at the end of the year	15,113	2,227	14,564

Basis of presentation

The condensed financial information of the Company has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the Company used the equity method to account for investments in its subsidiaries and variable interest entities.

The Company records its investment in its subsidiaries and variable interest entities under the equity method of accounting. Such investment is presented on the balance sheet as "Investment in subsidiaries and variable interest entities" and share of their profit as "Equity in profit of subsidiaries and variable interest entities" on the statements of operations and comprehensive income (loss).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted.

THIS DEED OF UNDERTAKING (the “**Deed**”) is dated December 26, 2013 and issued by:
Dang He, with PRC ID card number.

To

Charm Communications Inc. (the “Company”).

THIS DEED WITNESSES THAT:

1. By signing this Deed, unless otherwise specified in this Deed, Dang He hereby irrevocably covenants with and undertakes to the Company that:
 - a. As long as the shares in the Company Dang He owns, whether legally or beneficially, and directly or indirectly (including shares held through Dang He’s personal holding company, or any other company, trust, nominee or agent, if any), represent more than 50% of the aggregate voting power of the then total issued and outstanding shares of the Company,
 - i. Dang He shall not and will not, directly or indirectly, (i) requisition or call any meeting of the Company’s shareholders for the purpose of removing or replacing any of the directors of the Company or appointing any new director of the Company, or (ii) propose any resolution at any meeting of the Company’s shareholders to remove or replace any of the directors of the Company or appoint any new director of the Company; and
 - ii. Should any meeting of the Company’s shareholders be called by the board of directors or requisitioned or called by other shareholders of the Company for the purpose of removing or replacing any of the directors or appointing any new director, or if any resolution is proposed at any meeting of the Company’s shareholders to remove or replace any of the directors or appoint any new director, Dang He shall not and will not, in his capacity as a shareholder of the Company, exercise his voting rights attaching to his shares in excess of (i) the total aggregate voting power of the then total issued and outstanding shares of the Company held by all members of the Company less the shares which are owned, whether legally or beneficially, and directly or indirectly by Dang He (including shares held through Dang He’s personal holding company, or any other company, trust, nominee or agent, if any), less (ii) one vote.

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- b. Dang He shall not and will not cast any votes he has as a director or shareholder (if applicable) on any resolutions or matters concerning enforcing, amending or otherwise relating this Deed being considered or voted upon by the board of directors or the shareholders, as the case may be.
2. This Deed shall apply to any and all periods during which Dang He beneficially owns, whether directly or indirectly (including shares held through his personal holding company, or any other company, trust, nominee or agent, if any), shares representing more than 50% of the aggregate voting power of the then total issued and outstanding shares of the Company.
3. This Deed shall be irrevocable, whether in whole or in part; provided, however, this Deed shall become revocable, in whole or in part, in the event the Company's securities are no longer traded on an internationally recognized securities exchange.
4. Dang He acknowledges and agrees that the Company will be irreparably damaged in the event any of the provisions of this Deed are not performed by Dang He in accordance with their specific terms or are otherwise breached. Accordingly, Dang He acknowledges and agrees that the Company shall be entitled to an injunction to prevent breaches of this Deed, and to specific enforcement of this Deed and its terms and provisions in accordance with Sections 6 and 7 hereof, in addition to any other remedy to which the Company may be entitled at law or in equity.
5. The parties acknowledge and agree that this Deed shall become effective immediately upon execution by the parties hereto, and no notifications, registration or filing to or with any person (including any government authority or regulatory body in the Cayman Islands, the PRC, the US, or elsewhere, or any shareholder or other person connected with the Company) is required.
6. This Deed shall be governed by and construed in accordance with the laws of Cayman Islands.

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7. Any dispute, controversy or claim arising out of, in connection with or relating to this Deed, including the interpretation, validity, invalidity, breach or termination thereof (the "Dispute"), shall be settled by arbitration. The following shall apply in connection the dispute resolution:
- a. The arbitration shall be submitted to the International Chamber of Commerce (the "ICC") and conducted in Hong Kong Special Administrative Region of the PRC under the ICC Arbitration Rules in force when the Notice of Arbitration is submitted in accordance with the said Rules. The number of arbitrators shall be three. The arbitration shall be conducted in the English language. The costs of arbitration shall be borne by the losing party, unless otherwise determined by the arbitration tribunal.
 - b. When any dispute occurs and when any dispute is under arbitration, except for the matters in dispute, the parties hereto shall continue to fulfill their respective obligations and shall be entitled to exercise their rights under this Deed.
 - c. The award of the arbitration tribunal shall be final and binding upon the parties, and the prevailing party may apply to any court of competent jurisdictions for enforcement of such award.
 - d. Regardless of the foregoing, each party hereto agrees that the other party hereto shall have the right, in addition to any other rights it may have, to seek specific performance and/or injunctive relief from any court of competent jurisdiction pending the foregoing.
8. This Deed is written in English and Chinese. Should there be any discrepancies between the English version and the Chinese version, the English version shall prevail.
9. **IN WITNESS WHEREOF** this Deed has been duly executed as a deed by Dang He and the Company and is intended to be and is hereby delivered on the day and year first above written.

EXECUTED AS A DEED

/s/ Dang He
Dang He

Witness

/s/ Cindy Wang
Name Cindy Wang, VP of Finance
Address CN01, Legend Town, No. 1 Ba Li Zhuang Dong Li,
Chaoyang District, Beijing, 100025

LIST OF SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT

Wholly Owned Subsidiaries:

- Movie-Forward Ltd. (incorporated in the British Virgin Islands)
- Charm Hong Kong Limited (incorporated in Hong Kong)
- Nanning Jetlong Technology Co., Ltd. (incorporated in the PRC)
- Media Talent International Limited (incorporated in the British Virgin Islands)
- O'Master Communications (Hong Kong) Ltd. (incorporated in Hong Kong)
- Charm Media Co., Ltd. (incorporated in the PRC)
- Shang Xing Media Co., Ltd. (incorporated in the PRC)
- Media Port Holdings Limited (incorporated in the British Virgin Islands)
- Best Ranking Limited (incorporated in the British Virgin Islands)
- Charm New Media (Hong Kong) Ltd. (incorporated in Hong Kong)
- Charm Future Media (Hong Kong) Ltd. (incorporated in Hong Kong)
- Charm Electronic Media (Hong Kong) Ltd. (incorporated in Hong Kong)
- Charm Digital Media (Hong Kong) Ltd. (incorporated in Hong Kong)
- Beijing Hongtu Zhuoyue Advertising Co., Ltd. (incorporated in the PRC)
- Tianjin Youshida Culture Co., Ltd.
- Shang Xing Investments (Beijing) Co., Ltd.

Partially Owned Subsidiaries:

- Posterscope (Hong Kong) Ltd. (incorporated in Hong Kong)
- Beijing Vizeum Advertising Co., Ltd. (incorporated in the PRC)
- CharmClick Inc. (incorporated in Cayman Islands)
- Neudior Corporation Limited (incorporated in Hong Kong)
- Beijing Guozhi Travel & Culture Co., Ltd. (incorporated in the PRC)
- Chongqing Changhui Culture Co., Ltd. (incorporated in the PRC)
- Guangdong Nanfang Media New Broadcast Co., Ltd. (incorporated in the PRC)
- Jiangsu Heli Charm Advertising Media Co., Ltd

Variable interest entities, each of which is incorporated in the PRC:

- Shidai Charm Advertising Co., Ltd.
- Qinghai Charm Advertising Co., Ltd.
- Beijing Charm Culture Co., Ltd.
- Wasu Digital Co., Ltd.
- Chunqiu Charm Culture Co., Ltd.

CERTIFICATION OF OUR CHIEF EXECUTIVE OFFICER

I, He Dang, certify that:

1. I have reviewed this annual report on Form 20-F of Charm Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) *Intentionally Omitted*;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: May 15, 2014

By: /s/ HE DANG
Name: He Dang
Title: Chief Executive Officer

CERTIFICATION OF OUR CHIEF FINANCIAL OFFICER

I, Cindy Wang, certify that:

1. I have reviewed this annual report on Form 20-F of Charm Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) *Intentionally Omitted*;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls over financial reporting.

Date: May 15, 2014

By: /s/ Cindy Wang
Name: Cindy Wang
Title: VP of Finance

CERTIFICATION OF PERIODIC FINANCIAL REPORT
Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of Charm Communications Inc. on Form 20-F for the year ended December 31, 2013 as filed with the SEC on the date hereof, I, He Dang, the Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: May 15, 2014

By: /s/ HE DANG

Name: He Dang

Title: Chief Executive Officer

* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the company and will be retained by the company and furnished to the SEC or its staff upon request.

CERTIFICATION OF PERIODIC FINANCIAL REPORT
Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of Charm Communications Inc. on Form 20-F for the year ended December 31, 2013 as filed with the SEC on the date hereof, I, Cindy Wang, the VP of Finance of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: May 15, 2014

By: /s/ CINDY WANG

Name: Cindy Wang

Title: VP of Finance

* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the company and will be retained by the company and furnished to the SEC or its staff upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-170504 on Form S-8 of our report dated May 15, 2014, relating to the consolidated financial statements of Charm Communications Inc., its subsidiaries and its variable interest entities (collectively, the “Group”) and related financial statement schedule of Charm Communications Inc., and of our report dated May 15, 2014 relating to the Group’s internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of a material weakness), appearing in the Annual Report on Form 20-F of Charm Communications Inc. for the year ended December 31, 2013.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People’s Republic of China

May 15, 2014

