

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2016

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____.

Commission file number: 001-33765

AIRMEDIA GROUP INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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Dongcheng District, Beijing 100027
The People's Republic of China
(Address of principal executive offices)**

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

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

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

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

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

None
(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2016, 125,629,779 ordinary shares, par value US\$0.001 per share, were outstanding.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Emerging growth company

If an emerging growth company that prepare its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†]The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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

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

AIRMEDIA GROUP INC.

Annual Report on Form 20-F

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INTRODUCTION

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

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

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

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain Renminbi figures in this annual report are translated into U.S. dollars solely for the reader’s convenience. Unless otherwise noted, all convenience translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB6.9430 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2016. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rate stated above, or at all.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made under the “safe harbor provisions” of the U.S. Private Securities Litigation Reform Act of 1995.

You can identify these forward-looking statements by words or phrases such as “may”, “will”, “expect”, “anticipate”, “aim”, “estimate”, “intend”, “plan”, “believe”, “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include but are not limited to:

- our growth strategies;
- our future business development, results of operations and financial condition, including the prospect of our new Wi-Fi business;
- our plans to expand our travel advertising network, including the expansion of our network to travel Wi-Fi platforms;
- competition in the advertising industry and in particular, the travel advertising industry in China;

- the expected growth in consumer spending, average income levels and advertising spending levels;
- the growth of the air, train and long-haul bus travel sectors in China; and
- PRC governmental policies relating to the advertising industry.

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Selected Consolidated Financial Data

The following table represents our selected consolidated financial information. The selected consolidated statements of operations data for the years ended December 31, 2014, 2015 and 2016 and the consolidated balance sheet data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements, which are included in this annual report. The selected consolidated statements of operations data for the years ended December 31, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012, 2013 and 2014, except for the impact of retrospective adjustments for the deconsolidation of our media business in airports (excluding digital TV screens in airports and TV-attached digital frames) and all billboard and LED media business outside of airports (excluding gas station media network and digital TV screens on airplanes), all of which have been classified as discontinued operations, have been derived from our financial statements for the relevant periods, which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

These selected consolidated financial data below should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and related notes included elsewhere in this annual report and “Item 5. Operating and Financial Review and Prospects” below. Our historical results do not necessarily indicate results expected for any future periods.

Years Ended December 31,

	2012	2013	2014	2015	2016
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(In thousands of U.S. Dollars, except share, per share and per ADS data)

Consolidated Statements of Operations Data:

Revenues:

<i>Air Travel Media Network</i>	\$ 88,564	\$ 80,002	\$ 59,200	\$ 38,917	\$ 12,178
<i>Gas Station Media Network</i>	14,217	12,726	11,164	9,840	4,009
<i>Other Media</i>	2	36	5,583	2,109	410
Total revenues	102,783	92,764	75,947	50,866	16,597
Business tax and other sales tax	(2,212)	(1,511)	(1,254)	(633)	(84)
Net revenues	100,571	91,253	74,693	50,233	16,513
Cost of revenues	(101,044)	(97,741)	(96,608)	(89,577)	(49,042)
Gross profit/(loss)	(473)	(6,488)	(21,915)	(39,344)	(32,529)
Operating expenses:					
Selling and marketing	(9,110)	(9,202)	(12,916)	(9,611)	(12,056)
General and administrative	(13,978)	(15,104)	(20,620)	(27,102)	(45,227)
Impairment of goodwill	(12,819)	—	—	—	—
Impairment of intangible assets	(5,059)	—	—	—	—
Total operating expenses	(40,966)	(24,306)	(33,536)	(36,713)	(57,283)
Loss from operations	(41,439)	(30,794)	(55,451)	(76,057)	(89,812)
Interest (expense) income	(250)	(224)	1,058	472	843
Other income, net	505	695	979	1,383	4,243
Loss before income taxes	(41,184)	(30,323)	(53,414)	(74,202)	(84,726)
Income tax expenses/ (benefits)	2,685	(537)	(1,512)	6,421	4,483
Loss from continuing operations before (loss) income on equity method investments	(43,869)	(29,786)	(51,902)	(80,623)	(89,209)
(loss)income on equity method investments	(22)	(69)	(212)	2,352	(33)
Net loss from continuing operations	(43,891)	(29,855)	(52,114)	(78,271)	(89,242)
Net income from discontinued operations, net of tax	11,650	18,335	20,288	221,183	—
Net (loss) income	(32,241)	(11,520)	(31,826)	142,912	(89,242)
Less: Net (loss)/ income attributable to noncontrolling interests	487	(894)	(6,131)	(6,735)	23,617
-Continuing operations	487	(894)	(6,808)	(7,620)	23,617
-Discontinued operations	—	—	677	885	—
Net (loss) income attributable to AirMedia Group Inc.'s shareholders	(32,728)	(10,626)	(25,695)	149,647	(65,625)
-Continuing operations	(44,378)	(28,961)	(45,306)	(70,651)	(65,625)
-Discontinued operations	11,650	18,335	19,611	220,298	—
Weighted average shares outstanding used in computing net (loss) income per ordinary share					
-basic					
Continuing operations	124,269,245	120,386,635	119,304,773	121,740,194	125,277,056
Discontinued operations	124,269,245	120,386,635	119,304,773	121,740,194	—
-diluted					
Continuing operations	124,269,245	120,386,635	119,304,773	121,740,194	125,277,056
Discontinued operations	124,275,255	120,391,294	119,924,927	129,372,158	—
Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ordinary share—basic					
Continuing operations	\$ (0.36)	\$ (0.24)	\$ (0.38)	\$ (0.58)	\$ (0.52)
Discontinued operations	0.09	0.15	0.16	1.81	—
Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ordinary share—diluted					
Continuing operations	\$ (0.36)	\$ (0.24)	\$ (0.38)	\$ (0.58)	\$ (0.52)
Discontinued operations	0.09	0.15	0.16	1.70	—
Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ADS—basic⁽¹⁾					
Continuing operations	\$ (0.71)	\$ (0.48)	\$ (0.76)	\$ (1.16)	\$ (0.52)
Discontinued operations	0.19	0.30	0.33	3.62	—
Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ADS—diluted⁽¹⁾					
Continuing operations	\$ (0.71)	\$ (0.48)	\$ (0.76)	\$ (1.16)	\$ (0.52)
Discontinued operations	0.19	0.30	0.33	3.41	—

(1) Each ADS represents two ordinary shares.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2012, 2013, 2014, 2015 and 2016:

	As of December 31,				
	2012	2013	2014	2015	2016
	(In thousands of U.S. Dollars)				
Balance Sheet Data:					
Cash	\$ 61,020	\$ 38,846	\$ 60,117	\$ 86,960	\$ 117,547
Total assets	343,867	402,791	395,597	531,601	381,190
Total liabilities	104,432	111,448	126,725	133,968	114,593
Total AirMedia Group Inc.'s shareholders' equity	241,876	270,966	248,736	386,568	268,737
Noncontrolling interests	(2,441)	20,377	20,136	11,065	(2,140)
Total equity	\$ 239,435	\$ 291,343	\$ 268,872	\$ 397,633	\$ 266,597

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

RISKS RELATED TO OUR BUSINESS

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

We have incurred net losses in recent years and in spite of our efforts to transition into our new business, we may continue to incur loss in the future. In 2015, we divested most of our air travel advertising business. In our efforts to launch and operate our new Wi-Fi business, we have incurred, and expect to continue to incur, substantial expenses in the form of acquisition of concession rights, initial system development and installation investments and ongoing system operation and maintenance costs. In the event of any significant technology development, we may need to incur further system development expenses. We pay concession fees to the railway administrative bureaus for our operation of on-train Wi-Fi business and purchase bandwidth from mobile data service providers and incur system maintenance costs for both our on-train and on-bus Wi-Fi business. We also pay concession fees for our business of digital TV screens on airplanes and our gas station platform. Those fees constitute a significant part of our cost of revenues and most of our concession fees are fixed under the concession rights contracts with an escalation clause. These fees payments are usually due in advance. However, our revenues may fluctuate significantly from period to period for various reasons. For instance, when new concession rights contracts are signed for a period, additional concession fees are incurred immediately, but it may take some time for us to achieve revenues from these concession rights contracts because it takes time to find advertisers for the time slots and locations made available under these new contracts. Similarly, we need to purchase the bandwidth before we sell our Wi-Fi services to users and we need to maintain our system regardless of the level of revenue. If we are not able to attract enough advertisers and customers, or at all, our revenue will decrease and we may continue to incur losses given most of our costs and expenses are fixed.

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

We began our business operations in August 2005 but started our gas station business only in 2013 and started to explore the Wi-Fi business in as recently as 2015. Our limited operating history may not provide a meaningful basis for you to evaluate our business, financial performance and prospects. It is also difficult to evaluate the viability of our new business model because we do not have sufficient experience to address the risks that we may encounter as we explore Wi-Fi platform as a new form of advertising media and enter the new and evolving travel Wi-Fi advertising market. Certain members of our senior management team, especially those who joined us only recently due to our new Wi-Fi business, have worked together for only a relatively short period of time and it may be difficult for you to evaluate their effectiveness, on an individual or collective basis, and their ability to address future challenges to our business. Because of our limited operating history, we may not be able to:

- manage our relationships with relevant parties to retain existing concession rights and obtain new concession rights on commercially advantageous terms or at all;
- retain existing and acquire new advertisers and third party content providers;
- secure a sufficient number of low-cost hardware for our business from our suppliers;
- manage our operations;
- successfully launch new business and operate our existing business;
- respond to competitive market conditions;
- respond to changes in the PRC regulatory regime;
- maintain adequate control of our costs and expenses; or
- attract, train, motivate and retain qualified personnel.

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

Our success in our air travel advertising business depends on the acceptance of our advertising network by advertisers and their interest in it as a part of their advertising strategies. In this annual report, the term “advertisers” refer to the ultimate brand-owners whose brands and products are being publicized by our advertisements, including both advertisers that purchase advertisements directly from us and advertisers that do so through third-party advertising agencies. Our advertisers may elect not to use our services if they believe that consumers are not receptive to our media network or that our network is not a sufficiently effective advertising medium. If consumers find our network to be disruptive or intrusive, airplane companies may refuse to allow us to place our programs on airplanes, and our advertisers may reduce spending on our network.

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

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

If we do not succeed in launching our new Wi-Fi business, our future results of operations and growth prospects may be materially and adversely affected.

Our current strategy mainly includes launching our new Wi-Fi business. We began to explore the new Wi-Fi business in 2015 and are still in the investment and development stage. We have obtained several concession rights from railway administration bureaus and long-haul bus operators in China to install and operate our Wi-Fi systems. We have installed and will continue to install the system hardware on trains and busses in accordance with our concession rights. However, we have not yet tested any monetization models and although we expect to generate advertising fee revenues from our Wi-Fi platform, there is no assurance that our intended advertising customers will find our Wi-Fi advertising platform attractive or that the intended users will find our Wi-Fi services attractive. Advertisers may not find our Wi-Fi services an effective or efficient way of reaching their target audience. Potential new developments in mobile network technologies may make our on-train and on-bus Wi-Fi services less attractive to the passengers. Furthermore, our Wi-Fi business might be regarded as value-added telecommunication service. To provide this type of services, we are required to obtain the relevant telecommunication license from the communication authorities. As a result, we cannot assure you that we will be able to obtain the necessary license soon, if at all, to provide Wi-Fi service. We may also face unexpected new risks as we continue to launch this new business. As a result, we cannot assure you that we will be able to generate enough, or any, revenue from this new business. If we fail to do so, our considerable amounts of fixed concession fees, combined with our lost investment on system development, will materially and adversely affect our business and financial results.

In our new business, we may face new competition. If we cannot successfully address the foregoing new challenges and compete effectively, we may not be able to develop a sufficiently large advertiser base, recover costs incurred for developing and marketing our new business, and eventually achieve profitability from these businesses, and, consequently, our future results of operations and growth prospects may be materially and adversely affected.

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

Our business depends on demand for our advertising services from our customers, which is affected by the level of business activity and economic condition of our customers and is in turn affected by the level of consumer spending in the markets our customers serve. Therefore, our businesses and earnings are affected by general business and economic conditions in China as well as abroad.

Advertising revenues from advertisers in the automobile industry accounted for a significant portion of our revenues. Any significant or prolonged slowdown or decline of this industry or the economy of China, countries with close economic ties with China or the overall global economy will affect consumers' disposable income and consumer spending in these industries, and lead to a decrease in demand for our services. Furthermore, the campaign launched by the Chinese government to curb waste by officials may also lead to decrease in demand for products of our key customers and in turn adversely affect demand for our services.

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

A significant part of our revenues from continuing operations in 2016 were generated from the provision of air travel advertising services through the display of advertisements on digital TV screens on airplanes. We expect digital TV screens on airplanes to contribute substantially all of our air travel network revenue and a majority of all our revenue in the foreseeable future. If we cannot substantially increase our revenues from our gas station advertising business and cannot successfully generate revenues from our Wi-Fi business, this situation will continue into the foreseeable future. A contraction in air travel advertising industry in China could therefore have a material adverse effect on our business and results of operations.

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

Our ability to carry out almost all of our business depends on the availability of the necessary concession rights. However, we cannot assure you that we will be able to carry out our operations as specified in our concession rights contracts, and any failure to perform may affect the availability of our concession rights and materially and negatively affect our business.

We may also be unable to retain or renew concession rights contracts when they expire. Most of our concession rights contracts have no automatic renewal provisions. We cannot assure you that we will be able to renew any or all of our concession contracts when they expire. In particular, failure to renew our Wi-Fi concession right contracts will render it hard or impossible for us to recoup our investment in related system development and installation. We enter into on-train Wi-Fi concession rights contracts with railway administrative bureaus, which are governmental agencies, and their renewal decisions may be influenced by their supervising authorities and the changes in policies or regulations in relevant areas. We enter into long-haul bus Wi-Fi concession rights contracts with private companies operating those buses and those companies are price sensitive and may choose not to renew our concession rights but instead enter into contracts with other players who can offer more competitive pricing. Furthermore, even if we manage to renew a concession right contract, the terms of the new contract may not be commercially favorable to us. The concession fees that we incur under our concession rights contracts comprise a significant portion of our cost of revenues, which may further increase upon renewals. If we cannot pass increased concession costs onto our customers, our earnings and our results of operations could be materially and adversely affected. In addition, many of our concession rights contracts contain provisions granting us certain exclusive concession rights. We cannot assure you that we will be able to retain these exclusivity provisions when we renew these contracts. If we were to lose exclusivity, our advertisers may decide to advertise with our competitors or otherwise reduce their spending on our network and we may lose market share.

We cannot assure you that our concession rights contracts will not be unilaterally terminated during their terms, whether with or without justification. In addition, many of our concession rights contracts were entered into with the advertising companies operated by or advertising agencies hired by airline companies, and not with the airline companies directly. Although these advertising companies and agents have generally represented to us in writing that they have the rights to operate advertising media on airplanes and all of them have performed their contractual obligations, we cannot assure you that airline companies will not challenge or revoke the contractual concession rights granted to us by their advertising companies or agents; if such challenges or revocations occur, our revenues and results of operations could be materially and adversely affected.

If we fail to properly perform our existing concession rights contracts, retain existing concession rights contracts or obtain new concession rights contracts on commercially advantageous terms, we may be unable to maintain or expand our network coverage and our costs may increase significantly in the future.

A significant portion of our revenues has been derived from a limited number of airline companies in China. If any of these airline companies experiences a material business or flight disruption or if there are changes in our arrangements with these airline companies, we may incur substantial losses of revenues.

We derived a significant portion of our revenues from continuing operations in 2016 from six airline companies in China. As of May 31, 2017, we have concession rights contracts to place our programs on China Southern Airline and China Eastern Airline, respectively, which in the aggregate contributed more than a majority of our revenue from digital TV screens on airplanes in 2016. A material business or flight disruption of any of those airline companies could negatively affect our advertising media on airplanes operated by those companies.

We expect our advertising platform with these abovementioned airline companies to continue to contribute a significant portion of our revenues in the foreseeable future. If any such companies experiences a material business or flight disruption, we would likely lose a substantial amount of revenues.

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

The programs on the majority of our digital TV screens include both advertising and non-advertising content. Third-party content providers such as Travel Channel, Jiangsu TV, Enlight Media, and Youku Tudou and various other television stations and television production companies have contracts with us to provide the majority of the non-advertising content played over our network, particularly on our digital TV screens on airplanes. There is no assurance that we will be able to renew these contracts, enter into substitute contracts to obtain similar contents or obtain non-advertising content on satisfactory terms, or at all. In addition, some of the third-party content providers that currently do not charge us for their content may do so in the future. To make our programs more attractive, we must continue to secure contracts with these and other third-party content providers. If we fail to obtain a sufficient amount of high-quality content on a cost-effective basis, advertisers may find advertising on our network unattractive and may not wish to purchase advertising time slots or locations on our network, which would materially and adversely affect our business and results of operations.

When our current advertising network of digital TV screens and LED screens becomes saturated on the airlines and in the gas stations where we operate, we may be unable to offer additional time slots or locations to satisfy all of our advertisers' needs, which could hamper our ability to generate higher levels of revenues and profitability over time.

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

Our advertising agencies could engage in activities that are harmful to our reputation in the industry and to our business.

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

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

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

A limited number of advertisers have historically accounted for a significant portion of our revenues and this dependence may reoccur in the future, which would make us more vulnerable to the loss of major advertisers or delays in payments from these advertisers.

A limited number of advertisers historically accounted for a significant portion of our revenues, but for the years ended December 31, 2014, 2015 and 2016, no individual customer accounted for over 10% of total revenue.

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

We face significant competition in the advertising industry in China, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profits may be reduced.

We face significant competition in the advertising industry in China. We compete for advertisers primarily on the basis of price, program quality, the range of services offered and brand recognition. We primarily compete for advertising dollars spent in the air travel advertising industry. We may also face competition from new competitors as we enter into new markets.

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

Our results of operations are largely subject to fluctuations in the demand for air travel and the traffic at Sinopec gas stations. A decrease in the demand for air travel or the traffic at Sinopec gas stations may make it difficult for us to sell our advertising time slots and locations.

To a large extent, our results of operations are linked to the demand for air travel, which fluctuates greatly from period to period, and is subject to seasonality due to holiday travel and weather conditions. The results of our gas station media network may be affected by the traffic at Sinopec gas stations. Other factors that may affect our results include:

- ***Downturns in the economy.*** Business travel is one of the primary drivers of the air travel industry and it tends to increase in times of economic growth and decrease in times of economic slowdown. A decrease in air passengers in China could lead to lower advertiser spending on our air travel advertising network. Similarly, a downturn in the Chinese economy could lead to less car usage and in turn less traffic at the Sinopec gas station within our network.
- ***Plane crashes or other accidents.*** An aircraft crash or other accident, such as those in 2014 involving certain Asian-based airlines, could create a public perception that air travel is not safe or reliable, which could result in air travelers being reluctant to fly. Significant aircraft delays due to capacity constraints, weather conditions or mechanical problems could also reduce demand for air travel, especially for shorter domestic flights.

If the demand for air travel or the traffic at the Sinopec gas stations within our network decreases for any of these or other reasons, advertisers may be reluctant to advertise on our network and we may be unable to sell our advertising time slots or locations or charge premium prices.

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

We have acquired and may continue to acquire businesses, technologies, services or products which are complementary to our core air travel advertising network business in the future. Past and future acquisitions may expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing business and technology; or
- failure to achieve the intended objectives of our acquisitions.

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

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

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

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

Our quarterly and annual operating results are difficult to predict and have fluctuated and may continue to fluctuate significantly from period to period based on the performance of our new business, the seasonality of air travel, consumer spending and corresponding advertising trends in China. Air travel, gas station traffic and advertising spending in China generally tend to increase during major national holidays in October and tend to decrease during the first quarter of each year. Air travel and advertising spending in China is also affected by certain special events and related government measures. As a result, and also due to the unpredictable performance of our new business, you may not be able to rely on period-to-period comparisons of our operating results as an indication of our future performance. Other factors that may cause our operating results to fluctuate include a deterioration of economic conditions in China and potential changes to the regulation of the advertising industry in China. If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating costs and expenses for that quarter by a corresponding amount, and it would harm our operating results for that quarter relative to our operating results for other quarters.

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

Our future success heavily depends upon the continued services of our senior executives and other key employees. We rely on their industry expertise, their experience in business operations and sales and marketing, and their working relationships with our advertisers, airports and airlines, and relevant government authorities.

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

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

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which must also contain management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must attest to the effectiveness of the company's internal control over financial reporting. SEC rules also require every public company to include a management report containing management's assessment of the effectiveness of such company's disclosure controls and procedures in its annual report.

Our management has concluded that we had not maintained effective internal control over financial reporting and disclosure controls and procedures as of December 31, 2016 due to the material weaknesses identified by our independent registered public accounting firm during the audit of our internal control over financial reporting as of December 31, 2016. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses relate to the weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in our financial reporting and internal control team and administration team including information technology department. See "Item 15. Controls and Procedures." Any failure to achieve and maintain effective internal control over financial reporting could negatively affect the reliability of our financial information and reduce investors' confidence in our reported financial information, which in turn could result in lawsuits being filed against us by our shareholders, otherwise harm our reputation or negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements of the Sarbanes-Oxley Act.

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

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

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

- investors' perception of, and demand for, securities of alternative advertising media companies;
- conditions of the market;
- our future results of operations, financial condition and cash flows; and
- PRC governmental regulation of foreign investment in advertising services companies in China.

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

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

As an advertising service provider, we are obligated under PRC laws and regulations to monitor the advertising content shown on our network for compliance with applicable law. Violation of these laws or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the offending advertisements and orders to publish advertisements correcting the misleading information. In case of serious violations, the PRC authorities may revoke our license for advertising business operations. In general, the advertisements shown on our network have previously been broadcast over public television networks and have been subjected to internal review and verification by such networks, but we are still required to independently review and verify these advertisements for content compliance before displaying them. In addition, if a special government review is required for certain product advertisements before they are shown to the public, we are required to confirm that such review has been performed and approval obtained. For advertising content related to certain types of products and services, such as food products, alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals, including review of operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filing with local authorities.

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

In addition, although we use our best efforts to comply with all relevant laws and regulations and to obtain all necessary certificates, registrations and approvals for our business, due to the complexity of local laws and regulations across China governing outdoor media advertising platforms, there can be no assurance that we will be able to obtain or maintain all necessary approvals. For example, our Wi-Fi business might be regarded as value-added telecommunication service. To provide this type of services, we are required to obtain the relevant telecommunication license from the communication authorities. As a result, we cannot assure you that we will be able to obtain the necessary license soon, if at all, to provide Wi-Fi service. Any delay or failure in obtaining such approvals or licenses could materially and adversely affect our results of operations.

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

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

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

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

Our commercial success depends to a large extent on our ability to operate without infringing the intellectual property rights of third parties. We cannot assure you that our displays or other aspects of our business do not or will not infringe patents, copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses and diversion of management time in defending against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially and adversely affect our business.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

Our business could be materially and adversely affected by natural disasters or the outbreak of health epidemic. Any such occurrences could cause severe disruption to our daily operations, and may even require a temporary closure of our facilities. In August 2014, a strong earthquake hit part of Yunnan province in south, and resulted in significant casualties and property damage. While we did not suffer any loss or experience any significant increase in cost resulting from these earthquakes, if a similar disaster were to occur in the future affecting Beijing or another city where we have major operations in China, our operations could be materially and adversely affected due to loss of personnel and damages to property. In addition, any outbreak of avian flu, severe acute respiratory syndrome (SARS), influenza A (H1N1), H7N9, Ebola, or other adverse public health epidemic in China may have a material and adverse effect on our business operations. These occurrences could require the temporary closure of our offices or prevent our staff from traveling to our customers' offices to provide services. Such closures could severely disrupt our business operations and adversely affect our results of operations. These occurrences could reduce air and train traveling in China and adversely affect the results of operations of our related business.

RISKS RELATED TO OUR CORPORATE STRUCTURE

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC governmental restrictions on foreign investment in the advertising industry and in the operating of non-advertising content, our business could be materially and adversely affected.

Substantially all of our operations are conducted through contractual arrangements with our consolidated VIEs in China: AirMedia Online Network Technology Co., Ltd. or AM Online, Beijing AirMedia Shengshi Advertising Co., Ltd. (previously known as Beijing Shengshi Lianhe Advertising Co., Ltd.), or AirMedia Shengshi, Beijing AirMedia Jiaming Advertising Co., Ltd. (formerly known as Beijing AirMedia UC Advertising Co., Ltd.), or Jiaming Advertising, and Beijing Yuehang Digital Media Advertising Co., Ltd., or AM Yuehang. Although the Foreign-invested Advertising Enterprise Management Regulations, or the Foreign-invested Advertising Regulations, which became effective on October 1, 2008, currently permit 100% foreign ownership of companies that provide advertising services, subject to approval by relevant PRC government authorities, these regulations also require any foreign entities that establish a wholly owned advertising company must have at least three years of direct operations in the advertising industry outside of China. In addition, the Foreign Investment Industrial Guidance Catalogue (revised in 2015), which became effective on April 10, 2015, stated that television program production and operation companies fall into the category of a prohibited foreign investment industry. We believe that these regulations apply to our business and are therefore carrying out the portions of our business that involve the production of non-advertising content through our VIEs. Our wholly owned Hong Kong subsidiary AirMedia (China) Limited, or AM China, the 100% shareholder of our three wholly foreign owned subsidiaries in China, has been operating an advertising business in Hong Kong since 2008, and thus it is allowed to directly invest in advertising business in China. In December 2014, we transferred 100% equity interest in Shenzhen AirMedia Information Technology Co., Ltd., or Shenzhen AM, to AM China to provide advertising services in China directly. In July 2015, Shenzhen AM obtained the approval to include advertising in its scope of business. We therefore intent to gradually shift our advertising business to Shenzhen AM to gradually reduce our reliance on the current VIE structure in terms of our advertising business. Our advertising business is currently primarily provided through our contractual arrangements with certain of our consolidated VIEs in China. These entities directly operate our air advertising network, enter into concession rights contracts related to our air advertising network and sell advertising time slots and locations to our advertisers. In addition, under current PRC regulations, a foreign entity is prohibited from owning more than 50% of any PRC entity that provides value-added telecommunication services, and Wi-Fi services might be regarded as value-added telecommunication business. As a result, we enter into concession rights contracts related to our Wi-Fi business via AM Online, which is expected to directly operate this business. We have contractual arrangements with these VIEs pursuant to which we, through AirMedia Technology (Beijing) Co., Ltd., or AM Technology, provide technical support and consulting services and other services to these entities. We also have agreements with our VIEs and each of their individual shareholders (except Yi Zhang) that provide us with the substantial ability to control these entities. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure" and "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Contractual Arrangements."

In January 2016, we, through the nominee shareholders of the respective VIEs, transferred 3.5% equity interest in each of AM Online, AirMedia Shengshi and Jiaming Advertising to Yi Zhang. Yi Zhang is an unrelated third party minority shareholder of those VIEs and did not enter into the same VIE arrangements with us as did the other nominee shareholders. We therefore cannot exert the same level of control over the 3.5% interests of the VIEs owned by Yi Zhang.

Some of our VIE arrangements with AirMedia Shengshi and Jiaming Advertising may expire on June 13, 2027 if any party thereto sends a no-extension notice to the other at least twenty (20) days in advance. Although we believe we can renew those agreements with the VIEs and their shareholders at that time, if we fail to do so, our control over such VIEs might be adversely affected.

In the opinion of Commerce & Finance Law Offices, our PRC counsel, except as described in this annual report, the VIE arrangements between AM Technology and our consolidated VIEs, as described in this annual report, do not violate PRC law and are valid, binding and legally enforceable. However, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in us, their interests may diverge from ours and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so.

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

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

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

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

In January 2015, the Ministry of Commerce of the PRC, or the MOFCOM, released for public comments a proposed PRC law regarding foreign invested enterprises, or the Draft FIE Law, which includes VIEs within the scope of entities that could be considered to be foreign invested enterprises, or FIEs, and may be subject to restrictions under existing PRC law on foreign investment in certain categories of industries. Specifically, the Draft FIE Law introduces the concept of “actual control” for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect equity ownership, the Draft FIE Law includes control through contractual arrangements within the definition of “actual control.” If the Draft FIE Law is passed by the People’s Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to reach our VIE arrangements, and our VIEs might be found as controlled by foreign investors. As a result, our VIEs could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of FIEs certain entities where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIE Law is silent as to what type of enforcement action might be taken against existing VIEs that operate in restricted or prohibited industries and are not controlled by entities organized under PRC law or individuals who are PRC citizens. If the contractual arrangements establishing our VIE structure are found to be in violation of any existing law and regulations or future PRC laws and regulations or under the Draft FIE Law if it becomes effective, the relevant PRC government authorities will have broad discretion in dealing with such violation, including, without limitation, levying fines, confiscating our income or the income of our affiliated Chinese entities, revoking our business licenses or the business licenses of our affiliated Chinese entities, requiring us and our affiliated Chinese entities to restructure our ownership structure or operations and requiring us or our affiliated Chinese entities to discontinue any portion or all of our value-added telecommunications, air-ticketing, travel agency or advertising businesses. Any of these actions could cause significant disruption to our business operations, and have a severe adverse impact on our cash flows, financial position and operating performance. If the imposing of these penalties causes us to lose our rights to direct the activities of and receive economic benefits from our VIEs, which in turn may restrict our ability to consolidate and reflect in our financial statements the financial position and results of operations of our VIEs.

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

Certain of our directors and officers are shareholders in the VIEs, AM Online, AirMedia Shengshi, Jiaming Advertising, and AM Yuehang. Mr. Herman Man Guo, our chairman and chief executive officer, in addition to holding 15.3% in our company, also directly and indirectly holds approximately 77.2% of AM Online, 77.1% of AirMedia Shengshi and 1.00% of Jiaming Advertising. Mr. Qing Xu, our director and executive president, in addition to holding 1.3% of our company, also directly and indirectly holds approximately 14.5% of AM Online, 19.44% of AirMedia Shengshi and 0.21% of Jiaming Advertising. In addition, Mr. Guo and Mr. Xu are each a director of Jiaming Advertising, AirMedia Shengshi and AM Advertising, Mr. Guo is the legal representative of each of AirMedia Shengshi and Jiaming Advertising and Mr. Xu is the sole director and legal representative of AM Yuehang and the legal representative of AirMedia Online. For these directors and officers, their fiduciary duties toward our company under Cayman law—to act honestly, in good faith and with a view to our best interests—may conflict with their roles in the VIEs, as what is in the best interest of the VIEs may not be in the best interests of our company or the unaffiliated public shareholders of our company.

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

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

We rely on contractual arrangements with our consolidated variable interest entities and their shareholders for a substantial portion of our China operations, which may not be as effective as direct ownership in providing operational control.

We rely on contractual arrangements with AM Online, AirMedia Shengshi, Jiaming Advertising and AM Yuehang to operate our Wi-Fi and air advertising business. For a description of these arrangements, see “Item 4. Information on the Company—C. Organizational Structure” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Contractual Arrangements.” These contractual arrangements may not be as effective as direct ownership in providing control over our VIEs. Under these contractual arrangements, if our VIEs or their shareholders fail to perform their respective obligations, we may have to incur substantial costs and resources to enforce such arrangements and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages, and we may not be successful.

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

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

Except for Yi Zhang, who acquired 3.5% minority equity interest in each of AM Online, AirMedia Shengshi and Jiaming Advertising in January 2016, the individual shareholders of our VIEs, each a consolidated affiliated entity of ours, have pledged all of their equity interests, including the right to receive declared dividends, in the relevant VIEs to AM Technology, our wholly-owned subsidiary. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. We have not yet registered the share pledges by shareholders of AM Online, AirMedia Shengshi and Jiaming Advertising. As the registration of these pledges has not yet been completed so far, the pledges, as property rights, have not yet become effective under the PRC Property Rights Law. Before the registration procedures are completed, we cannot assure you that the effectiveness of these pledges will be recognized by PRC courts if disputes arise with respect to certain pledged equity interests or that AM Technology’s interests as pledgee will prevail over those of third parties. AM Technology may not be able to successfully enforce these pledges against any third parties who have acquired property right interests in good faith in the equity interests in AM Online, AirMedia Shengshi and Jiaming Advertising. As a result, if AM Online, AirMedia Shengshi or Jiaming Advertising breaches their respective obligations under the various agreements described above, and there are third parties who have acquired equity interests in good faith, AM Technology would need to resort to legal proceedings to enforce its contractual rights under the equity pledge agreements, or the underlying agreements secured by the pledges. We do not have agreements that pledge the assets of the VIEs and their respective subsidiaries for the benefit of us or our wholly owned subsidiaries.

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

Under PRC law, arrangements and transactions among related parties may be audited or challenged by the PRC tax authorities. If any transactions we have entered into among AM Technology and our VIEs are found not to be on an arm's length basis, or to result in an unreasonable reduction in tax under PRC law, the PRC tax authorities have the authority to disallow our tax savings, adjust the profits and losses of our respective PRC entities and assess late payment interest and penalties. A finding by the PRC tax authorities that we are ineligible for the tax savings we achieved would substantially increase our taxes owed and reduce our net income and the value of your investment.

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

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

Furthermore, relevant PRC laws and regulations permit payments of dividends by AM Technology, Shenzhen AM and Xi'an AM only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, AM Technology, Shenzhen AM and Xi'an AirMedia Chuangyi Technology Co., Ltd., or Xi'an AM, are also required to set aside at least 10% of after-tax income based on PRC accounting standards each year to their general reserves until the accumulative amount of such reserves reaches 50% of their respective registered capital.

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

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

RISKS RELATED TO DOING BUSINESS IN CHINA

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

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

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

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

We conduct our business primarily through AM Technology, Shenzhen AM and Xi'an AM, which are subject to PRC laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly-foreign owned companies. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. PRC legislation and regulations afford significant protections to various forms of foreign investments in China, but since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and the enforcement of these laws, regulations and rules involve uncertainties, which may limit the legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management attention.

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

The value of the RMB against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

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

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

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

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

Foreign exchange transactions by our subsidiaries and VIEs in China under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. In particular, if we or other foreign lenders make foreign currency loans to our subsidiaries or VIEs in China, these loans must be registered with the SAFE, and if we finance them by means of additional capital contributions, these capital contributions must be approved by or registered with certain government authorities including the SAFE, the Ministry of Commerce or their local counterparts. These limitations could affect the ability of our subsidiaries in China to exchange the foreign currencies obtained through debt or equity financing, and could affect our business and financial condition.

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

Circular 45 was abolished by SAFE on March 19, 2015 according to a Circular on Promulgating the Abolishment and Invalidation of 50 Foreign Exchange-related Regulatory Documents. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or SAFE Circular 19, which will take effect on June 1, 2015 and will replace SAFE Circular 142. SAFE Circular 19 allows foreign-invested enterprises to settle 100% of their foreign exchange capitals on a discretionary basis and allows ordinary foreign-invested enterprises to make domestic equity investments by capital transfer in the original currencies, or with the amount obtained from foreign exchange settlement, subject to complying with certain requirements. According to SAFE Circular 19, the RMB funds obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capitals shall be managed under the accounts pending for foreign exchange settlement payment, and foreign-invested enterprise shall not use its capital and the RMB funds obtained from foreign exchange settlement for the purposes within the following negative list: for expenditure beyond its business scope or expenditure prohibited by laws and regulations, for investments in securities, unless otherwise prescribed by laws and regulations, for disbursing RMB entrusted loans (unless it is within its business scope), for repaying inter-corporate borrowings (including third-party advances) and repaying RMB bank loans that have been sub-lent to third parties, or for expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise.

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

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

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

We and our PRC employees who have been granted stock options are subject to the New Share Incentive Rule. We are in the process of completing the registration and procedures which the New Share Incentive Rule requires, but the application documents are subject to the review and approval of SAFE, and we can make no assurance as to when the registration and procedures could be completed. If we or our PRC employees fail to comply with the New Share Incentive Rule, we and/or our PRC employees may face sanctions imposed by the foreign exchange authority or any other PRC government authorities.

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

Under the SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies, will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file or update the registration with the local branch of the SAFE, with respect to that offshore company, any material change involving its round-trip investment and capital variation. The PRC subsidiaries of that offshore company are required to urge the PRC resident shareholders to make such updates. If any PRC shareholder fails to make the required SAFE registration or file or update the registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, such as restrictions on distributing dividend to our offshore entities or monetary penalties against us. We cannot assure you that all of our shareholders who are PRC residents will make or obtain any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with these SAFE registration procedures may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to or obtain foreign-exchange-dominated loans from our company.

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

Certain measures promulgated by the People's Bank of China on foreign exchange for individuals set forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. Implementing rules for these measures were promulgated by the SAFE which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. The SAFE also promulgated rules under which PRC citizens who are granted stock options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with the SAFE and complete certain other procedures. We and our PRC employees who have been granted stock options are subject to these rules, and we are in the process of completing the required registration and procedures, but the application documents are subject to the review and approval of SAFE, and we can make no assurance as to when the registration and procedures could be completed. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions. See "Item 4. Information on the Company—B. Business Overview—Regulation—SAFE Regulations on Offshore Investment by PRC Residents and Employee Stock Options."

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

The PRC Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, sets forth complex procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Part of our growth strategy includes acquiring complementary businesses or assets. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit the completion of such transactions, which could affect our ability to expand our business or maintain our market share. In addition, if any of our acquisitions were subject to the M&A Rule and were found not to be in compliance with the requirements of the M&A Rule in the future, relevant PRC regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could materially and adversely affect our business and results of operations.

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

There are no existing PRC laws or regulations that specifically define or regulate air travel advertising. Changes in existing laws and regulations or the implementation of new laws and regulations governing the content of air travel advertising and our business licenses or otherwise affecting our business in China may result in substantial costs and diversion of resources and may materially and adversely affect our business prospects and results of operations.

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

The Labor Contract Law, which came into effect January 1, 2008 and was amended on July 1, 2013, established more restrictions and increased costs for employers to dismiss employees under certain circumstances, including specific provisions relating to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. Under the Labor Contract Law, unless otherwise provided by law, an employer is obligated to sign a labor contract with a non-fixed term with an employee, if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts, or if the employee has worked for the employer for 10 consecutive years. Severance pay is required if a labor contract expires and is not renewed because of the employer's refusal to renew or seeking to renew with less favorable terms. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation for five to 15 days, depending on the employee's number of years of employment. Employees who waive such vacation at the request of employers are entitled to compensation that equals to three times their regular daily salary for each waived vacation day. As a result of these new labor protection measures, our labor costs are expected to increase, which may adversely affect our business and our results of operations. It is also possible that the PRC government may enact additional labor-related legislations in the future, which would further increase our labor costs and affect our operations.

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

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

We may have claims and lawsuits against us that may result in material adverse outcomes.

We have been and will be possibly subject to a variety of claims and lawsuits. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.” This litigation and other claims that may be made against us from time to time are subject to inherent uncertainties. Adverse outcomes in one or more of those claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

The EIT Law, which became effective on January 1, 2008, imposes a uniform income tax rate of 25% on most domestic enterprises and foreign investment enterprises. Under this law, entities that qualify as “high and new technology enterprises strongly supported by the state,” or HNTE, are entitled to the preferential EIT rate of 15%. A company’s status as a HNTE is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential EIT rate. In addition, according to relevant guidelines, “new software enterprises” can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

One of our PRC subsidiaries, AM Technology, was recognized as a HNTE under the new rules and therefore, it is entitled to enjoy a preferential EIT rate of 15%. It was also eligible for a 50% tax reduction from 2009 to 2010 under the applicable tax laws and regulations that were in effect before January 1, 2008, the date the EIT Law came into effect. As a result, AM Technology was subject to an EIT rate of 7.5% in 2009 and 2010. In September 2011, AM Technology received the HNTE certificate, and in October 2014, AM Technology successfully renewed its HNTE status and obtained the renewed certificate issued by the competent governmental authority. As a result, AM Technology is expected to be subject to an EIT rate of 15% until 2016 as long as it maintains its HNTE status.

Xi’an AirMedia Chuangyi Technology Co., Ltd., one of our PRC subsidiaries, or Xi’an AM, qualified as a “software enterprise” in August 2008 by the Technology Information Bureau of Shaanxi Province and has received a written approval from Xi’an local tax bureau that it is granted a two-year exemption from EIT commencing on its first profitable year and a 50% reduction of the 25% EIT rate for the succeeding three years. As Xi’an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoyed the preferential income tax rate of 12.5% from 2011 to 2013. Xi’an AM received the HNTE certificate jointly issued by the competent governmental authorities in Shaanxi Province in September 2014. As such, Xi’an AM is expected to enjoy a preferential income tax rate of 15% from 2014 to 2016 as long as it maintains its HNTE status.

Shenzhen AirMedia Information Technology Co., Ltd., one of our PRC subsidiaries, or Shenzhen AM, was subject to a 15% preferential EIT rate in 2007 as it is located in Shenzhen and then was subject to EIT on its taxable income from 2008 at the gradual rate as set out in Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives, or “Circular 39.” Since Shenzhen AM is also qualified as a “manufacturing foreign-invested enterprise” incorporated prior to the effectiveness of the EIT Law, it is further entitled to a two-year exemption from EIT for the years 2008 and 2009 and preferential rates of 11%, 12% and 12.5% for the years 2010, 2011 and 2012, respectively. Shenzhen AM is subject to EIT at a rate of 25% from 2013 afterwards.

Hainan Jinhui Guangming Media Advertising Co., Ltd., or Hainan Jinhui, one of our VIEs’ PRC subsidiaries, is subject to EIT on the taxable income at the gradual rate, which was 22% in 2010, 24% in 2011, 25% in 2012 as set out in Circular 39. Hainan Jinhui is subject to EIT at a rate of 25% in 2013 and thereafter.

We cannot assure you that our PRC subsidiaries will be able to maintain or obtain qualifications to receive the above preferential tax treatments; we will be required to pay more taxes if they fail to become or continue to be eligible to receive PRC tax benefits, which may materially and adversely affect our business and results of operations.

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

Under the EIT Law and related regulations, dividends payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, or BVI, where Broad Cosmos Enterprises Ltd., or Broad Cosmos, our wholly-owned subsidiary, is incorporated, does not have such a tax treaty with AM China, the 100% shareholder of AM Technology, Shenzhen AM and Xi’an AM, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income between China and Hong Kong and the relevant rules, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). However, under recently implemented PRC regulations, now our Hong Kong subsidiary must obtain approval from the competent local branch of the State Administration of Taxation in accordance with the double-taxation agreement among the PRC and Hong Kong in order to enjoy the 5% preferential withholding tax rate. In February 2009, the State Administration of Taxation issued Notice No. 81. According to Notice No. 81, in order to enjoy the preferential treatment on dividend withholding tax rates, an enterprise must be the “beneficial owner” of the relevant dividend income, and no enterprise is entitled to enjoy preferential treatment pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. In October 2009, the State Administration of Taxation issued another notice on this matter, or Notice No. 601, to provide guidance on the criteria to determine whether an enterprise qualifies as the “beneficial owner” of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. Pursuant to Notice No. 601, the PRC tax authorities will review and grant tax preferential treatment on a case-by-case basis and adopt the “substance over form” principle in the review. Notice 601 specifies that a beneficial owner should generally carry out substantial business activities and own and have control over the income, the assets or other rights generating the income. Therefore, an agent or a conduit company will not be regarded as a beneficial owner of such income. Since the two notices were issued, it has remained unclear how the PRC tax authorities will implement them in practice and to what extent they will affect the dividend withholding tax rates for dividends distributed by our subsidiaries in China to our Hong Kong subsidiary. If the relevant tax authority determines that our Hong Kong subsidiary is a conduit company and does not qualify as the “beneficial owner” of the dividend income it receives from our PRC subsidiaries, the higher 10% withholding tax rate may apply to such dividends.

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

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

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

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

With the 10% PRC dividend withholding tax, we will incur an incremental PRC tax cost when we distribute our PRC profits to our ultimate shareholders if we are deemed not to be a PRC resident enterprise. On the other hand, if we are determined to be a PRC resident enterprise under the EIT Law and receive income other than dividends, our profitability and cash flow would be adversely impacted due to our worldwide income being taxed in China under the EIT Law.

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

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

In connection with the PRC Enterprise Income Tax Law, or the EIT Law, the Ministry of Finance and the State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008. By promulgating and implementing these circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise.

On February 3, 2015, the SAT issued the Announcement on Several Issues concerning the Enterprise Income Tax on Indirect Transfers of Properties by Non-Resident Enterprises, or Public Notice 7, to supersede tax rules in relation to the Indirect Transfer of Shares under the original SAT Circular 698, while the other provisions of SAT Circular 698 remain in force. Public Notice 7 covers transactions involving not only Indirect Transfer of Shares as set forth under SAT Circular 698 but also transactions involving an overseas company's indirect transfer of other property or assets (such as real properties) located in China (collectively, "PRC Taxable Properties") through transfer of shares of an offshore intermediary company. Pursuant to Public Notice 7, in the event that non-residential enterprises indirectly transfer PRC Taxable Properties without reasonable commercial purposes in order to evade PRC enterprise income tax, such indirect transfer will be deemed as direct transfer of PRC Taxable Properties and, therefore, be subject to PRC enterprise income tax. In addition, Public Notice 7 provides clearer criteria on how to assess reasonable commercial purposes and allows for safe harbor scenarios applicable to internal group restructurings. Under Public Notice 7, subject to certain exceptions such as internal group restructurings and purchase and sale of shares of the same publicly-listed overseas enterprise in a public securities market, an indirect transfer of PRC Taxable Properties shall be directly deemed as having no reasonable commercial purposes if the following circumstances are satisfied: (i) more than 75% of the value of overseas enterprises' shares directly or indirectly comes from PRC Taxable Properties; (ii) at any time within one year before the indirect transfer of PRC Taxable Properties, more than 90% the total amount of overseas enterprises' assets (excluding cash) are directly or indirectly constituted by their investment within the PRC, or within one year before the indirect transfer of PRC Taxable Properties, more than 90% of the overseas enterprises' income directly or indirectly derive from the PRC; (iii) the overseas enterprises and their controlling enterprises, which directly or indirectly hold PRC Taxable Properties, cannot justify the economic substance of the corporate structure; and (iv) overseas tax payment regarding indirect transfer of PRC Taxable Properties is lower than PRC tax payment regarding direct transfer of PRC Taxable Properties. Public Notice 7 also brings uncertainties to the offshore transferor and transferee of the indirect transfer of PRC Taxable Properties as they have to make self-assessment on whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. As a result, where non-resident investors were involved in our private equity financing or share transfer of our company between two or more offshore parties, if such transactions were determined by the tax authorities to lack reasonable commercial purpose, we and our non-resident investors may become at risk of being taxed under SAT Circular 698 and Public Notice 7 and may be required to expend valuable resources to comply with SAT Circular 698 and Public Notice 7 or to establish that we should not be taxed under SAT Circular 698 and Public Notice 7, which may have an adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. We may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under SAT Circular 59, SAT Circular 698 or Public Notice 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

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

Occasionally, U.S. public companies that have substantially all of their operations in China, particularly companies which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. For example, in December 2012, the SEC initiated administrative proceedings against the China affiliates of the Big Four public accounting firms for allegedly refusing to produce audit work papers and other documents related to certain China-based companies under investigation by the SEC for potential accounting fraud against U.S. investors. Although the firms reached a settlement with the SEC and although we were not and are not subject to any ongoing SEC investigations, many U.S. listed Chinese companies are now subject to, or may become subject to, shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. As a result of this proceeding and the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our Company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation will be costly and time consuming and distract our management from growing our company.

Our prior audit reports 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.

Deloitte Touche Tohmatsu Certified Public Accountants LLP (DTT), which acted as our independent registered public accounting firm up to March 3, 2017, issued audit reports included in our prior annual reports filed with the United States Securities and Exchange Commission. Auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because DTT is 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, they 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 DTT'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 DTT'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 issued by DTT.

If additional remedial measures are imposed on the "Big Four" PRC-based accounting firms, including DTT, our previous independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, with respect to requests for the production of documents, investors' confidence in our reported financial information and the price of our ADSs could be adversely affected.

Starting in 2011, the Chinese affiliates of the "big four" accounting firms, including DTT, our previous independent registered public accounting firm, were affected by a conflict between the United States' and Chinese laws. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from these Chinese accounting firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including DTT. A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although such proposed penalties did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet the specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms, depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases, the resumption of the current proceeding against all four firms.

In the event that the SEC restarts the administrative proceedings, 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 Exchange Act and possible delisting. Moreover, any negative news about any such future 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 RELATED TO THE MARKET FOR OUR ADSs

There can be no assurance that the proposed going-private transaction will continue to be pursued, approved by our shareholders or successfully consummated. Potential uncertainty involving the proposed going private transaction may adversely affect our business and the market price of our ADSs.

On June 19, 2015, Mr. Herman Man Guo submitted to the board of directors of the Company a preliminary non-binding proposal letter (the "Proposal Letter") to acquire the Company in a going private transaction for \$3.00 in cash per Share (or \$6.00 in cash per ADS) other than any ordinary shares or ADSs of the Company beneficially held by Mr. Herman Man Guo, his affiliates or other management shareholders who may choose to roll over their Shares in connection with the proposed acquisition (the "Proposal"). The proposed purchase price represents a premium of approximately 70.5% to the closing trading price of our ADS on June 18, 2015, the last trading day prior to the date of the going-private proposal. Our board of directors formed a special committee consisting of three independent directors, Messrs. Conor Chia-hung Yang (to serve as chairman of the committee), Shichong Shan and Songzuo Xiang, to consider the Proposal.

On September 28, 2015, the Company entered into a definitive agreement and plan of merger (the "Merger Agreement") with AirMedia Holdings Ltd. ("Parent") and AirMedia Merger Company Limited, a wholly owned subsidiary of Parent, pursuant to which Parent will acquire the Company for US\$3.00 per Share (or US\$6.00 per ADS). Under the terms of the Merger Agreement, either the Company or Parent could terminate the Merger Agreement if the merger contemplated by the Merger Agreement has not been completed by the date of June 28, 2016. On June 27, 2016, the parties entered into Amendment No. 1 to the Merger Agreement to extend this termination date to December 31, 2016. On December 19, 2016, the parties entered into Amendment No. 2 to the Merger Agreement to further extend the termination date to June 30, 2017. The special committee received a proposed amendment to the Merger Agreement from the buyer group, comprised of Mr. Guo, Ms. Dan Shao and Mr. Qing Xu, on May 23, 2017 to (a) acquire all of the outstanding shares not already owned by the buyer group for US\$4.00 per ADS or US\$2.00 per ordinary share in cash, and (b) extend the Termination Date to December 31, 2017. The special committee is evaluating the proposed amendment with the assistance of its financial and legal advisors. On June 28, 2017, the parties entered into Amendment No. 3 to the Merger Agreement to further extend the termination date to July 31, 2017 so as to give the special committee sufficient time to consider the proposed amendment.

There can be no assurance that this going private transaction will continue to be pursued, approved by sufficient affirmative vote or consummated. The going private transaction, whether or not pursued or consummated, presents a risk of diverting management focus, employee attention and resources from other strategic opportunities and from operational matters.

If the buyers of our equity interest in AM Advertising exercise their respective revocation rights and require us to repurchase the equity interest sold or if we need to compensate the buyers as earnout, our business and financial results may experience material adverse effect.

In June 2015, we entered into an equity interest transfer agreement with Beijing Longde Wenchuang Investment Fund Management Co., Ltd. to sell 75% equity interest of AM Advertising for RMB2.1 billion in cash. In November 2015, Beijing Longde Wenchuang Investment Fund Management Co., Ltd. assigned and transferred its rights and obligations under the equity interest transfer agreement relating to 46.43% equity interest of AM Advertising to Beijing Cultural Center Construction and Development Fund (Limited Partnership). We have completed the equity interest transfer and have received the payments for the transfer. However, under that equity interest transfer agreement, the buyers may require us to repurchase the 75% equity interest upon the occurrence of certain events. In addition, the agreement's earnout provisions will continue to apply until all profit targets have been achieved. See "Item 4. Information on the Company—A. History and Development of the Company." As of the date of this annual report, we have not received any notice from any buyer that any such events had occurred which might trigger the repurchase provisions of the agreement. However, if the buyers become entitled to exercise the revocation right and demand us to repurchase the equity interest, we will need to reverse the transaction and pay the buyers applicable damages. In addition, if we fail to meet the profit targets, we, as a shareholder of AM Advertising, may be required to transfer our equity interest in AM Advertising to the buyers for nil consideration or provide other forms of compensation. In those events, we may not be able to successfully implement our strategy to exit the airport advertising market and we may experience significant disruption to our business in order to re-integrate our sold business. Our financial position may also be materially and adversely affected.

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

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. During the year of 2016, the trading prices of our ADSs on the NASDAQ Global Select Market ranged from \$2.38 to \$5.71 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors including, changes in the economic performance or market valuations of other advertising companies, conditions in the air travel advertising industry and the sales or perceived potential sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

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

We have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.

We will have to defend against the putative shareholder class action lawsuit described in "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings," including any appeals of such lawsuits should our initial defense be unsuccessful. We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these lawsuits. In the event that our initial defense of these lawsuits is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome of these cases, including any plaintiff's appeal of a judgment in these lawsuits, could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our cash resources and divert management's attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

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

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

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

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the U.S. Securities Act of 1933, as amended, or the Securities Act, or an exemption from the registration requirements is available. Under the deposit agreement, the depository bank will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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

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

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

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

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

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our subsidiaries and VIEs. Most of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult for you to effect service of process within the United States and bring an action against us or against these individuals in a U.S. court if you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2016 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary duties of our directors are to a large extent governed by the common law of the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

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

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

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

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

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

Certain principal shareholders hold a substantial percentage of the outstanding shares of our company. For example, as of May 31, 2017, our principal shareholder, Mr. Herman Man Guo, along with his wife, Ms. Dan Shao, beneficially owned approximately 31.9% of our outstanding ordinary shares. Mr. Guo and other principal shareholders of our company could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

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

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

We believe we were a passive foreign investment company for our taxable year ended December 31, 2016, which could subject United States investors in the ADSs or ordinary shares to significant adverse United States income tax consequences.

Based on the market price of our ADSs and composition of our assets (in particular the retention of a substantial amount of cash), we believe that we were a “passive foreign investment company,” or “PFIC,” for U.S. federal income tax purposes for our taxable year ended December 31, 2016, and we will likely be a PFIC for our current taxable year ending December 31, 2017 unless the market price of our ADSs increases and/or we invest a substantial amount of cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) 75% or more of its gross income for such year consists of certain types of “passive” income or (2) 50% or more of the average quarterly value of its assets (as generally determined on the basis of fair market value) during such year produce or are held for the production of passive income.

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated in the Cayman Islands on April 12, 2007 and conducted our operations in China through our subsidiaries, consolidated VIEs and the VIEs’ subsidiaries. We commenced operations in August 2005 in China through AirMedia Shengshi, a consolidated variable interest entity of our principal subsidiary, AM Technology. Later, we established additional PRC consolidated VIEs to conduct our operations in China. Substantially all of our current operations are conducted through contractual arrangements with these VIEs.

On November 7, 2007, we listed our ADSs on the Nasdaq Global Market under the symbol “AMCN”. We and certain of our then shareholders completed the initial public offering of 17,250,000 ADSs, representing 34,500,000 of our ordinary shares, on November 13, 2007. Our ADSs were subsequently transferred to the NASDAQ Global Select Market.

During 2014 and 2015, we dissolved certain non-operating holding entities, including Glorious Star Investment Limited, Dominant City Ltd. and Easy Shop Limited.

In 2015, we sold all equity interest of Jinsheng Advertising, the operating entity of our TV-attached digital frames business. In connection with such equity interest transfer, we have transferred all relevant assets, liabilities and managerial duties related to the TV-attached digital frames to Jinsheng Advertising with net carrying value of \$1.1 million. In 2015, we also divested our digital TV screens in airports and did not renew the relevant concession right contracts as they expired. As a result, we ceased our operation of the business line of digital TV screens in airports.

In June 2015, we entered into a definitive agreement with Beijing Longde Wenchuang Investment Fund Management Co., Ltd. to sell 75% equity interest of AirMedia Group Co., Ltd., or AM Advertising, for a consideration of RMB2.1 billion in cash. In November 2015, Beijing Longde Wenchuang Investment Fund Management Co., Ltd. assigned and transferred its rights and obligations under the equity interest transfer agreement relating to 46.43% equity interest of AM Advertising to Beijing Cultural Center Construction and Development Fund (Limited Partnership). As part of the transaction, we effected an internal business reorganization and transferred all our media business in airports (excluding digital TV screens in airports and TV-attached digital frames) and all billboard and LED media business outside of airports (excluding gas station media network and digital TV screens on airplanes) to AM Advertising to form the target business to be sold (the “Disposed Business”) and transferred our other business out of AM Advertising. To effectuate the sale, we removed the VIE structure with respect to AM Advertising. The change in the equity ownership of AM Advertising was registered with the local branch of the State Administration for Industry and Commerce, or the SAIC, in December 2015. We now hold 20.2% equity interest in AM Advertising and has ceased to consolidate the results of AM Advertising. The buyers may require the Company to repurchase the equity interest of AM Advertising upon the occurrence of any of the following events:

- the audited net profit (before or after adjustment for non-recurring gains and losses, whichever is less) in relation to the Target Business is less than RMB150 million in 2015;
- eighty per cent of the concession right contracts (as calculated based on the contract subject amount) with respect to the Target Business in the area of the Beijing Capital Airport effective as of the date of the equity interest transfer agreement which were entered into by AirMedia Advertising, AirMedia and any of its subsidiaries and/or VIE companies (as set forth in detail in Schedule 6 hereto) are not renewed with AirMedia Advertising as a party to the contract upon the expiration of the respective contracts; and
- the internal restructuring as required under the equity interest transfer agreement has not been fully completed by June 30, 2016.

In addition, the agreement’s earnout provisions will continue to apply until all profit targets are achieved. In the event the adjusted net profit of AM Advertising after the provided restructuring in 2015, 2016 and 2017 is less than the profit target provided for in the agreement, we, as a shareholder of AM Advertising, will be obligated to compensate the buyers for the deficiency by nil-consideration equity interest transfers or other means of compensation.

In April 2015, we established AM Online, a variable interest entity of us, to operate the new Wi-Fi business.

In June 2015, Mr. Herman Man Guo submitted to the board of directors of the Company a preliminary nonbinding proposal letter (the “Proposal Letter”) to acquire the Company in a going private transaction for \$3.00 in cash per Share (or \$6.00 in cash per ADS) other than any ordinary shares or ADSs beneficially held by Mr. Guo, his affiliates or other management shareholders who may choose to roll over their Shares in connection with the proposed acquisition (the “Proposal”). The board of directors of the Company formed a special committee comprised of three independent and disinterested directors, Messrs. Conor Chia-hung Yang, Shichong Shan and Songzuo Xiang, to negotiate the Proposal with the buyer group. On September 28, 2015, the Company entered into a definitive agreement and plan of merger (the “Merger Agreement”) with AirMedia Holdings Ltd. (“Parent”) and AirMedia Merger Company Limited, a wholly owned subsidiary of Parent, pursuant to which Parent will acquire the Company for US\$3.00 per Share (or US\$6.00 per ADS). Under the terms of the Merger Agreement, either the Company or Parent could terminate the Merger Agreement if the merger contemplated by the Merger Agreement has not been completed by the date of June 28, 2016. On June 27, 2016, the parties entered into Amendment No. 1 to the Merger Agreement to extend this termination date to December 31, 2016. On December 19, 2016, the parties entered into Amendment No. 2 to the Merger Agreement to further extend the termination date to June 30, 2017. The special committee received a proposed amendment to the Merger Agreement from the buyer group, comprised of Mr. Guo, Ms. Dan Shao and Mr. Qing Xu, on May 23, 2017 to (a) acquire all of the outstanding shares not already owned by the buyer group for US\$4.00 per ADS or US\$2.00 per ordinary share in cash, and (b) extend the Termination Date to December 31, 2017. The special committee is evaluating the proposed amendment with the assistance of its financial and legal advisors. On June 28, 2017, the parties entered into Amendment No. 3 to the Merger Agreement to further extend the termination date to July 31, 2017 so as to give the special committee sufficient time to consider the proposed amendment.

In January 2017, we, through AM Online, established Unicom AirMedia (Beijing) Network Co., Ltd., or Unicom AirMedia, jointly with Unicom Boardband Online Co., Ltd., a wholly owned subsidiary of China Unicom, and Chengdu Haite Kairong Aeronautical Technology Co., Ltd., a wholly owned subsidiary of a listed company providing aeronautical technical services. Pursuant to a capital contribution agreement entered into by the relevant parties, AM Online invested an aggregate of RMB117.9 million in Unicom AirMedia. AM Online currently holds 39% of equity interests in Unicom AirMedia, and can designate three directors to its seven-member board. We and the other two shareholders of Unicom AirMedia intend to build global network for aeronautical communication and provide in-flight Internet and other value-added services through this newly established company. We believe that our respective expertise and advantages in telecommunication and aeronautical technology can be fully utilized under this joint venture.

Our principal executive offices are located at 17/F, Sky Plaza, No. 46 Dongzhimenwai Street, Dongcheng District, Beijing 100027, People's Republic of China. Our telephone number at this address is +86-10-8438-6868 and our fax number is +86-10-8460-8658. Our registered office in the Cayman Islands is at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

B. Business Overview

General

We are an operator of out-of-home advertising platforms in China targeting mid-to-high-end consumers as well as a first-mover in the travel Wi-Fi market. As of May 31, 2017, we hold concession rights to install and operate Wi-Fi systems on trains administered by ten regional railway administrative bureaus in China. We also hold concession rights to install and operate Wi-Fi systems on many long-haul buses in China. We are working with major bus manufactures in China to pre-install our Wi-Fi systems on their new buses. In terms of in-flight Wi-Fi, we have been in discussion with major Chinese airlines to obtain in-flight concession rights. With respect to our air travel advertising business, as of May 31, 2017, we operated digital TV screens on airplanes operated by six airlines, including Air China, China Eastern Airlines, China Southern Airlines, Shanghai Airlines, Hainan Airline and Xiamen Airlines. We also hold concession rights to operate the advertising media platforms at Sinopec gas stations throughout China until 2020.

The digital TV screens on our network airplanes are located in highly visible locations in passenger compartments and on the backs of passenger seats. We also provide in-flight advertising and non-advertising contents. We enable our advertisers to target air travelers in China, whom we believe are an attractive demographic for our advertisers because they generally have higher-than-average disposable income compared to the rest of China's population.

We combine advertising content with non-advertising content, such as weather, sports and comedy clips, in our digital TV screen programs. We have contracts with many Chinese TV stations such as Dragon TV, the Travel Channel and CCTV-5, to show video clips of their programs in airports and on airplanes. We also obtain TV programs such as documentaries and "hidden camera" type reality shows from other third-party content providers. In January 2014, we entered into a strategic partnership with China Radio International Oriental Network (Beijing) Co., Ltd, which manages the internet TV business of China International Broadcasting Network, to operate the CIBN-AirMedia channel to broadcast network TV programs to air travelers in China. We believe non-advertising program content make air travelers more receptive to the advertisements included in our programs and ultimately make our programs more effective for our advertisers. The length of our in-flight programs typically ranges from approximately 45 minutes to an hour per flight, approximately five to 15 minutes of which consist of advertising content.

We derive revenues principally by selling advertising time slots to our advertisers, including both direct advertisers and advertising agencies. In 2015 and 2016, we divested our business lines of digital frames in airports, digital TV screens in airports, our traditional media in airports and most of our outdoor media business.

Wi-Fi Business

We have obtained concession rights to install and operate Wi-Fi systems on trains administered by ten regional railway bureaus in China. We also have concession rights to install and operate Wi-Fi systems on many long-haul buses. We are in the process of installing tablet devices at passenger seats on those trains and buses that will give each passenger access to free Wi-Fi as well as a broad range of entertainment and information resources. We plan to place advertisements on our devices and charge advertising fees from our advertiser or agent clients. We also plan to offer passengers with pay-as-you-see movies, TV shows, books, music and other contents. We are in discussion with major Chinese airlines to jointly develop the in-flight Wi-Fi business.

Advertising Network and Services

After our divestitures in 2015, we primarily generate revenues from advertising services from the following platforms: digital TV screens on airplanes and gas station media displays.

Digital TV Screens on Airplanes

As of May 31, 2017, our programs were placed on digital TV screens on planes operated by six airlines in China. The displays on our network airplanes, which have been installed by aircraft manufacturers, are located at the top of passenger compartments and on the back of passenger seats. The digital TV screens at the top of passenger compartments typically range from 9 to 15 inches in size, while the display screens on the back of passenger seats typically range from 7 to 9 inches in size. There are approximately 10 to 280 on an airplane. The TV system installed on each plane differs from one another according to the requirements of each specific airline. For instance, if the airline chooses to implement audio-video on demand, or AVOD, systems and personal TV, or PTV, systems, then it would have to install TV screens on the back of each and every seat on the airplane.

Our airplane display programs are played once for approximately 45 minutes to an hour per flight. Approximately 4.5 to 15 minutes of each program consist of advertising content provided to us by our advertisers and the rest of the program consists of non-advertising content. The non-advertising content on these planes includes travel shows, documentaries, sports and other content similar to that shown on our airport programs. We also promote brand names of our advertisers through our programs by naming our programs after their brand names or displaying their logos on the corner of the screens during the programs. We have obtained rights to play popular films on airplanes in our network. As most of the airplanes on which our programs are played use video tape or DVD players to play video messages and most of these airplanes only have one video tape or DVD player, passengers are not typically given a selection of channels and thus viewership of our programs is generally high.

Gas Station Media Network

We hold concession rights to operate the advertising media platforms at Sinopec gas stations throughout China until 2020. This network consists of outdoor advertising platforms strategically placed in Sinopec gas stations where there is high visibility and significant waiting time. These outdoor advertising platforms consist of LED screens as well as traditional advertising formats such as light boxes and billboards, and display advertising content in week-long slots.

Our Sales Contracts

Our digital TV screens sales contracts typically fix the duration, time and frequency of advertisements. Our gas station advertising sales contracts also have fixed durations, time and frequency of advertisements in general. We offer advertisers spaces on a weekly basis.

We have not yet entered into any substantial advertising sales contracts in relation to our Wi-Fi business.

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

Our Concession Rights Contracts

Airlines

As of May 31, 2017, our programs were placed on digital TV screens located on routes operated by the following airlines

- Air China;

- China Eastern Airlines;
- China Southern Airlines;
- Shanghai Airlines;
- Xiamen Airlines; and
- Hainan Airline.

As of May 31, 2017, we have concession rights contracts with six Chinese airlines to place our programs on their planes. We also pay AM Advertising to use their concessions to place our programs on three other network airlines. The amount of concession fees or concession use fees payable under these contracts for 2017 is expected to be approximately RMB76 million. The scope of the exclusivity, however, varies from contract to contract. Most of these exclusivity provisions limit the exclusivity to certain types of programs played on airplanes. Most of the concession fees are fixed by escalation clauses under the relevant concession rights contracts, and their amounts vary by the number of routes and airplanes, type of aircraft and the departure and destination cities.

Some of the concession rights contracts set forth the number and model of airplanes on which our programs can be played. In 2013, in order to control our concession cost, we changed our business cooperation model with Air China so that instead of holding the exclusive concession rights for Air China, we now purchase advertising time and space slots from a third party with greater flexibility. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—A significant portion of our revenues has been derived from the five largest airports and three largest airlines in China. If any of these airlines experiences a material business disruption or if there are changes in our arrangements with these airlines, we may incur substantial losses of revenues.”

We hold 49% of the equity interests in a joint venture, Beijing Eastern Media Corporation, Ltd., or BEMC. BEMC is formed in partnership with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, which holds 51% equity interests in BEMC. BEMC obtained concession rights of certain media resources from its shareholders, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. We believe this innovative strategic partnership further strengthened our relationship with China Eastern Group and we renewed our concession rights contract with China Eastern Airlines to operate digital TV screens on China Eastern Airlines on an exclusive basis until December 31, 2020.

Gas Station Media

In April 2009, we entered into a concession rights agreement with Sinopec under which we hold the right to exclusively operate all of the outdoor advertising media at Sinopec gas stations throughout China until December 31, 2014, except for those stations in a limited number of cities whose media platforms have previously been leased by Sinopec to third parties. In August 2013, we extended the concession period with Sinopec to December 31, 2020. For stations with existing media platform lease agreements with third parties, Sinopec will not renew the contracts with third parties when the contracts expire, and will deliver these media platforms to us within a reasonable period. The minimal amount of concession fees payable under these contracts for 2017 is RMB46 million.

Wi-Fi Services on Trains

As of May 31, 2017, we have entered into concession rights contracts with authorized affiliates of Beijing, Shanghai, Jinan and Guangzhou railway administrative authorities to provide Wi-Fi services on high speed trains administered by those authorities. Certain concession rights from Beijing, Shanghai, Jinan and Guangzhou railway administrative authorities will expire in December 2020, March 2018, January 2018 and May 2017, respectively. Upon contract expiration, we can extend our concession rights for three years contracts with the Beijing and Jinan authorities in the absence of material breach of contract by us during the contract term. We may also enter into new agreements with Shanghai and Guangzhou authorities to extend the concession rights period if we duly perform our obligations under those contracts.

As of May 31, 2017, we have entered into concession rights contracts with authorized affiliates of Beijing, Shanghai, Jinan, Zhengzhou, Harbin, Hohhot, Nanchang, Nanning, Guangzhou and Urumqi railway administrative authorities to provide Wi-Fi services on regular speed trains administered by those authorities. Expiration dates of those concession rights range from August 2017 to November 2021 and are generally eligible for an extension of three more years subject to the discretion of the relevant authorities.

The amount of concession fee payable under these contracts for 2017 is approximately RMB52.4 million.

Wi-Fi Services on Long-Haul Buses

In April 2017, we had concession rights contracts with long-haul bus operators in 11 cities to provide Wi-Fi services on approximately 650 buses under their operation. Concession rights contracts with respect to approximately 130 buses have a five-year term. Concession rights contracts with respect to approximately 340 buses have a ten-year term. The rest of the contracts have a one-year or three-year term. Our concession rights under those contracts are exclusive and none of those contracts contains an automatic renewal clause.

Advertisers, Sales and Marketing

Our Advertisers

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

We have a broad base of international and domestic advertisers in various industries. In each of 2014, 2015 and 2016, advisors from one industry, which is automobiles, accounted for more than 10% of our total revenues from continuing operations. Automobile industry advertisers accounted for 21.8%, 12.8% and 58.9% of our total revenues from continuing operations in 2014, 2015 and 2016, respectively. None of our customers accounted for more than 10% of our total revenues for 2014, 2015 and 2016.

Sales and Marketing

We rely on our experienced sales team to assist advertisers in structuring advertising campaigns by analyzing advertisers' target audiences and the form and contents of the advertisement they may be interested in, as well as consumer products and services. We conduct market research, consumer surveys, demographic analysis and other advertising industry research for internal use to help our advertisers to create effective advertisements. We also use third-party market research firms from time to time to obtain the relevant market study data, and at the same time hire such research firms to evaluate the effects of our advertising, so as to evaluate the effectiveness of our network for our advertisers and to illustrate to our advertisers our ability to reach targeted demographic groups effectively.

Our experienced advertising sales team is organized by region and city with a presence in many cities in China. We provide in-house education and training to our sales force to ensure they provide our current and prospective advertisers with comprehensive information about our services, the advantages of using our advertising network as a marketing channel, and relevant information regarding the advertising industry. Our performance-linked compensation structure and career-oriented training are key drivers that motivate our sales employees.

We actively attend various public relation events to promote our brand image and the value of air travel digital advertising. We market our advertising services by displaying our name and logo on all of our digital TV screens on airplanes and gas station LED screens and by placing advertisements on third-party media from time to time, including China Central Television. We also engage third-party advertising agencies to help source advertisers.

Pricing

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

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

Programming

Our digital TV screens on network airplanes play programs ranging from 45 minutes to one hour once per flight. We compile each cycle from advertisements of 5-, 15- or 30-seconds in length provided by advertisers to us and from non-advertising content generated by our VIEs in China or provided by third-party content providers. We generally create a programming list on a weekly and monthly basis for programs played in airports and on airplanes, respectively. We create this list by first fixing the schedule for advertising content according to the respective sales contracts with our advertisers to guarantee the agreed duration, time and frequency of advertisements for each advertiser, then adding the non-advertising content to achieve an optimal blend of advertising and non-advertising content.

Substantially all of the advertisements on our network are provided by our advertisers. All of the advertising content displayed on our advertising network is reviewed by us to ensure compliance with PRC laws and regulations. See “—Regulation—Regulation of Advertising Services—Advertising Content.” We update advertising content for our programs played on digital TV screens on airplanes on a monthly basis. A majority of the non-advertising content played on our network is provided by third-party content providers such as Dragon TV, the Travel Channel and various satellite and cable television stations and television production companies. In January 2014, we entered into a strategic partnership with China Radio International Oriental Network (Beijing) Co., Ltd, which manages the internet TV business of China International Broadcasting Network, to operate the CIBN-AirMedia channel to broadcast network TV programs to air travelers in China.

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

Display Equipment Supplies and Maintenance

The primary hardware required for the operation of our air travel advertising network are the digital TV screens that we use in our media network. The majority of our digital TV screens consist of plasma display panels and LCDs. Maintaining a steady supply of our display equipment is important to our operations and the growth of our network. Our TV screen suppliers typically provide us with one-year warranties. Our service team cleans, maintains and monitors our digital TV screens on airplanes regularly.

For our traditional media platforms in airports, the primary hardware was already established when we purchased the traditional media from airports, and we do not incur significant maintenance costs in relation to these platforms.

For our gas stations media network, the primary hardware consist of basic display equipment that we install and maintain. In 2014, 2015 and 2016, 54, 57 and 45 suppliers, respectively, together supplied a majority of our gas station display equipment. We employed a team of approximately 66 members as of December 31, 2016 to maintain the conditions of our gas station display equipment.

Customer Service

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




Competition

We compete primarily with several different groups of competitors in the air travel advertising market:

- in-house advertising companies of airlines that may operate their own advertising networks; and
- traditional advertising media, such as newspapers, television, magazines and radio, some of which may advertise in the airports and gas stations where we have operations.

We compete for advertisers primarily on the basis of location, price, program quality, range of services offered and brand recognition. See “Item 3. Key Information—D. Risk Factors — Risks Related to Our Business — We face significant competition in the PRC advertising industry, and if we do not compete successfully against new and existing competitors, we may lose our market share, and our profits may be reduced.”

Intellectual Property

To protect our brand and other intellectual property, we rely on a combination of trademark and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. We have registered 21 major trademarks and one patent in China, including “”, “”, “” and “AIRMEDIA”. We cannot be certain that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights.

Regulation

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

China’s Advertising Law was promulgated in 1994, and was revised in 2015. In addition, the State Council, SAIC and other ministries and agencies have issued regulations that regulate our business, all of which are discussed below.

Limitations on Foreign Ownership in the Advertising Industry

The Foreign Investment Industrial Guidance Catalogue, and relevant provisions provide that foreign investment projects are divided into four categories: encouraged, permitted, restricted and prohibited. The foreign investment projects that are encouraged, restricted and prohibited shall be listed in the Foreign Investment Industrial Guidance Catalogue. The foreign investment projects that do not fall into the categories of encouraged, restricted or prohibited projects are considered permitted foreign investment projects and are not listed in the Foreign Investment Industrial Guidance Catalogue. Applicable regulations and approval requirements vary based on the different categories. Investments in the PRC by foreign investors through wholly foreign-owned enterprises must be in compliance with the applicable regulations, and such foreign investors must obtain governmental approvals as required by these regulations. Since the advertising industry is not listed in the Foreign Investment Industrial Guidance Catalogue, it falls into the permitted foreign investment category.

Since December 10, 2005, foreign investors have been permitted to directly own a 100% interest in advertising companies in China. PRC laws and regulations do not permit the transfer of any approvals, licenses or permits, including business licenses containing a scope of business that permits engaging in the advertising industry. In the event we are permitted to acquire the equity interests of our VIEs under the rules allowing for complete foreign ownership, our VIEs would continue to hold the required advertising licenses consistent with current regulatory requirements.

Currently, our advertising business is mainly conducted through contractual arrangements with our consolidated VIEs in China, including AM Online, AirMedia Shengshi, Jiaming Advertising and AM Yuehang.

Our VIEs are the major companies through which we provide advertising services in China. Our subsidiary, AM Technology, has entered into a series of contractual arrangements with our PRC operating affiliates and their respective subsidiaries and shareholders under which:

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

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

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel: except as described in this annual report, the respective ownership structures of AM Technology and our consolidated VIEs do not violate existing PRC laws and regulations, and the contractual arrangements among AM Technology and our consolidated VIEs, in each case governed by PRC law, are valid, binding and enforceable.

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

Regulation of Advertising Services

Business License for Advertising Companies

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

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

Advertising Content

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on, among other things, misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. The dissemination of tobacco advertisements via media is also prohibited as well as the display of tobacco advertisements in public areas. There are also specific restrictions and requirements regarding advertisements that relate to matters such as patented products or processes, pharmaceuticals, medical instruments, agrochemicals, foodstuff, alcohol and cosmetics. In addition, all advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals advertised through any media, together with any other advertisements subject to censorship by administrative authorities under relevant laws and administrative regulations, must be submitted to the relevant administrative authorities for content approval prior to dissemination. We do not believe that advertisements containing content subject to restriction or censorship comprise a material portion of the advertisements displayed on our network.

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

Outdoor Advertising

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

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

In addition, according to a relevant SARFT circular, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT. The relevant authority in China has not promulgated any implementation rules on the procedure of applying for the requisite approval pursuant to the SARFT circular.

Regulations on Foreign Exchange

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

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

Regulations on Dividend Distribution

Under applicable PRC regulations, wholly foreign-owned companies in the PRC may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. Additionally, these wholly foreign-owned companies are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until their cumulative total reserve funds have reached 50% of the companies' registered capitals. At the discretion of these wholly foreign-owned companies, they may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends except in the event of liquidation and cannot be used for working capital purposes.

In addition, under the EIT Law, dividends generated after January 1, 2008 and payable by a FIE in China to its foreign investors who are non-resident enterprises will be subject to a 10% withholding tax unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. BVI, where Broad Cosmos, our wholly owned subsidiary, is incorporated, does not have such a tax treaty with China. AM China, the 100% shareholder of AM Technology, Shenzhen AM and Xi'an AM, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). In August 2015, the State Administration of Taxation released the Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (Trial Implementation), which took effect on November 1, 2015. Under these measures, our Hong Kong subsidiary needs to obtain approval from the competent local branch of the State Administration of Taxation in order to enjoy the preferential withholding tax rate of 5% in accordance with the Double Taxation Arrangement. In February 2009, the State Administration of Taxation issued Notice No. 81. According to Notice No. 81, in order to enjoy the preferential treatment on dividend withholding tax rates, an enterprise must be the "beneficial owner" of the relevant dividend income, and no enterprise is entitled to enjoy preferential treatment pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. In October 2009, the State Administration of Taxation issued another notice on this matter, or Notice No. 601, to provide guidance on the criteria to determine whether an enterprise qualifies as the "beneficial owner" of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. Pursuant to Notice No. 601, the PRC tax authorities will review and grant tax preferential treatment on a case-by-case basis and adopt the "substance over form" principle in the review. Notice 601 specifies that a beneficial owner should generally carry out substantial business activities and own and have control over the income, the assets or other rights generating the income. Therefore, an agent or a conduit company will not be regarded as a beneficial owner of such income. Since the two notices were issued, it has remained unclear how the PRC tax authorities will implement them in practice and to what extent they will affect the dividend withholding tax rates for dividends distributed by our subsidiaries in China to our Hong Kong subsidiary. If the relevant tax authority determines that our Hong Kong subsidiary is a conduit company and does not qualify as the "beneficial owner" of the dividend income it receives from our PRC subsidiaries, the higher 10% withholding tax rate may apply to such dividends.

The EIT Law provides, however, that dividends distributed between qualified resident enterprises are exempted from the withholding tax. According to the Implementation Regulations of the EIT Law, the qualified dividend and profit distribution from equity investment between resident enterprises shall refer to investment income derived by a resident enterprise from its direct investment in other resident enterprises, except the investment income from circulating stocks issued publicly by resident enterprises and traded on stock exchanges where the holding period is less than 12 months. As the term "resident enterprises" needs further clarification and interpretation, we cannot assure you that the dividends distributed by AM Technology, Shenzhen AM and Xi'an AM to their direct shareholders would be regarded as dividends distributed between qualified resident enterprises and be exempted from the withholding tax.

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

Moreover, under the EIT Law, if we are classified as a PRC resident enterprise and such income is deemed to be sourced from within the PRC, foreign ADS holders may be subject to a 10% withholding tax upon dividends payable by us and gains realized on the sale or other disposition of ADSs or ordinary shares.

See “Item 3. Key Information — D. Risk Factors — Risks Related to our Business — Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income, and dividends distributed to our investors may be subject to more PRC withholding taxes under the PRC tax law.”

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

In October 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Notice 75, which became effective as of November 1, 2005. SAFE Notice 75 suspends the implementation of two prior regulations promulgated in January and April of 2005 by the SAFE. On July 4, 2014, SAFE issued the SAFE’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Outbound Investment and Financing and Inbound Investment via Special Purpose Vehicles, or SAFE Circular 37, which has superseded SAFE Circular 75. Under SAFE Circular 75, SAFE Circular 37 and other relevant foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is also required to file or update the registration with the local branch of SAFE, with respect to that offshore company for any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or the creation of any security interest. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, or the PBOC Regulation, setting forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. In January 2007, the SAFE issued implementing rules for the PBOC Regulation, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On February 15, 2012, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employee Share Incentive Plan of an Overseas-Listed Company (which replaced the old Circular 78, "Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in an Employee Stock Holding Plan or Stock Option Plan of an Overseas-Listed Company" promulgated on March 28, 2007), or the New Share Incentive Rule. Under the New Share Incentive Rule, PRC citizens who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. All such participants need to retain a PRC agent through a PRC subsidiary to register with SAFE and handle foreign exchange matters such as opening accounts and transferring and settlement of the relevant proceeds. The New Share Incentive Rule further requires that an offshore agent should also be designated to handle matters in connection with the exercise or sale of share options and proceeds transferring for the share incentive plan participants.

We and our PRC employees who have been granted stock options are subject to the New Share Incentive Rule. We are in the process of completing the required registration and the procedures for the New Share Incentive Rule under PRC laws, but the application documents are subject to the review and approval of the SAFE, and we can make no assurance as to when the registration and procedures will be completed. If we or our PRC employees fail to comply with the New Share Incentive Rule, we and/or our PRC employees may face sanctions imposed by the foreign exchange authority or any other PRC government authorities.

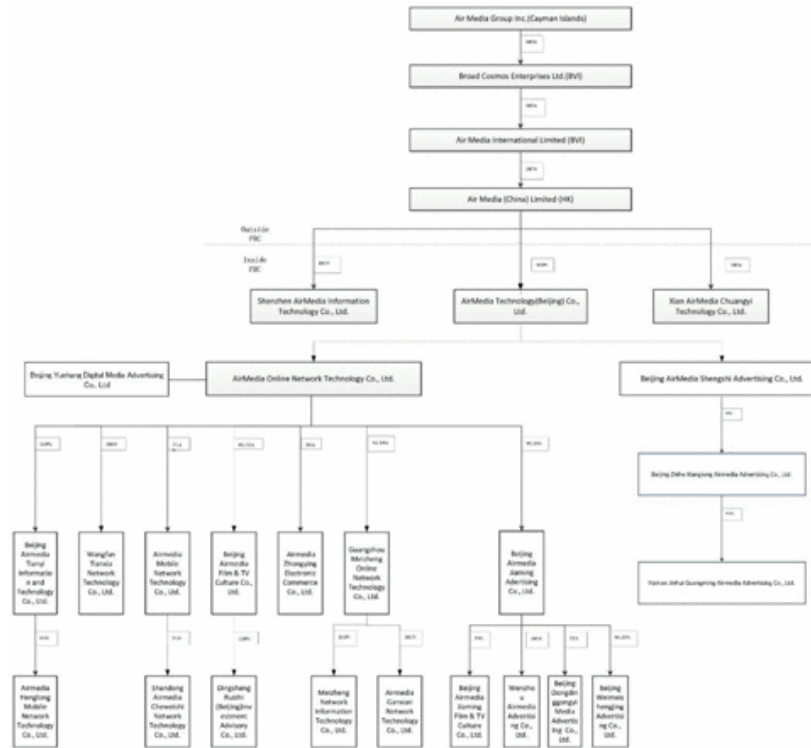
In addition, the State Administration of Taxation has issued a few circulars concerning employee stock options. Under these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related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

Seasonality

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

C. Organizational Structure

The following diagram illustrates our principal subsidiaries, VIEs and VIEs' subsidiaries as of May 31, 2017:



Notes:

- (1) AirMedia Online Network Technology Co., Ltd. is 77.2%, 14.5%, 4.8% and 3.5% owned by Herman Man Guo, Qing Xu, Tao Hong and Yi Zhang, respectively.
- (2) On December 15, 2016, AM Online and an individual signed concurrently an equity transfer agreement and an entrusted equity holding agreement, pursuant to which AM Online transferred 100% equity interests in Beijing Yuchang Digital Media Advertising Co., Ltd., or Beijing Yuchang, to the individual and entrusted the individual to act as the nominee shareholder of the foregoing equity interests. The entrusted equity holding agreement terminates upon the earlier of (i) two years from the date of the entrusted equity holding agreement or (ii) the transfer of all entrusted equity by AM Online to AM Online itself or a third party designated by AM Online. AM Online as the actual investor in Beijing Yuchang continues to hold actual shareholder rights and receive benefits from the investment in Beijing Yuchang.

(3) Beijing AirMedia Jiaming Advertising Co., Ltd. is 1.0%, 0.2%, 3.5 % and 95.3% owned by Herman Man Guo, Qing Xu, Yi Zhang and AirMedia Online Network Technology Co., Ltd., respectively.

(4) Beijing AirMedia Shengshi Advertising Co., Ltd. is 77.1%, 19.4% and 3.5% owned by Herman Man Guo, Qing Xu and Yi Zhang, respectively.

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

D. Property, Plants and Equipment

Our headquarters are located in Beijing, China, where we lease approximately 3,954 square meters of office space. Our branch offices lease approximately 4,421 square meters of office space in seven other locations.

In addition, we own approximately 2,109 square meters of office space in China. In September 2014 and April 2015, we entered into the agreements to purchase an office space of approximately 2,109 square meters in Beijing for a total consideration of RMB65 million (US\$9.4 million).

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements because of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report on Form 20-F. See “Forward-looking Information.”

A. Operating Results

We are still at an early stage in our expansion into the travel Wi-Fi market. We have obtained several concession rights in this respect and plan to sell advertising spaces to advertisers and advertising agencies and sell pay-per-view contents such as movies, literatures and other contents, to users of our Wi-Fi systems.

Important Factors Affecting the Results of Operations of Our Air Travel Advertising and Gas Station Media Business

The operating results of our air travel advertising and gas station advertising business are substantially affected by the following factors and trends.

Demand for Our Advertising Time Slots and Locations

The demand for our advertising time slots and locations for each of the last three fiscal years was directly related to our customers’ available advertising budgets and the attractiveness of our network to our customers. Our network’s attractiveness is largely affected by the coverage of our network, which in turn depends on the number of intended audience that our network has the ability to reach. In terms of our air travel advertising network, the number of intended audience we can reach is largely affected by the number of air travelers in China in generally and the scale of our network. The demand for air travel is in turn affected by general economic conditions, the affordability of air travel in China and certain special events that may attract air travelers into and within China. Our customers’ advertising spending was also particularly sensitive to changes in general economic conditions. In terms of our gas station media, in addition to the general economic conditions in China, its scope of coverage is also affected by the number of Sinopec gas stations covered by our network and the number of automobile passengers who access those gas stations.

Number of Our Advertising Time Slots and Locations Available for Sale

The number of time slots available for our digital TV screens on airplanes during the period presented is calculated by multiplying the time slots per month for a given airline by the number of months during the period presented when we had operations on such airline and then calculating the sum of all the time slots for each of our network airlines. The number of locations available for sale for our light boxes and billboards in gas stations is defined as the number of light boxes and billboards we operated in Sinopec gas stations.

By increasing the number of airlines and gas stations in our network, we can increase the number of advertising time slots and locations that we have available to sell. In addition, the length of our advertising cycle for our digital TV screens can potentially be extended to longer durations depending on demand on airline. However, advertisers may be unwilling to accept placement of their advertisements on a longer time cycle which decreases the frequencies of their advertisements displayed each day.

Pricing

The average selling price for our advertising time slots is generally calculated by dividing our advertising revenues from these time slots by the number of 30-second equivalent advertising time slots for digital TV screens on airplanes sold during that period. The average selling price for our gas station media is calculated by dividing the revenues derived from all the locations sold by the number of locations sold during the period presented. The primary factors that affect the effective price we charge advertisers for time slots and locations on our network and our utilization rate include the attractiveness of our network to advertisers, which depends on the number of displays and locations, the number and scale of airplanes in our network, the level of demand for time slots and locations, and the perceived effectiveness by advertisers of their advertising campaigns placed on our network. We may increase the selling prices of our advertising time slots and locations from time to time depending on the demand for our advertising time slots, spaces and locations.

A significant percentage of the programs played on our digital TV screens on airplanes included non-advertising content such as TV programs or public service announcements. We did not directly generate revenues from non-advertising content, but we either generated such content through our VIEs or obtained such content from third party content providers. We believe that the combination of non-advertising content with advertising content makes people more receptive to our programs, which in turn makes the advertising content more effective for our advertisers. We believe this in turn allows us to charge a higher price for each advertising time slot. We closely track the program blend and advertiser demand to optimize our ability to generate revenues for each program cycle.

Utilization Rate

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

Network Coverage and Concession Fees

The demand for our advertising time slots and locations and the effective price we charged advertisers for time slots and locations on our network depended on the attractiveness and effectiveness of our network as viewed by our advertisers which, in turn, related to the breadth of our network coverage, including significant coverage on major airlines that advertisers wish to reach. As a result, it has been, and will continue to be, important for us to secure and retain concession rights contracts to place our programs on major airlines and to increase the number of programs we place on those airlines. In addition, it is also important for us to secure and maintain the coverage of our gas station network.

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

Important Factors Affecting the Results of Operations of Our Wi-Fi Business

As of the date of this annual report, our Wi-Fi business is still in an early stage of development. Based on information currently available to us, we expect our results of business of our Wi-Fi business to be substantially affected by the following factors and trends.

Successful Completion of the Installation of Our Wi-Fi Systems

In order to operate our Wi-Fi business, we must install certain hardware and software systems on the trains and buses to be covered by our Wi-Fi services. We are still in the process of such installation and may incur technical and other difficulties. Any delay in the installation process could postpone the launching of our business.

Demand for Advertising Time Slots and Locations

The demand for our time slots and locations on our train and bus Wi-Fi systems is expected to relate to the amount of our customers' advertising spending budget and the attractiveness of our Wi-Fi system as a platform for their advertisements. The amount of available advertising budget is largely affected by the general economic conditions in China. The attractiveness of our Wi-Fi system as an advertising platform depends on whether our Wi-Fi system has the ability to reach the advertisers' intended audience, which will in turn be affected by factors including the number and types of travelers who will use our Wi-Fi systems and whether advertisements on our Wi-Fi systems can effectively attract the attention of such travelers.

Number of Our Advertising Time Slots and Locations Available for Sale

The results of our Wi-Fi business can also be affected by the number of advertisement time slots and spaces available for sale on our Wi-Fi systems. They are determined by the number of trains, buses and airplanes within our Wi-Fi service network and the number of advertisement time slots and spaces available on the system for each train, bus and airplane. By increasing the number of trains, buses and airplanes within our network, we can increase the number of advertising time slots and locations that we have available to sell. In addition, we may also increase the total number of advertisement time slots and spaces by increasing the frequency of the advertisements and designating more space on our Wi-Fi system's interface for advertising.

Pricing

The results of our Wi-Fi business will also be affected by the level of pricing for our services. We have not yet formulated and implemented any detailed pricing model for our Wi-Fi business as of the date of this annual report.

Concession Fees

Concession fees are expected to constitute a significant portion of our cost of revenues in connection with our Wi-Fi business. Those concession fees are typically fixed under our concession rights with the railway administrative bureaus. We do not pay fixed concession fees to the operators of the long-haul buses. Any increase in concession fees will increase our cost while our revenues may not increase proportionately, or at all. It will therefore be important to our results of operations of our Wi-Fi business that we secure and retain these concession rights contracts on commercially advantageous terms.

Revenues

We mainly generate revenues from the sale of advertising time slots and locations on our advertising network.

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

	Fiscal Years Ended December 31,					
	2014		2015		2016	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
Air Travel Media Network	\$ 59,200	77.9%	\$ 38,917	76.5%	\$ 12,178	73.4%
Gas station Media Network	11,164	14.7%	9,840	19.4%	4,009	24.1%
Other Media	5,583	7.4%	2,109	4.1%	410	2.5%
Total revenues	75,947	100.0%	50,866	100.0%	16,597	100.0%
Business tax and other sales tax	(1,254)	(1.7)%	(633)	(1.2)%	(84)	(0.5)%
Net revenues	\$ 74,693	98.3%	\$ 50,233	98.8%	\$ 16,513	99.5%

Revenues from Air Travel Media Network

Our air travel media network revenues from continuing operations in 2014, 2015 and 2016 consisted of revenues from digital frames in airports in the form of TV-attached digital frames, digital TV screens in airports, digital TV screens on airplanes, traditional media in airports and other revenues in air travel. As we have completed in 2015 the divestiture of our business lines of digital frames in airports, digital TV screens in airports and traditional media in airports, we do not expect to have significant increase of our revenues from those business in the foreseeable future.

Revenues from our air travel media network accounted for 77.9%, 76.5% and 73.4% of our total revenues for the years ended December 31, 2014, 2015 and 2016, respectively. Our network consisted of seven, six and six airlines as of December 31, 2014, 2015 and 2016.

Other revenues in air travel mainly include revenues from the production of media contents played in air travel and from the provision of system maintenance services.

The most significant factors that directly or indirectly affect our revenues from digital TV screens on airplanes and other revenues in air travel include the following:

- our ability to retain existing advertisers and attract new advertisers;
- our ability to retain existing concession rights to operate digital TV screens on airplanes and to add additional airlines to our network;
- our ability to continue providing effective advertising solutions that enable advertisers to reach their target audiences;
- the demand in general for air travel advertising; and
- the state of the PRC and global economy.

Revenues from Gas Station Media Network

We started our gas station media network in 2009, when we gained concession rights to develop and operate an outdoor advertising network in Sinopec gas stations throughout China. Revenues from our gas station media network, consisting of outdoor advertising platforms such as LED screens, billboards and light boxes at Sinopec gas stations in China, accounted for 14.7%, 19.4% and 24.1% of our total revenues for the years ended December 31, 2014, 2015 and 2016, respectively.

The most significant factors that directly or indirectly affect our gas station media network include the following:

- our ability to retain existing advertisers and attract new advertisers;
- our ability to retain existing concession rights to operate at the Sinopec gas stations and to add additional gas stations to our network;
- our ability to continue providing effective advertising solutions that enable advertisers to reach their target audiences;
- the demand in general for gas station advertising; and
- the state of the PRC and global economy.

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

Our PRC subsidiaries are subject to value-added tax at a rate of 6% on revenues from advertising services and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is reflected in the account under input VAT receivable or other taxes payable. In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC, including Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Also a circular issued in May 2013 provided that such VAT pilot program is rolled out nationwide since August 2013. Since then, certain of our subsidiaries and VIEs became subject to VAT at the rates of 6% or 3%, on certain service revenues which were previously subject to business tax. Our gross revenue is presented net of the VAT.

Our net revenue is presented net of such business tax and other sale related taxes. Pursuant to the Circular on Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value Added Tax promulgated by the Ministry of Finance of China and the State Administration of Taxation of China on March 23, 2016, which took effect on May 1, 2016, the Chinese government will levy VAT in lieu of business tax on a trial basis across China, and the tax rate for taxpayers who are service providers, such as us, is 6%.

Cost of Revenues

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

	Fiscal Years Ended December 31,					
	(All amounts are in thousands of U.S. Dollars, except percentages)					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 74,693	100.0%	\$ 50,233	100.0%	\$ 16,513	100.0%
Cost of revenues						
Concession fees	(71,533)	(95.8)%	(64,752)	(128.9)%	(23,470)	(142.1)%
Agency fees	(10,602)	(14.2)%	(4,938)	(9.8)%	(4,388)	(26.6)%
Others	(14,473)	(19.4)%	(19,887)	(39.6)%	(21,184)	(128.3)%
Total cost of revenues	\$ (96,608)	(129.3)%	\$ (89,577)	(178.3)%	\$ (49,042)	(297.0)%

Concession Fees

We incur concession fees to airlines for placing our programs on their digital TV screens and to gas stations for operating our media displays such as light boxes, billboards and LEDs and to train administration authorities for Wi-Fi system installation and operation rights. These fees constitute a significant portion of our cost of revenues. Most of the concession fees paid to airlines were fixed under the relevant concession rights contracts with escalation clauses, which required fixed fee increases over each year of the relevant contract, and payments were usually due three or six months in advance. For gas stations, the actual concession fees paid to Sinopec were based on the actual number of developed gas stations with our operating LEDs and other displays and associated standard annual concession fees for each developed gas station or a fixed minimum payment if any based on negotiation with the petroleum company. Most of the concession fees paid to railway administrative bureaus were fixed under the relevant concession rights contracts and payments were usually one month in advance. Upon the expiration of the existing contracts, the respective railway administrative bureaus have the discretion to renew the contracts with us or not and upon renewal, they may request an increase in concession fees.

We began to incur concession fees related to our Wi-Fi business from 2013. We recorded these concession fees amounting to \$6.3 million, \$7.5 million and \$5.3 million in 2014, 2015 and 2016, respectively. The rest of our concession fees consisted of those related to our non-Wi-Fi business and decreased from \$65.2 million in 2014 to \$57.3 million in 2015 and to \$18.2 million in 2016 as we ceased some of our related operations during those periods.

Concession fees tend to increase over time as we obtain more concession rights to further develop our network. As we have obtained several concession rights to operate Wi-Fi systems on trains, we may experience an increase in our concession fees in order to retain these concession rights contracts.

Agency Fees

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

Others

Our other cost of revenues include the following:

- *Display Equipment Depreciation.* Generally, we capitalized the cost of our digital TV screens, light boxes, LED screens and billboards and related equipment in the gas station media network and PAD on high-speed trains and recognized depreciation costs on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation costs were the number of digital TV screens and LED screens in gas stations and the unit cost for those displays, as well as the remaining useful life of the displays.
- *Display Equipment Maintenance Cost.* Our display maintenance cost consisted of salaries for our network maintenance staff, travel expenses in relation to on-site visits and monitoring and costs for materials and maintenance in connection with the upkeep of our advertising network. The primary factor affecting our display equipment maintenance cost was the size of our network maintenance staff.

- *Non-advertising Content Cost.* The programs on the majority of our digital TV screens combine advertising content with non-advertising content, such as weather, sports and comedy clips. Our standard programs in airports currently include 40 minutes of non-advertising content during each hour of programming and are shown for approximately 16 hours per day. The length of our in-flight programs typically ranges from approximately 45 to 60 minutes per flight, approximately 40 to 45 minutes of which consist of non- advertising content. We believe that the non-advertising program content makes air travelers more receptive to the advertisements included in our programs and ultimately make our program more effective for our advertisers. This in turn allows us to charge a higher price for each advertising time slot. We also promoted the brand names of our advertisers through our program content by naming our programs after their brand names or displaying their logos on the corner of the digital TV screens during the programs. We produced some of the non-advertising content shown on our network through our VIEs. The majority of the non-advertising content broadcast on our network was provided by third-party content providers such as Shanghai Media Group and various local television stations and television production companies. In January 2014, we entered into a strategic partnership with China Radio International Oriental Network (Beijing) Co., Ltd, which manages the internet TV business of China International Broadcasting Network, to operate the CIBN-AirMedia channel to broadcast network TV programs to air travelers in China. We pay a fixed price for some content. Other content is provided free to us and the provider of the content benefits by having its logo shown on the content in addition to experiencing greater exposure to a wider audience. These providers of free content receive no benefit from us and do not place advertising with us. We do not directly generate revenues from these non-exchange transactions. Some of the third-party content providers that currently do not charge us for their content may do so in the future and other third-party content providers may increase the prices for their programs over time. This may increase our cost of revenues in the future.

As we launch our new Wi-Fi business, we expect to also incur cost of revenues in the form of bandwidth fees paid to mobile data service providers and Wi-Fi system maintenance fees.

Operating Expenses

During the periods covered by this report, our operating expenses consisted of general and administrative expenses and selling and marketing expenses. The following table sets forth the two components of our operating expenses, both in absolute amount and as a percentage of net revenues for the periods indicated.

	Fiscal Years Ended December 31,					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 74,693	100.0%	\$ 50,233	100.0%	\$ 16,513	100.0%
Operating expenses						
General and administrative expenses	(20,620)	(27.6)%	(27,102)	(54.0)%	(45,227)	(273.9)%
Selling and marketing expenses	(12,916)	(17.3)%	(9,611)	(19.1)%	(12,056)	(73.0)%
Total operating expenses	\$ (33,536)	(44.9)%	\$ (36,713)	(73.1)%	\$ (57,283)	(346.9)%

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

General and Administrative Expenses

Our general and administrative expenses included share-based compensation expenses of \$1.1 million, \$0.6 million and \$0.8 million in the fiscal years ended December 31, 2014, 2015 and 2016, respectively. General and administrative expenses consisted primarily of office and utility expenses, salaries and benefits for general management, finance and administrative personnel, allowance for doubtful accounts, depreciation of office equipment, public relations related expenses and other administration related expenses.

Selling and Marketing Expenses

Our selling and marketing expenses consisted primarily of salaries and benefits for our sales and marketing personnel, office and utility expenses related to our selling and marketing activities, travel expenses incurred by our sales personnel, expenses for the promotion, advertisement and sponsorship of media events, and other sales and marketing related expenses. Our selling and marketing expenses included share-based compensation expenses of approximately \$0.1 million, nil and nil in the years ended December, 31, 2014, 2015 and 2016, respectively.

Taxation

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

British Virgin Islands. We are exempted from income tax in the British Virgin Islands on our foreign-derived income. There are no withholding taxes in the British Virgin Islands.

Hong Kong. Our Hong Kong subsidiary, Air Media (China) Ltd, did not record any Hong Kong profits tax for the year ended December 31, 2014, 2015 and 2016, on the basis that our Hong Kong subsidiaries did not have any assessable profits arising in or derived from Hong Kong for 2014, 2015 and 2016. Dividends from our Hong Kong subsidiaries to us are exempt from withholding tax. No dividend from our Hong Kong subsidiaries was declared for the years ended December 31, 2014, 2015 and 2016.

PRC. Prior to the effective date of the new EIT Law on January 1, 2008, enterprises in China were generally subject to EIT at a statutory rate of 33% unless they qualified for certain preferential treatment. Effective as of January 1, 2008, the EIT Law applies a uniform EIT rate of 25% to all domestic enterprises and foreign-invested enterprises and defines new tax incentives for qualified entities. Under the EIT Law, entities that qualify as HNTE are entitled to the preferential income tax rate of 15%. A company's status as a HNTE is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential income tax rate. In addition, according to the Administrative Regulations on the Recognition of High and New Technology Enterprises, the Guidelines for Recognition of High and New Technology Enterprises and the Notice of Favorable Enterprise Income Tax Policies jointly issued by the PRC Ministry of Science and Technology, the PRC Ministry of Finance and the PRC State Administration of Taxation in April 2008, July 2008 and February 2008, respectively, "new software enterprises" can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

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

AM Technology was recognized as a HNTE under the new rules and therefore, it is entitled to enjoy a preferential EIT rate of 15%. It was also eligible for a 50% tax reduction from 2009 to 2010 under the applicable tax laws and regulations that were in effect before January 1, 2008, the date the EIT Law came into effect. As a result, AM Technology was subject to an EIT rate of 7.5% in 2009 and 2010. In September 2011, AM Technology received the HNTE certificate, and in October 2014, AM Technology successfully renewed its HNTE Status and obtained the certificate issued by the competent governmental authority. As a result, AM Technology is expected to be subject to an EIT rate of 15% until 2016 as long as it maintains its HNTE status.

Xi'an AM qualified as a "software enterprise" in August 2008 by the Technology Information Bureau of Shaanxi Province and has received a written approval from Xi'an local tax bureau that it is granted a two-year exemption from EIT commencing on its first profitable year and a 50% reduction of the 25% EIT rate for the succeeding three years. As Xi'an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoyed the preferential income tax rate of 12.5% from 2011 to 2013. Xi'an AM received the HNTE certificate jointly issued by the competent governmental authorities in Shaanxi Province in September 2014. As such, Xi'an AM is expected to be subject to a preferential income tax rate of 15% from 2014 to 2016 as long as it maintains its HNTE status.

Shenzhen AM was subject to a 15% preferential EIT rate in 2007 as it is located in Shenzhen and then was subject to EIT on its taxable income from 2008 at the gradual rate as set out in Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives, or “Circular 39”. Since Shenzhen AM is also qualified as a “manufacturing foreign-invested enterprise” incorporated prior to the effectiveness of the EIT Law, it is further entitled to a two-year exemption from EIT for the years 2008 and 2009 and preferential rates of 11%, 12% and 12.5% for the years 2010, 2011 and 2012, respectively. Shenzhen AM is subject to EIT at a rate of 25% from 2013 afterwards.

Hainan Jinhui is subject to EIT on the taxable income at the gradual rate, which was 22% in 2010, 24% in 2011, 25% in 2012 as set out in Circular 39. Hainan Jinhui is subject to EIT at a rate of 25% in 2013 and thereafter.

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

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

We do not believe we and our subsidiaries established outside of the PRC are PRC resident enterprises. However, if the PRC tax authorities subsequently determine that we and our subsidiaries established outside of China should be deemed as a resident enterprise, we and our subsidiaries established outside of China will be subject to PRC income tax at a rate of 25%. In addition, under the EIT law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The BVI, where Broad Cosmos, our wholly owned subsidiary and the 100% shareholder of Shenzhen AM, is incorporated, does not have such a tax treaty with China. Air Media (China) Ltd, the 100% shareholder of AM Technology Shenzhen AM and Xi’an AM, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). However, if the Hong Kong company is not considered to be the beneficial owner of dividends paid to it by its PRC subsidiaries under a tax notice promulgated on October 27, 2009 and the bulletin No.30 of 2012, such dividends would be subject to withholding tax at a rate of 10%. See “Item 3. Key Information — D. Risk Factors — Risks Related to our Business — Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income, and dividends distributed to our investors may be subject to more PRC withholding taxes under the PRC tax law.”

Critical Accounting Policies

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

Discontinued Operation

A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statements of operations. The amount of total current assets, total non-current assets, total current liabilities and total non-current liabilities are presented separately on the consolidated balance sheets.

Revenue Recognition

Our revenues are derived from selling advertising time slots on our advertising networks. For the years ended December 31, 2014, 2015 and 2016, the advertising revenues were generated from air travel media network, gas station media network and other media.

We typically sign standard contracts with our advertising customers, who require our company to run the advertiser's advertisements on our network in specified locations for a period of time. We recognize advertising revenues ratably over the performance period for which the advertisements are displayed, so long as collection of the fees remains probable.

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

Deferred Revenue

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

Non-monetary Exchanges

We occasionally exchange advertising time slots and locations with other entities for assets or services, such as equipment and other assets. The amount of assets and revenue recognized is based on the fair value of the advertising provided or the fair value of the transferred assets, whichever is more readily determinable.

Concession Fees

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

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

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

Agency Fees

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

From time to time, we and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to reduce existing agency fee liabilities as calculated under the terms of existing contracts. Such reductions in the accrued agency fees are recorded as a reduction in cost of sales in the period the renegotiations are finalized.

Allowance for Doubtful Accounts

We conduct credit evaluations of clients and generally do not require collateral or other security from clients. We establish an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific clients, and utilize both specific identification and a general reserve to calculate allowance for doubtful accounts. The amount of receivables ultimately not collected by us has generally been consistent with expectations and the allowance established for doubtful accounts. If the frequency and amount of customer defaults change due to the clients' financial condition or general economic conditions, the allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and adjust allowances for accounts where collection may be in doubt. We believe the increase or decrease of allowance for doubtful accounts is usually attributable to the growth or decrease of aged accounts receivables, especially in relation to receivables aged over 720 days, for which a full allowance is provided.

Income Taxes

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

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, we classify the interest and penalties, if any, as a component of the income tax position.

Value-added Tax ("VAT")

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

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC including Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Also, a circular issued in May 2013 provided that such VAT pilot program was rolled out nationwide in August 1, 2013. Since then, certain of our subsidiaries and VIEs became subject to VAT at the rates of 6% or 3% on certain service revenues which were previously subject to business tax. Our gross revenue are presented net of VAT.

Share-based Compensation

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

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

Our Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements, including the related notes that appear elsewhere in this annual report. We do not believe our historical consolidated results of operations are indicative of our results of operations you may expect for any future period.

	Years Ended December 31,		
	2014	2015	2016
	(In thousands of U.S. Dollars, except share, per share and per ADS data)		
Consolidated Statements of Operations Data:			
Revenues:			
<i>Air Travel Media Network</i>	59,200	38,917	12,178
<i>Gas Station Media Network</i>	11,164	9,840	4,009
<i>Other Media</i>	5,583	2,109	410
Total revenues	75,947	50,866	16,597
Business tax and other sales tax	(1,254)	(633)	(84)
Net revenues	74,693	50,233	16,513
Cost of revenues	(96,608)	(89,577)	(49,042)
Gross loss	(21,915)	(39,344)	(32,529)
Operating expenses:			
Selling and marketing	(12,916)	(9,611)	(12,056)
General and administrative	(20,620)	(27,102)	(45,227)
Total operating expenses	(33,536)	(36,713)	(57,283)
Loss from operations	(55,451)	(76,057)	(89,812)
Interest (expense) income, net	1,058	472	843
Other income, net	979	1,383	4,243
Loss from continuing operations before income taxes and (loss) income on equity method investments	(53,414)	(74,202)	(84,726)
Income tax (benefits)/expenses from continuing operations	(1,512)	6,421	4,483
Net loss before (loss) income on equity method investments	(51,902)	(80,623)	(89,209)
(Loss) income on equity method investments	(212)	2,352	(33)
Net loss from continuing operations	(52,114)	(78,271)	(89,242)
Less: Net loss attributable to noncontrolling interests	(6,808)	(7,620)	23,617
Net loss from continuing operations attributable to AirMedia Group Inc.'s shareholders	(45,306)	(70,651)	(65,625)
Discontinued operation:			
Net income from discontinued operations	22,230	272,879	—
Income tax benefits (expenses) from discontinued operations	(1,942)	(51,696)	—
Net income from discontinued operations, net of tax	20,288	221,183	—
Less: Net income from discontinued operations attributable to non-controlling interests	677	885	—
Net income from discontinued operations attributable to AirMedia Group Inc.'s shareholders	19,611	220,298	—
Net (loss)/income	(31,826)	142,912	(89,242)
Net (loss)/income attributable to AirMedia Group Inc.'s shareholders	\$ (25,695)	\$ 149,647	\$ (65,625)

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net Revenues. Our net revenues decreased by 67.1% to \$16.5 million in 2016 from \$50.2 million in 2015. The decrease was primarily due to the decrease in revenues from air travel media network.

Revenues from air travel media network: Revenues from air travel media network decreased by 68.7% from \$38.9 million in 2015 to \$12.2 million in 2016. Among our revenues from air travel media network, revenues from digital TV screens on airplanes were \$13.3 million and \$10.3 million in 2015 and 2016, respectively. The revenue from billboards and painted advertisement in airport and other traditional media decreased \$23.7 million. The decrease in revenues from digital TV screens on airplanes mainly resulted from a soft advertising market and a decrease in advertisers' demand for digital TV screens due to the availability of more choices of in-flight entertainment. We are in a transition period of the divestiture, and we had terminated the operations of all billboards and painted advertisements on gate bridges. As a result, revenues from digital frames and TV screens in airports and other traditional media in airports significantly decreased from 2015.

Revenues from the gas station media network: Revenues from the gas station media network decreased by 59.3% from \$9.8 million in 2015 to \$4.0 million in 2016 due to a soft advertising market.

Revenues from other media: Revenues from other media were primarily revenues from our film distribution business. Revenues from other media decreased by 80.6% year-over-year to \$0.4 million in 2016 from \$2.1 million in 2015, primarily due to a decrease of \$1.1 million in film distribution revenue as a result of a competitive film market.

Cost of Revenues. Our cost of revenues decreased by 45.3% to \$49.0 million in 2016 from \$89.6 million in 2015. Our cost of revenues as a percentage of our net revenues increased to 297.0% in 2016 from 178.3% in 2015. This increase was mainly due to the significant decrease in our revenues. Concession fees, as one of the major component in our cost of revenue, decreased by 63.9% to \$23.4 million in 2016 from \$64.8 million in 2015. Concession fees as a percentage of net revenues increased to 141.9% in 2016 from 128.9% in 2015. Our revenues decreased significantly as we exited many of the business lines, but we continued to pay much of the related concession fees in 2016 due to our obligations under the concession rights. As of the date of this annual report, concession rights contracts in connection with the business that we no longer operate have either expired or been transferred to third parties. We expect to incur concession fee costs associated only with the business lines of digital TV screens on airplanes, gas station media and our Wi-Fi business in the foreseeable future.

Operating Expenses. Our operating expenses increased by 56.0% to \$57.3 million in 2016 from \$36.7 million in 2015. Our total operating expenses in 2015 included share-based compensation expenses of \$0.6 million while our total operating expenses in 2016 included share-based compensation expenses of \$0.8 million.

- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 25.4% to \$12.1 million in 2016 from \$9.6 million in 2015. For 2016, our selling and marketing expenses mainly consisted of \$8.6 million staff expenses. We restructured our selling and marketing team and incurred higher expenses compared to last year.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 66.9% to \$45.2 million (including \$0.8 million of share-based compensation expenses) in 2016 from \$27.1 million (including \$0.6 million of share-based compensation expenses) in 2015, primarily due to approximately \$12.7 million in bad debt expenses and \$0.8 million impairment charge to the gas statement equipment incurred in 2016. During 2015, we incurred a recovery of bad debt expenses of \$2.7 million and nil impairment charge.

Loss from Continuing Operations. We recorded a loss from continuing operations of \$89.8 million in 2016, as compared to a loss from continuing operations of \$76.1 million in 2015 as a cumulative result of the above factors.

Net income from discontinued operations. We recorded nil of net income from discontinued operations in 2016 compared with \$272.9 million in 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net Revenues. Our net revenues decreased by 32.7% from \$74.7 million in 2014 to \$50.2 million in 2015. The decrease was primarily due to the decrease in revenues from air travel media network.

Revenues from air travel media network: Revenues from air travel media network decreased by 34.3% to \$38.9 million in 2015 from \$59.2 million in 2014. Among our revenues from air travel media network, revenues from digital TV screens on airplanes were \$13.3 million and \$16.2 million in 2015 and 2014, respectively. The remainder of revenues from air travel media network mainly consisted of (i) revenues from the stand-alone digital frames in one airport and LEDs in two airports for part of 2015, which were not included in the disposed business, and (ii) certain revenues from traditional media in three airports for part of 2015, which were not included in the disposed business. Changes in revenues from air travel media network from 2014 to 2015 also reflected the sale of our business of TV-attached digital frames and digital TV screens in airports in 2015.

The number of time slots sold on digital TV screens on airplanes decreased by 22.6% to 432 time slots in 2015 from 558 time slots in 2014 primarily due to a soft advertising market. The number of time slots available for sale decreased by 0.5% to 1,620 time slots in 2015 from 1,628 time slots in 2014. Utilization rate decreased to 26.7% in 2015 from 34.3% in 2014 primarily due to the decrease in the number of time slots sold. The average selling price per time slot of digital TV screens on airplanes increased by 6.4% to \$30,904 in 2015 from \$29,054 in 2014 primarily due to lower discounts offered in 2015 than in 2014.

Revenues from the gas station media network: Revenues from the gas station media network decreased by 11.9% to \$9.8 million from \$11.2 million in 2014 due to a soft advertising market.

Revenues from other media: Revenues from other media were primarily revenues from our film distribution business. Revenues from other media decreased by 62.2% year-over-year from \$5.6 million in 2014 to \$2.1 million in 2015, primarily due to a decrease of \$4.8 million in film distribution revenue as a result of a competitive film market.

Cost of Revenues. Our cost of revenues decreased by 7.2% from \$96.6 million in 2014 to \$89.6 million in 2015. Our cost of revenues as a percentage of our net revenues increased from 129.3% in 2014 to 178.3% in 2015. This increase was mainly due to a combined effect of the decrease in our revenues and the increase in our concession fees. Concession fees decreased by 9.4% from \$71.5 million in 2014 to \$64.8 million in 2015, primarily due to an decrease in the prices of our concession rights. Concession fees as a percentage of net revenues increased from 95.8% in 2014 to 128.9% in 2015. Our revenues decreased significantly as we exited many of the business lines, but we continued to pay much of the related concession fees in 2015 due to our obligations under the concession rights. As of the date of this annual report, concession rights contracts in connection with the business that we no longer operate have either expired or been transferred to third parties. We expect to incur concession fee costs associated only with the business lines of digital TV screens on airplanes, gas station media and our Wi-Fi business in the foreseeable future.

Operating Expenses. Our operating expenses increased by 9.5% from \$33.5 million in 2014 to \$36.7 million in 2015. Our total operating expenses in 2014 included share-based compensation expenses of \$1.3 million while our total operating expenses in 2015 included share-based compensation expenses of \$0.6 million.

- *Selling and Marketing Expenses.* Our selling and marketing expenses decreased by 25.6% from \$12.9 million in 2014 (including \$0.1 million of share-based compensation expenses) to \$9.6 million in 2015 (including nil share-based compensation expenses) mainly due to a decrease of \$1.8 million in marketing expenses.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 31.4% from \$20.6 million (including \$1.1 million of share-based compensation expenses) in 2014 to \$27.1 million (including \$0.6 million of share-based compensation expenses) in 2015, primarily due to higher professional service fees in connection with the sale of AM Advertising.

Loss from Continuing Operations. We recorded a loss from continuing operations of \$76.1 million in 2015, as compared to a loss from continuing operations of \$55.5 million in 2014 as a cumulative result of the above factors.

Net income from discontinued operations. We recorded \$272.9 million of net income from discontinued operations in 2015 compared with \$22.2 million in 2014. Such increase was mainly attributable to a one-off gain of \$244.2 million upon the disposal of equity interest of AM Advertising in 2015.

Share-based Compensation

2007 Share incentive plan

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

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

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

On April 15, 2014, the Board of Directors approved to extend the expiration dates of the options granted on November 29, 2007 and July 10, 2009 from April 28, 2014 to April 28, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options, which was \$0.21 and \$0.21 per share, respectively, as of the modification dates, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award were \$4,000 and \$4,000, respectively, which were recognized as share-based compensation expense for the year ended December 31, 2014.

On May 31, 2014, the former CFO resigned and the Board of Directors approved the amendment of his share option agreement. On the date of resignation, 575,440 unvested options were cancelled and the expiration date of 1,282,098 vested options was modified from September 3, 2017 to May 31, 2016. The fair value of the stock options, which was \$0.43 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was \$0.2 million, which was recognized as share-based compensation expense for the year ended December 31, 2014.

On June 9, 2014, the Board of Directors approved to extend the expiration date of the options granted on July 10, 2009 from July 11, 2014 to July 11, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value were \$0.22 and \$0.12 per share for the stock options whose exercise price were \$1.15 and \$1.57 per share, respectively, as of the modification date, was estimated using the Black-Scholes model. The incremental compensation costs of the modified award were \$0.7 million and \$5,000, respectively, which were recognized as share-based compensation expense for the year ended December 31, 2014.

On June 9, 2014, Board of Directors of the Group approved to extend the expiration date of the options granted on November 1, 2012 from November 11, 2014 to November 11, 2016. Modified award is viewed as an exchange of the original award for a new award. The fair value of the stock options, which was \$0.25 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was \$4,000 which was recognized as share-based compensation expense for the year ended December 31, 2014.

2011 Share incentive plan

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

On March 22, 2011, the Board of Directors granted options to Group's employees to purchase an aggregate of 2,180,000 ordinary shares of the Company under 2007 Option Plan and 2011 Option Plan, at an exercise price of \$2.3 per share. The contractual term of the options was 5 or 10 years. One twelfth of these options will vest each quarter through March 22, 2014. Subsequently on June 7, 2011, the Board of Directors approved to modify the exercise price of these stock options to \$1.57 per share. The fair value of these options at the modification date was estimated to be \$0.75 per option. The incremental share based compensation costs of the re-priced options was \$0.3 million to be recognized over the remaining service period through March 22, 2014.

On August 23, 2011, the Board of Directors approved the adjustment of the exercise price of certain stock options that were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011, which were subsequently modified from \$1.57 per share to \$1.15 per share. The fair value of the options on the modification date was \$0.21, \$0.22, \$0.26, \$0.39 and \$0.53 per share, respectively, calculated using the Black-Scholes model. The incremental compensation cost of the re-priced options was \$1.3 million of which \$1.0 million was recognized on the modification date, and the remainder to be recognized over the remaining service period.

In September 2012, the former CFO of the Group resigned. Of the 600,000 options granted to her on March 22, 2011, 300,000 were vested through her date of resignation. In conjunction with her resignation, she signed a supplementary agreement with the Group that granted her 100,000 immediately exercisable options and 200,000 options that would vest through September 22, 2013. During the vesting period, she would provide consulting service as a consultant. For the 100,000 immediately exercisable options, a measurement date was reached upon grant and the Group immediately recognized \$35,000 share-based compensation expenses. For the 200,000 options that vested through September 22, 2013, the Group recognized expense based on the fair value of the options as of each reporting date through the measurement date. For the years ended December 31, 2013, 2014 and 2015, the Group recognized \$59,000, nil and nil share-based compensation expense for these options, respectively.

2012 Share incentive plan

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

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

On June 1 and August 1, 2014, the Group granted 2,376,620 options and 140,000 options to its employees under the 2012 Option Plan to purchase the Company's ordinary shares at an exercise price of \$1.025 and \$1.045 per share, respectively. One twelfth of these options will vest each quarter through June 1, 2017 and August 1, 2017, respectively. The expiration date will be 5 years from the grant dates.

On October 13, 2014, an employee terminated his employment with the Group but continued to provide service as a nonemployee consultant. 50,000 options granted to him on August 1, 2014 were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense for the year ended December 31, 2014 was not material. On October 31, 2015, the consultant service contract terminated. Of the 50,000 options granted to him, 20,830 were vested through the service period end and the expiration date of the vested options was modified from August 1, 2019 to January 31, 2016. The rest 29,170 unvested options were cancelled at the service period end.

On May 12, 2015, the Group granted 660,000 options its employees under the 2012 Option Plan to purchase the Company's ordinary shares at an exercise price of \$1.675 per share. One twelfth of these options will vest each quarter through May 12, 2018. The expiration date will be 5 years from the grant date.

On June 15, 2015, an employee terminated his employment with the Group but continued to provide service as a nonemployee consultant. 200,000 options granted to him on June 1, 2014 were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense for the year ended December 31, 2015 was not material.

On October 31, 2015, an employee terminated his employment with the Group but continued to provide service as a nonemployee consultant. 100,000 options granted to him on May 12, 2015 were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense for the year ended December 31, 2015 was not material.

On December 31, 2015, two consultants resigned. Of the 200,000 options granted to one of them on May 12, 2015, 3,332 were vested through the date of resignation. The expiration date of the vested options was modified from May 12, 2020 to May 31, 2016. For the rest 166,668 unvested options, one twelfth of the total granted options will still vest on February 12, 2016 following the original vesting schedule and the rest 150,002 options were cancelled on the date of resignation. The fair value of the stock options, which was \$1.12 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was immaterial for the year ended December 31, 2015. Of the 100,000 options granted to the other consultant on May 12, 2015, 16,664 were vested through the date of resignation. The expiration date of the vested options was modified from May 12, 2020 to January 31, 2016, and the 83,336 unvested options were cancelled on the date of resignation.

On March 10, 2016, the Board of Directors approved to extend the expiration dates of the 685,000 options from various original expiration dates in March and April 2016 to December 31, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options of \$1.67 as of the modification dates was estimated using the Black-Scholes model. The incremental share-based compensation expense for the year ended December 31, 2016 was not material.

On July 10, 2016, Board of Directors approved to extend the expiration dates of the 2,139,918 options from original expiration date of July 11, 2016 to December 31, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options of \$0.38 as of the modification date was estimated using the Black-Scholes model. The incremental share-based compensation expense of \$79,000 was recognized for the year ended December 31, 2016.

For the year ended December 31, 2016, four employees terminated their employment relationships with us, but continued to provide service as nonemployee consultant. Their options were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense of \$0.2 million was recognized for the year ended December 31, 2016.

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

We recorded share-based compensation of \$1.3 million, \$0.6 million and \$0.8 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Inflation

Historically inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2014, 2015 and 2016 was increase of 1.5%, 1.6% and 2.1%, respectively.

Although it has not materially impacted our results of operations in 2016, we can provide no assurance that we will not be affected in the future by potentially higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

B. Liquidity and Capital Resources

To date, we have financed our operations primarily through internally generated cash, the sale of preferred shares in private placements and the proceeds we received from our initial public offering.

The Group incurred losses from operations of US\$76.1 million and US\$89.8 million for the years ended December 31, 2015 and 2016. As of December 31, 2016, the Group had shareholders' deficit of US\$15.8 million. The Group had negative cash flows from operating activities for the years ended December 31, 2015 and 2016, the net cash used in operating activities was US\$69.1 million and US\$103.6 million for the years ended December 31, 2015 and 2016. As of December 31, 2016, the Group had cash and cash equivalents of US\$117.5 million and working capital of \$115.0 million. From 2017 and onwards, the Group will focus on improving operation efficiency and cost reduction, and enhancing marketing function to attract more users. The Group regularly monitors its current and expected liquidity requirements to ensure that it maintains sufficient cash balances and accessible credit to meet its liquidity requirements in the short and long term. Based on the existing cash and cash equivalents, working capital condition and forecast for future operations, the Group believes that it will be able to meet its payment obligations and other commitments for at least through the following twelve months from the date of filing. However, there is no assurance that management will be successful in their plans.

We generally deposit our excess cash in interest bearing bank accounts. Although we consolidate the results of our VIEs in our consolidated financial statements, we can only receive cash payments from them pursuant to our contractual arrangements with them and their shareholders. See "Item 4. Information on the Company — C. Organizational Structure." Our principal uses of cash primarily include capital expenditures, contractual concession fees, business acquisitions, share repurchases, and other investments and, to a lesser extent, salaries and benefits for our employees and other operating expenses. We expect that these will remain our principal uses of cash in the foreseeable future. We may also use additional cash to fund strategic acquisitions.

Cash Flow

The following table shows our cash flows with respect to operating activities, investing activities and financing activities for the years ended December 31, 2014, 2015 and 2016:

	Years Ended December 31,		
	2014	2015	2016
Net cash (used in) provided by operating activities	(1,814)	(69,062)	(103,610)
Net cash (used in) provided by investing activities	(6,157)	88,142	130,582
Net cash provided by (used in) financing activities	16,823	2,141	11,130
Effect of exchange rate changes	(1,067)	(1,698)	(7,515)
Net increase/(decrease) in cash	7,785	19,523	30,587
Cash at the beginning of the year	59,652	67,437	86,960
Cash at the end of the year	67,437	86,960	117,547

Operating Activities

Net cash used in operating activities was \$103.6 million for the year ended December 31, 2016. Net cash used in continuing operating activities was primarily attributable to (1) a net loss of \$89.2 million, (2) a decrease in income tax payable of \$27.4 million and (3) a decrease due to related parties of \$15.0 million, partially offset by (1) certain non-cash expenses that did not result in cash outflow (principally bad debt expenses of \$12.7 million) and (2) depreciation and amortization of \$13.0 million

Net cash used in operating activities was \$69.1 million for the year ended December 31, 2015, consisting of net cash used in continuing operating activities of \$28.0 million and net cash used in discontinued operating activities of \$41.0 million. Net cash used in continuing operating activities was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally the depreciation and amortization of \$5.8 million, (2) an increase of other current assets of \$16.0 million, (3) a decrease of \$8.6 million in accounts payable and (4) a decrease of \$6.8 million in accrued expenses and other current liabilities.

Net cash used in operating activities was \$1.8 million for the year ended December 31, 2014, consisting of net cash used in continuing operating activities of \$42.6 million and net cash provided by discontinued operating activities of \$40.8 million. The net cash used in continuing operating activities was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$6.3 million and allowance for doubtful accounts of \$3.2 million, (2) an increase of other non-current assets of \$5.1 million, (3) a decrease of \$1.9 million in deferred revenue and (4) a decrease of \$1.7 million in accounts payable.

Investing Activities

Net cash provided by investing activities for the year ended December 31, 2016 amounted to \$130.6 million. The amount of net cash provided by continuing investing activities was principally attributable to receipt of consideration receivable of \$196 million as a result of disposition of our 75% equity interest in AM Advertising in 2015, partially offset by (1) purchase of property and equipment of \$21.6 million, (2) purchase of equity in subsidiary of \$32.8 million and (3) increase of loan to third parties by \$17.1 million.

Net cash provided by investing activities for the year ended December 31, 2015 amounted to \$88.1 million, consisting of net cash used in continuing investing activities of \$5.1 million, offset by net cash provided by discontinued investing activities of \$93.2 million. The amount of net cash used in continuing investing activities was principally attributable to (1) purchase of property and equipment of \$10.4 million, (2) purchase of long term investments of \$3.0 million, (3) acquisition of Guangzhou Xinyu of \$4.8 million, offset by (4) net amount received upon settlement of short-term investment of \$14.2 million.

Net cash used in investing activities for the year ended December 31, 2014 amounted to \$6.2 million, consisting of net cash provided by continuing investing activities of \$6.0 million, offset by net cash used in discontinued investing activities of \$12.1 million. The amount of net cash provided by continuing investing activities was principally attributable to net amount received upon settlement of short-term investment of \$26.1 million, and partially offset by purchase of property and equipment of \$4.3 million and prepaid equipment costs of \$11.2 million.

Prepaid Equipment Costs

On May 12, 2013, we entered into an agreement with Elec-Tech International Co., Ltd., or Elec-Tech, to exchange the equity interests of GreatView Media, one of our VIE subsidiaries, with LED screens from Elec-Tech, pursuant to which Elec-Tech would invest \$104.0 million in total (equivalent to RMB640 million) to purchase approximately 21.27% of the equity interest of GreatView Media. In exchange, GreatView Media undertook to exclusively use the equal amounts of such injections to purchase LED screens from Elec-Tech or its subsidiaries. We considered this transaction a nonmonetary transaction. We measured the fair value of equity interests surrendered based on the fair value of LED screens received, which is more clearly determinable. We would not recognize any gain or loss from this transaction. As of December 31, 2015 and 2016, the prepaid equipment cost amounted to \$27,708 and \$16,200, respectively.

Capital Expenditures

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

Our capital expenditures were \$15.5 million in 2014, \$9.4 million in 2015 and \$21.6 million in 2016, respectively.

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

Financing Activities

Net cash provided by financing activities amounted to \$11.1 million for the year ended December 31, 2016, consisting of capital contribution from non-controlling interest holders of \$9.8 million and proceeds received from stock option exercise of \$1.3 million.

Net cash provided by financing activities amounted to \$2.1 million for the year ended December 31, 2015, consisting of net cash provided by continuing financing activities of \$2.1 million.

Net cash provided by financing activities amounted to \$16.8 million for the year ended December 31, 2014, consisting of net cash provided by continuing financing activities of \$16.8 million.

Intra-Company Transfers

Transfers of cash between our PRC operating subsidiaries and our non-PRC entities are regulated by certain PRC laws. For a description of these laws and the effect that they may have on our ability to meet cash obligations, please refer to “Item 3. Key Information — D. Risk Factors — Risks Related to our Business — Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income, and dividends distributed to our investors may be subject to more PRC withholding taxes under PRC tax law,” “Item 3. Key Information — D. Risk Factors — Risks Related to our Corporate Structure — We may rely principally on dividends and other distributions on equity paid by our wholly-owned operating subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our operating subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business,” “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Restrictions on currency exchange may limit our ability to receive and use our revenues or financing effectively,” “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — PRC regulations relating to the establishment of offshore special purpose companies by PRC residents and registration requirements for employee stock ownership plans or share option plans may subject our PRC resident beneficial owners or the plan participants to personal liability, limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries’ ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us,” “Item 4. Information on the Company — A. History and Development of the Company — B. Business Overview — Regulation — Regulations on Dividend Distribution,” and “Item 4. Information on the Company — A. History and Development of the Company — B. Business Overview — Regulation — SAFE Regulations on Offshore Investment by PRC Residents and Employee Stock Options”. None of these regulations have had a material effect on our ability to meet our cash obligations.

Recently Issued Accounting Pronouncements

In November 2015, the FASB issued ASU 2015-17, *Income Taxes-Balance Sheet Classification of Deferred Taxes*. The amendments in this update simplify the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 are effective for fiscal years beginning after December 15, 2016 including interim periods within those fiscal years. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Group adopted this ASU 2015-17 for the year ended December 31, 2016, as a result, the current portion of deferred tax assets of \$41 as of December 31, 2015 was reclassified and included in the non-current deferred tax assets.

In May 2017, the FASB issued ASU No. 2017-09, “*Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*”, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Group is currently evaluating the impact of this new standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Basically these amendments provide a screen to determine when a set is not a business. If the screen is not met, the amendments in this ASU first, require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and second, remove the evaluation of whether a market participant could replace missing elements. These amendments take effect for public businesses for fiscal years beginning after December 15, 2017 and interim periods within those periods, and all other entities should apply these amendments for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU No. 2015-14, "Deferral of the Effective Date" ("ASU 2015-14"), which defers the effective date for ASU 2014-09 by one year. For public entities, the guidance in ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods), which means it will be effective for the Company's fiscal year beginning January 1, 2018. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue versus Net)" ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In May 2016, the FASB issued ASU No. 2016-12 "Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"), which amends the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. In December 2016, the FASB further issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers" ("ASU 2016-20"), which makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are intended to address implementation issues that were raised by stakeholders and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. These amendments have the same effective date as the new revenue standard. Preliminarily, we plan to adopt Topic 606 in the first quarter of our fiscal 2018 using the retrospective transition method, and are continuing to evaluate the impact our pending adoption of Topic 606 will have on our consolidated financial statements.

The Company's current revenue recognition policies are generally consistent with the new revenue recognition standards set forth in ASU 2014-09. Potential adjustments to input measures are not expected to be pervasive to the majority of the Company's contracts. While no significant impact is expected upon adoption of the new guidance, the Group will not be able to make that determination until the time of adoption based upon outstanding contracts at that time.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Group is currently evaluating the impact of this new standard on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 31, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Group does not expect the adoption of the ASU to have any impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory.” This amendment is intended to improve accounting for the income tax consequences of intra-entity transfers of assets other than inventory. In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for the Company beginning in fiscal 2019. Early adoption is permitted in fiscal 2018 with modified retrospective application. The Company is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The Group is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses”, which will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16. Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Group does not expect the adoption of the ASU to have any impact on its consolidated financial statements.

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 31, 2016, and interim periods within those years. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Equity Method and Joint Ventures (Topic 323). The guidance eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance also requires an investor that has an available-for-sale security that subsequently qualifies for the equity method to recognize in net income the unrealized holding gains or losses in accumulated other comprehensive income related to that security when it begins applying the equity method. The guidance is effective for all entities for fiscal years beginning after December 31, 2016, and interim periods within those years. Early adoption is permitted in any interim or annual period. The guidance will be adopted on a prospective basis. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" This guidance revises the accounting related to the classification and measurement of investments in equity securities as well as the presentation for certain fair value changes in financial liabilities measured at fair value, and amends certain disclosure requirements. The guidance requires that all equity investments, except those accounted for under the equity method of accounting or those resulting in the consolidation of the investee, be accounted for at fair value with all fair value changes recognized in income. For financial liabilities measured using the fair value option, the guidance requires that any change in fair value caused by a change in instrument-specific credit risk be presented separately in other comprehensive income until the liability is settled or reaches maturity. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted for certain provisions. A reporting entity would generally record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

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

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

D. Trend Information

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

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

We have entered into operating lease agreements primarily for our office spaces in China. These leases expire through 2018 and are renewable upon negotiation. In addition, the contract terms of our concession rights contracts are usually three to five years. Most of these concession rights expire through 2018 and are renewable upon negotiation. The following table sets forth our contractual obligations and commercial commitments as of December 31, 2016:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands of U.S. Dollars)				
Operating lease agreements	\$ 4,527	\$ 2,364	\$ 2,163	\$ -	\$ -
Concession rights contracts	95,214	29,621	41,487	18,057	6,049
Total	<u>\$ 99,741</u>	<u>\$ 31,985</u>	<u>\$ 43,650</u>	<u>\$ 18,057</u>	<u>\$ 6,049</u>

G. Safe Harbor

See the section headed “Forward-Looking Information”.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth certain information regarding our directors and executive officers as of May 31, 2017. Masseur. James Zhonghua Feng and Peixin Xu each resigned as a member of our board of directors effective as of December 28, 2016 for personal reasons. The resignations of Mr. Feng and Mr. Xu were not due to any disagreement with us regarding our business, finance, accounting and/or any other affairs.

NAME	AGE	POSITION
Herman Man Guo	53	Chairman and Chief Executive Officer
Richard Peidong Wu	52	Chief Financial Officer
Qing Xu	56	Director and Executive President
Conor Chiahung Yang	54	Independent Director
Shichong Shan	86	Independent Director
Dong Wen	51	Independent Director
Songzuo Xiang	52	Independent Director
Hua Zhuo	47	Independent Director
Song Ye	36	Vice President
Bo Yang	36	Vice President
Peng Zhou	37	Vice President
Hong Li	46	Vice President
Rong Guo	48	Vice President

Mr. Herman Man Guo is our founder and has served as the chairman of our board of directors and our chief executive officer since our inception. He was the general manager of Beijing Sunshine Media Co., Ltd. from 1997 to 2004. From 1991 to 1996, Mr. Guo served as the deputy general manager of Beijing Trade & Technology Development Company. Prior to that, he worked in China Civil Aviation Development Service Company from 1988 to 1990. Mr. Guo received his bachelor’s degree in applied mathematics from People’s Liberation Army Information Engineering University in China in 1983 and an Executive MBA degree from Peking University in China in 2011.

Mr. Richard Peidong Wu has served as our chief financial officer since June 2014. Prior to joining our company, Mr. Wu worked as the head of legal and compliance at the greater china division of Nokia Solutions and Networks. Prior to that, he was the chief financial officer of Vimicro International Corporation from 2011 to 2012. Mr. Wu also worked as a managing director at Dragon Bay Capital, a China-focused investment advisory firm specializing in private placement, pre-IPO turnarounds, pre-auditing and investor relations. Mr. Wu started his career as a senior legal counsel at Beijing Bei Fang Law Offices. Mr. Wu received his MBA degree from the Wharton School of the University of Pennsylvania, a master’s degree in criminal justice from Indiana University and a postgraduate law diploma from the Chinese University of Political Science and Law. Mr. Wu is a licensed attorney in China.

Mr. Qing Xu has served as our director since our inception and as our executive president since June 2010. From October 2005 to our inception, Mr. Xu served as a director of certain of our pre-existing affiliated entities. From 2003 to 2005, Mr. Xu served as a vice president of Zhongyuan Guoxin Investment Guarantee Co., Ltd. Prior to that, he served as a department director of China Haohua Group Co., Ltd. from 1997 to 2003 and as a department manager of Beijing Trade & Technology Development Company from 1991 to 1997. Mr. Xu was a secretary at the PRC State Council Secretary Bureau from 1984 to 1991. Mr. Xu received his associate's degree in business and economics management from Beijing Normal University in 1996.

Mr. Conor Chiahung Yang has served as our independent director since March 2013. Mr. Yang has served as the chief financial officer of Tuniu Corporation since January 2013. Previously, Mr. Yang was the chief financial officer of E-Commerce China Dangdang Inc. from March 2010 to July 2012 and the chief financial officer of our company, from March 2007 to March 2010. Mr. Yang was the chief executive officer of Rock Mobile Corporation from 2004 to February 2007. From 1999 to 2004, Mr. Yang served as the chief financial officer of the Asia Pacific region for CellStar Asia Corporation. Mr. Yang was an executive director of Goldman Sachs (Asia) L.L.C. from 1997 to 1999. Prior to that, Mr. Yang was a vice president of Lehman Brothers Asia Limited from 1994 to 1996 and an associate at Morgan Stanley Asia Limited from 1992 to 1994. Mr. Yang currently serves as an independent director of Leyou Technologies Holdings Limited, Mr. Yang received his MBA degree from University of California, Los Angeles in 1992 and his bachelor's degree from Fu Jen University in Taiwan in 1985.

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

Mr. Dong Wen has served as our independent director since July 2015. Mr. Wen has been the general manager of the home furnishing business division of Leju Holdings Limited (NYSE: LEJU) since 2011. Prior to that, he worked for four years as the chief executive officer of Lianlian Technology Group, which is the largest channel management vendor for authorized third-party prepayment for China Mobile subscribers according to that company. From 2002 to 2007, Mr. Wen worked as a senior vice president of B&Q China.

Dr. Songzuo Xiang has served as our independent director since November 2008. He currently serves on the board of China Digital TV Co. Ltd., an NYSE-listed company providing conditional access systems to China's digital television market. From March 2009 to October 2009 and from July 2000 to July 2009, Dr. Xiang served as chief executive officer and director, respectively, of Ku6 Media Co., Ltd., a NASDAQ-listed company. He previously served as the Deputy Director of the Fund Planning Department at the People's Bank of China Shenzhen Branch and was an investment manager at Shenzhen Resources & Property Development Group. He was a visiting scholar at Columbia University from May 1999 to July 2000 and at Cambridge University from October 1998 to May 1999. Dr. Xiang received his bachelor's degree in engineering in Huazhong University of Science and Technology in 1986, his master's degree in international affairs from Columbia University in 1999, his master's degree in management science in 1993 and his Ph.D. degree in economics in 1993 from Renmin University in China.

Mr. Hua Zhuo. Mr. Zhuo has served as our independent director since July 2015. He has worked as the chairman and president of Zhongyuan Guoxin Credit Financing Guarantee Co., Ltd. since 2003. Prior to that, he worked as the general manager at several other companies. Mr. Zhuo received his MBA degree from Peking University.

Mr. Song Ye has served as our vice president in charge of product development since September 2015. Prior joining us, Mr. Ye was the product director of Qihoo 360 Technology, a major internet security software provider in China. Mr. Ye has extensive experience in developing customer orientated online products with his ability of design planning, operating, marketing and creating innovative business modes. Mr. Ye received his MBA degree from Guanghua School of Management, Peking University and his bachelor's degree from Nanjing University.

Mr. Bo Yang has served as our vice president in charge of the business development of our group companies since November 2015. From August 2010 to November 2015, Mr. Yang served as the business director of the mobile service section of Baidu.com, a leading searching engine in China, during which Mr. Yang was in charge of the management and development of Baidu Mobile Searching Union. Prior to that, Mr. Yang was the business development manager of Borqs International Holding Corp and the operating director of Prosten Technology Holdings Limited. Mr. Yang received his EMBA degree from the University of Texas at Arlington, his master degree in software engineering from Nanjing and his bachelor's degree from University of Science and Technology of China

Mr. *Peng Zhou* has served as our vice president in charge of marketing and public relationship since January 2016. Mr. Peng Zhou has had an intimate knowledge in marketing and strategic planning for online products. Previously, Mr. Zhou served as the senior vice president of Tianji.com from January 2015 to November 2015. From January 2012 to December 2014, Mr. Zhou was the senior director of industry analysis in the marketing consultant department of Baidu.com. From August 2007 to August 2011, Mr. Zhou served as the marketing director of baicheng.com. Prior to that, Mr. Zhou worked in elong.com and Sohu.com. Mr. Zhou received his bachelor's degree from Tianjin University of Commerce.

Mr. *Hong Li* has served as our vice president in charge of in-bus Wi-Fi business since May 2015. Prior to joining us, Mr. Li served as the vice president of Green Energy GP from March 2014 to May 2015, vice president of Greka Energy International Corp. from June 2008 to June 2013 and the executive director and president of Zhongyou Hengran Petroleum and Gases Co., Ltd from September 2003 to June 2008. Mr. Li received his bachelor's degree from Beijing International Studies University.

Ms. *Rong Guo* has served as our vice president in charge of In-train WIFI business since early 2015. Prior joining us, Ms. Guo has accumulated an abundant management experience on the online media industry. Ms. Guo served as the as the vice general manager of Baiyun International Airport Advertising Co., Ltd. and the account director of Shanghai Shengshi Great Wall Advertising Co., Ltd.

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

Employment Agreements

We have entered into employment agreements with Herman Man Guo and Richard Peidong Wu. Our employment agreements with Mr. Guo has an unfixed duration as required by the PRC Employment Law. Mr. Guo may terminate the respective agreement with a one-month prior notice while we will only be able to terminate such agreement in limited circumstances, such as for cause. Our employment agreement with Mr. Wu has a fixed duration and can be terminated by either us or Mr. Wu with a one-month prior notice. We have also entered into employment agreements with our other executive officers. Each of the contract terms was a period of two or three years. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the employee, including but not limited to a conviction or plea of guilty to certain crimes, negligence or dishonesty to our detriment and failure to perform the agreed-to duties after a reasonable opportunity to cure the failure. Furthermore, either we or an executive officer may terminate the employment at any time without cause upon advance written notice to the other party. These agreements do not provide for any special termination benefits, nor do we have other arrangements with these executive officers for special termination benefits.

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

B. Compensation

In 2016, the aggregate cash compensation to our executive officers was approximately \$0.3 million and the aggregate cash compensation to our non-executive directors was approximately \$0.2 million. Our PRC subsidiaries and consolidated VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned pension insurance mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company except as required under applicable PRC law.

Share Options

In July 2007, we adopted the 2007 Option Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. In December 2009, we amended the 2007 Option Plan by increasing the maximum aggregate number of shares issuable under the plan from 12,000,000 to 17,000,000. In March 2011, our board of directors authorized the issuance of 2,000,000 ordinary shares under the 2011 Option Plan with the same aim as the 2007 Option Plan. In 2012, our board of directors adopted the 2012 Option Plan, under which we are authorized to grant restricted shares or options and other awards for a total issuance of up to 6,000,000 ordinary shares. As of December 31, 2016, options to purchase 7,719,210 of our ordinary shares were outstanding. The majority of these options will vest on a straight-line basis over a three-year period, with one-twelfth of the options vesting each quarter from the date of grant.

The following table summarizes, as of December 31, 2016, the outstanding options granted to our executive officers, directors and to other individuals as a group under our 2007 Option Plan, as amended, 2011 Option Plan and 2012 Option Plan.

Name	Ordinary Shares Underlying Options	Exercise Price (US\$/Share) ⁽¹⁾	Date of Grant	Expiration Date
Herman Man Guo	2,000,000	1.15	July 2, 2007	July 2, 2017
Richard Peidong Wu	1,276,620	1.025	June 1, 2014	June 1, 2019
Qing Xu	*	1.15	March 22, 2011	March 22, 2021
Conor Chia-hung Yang	245,942	1.15	July 2, 2007	July 2, 2017
	220,000	1.15	November 29, 2007	December 31, 2017
	500,000	1.15	July 10, 2009	December 31, 2017
Shichong Shan	*	1.15	July 20, 2007	July 20, 2017
Dong Wen	—	N/A	N/A	N/A
Songzuo Xiang	*	1.15	July 10, 2009	December 31, 2017
Hua Zhuo	—	N/A	N/A	N/A
Song Ye	—	N/A	N/A	N/A
Bo Yang	—	N/A	N/A	N/A
Peng Zhou	—	N/A	N/A	N/A
Hong Li	—	N/A	N/A	N/A
Rong Guo	—	N/A	N/A	N/A
Other individuals as a group	200,000	1.57	July 20, 2007	July 20, 2017
Other individuals as a group	389,534	1.15	July 20, 2007	July 20, 2017
Other individuals as a group	165,000	1.15	November 29, 2007	January 1, 2017
Other individuals as a group	206,000	1.15	July 10, 2009	December 31, 2017
Other individuals as a group	800,000	1.15	March 22, 2011	March 22, 2021
Other individuals as a group	200,000	1.025	June 1, 2014	June 1, 2019
Other individuals as a group	180,000	1.675	May 12, 2015	May 12, 2020
Other individuals as a group	40,000	1.045	August 1, 2014	August 1, 2019

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

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

The following paragraphs summarize the terms of our 2007 Option Plan, as amended, 2011 Option Plan and 2012 Option Plan:

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

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

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

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

Exercise Price and Terms of the Options. The exercise price per share subject to an option may be amended or adjusted in the absolute discretion of the compensation committee, the determination of which shall be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a re-pricing of options mentioned in the preceding sentence shall be effective without the approval of our shareholders or the approval of the optionees. Notwithstanding the foregoing, the exercise price per share subject to an option may not be increased without the approval of the affected optionees. If we grant an option to an individual who, at the date of grant, possesses more than ten percent of the total combined voting power of all classes of our shares, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The compensation committee shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting, and shall determine any conditions, if any, that must be satisfied before all or part of an option may be exercised. The term of each option grant shall be stated in the stock option agreement, provided that the term shall not exceed 10 years from the date of the grant.

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

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

Termination of the Plan. Unless terminated earlier, the 2007 Option Plan will expire and no further awards may be granted under it after July 2017, our 2011 Option Plan will expire and no further awards may be granted under it after March 2021, and our 2012 Option Plan will expire and no further awards may be granted under it after November 2022. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law. However, no such action may impair the rights of any optionee unless agreed by the optionee.

C. Board Practices

Our board of directors currently consists of seven directors. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of our company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of our company or of any third party. The remuneration to be paid to the directors is determined by the board of directors. There is no age limit requirement for directors.

Board Committees

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

Audit Committee. Our audit committee consists of Messrs. Songzuo Xiang, Shichong Shan and Conor Chia-hung Yang. Mr. Yang is the chairperson. Our board of directors has determined that all members of our audit committee satisfy the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and regulations of the NASDAQ Stock Market LLC. We have determined that each of Songzuo Xiang and Conor Chia-hung Yang qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions on an ongoing basis;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- other matters specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and the independent auditors; and

- reporting regularly to the full board of directors.

Compensation Committee. Our compensation committee consists of Messrs. Hua Zhuo, Conor Chia-hung Yang and Shichong Shan. Conor Chia-hung Yang is the chairperson. Our board of directors has determined that Messrs. Hua Zhuo, Conor Chia-hung Yang and Shichong Shan satisfy the “independence” requirements of the rules and regulations of the NASDAQ Stock Market LLC. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and recommending to the board with respect to the total compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

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

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

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time.

Terms of Directors and Officers

All directors hold office until the expiration of their terms and until their successors have been elected and qualified. A director may be removed from office before the expiry of his term by a special resolution passed by the shareholders. The directors shall be subject to retirement by rotation. Any director shall serve a term of office which shall expire on the 31st day of July which is not less than one year nor more than two years after the date of his appointment. Upon the expiry of each director’s term of office, he shall automatically retire and cease to be a director, but shall be eligible for re-election by the board of directors. Any director who is so re-elected shall serve an additional term which shall expire on the 31st day of July of the year which is two years after such re-election. There shall be no limit on the number of times which a director may be re-elected or the number of additional terms which any such director may serve. Every director is subject to retirement in accordance with our articles of association at least once every two years. Our articles of association also provide that the office of a director shall be vacated in a limited number of circumstances, namely if the director: (a) becomes bankrupt or makes any arrangement or composition with his creditors; (b) is found to be or becomes of unsound mind; (c) resigns his office by notice in writing to our Company; or (d) without special leave of absence from the board of directors, is absent from meetings of the board of directors for six consecutive months and the board of directors resolves that his office be vacated. Officers are elected by and serve at the discretion of our board of directors.

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

D. Employees

We had 890, 415 and 410 employees as of December 31, 2014, 2015 and 2016, respectively. The decrease in our number of employees from 2014 to 2015 was mainly attributable to our divestitures of several of our business lines in 2015. The following table sets forth the number of our employees by area of business as of December 31, 2014, 2015 and 2016, respectively:

	As of December 31,					
	2014		2015		2016	
	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
Sales and Marketing Department	369	41.5	57	13.7	387	36.8
Quality Control and Technology Department	200	22.5	175	42.2	317	30.1
Programming Department	74	8.3	19	4.6	124	11.8
Resources Development Department	81	9.1	15	3.6	15	1.4
General Administrative and Accounting	166	18.6	149	35.9	209	19.9
Total	890	100.0	415	100.0	1,052	100.0

The following table sets forth the breakdown of employees by geographic location as of December 31, 2016:

City	Number of Employees	% of Total
Beijing	617	58.6
Shanghai	20	1.9
Jinan	145	13.8
Guangzhou	237	22.5
Shenzhen	8	0.8
Wenzhou	10	1.0
Others	15	1.4
Total	1,052	100.0

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

In addition, we enter into standard confidentiality agreements with all of our employees including officers and managers that prohibit any employee from disclosing confidential information obtained during their employment with us. Furthermore, the confidentiality agreements include a covenant that prohibits all employees from engaging in any activities that compete with our business up to two years after their employment with us terminates.

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

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of May 31, 2017, by:

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

The calculations in the shareholder table below are based on 125,629,779 ordinary shares outstanding as of May 31, 2017 (excluding 2,032,278 ordinary shares and ordinary shares represented by ADSs reserved for settlement upon exercise of our incentive share awards). Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after May 31, 2017, the most recent practicable date, including through the exercise of any option, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Shares Beneficially Owned	
	Number	%
Directors and Executive Officers:		
Herman Man Guo ⁽¹⁾	19,505,980	15.5%
Richard Peidong Wu	*	*
Qing Xu ⁽²⁾	1,600,000	1.3%
Conor Chiahung Yang	*	*
Shichong Shan	*	*
Dong Wen	—	—
Songzuo Xiang	*	*
Hua Zhuo	—	—
Song Ye	—	—
Bo Yang	—	—
Peng Zhou	—	—
Hong Li	—	—
Rong Guo	—	—
All directors and executive officers	34,916,661	27.8%
Principal Shareholders:		
Dan Shao ⁽³⁾	20,584,214	16.4%
Wealthy Environment Limited ⁽⁴⁾	17,505,980	13.9%
Bison Capital Media Limited ⁽⁵⁾	12,000,000	9.6%
First Manhattan Co., First Beijing Investment (Cayman) Limited, First Beijing Investment Limited ⁽⁶⁾	7,569,912	6.0%

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

(1) Includes (i) 16,105,980 ordinary shares held by Wealthy Environment Limited, a BVI company wholly owned by Mr. Herman Man Guo, (ii) 1,400,000 ordinary shares represented by American Depositary Shares held by Wealthy Environment Limited and (iii) 2,000,000 ordinary shares issuable upon exercise of options held by Mr. Guo that are exercisable within 60 days.

(2) Includes (i) 1,000,000 ordinary shares held by Mambo Fiesta Limited, a BVI company wholly owned by Mr. Qing Xu, and (ii) 600,000 ordinary shares issuable upon exercise of options held by Mr. Xu that are exercisable within 60 days.

- (3) Includes (i) 20,000,000 ordinary shares held by Global Earning Pacific Limited and (ii) 584,214 ordinary shares represented by ADSs that Ms. Dan Shao purchased in one or more open-market transactions. Global Earning Pacific Limited, a company incorporated in BVI, is wholly owned and controlled by Ms. Dan Shao, Mr. Herman Man Guo's wife. The registered address of Global Earning Pacific Limited is OMC Chambers, Wickham Cay 1, Road Town Tortola, BVI.
- (4) Includes (i) 16,105,980 ordinary shares held by Wealthy Environment Limited, and (ii) 1,400,000 ordinary shares represented by American Depositary Shares held by Wealthy Environment Limited. Wealthy Environment Limited, a company incorporated in BVI, is wholly owned and controlled by Herman Man Guo. The registered address of Wealthy Environment Limited is P.O. Box 173, Kingston Chambers, Road Town Tortola, BVI.
- (5) The address of Bison Capital Media Limited is c/o Bison Capital Holding Company Limited, 609-610, 21st Century Tower, 40 Liangmaqiao Road, Chaoyang District, Beijing, People's Republic of China, 100016. Bison Capital Media Limited, a Cayman Islands company, is wholly-owned by Bison Capital Holding Company Limited, a Cayman Islands company, which is in turn wholly owned by Ms. Fengyun Jiang, a citizen of Hong Kong Special Administrative Region. Ms. Jiang is the sole director of both Bison Capital Media Limited and Bison Capital Holding Company Limited. Ms. Jiang possesses the power to direct the voting and disposition of the shares owned by Bison Capital Media Limited and may be deemed to have beneficial ownership of such shares.
- (6) Based on Schedule 13G filed with the SEC on February 14, 2017 jointly by First Manhattan Co., a New York limited partnership, First Beijing Investment (Cayman) Limited, a Cayman Islands company, and First Beijing Investment Limited, a Hong Kong company. According to the Schedule 13G, as of December 31, 2016, First Manhattan Co., First Beijing Investment (Cayman) Limited and First Beijing Investment Limited each had shared voting power and shared investment power with respect to 7,569,912 ordinary shares, or 6.1% of the 124,395,645 shares that the Company reported as outstanding as of December 31, 2015. The business address of First Manhattan Co. is 399 Park Avenue, New York, NY 10022. The business address of First Beijing Investment (Cayman) Limited is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands. The business address of First Beijing Investment Limited is Level 15, Yardley Commercial Building, 1-6 Connaught Road, West Sheung Wan, Hong Kong.

Other than as otherwise disclosed in this report, we are not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly. None of our major shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of May 31, 2017, 127,662,057 of our ordinary shares were issued and outstanding, of which 2,032,278 ordinary shares are issued to our depository bank reserved for future exercise of vested options. To our knowledge, we had only one record shareholder in the United States, JPMorgan Chase Bank, N. A., which is the depository of our ADS program and held approximately 71% of our total outstanding ordinary shares as of May 31, 2017. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

For the options granted to our directors, officers and employees, please refer to “— B. Compensation — Share Options.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Contractual Arrangements

Our consolidated VIEs, AM Yuehang, and AirMedia Shengshi, together with their subsidiaries, directly operate our air travel advertising network, enter into related concession rights contracts and sell advertising time slots and advertising locations to our advertisers. Our consolidated VIE, AM Online, along with its subsidiaries, enters into concession rights contracts in relation to our Wi-Fi business and is expected to directly operate this business and enter into related business contracts. We have been and expect to continue to be dependent on our VIEs to operate our advertising business and Wi-Fi business. AM Technology has entered into contractual arrangements with our VIEs, pursuant to which AM Technology provides exclusive technology support and service and technology development services in exchange for payments from them. In addition, AM Technology has entered into agreements with our VIEs and each of their individual shareholders (except Yi Zhang), which provide AM Technology with the substantial ability to control our VIEs. These agreements are summarized in the following paragraphs.

- ***Technology support and service agreements:*** AM Technology provides exclusive technology support and consulting services to our VIEs and in return, the VIEs are required to pay AM Technology service fees. Except for AM Online, the VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AirMedia Shengshi and Jiaming Advertising, or 1.0% in the case of AM Yuehang. It is at AM Technology's sole discretion that the rate and amount of service fees ultimately charged the VIEs under these agreements are determined. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology support and service fees for each given year payable by AM Online to AM Technology under AM Online's technology support and service agreement shall be determined by AM Online and AM Technology at the first month of such year taking into account several factors. Those factors include the credential of the team of AM Technology that provides services to AM Online, the number of service hours, the nature and value of the services provided by AM Technology, the extent to which AM Technology provides patent or other license to AM Online in its provision of technology support and service and the correlation between AM Online's results of operations and the technology support and service provided by AM Technology. In the event AM Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with AM Technology to determine the new fee. The technology support and service agreements are effective for ten years and such term is automatically renewed upon their expiration unless either party to an agreement informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.
- ***Technology development agreements:*** Our VIEs exclusively engage AM Technology to provide technology development services. AM Technology owns the intellectual property rights developed in the performance of these agreements. Except for AM Online, the VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AirMedia Shengshi and Jiaming Advertising, which final rate should be determined by AM Technology. It is at AM Technology's sole discretion the rate and amount of fees ultimately charged the VIEs under these agreements are determined. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology development fees for each given year payable by AM Online to AM Technology under AM Online's technology development agreement shall be determined by AM Online and AM Technology at the first month of such year taking into account several factors. Those factors include the credential of the team of AM Technology that provides services to AM Online, the number of service hours, the nature and value of the services provided by AM Technology, the extent to which AM Technology provides patent or other license to AM Online in its provision of technology development service and the correlation between AM Online's results of operations and the technology development service provided by AM Technology. In the event AM Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with AM Technology to determine the new fee. The technology development agreements are effective for ten years and such term is automatically renewed upon their expiration unless either party informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.

- **Exclusive Technology Consultation and Service Agreement:** AM online exclusively engages AM Technology to provide consultation services in relation to management, training, marketing and promotion. AM Online agrees to pay to AM Technology the amount of annual service fees as determined by AM Technology. In the event AM Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with AM Technology to determine the new fees. The exclusive technology consultation and service agreement remains effective for ten years and such term may be reviewed by AM Technology's written confirmation prior to the expiration of the agreement term.
- **Call option agreements:** Under the call option agreements between AM Technology and the individual shareholders (except Yi Zhang) of AirMedia Shengshi, AM Yuehang and Jiaming Advertising, the shareholders of those VIEs irrevocably granted AM Technology or its designated third party an exclusive option to purchase from the VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. Under the call option agreements between AM Technology and the shareholders of AM Online, the shareholders of AM Online (except Yi Zhang) irrevocably granted AM Technology or its designated third party an exclusive option to purchase from the shareholders of AM Online, to the extent permitted under PRC law, all the equity interests in AM Online, as the case may be. To the extent the applicable PRC law does not require the valuation of the subject equity interests and does not otherwise restrict the purchase price for such equity interests, such purchase price shall equal the amount of actual payment made by the respective shareholders of AM Online with respect to the equity interests whether in the form or share capital injection or secondary purchase price. If and where the applicable PRC law requires the valuation of the subject equity interests or otherwise has restrictions on the purchase price for such equity interests, such purchase price shall equal the minimum amount of consideration permitted by the applicable law. In addition, under these agreements (except for the call option agreements between AM Technology and the shareholders of AM Online), AM Technology has undertaken to act as guarantor of VIEs in all operations-related contracts, agreements and transactions and commit to provide loans to support the business development needs of VIEs or if the VIEs suffer operating difficulties, provided that the relevant VIE's shareholders satisfy the terms and conditions in the call option agreements. Under PRC laws, to provide an effective guarantee, a guarantor needs to execute a specific written agreement with the beneficiary of the guarantee. As AM Technology has not entered into any written guarantee agreements with any third party beneficiaries to guarantee the VIEs' performance obligations to these third parties, none of these third parties can demand performance from AM Technology as a guarantor of the VIEs' performance obligations. The absence of a written guarantee agreement, however, does not affect our conclusion that we are the primary beneficiary of the VIEs and in turn should consolidate the financials of the VIEs. The term of each call option agreement is ten years and such terms can be renewed upon expiration at AM Technology's sole discretion. In January 2016, shareholders of AM Online, AirMedia Shengshi and Jiaming Advertising (except Yi Zhang) entered into a supplement agreement to provide that, without respect to the changes in equity interest percentages of those shareholders in the respective VIEs, the relevant provisions of the respective call option agreements shall continue to apply.
- **Equity pledge agreements:** Under the equity pledge agreements between AM Technology and the individual shareholders of our VIEs other than AM Online, the individual shareholders of those VIEs (except Yi Zhang) pledged all of their equity interests, including the right to receive declared dividends, in those VIEs to AM Technology to guarantee those VIEs' performance of their obligations under the technology support and service agreement and the technology development agreement. Under the equity pledge agreements between AM Technology and the shareholders of AM Online, the shareholders of AM Online (except Yi Zhang) pledged all of their equity interests, including the right to receive declared dividends, in AM Online to AM Technology to guarantee the performance by AM Online of its obligations under its call option agreement and its exclusive technology consultation and service agreement. If the VIEs fail to perform its obligations set forth in the applicable agreements, AM Technology shall be entitled to exercise all the remedies and powers set forth in the provisions of the applicable equity pledge agreements. Those agreements remain effective for as long as the technology support and service agreements and technology development agreement are effective, or, in the case of AM Online, until two years after the term of the obligations under the call option agreement and exclusive technology consultation and service agreement. Pursuant to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the competent local administration for industry and commerce. We have not yet registered the share pledges by shareholders of AM Online, AirMedia Shengshi and Jiaming Advertising. In January 2016, shareholders of AM Online, AirMedia Shengshi and Jiaming Advertising (except Yi Zhang) entered into a supplement agreement to provide that, without respect to the changes in equity interest percentages of those shareholders in the respective VIEs, the relevant provisions of the respective equity pledge agreements shall continue to apply.

- **Authorization letters:** Each individual shareholder of the VIEs (except Yi Zhang) has executed an authorization letter to authorize persons appointed by AM Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. The authorization letters by the shareholders of our VIEs will remain effective during the operating periods of the respective VIEs and for so long as the respective parties remain shareholders of the VIEs unless terminated earlier by AM Technology or unless the call option agreement with respect to VIEs is terminated prior to its expiration.

Through the above contractual arrangements, AM Technology has obtained the voting interest in the VIEs of all their shareholders (except Yi Zhang), has the right to receive substantially all dividends declared and paid by the VIEs and may receive substantially all of the net income of the VIEs through the technical support and service fees as determined by AM Technology at its sole discretion. Accordingly, we have consolidated the VIEs because we believe, through the contractual arrangements, (1) AM Technology could direct the activities of the VIEs that most significantly affect its economic performance and (2) AM Technology could receive substantially all of the benefits that could be potentially significant to the VIEs. Other than the contractual arrangements described above, because the management and certain employees of AM Technology also serve in the VIEs as management or employees, certain operating costs paid by AM Technology, such as payroll costs and office rental, were re-charged to the VIEs.

AM Technology also entered into loan agreements with each shareholder of AM Online (except Yi Zhang), pursuant to which AM Technology agrees to make loans in an aggregate amount of RMB50 million to the shareholders of AM Online solely for the incorporation and capitalization of AM Online. The loan is interest free and the term of the loan is ten years and shall be automatically renewed on an annual basis unless AM Technology objects. AM Technology can require the shareholders to repay all or a portion of the loan before the maturity date with a 15 days prior written notice. Under such circumstances, AM Technology is entitled to, or designate a third party to, buy all or a portion of the shareholders' equity interests in AM Online on a pro rata basis based on the amount of the repaid principal of the loan. As of the date of this annual report, no loan had been made and the capital of AM Online subscribed by shareholders other than Yi Zhang was not injected.

Amounts due from related parties

As of December 31, 2016, we had \$0.8 million due from Mr. Qing Xu, representing an advances to him on a short term basis for business needs.

Share Options

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

"Going-Private" Transaction

On June 19, 2015, Mr. Herman Man Guo submitted to the board of directors of the Company a preliminary non-binding proposal letter (the "Proposal Letter") to acquire the Company in a going private transaction for \$3.00 in cash per Share (or \$6.00 in cash per ADS) other than any ordinary shares or ADSs of the Company beneficially held by Mr. Herman Man Guo, his affiliates or other management shareholders who may choose to roll over their Shares in connection with the proposed acquisition (the "Proposal"). The proposed purchase price represents a premium of approximately 70.5% to the closing trading price of our ADS on June 18, 2015, the last trading day prior to the date of the going-private proposal. Our board of directors has formed a special committee consisting of three independent directors, Messrs. Conor Chia-hung Yang (to serve as chairman of the committee), Shichong Shan and Songzuo Xiang, to consider the Proposal.

On June 29, 2015, Mr. Guo, Mr. Qing Xu and Mr. James Zhonghua Feng entered into a consortium agreement pursuant to which the consortium members agreed to, among other things, form a consortium to work exclusively with one another to undertake the proposed transaction described in the Proposal Letter. On September 18, 2015, upon signing and delivery of a withdrawal notice, Mr. Feng ceased to be a member of the buyer consortium. Also on September 18, 2015, Mr. Guo and Mr. Xu entered into an amended and restated consortium agreement pursuant to which the buyer consortium members agreed to, among other things, work exclusively with one another to undertake the proposed transaction described in the Proposal Letter.

On September 29, 2015, we, AirMedia Holdings Ltd. (“Parent”) and AirMedia Merger Company Limited (“Merger Sub”) executed and delivered the merger agreement and the applicable parties executed the ancillary documents relating thereto as to which they respectively are a party. The Company issued a press release announcing the execution of the merger agreement and the ancillary documents on September 30, 2015. Subject to satisfaction of the terms and conditions under the merger agreement, at the effective time of the merger, the Merger Sub will merge with and into our company, with our company continuing as the surviving corporation and a wholly-owned subsidiary of the Parent. Each of our ordinary shares (including ordinary shares represented by ADSs) issued and outstanding immediately prior to the effective time of the merger, other than (a) our ordinary shares (and the ordinary shares represented by ADSs) beneficially owned by the rollover shareholders, but excluding the 1,000,000 ordinary shares of the Company (in the form of 500,000 ADSs) beneficially owned by Mambo Fiesta Limited, a holding vehicle of Mr. Xu, (b) ordinary shares of the Company (including ordinary shares represented by ADSs) owned by Parent, Merger Sub or the Company (as treasury shares, if any), or by any direct or indirect wholly-owned subsidiary of Parent, Merger Sub or the Company, (c) ordinary shares (including ordinary shares represented by ADSs) reserved (but not yet allocated) by the Company for settlement upon exercise of the Company’s incentive shares awards under any share incentive plans of the Company, and (d) ordinary shares owned by shareholders who have validly exercised and have not effectively withdrawn or lost their dissenters’ rights under the Cayman Islands Companies Law, will be cancelled in exchange for the right to receive \$3.00 in cash without interest.

Under the terms of the Merger Agreement, either the Company or Parent could terminate the Merger Agreement if the merger contemplated by the Merger Agreement has not been completed by the date of June 28, 2016. On June 27, 2016, the parties entered into Amendment No. 1 to the Merger Agreement to extend this termination date to December 31, 2016. On December 19, 2016, the parties entered into Amendment No. 2 to the Merger Agreement to further extend the termination date to June 30, 2017.

The merger is subject to customary closing conditions including the approval of the merger agreement by an affirmative vote of holders of shares representing at least two-thirds of the voting power of the shares present and voting in person or by proxy at a meeting of our shareholders which will be convened to consider the approval of the merger agreement and the merger.

The special committee (the “Special Committee”) of the Board of Directors (the “Board”) of the Company received a proposed amendment (the “Revised Proposal”) to the Merger Agreement from Mr. Herman Man Guo, the Chief Executive Officer and Chairman of the Board, and Mr. Qing Xu, the Executive President of the Company (collectively, the “Buyer Group”) on May 23, 2017 to (a) acquire all of the outstanding shares of the Company not already owned by the Buyer Group for US\$4.00 per American Depositary Share or US\$2.00 per ordinary share in cash, and (b) extend the Termination Date to December 31, 2017. The Special Committee is evaluating the Revised Proposal with the assistance of its financial and legal advisors.

The Merger Agreement Amendment No. 3 extends the Termination Date to July 31, 2017 so as to give the Special Committee sufficient time to consider the Revised Proposal. The Special Committee cautions the Company’s shareholders and others considering trading in the Company’s securities that no decision has been made by the Special Committee or the Board with respect to the Revised Proposal. There can be no assurance that any definitive offer will be made, any agreement will be executed or that this or any other transaction will be approved or consummated.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

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

Legal Proceedings

We may become subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time.

The Company and two of its officers were named as defendants in a putative securities class action filed on June 25, 2015 in the U.S. District Court for the Southern District of New York: *Huang v. AirMedia Group Inc. et al.*, Civil Action No. 1:15-CV-04966-ALC (S.D.N.Y.). The complaint in this putative class action alleges that certain of the defendants' press releases, financial statements and other public statements and disclosures contained misstatements or omissions, including with respect to the alleged sale of an equity interest in the Company's advertising subsidiary, in violation the U.S. securities laws. The complaint states that plaintiffs seek to represent a class of persons who allegedly suffered damages as a result of their trading activities related to the Company's ADRs between April 15 and June 15, 2015, and alleges violations of Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. On November 10, 2015, the court appointed China Xiayuan Transportation Co. Ltd. as the lead plaintiff and appointed a lead counsel. On January 15, 2016, the lead plaintiff filed an amended complaint, advancing similar allegations and claims as the previously filed complaint and seeking to represent a class of persons who allegedly suffered damages as a result of their trading activities related to the Company's ADRs between April 7 and June 15, 2015. On February 5, 2016, the Company filed a letter pursuant to the judge's individual practice rules, in which the Company identified the bases for its anticipated motion to dismiss the amended complaint and requested a pre-motion conference. On February 10, 2016, the lead plaintiff filed a letter in response to the Company's the February 5, 2016 letter. On February 11, 2016, the court denied the request for a pre-motion conference, and ordered a briefing schedule. Consistent with the court's briefing schedule, on March 10, 2016, the Company and one of its officers (the "Filing Defendants") filed a motion to dismiss the amended complaint. On April 7, 2016, the lead plaintiff filed its opposition to the motion to dismiss. On April 21, 2016, the Filing Defendants filed a reply to the lead plaintiff's opposition. On March 27, 2017, the court granted the motion to dismiss and entered into a judgment dismissing the amended complaint with prejudice.

Beijing AirMedia Shengshi Advertising Co., Ltd., a variable interest entity of the Company ("AM Shengshi"), had served a legal letter dated June 29, 2016 (the "Legal Letter") on Beijing Longde Wenchuang Equity Investment Fund (Limited Partnership) ("Longde Wenchuang") and Beijing Cultural Center Construction and Development Fund (Limited Partnership) ("Culture Center") to challenge the proposed transfers by Longde Wenchuang and Cultural Center of their equity interests in AM Advertising to Shanghai Golden Bridge InfoTech Co., Ltd. (stock code: 603918), a PRC company with its shares listed on the Shanghai Stock Exchange ("Golden Bridge"). As of the date of the Legal Letter, AM Shengshi held 24.84% of the equity interests in AM Advertising. Longde Wenchuang and Culture Center held 28.57% and 46.43%, respectively, of the equity interests in AM Advertising. On June 14, 2016, Longde Wenchuang and Culture Center entered into an equity interest transfer agreement with Golden Bridge to transfer 75% equity interests in AM Advertising to Golden Bridge in consideration for shares in Golden Bridge (the "Transfer"). Neither of Longde Wenchuang and Culture Center sought consent from AM Shengshi with respect to the Transfer in accordance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"). In the Legal Letter, AM Shengshi challenges the validity of the Transfer on the ground that it violated the statutory right of first refusal of AM Shengshi under the PRC Company Law.

The Company received notice from the China International Economic and Trade Arbitration Commission (the "CIETAC") that the Company, AirMedia Technology (Beijing) Co., Ltd., AM Shengshi and Mr. Herman Man Guo (collectively, the "Respondents") were named as respondents by Culture Center in an arbitration proceeding submitted by the Culture Center to the CIETAC in connection with the sale by the Company of 75% equity interests in AM Advertising to Culture Center and Longde Wenchuang in June 2015. Culture Center seeks specific performance by the Respondents of certain obligations under the transaction documents, which include, among other things, (i) the pledge by AM Shengshi and Mr. Guo of their respective equity interests in AM Advertising to Culture Center as security for their obligations under the transaction documents, (ii) the use of best efforts by the Respondents to cooperate with the Culture Center and Longde Wenchuang to procure the listing of AM Advertising in China and (iii) the performance by the Company and Mr. Guo of their respective non-compete obligations to refrain from holding, operating, or otherwise participating in any business that is the same or substantially the same as that of AM Advertising. The Company believes the arbitration request is without merit and intends to defend the actions vigorously. However, no assurances can be provided that the Company will prevail in this arbitration proceeding. As of the date of this annual report, this arbitration proceeding is still pending.

Mr. Xiaoya Zhang, a former shareholder of AM Shengshi, had initiated legal proceedings against Mr. Qing Xu, a director and the executive president of the Company, with respect to the transfers by Mr. Zhang of his equity interests in the company to Mr. Xu. In December 2015, AM Shengshi received an equity interest transfer agreement (the “AM Shengshi SPA”), dated December 4, 2015, by and between Mr. Xiaoya Zhang and Mr. Qing Xu, pursuant to which Mr. Zhang agrees to transfer 8.2% equity interests in AM Shengshi to Mr. Xu for RMB82,000 (the “AM Shengshi Equity Transfer”). The AM Shengshi Equity Transfer was completed in December 2015. In February 2016, Mr. Zhang initiated legal proceedings in a court in China against Mr. Xu, challenging the authenticity of his signatures to the AM Shengshi SPA and consequently the validity of AM Shengshi Equity Transfer. On February 14, 2017, the court’s final decision supported Mr. Xiaoya Zhang’s claim. The Group then further filed an arbitration against Mr. Xiaoya Zhang on April 21, 2017, which is under the process. However, none of the Company or AM Shengshi is a party to the AM Shengshi SPA. As of the date of this Report, none of the Company or AM Shengshi is named as a party in those legal proceedings. However, due to the uncertainty of the outcome of these proceedings, there is no assurance that they will not result in material adverse effect on the Group, substantial costs by the Group and/or the diversion of its resources and management attention. As of December 31, 2016, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements.

For risks and uncertainties relating to the pending cases against us, please see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We have been named as a defendant in putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.”

We are not currently a party to, nor are we aware of, any other legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy

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

Our board of directors has discretion in deciding whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

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

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

See “—C. Markets.”

B. Plan of Distribution

Not applicable.

C. Markets

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

	<u>High</u>	<u>Low</u>
Annual Market Prices		
Year 2012	4.01	1.33
Year 2013	3.20	1.50
Year 2014	3.24	1.65
Year 2015	7.70	1.83
Year 2016	5.71	2.38
Quarterly Market Prices		
First Quarter 2015	2.64	1.83
Second Quarter 2015	7.70	1.91
Third Quarter 2015	5.42	3.39
Fourth Quarter 2015	5.64	5.28
First Quarter 2016	5.71	5.05
Second Quarter 2016	5.66	3.18
Third Quarter 2016	3.78	2.57
Fourth Quarter 2016	3.47	2.38
First Quarter 2017	2.75	2.35
Monthly Market Prices		
December 2016	2.79	2.38
January 2017	2.62	2.35
February 2017	2.60	2.38
March 2017	2.75	2.36
April 2017	3.17	2.63
May 2017	2.58	1.68
June 2017 (until June 27, 2017)	2.55	1.35

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material terms and provisions of our amended and restated memorandum and articles of association and the Companies Law (2016 Revision) of the Cayman Islands, or the Companies Law, insofar as they relate to the material terms of our ordinary shares. This summary is not complete, and you should read our amended and restated memorandum and articles of association, which has been filed as Exhibit 99.3 to our Form 6-K (File No. 001-33765) filed with the SEC on December 10, 2009, and the amendment thereto, which has been filed as Exhibit 99.2 to our Form 6-K (File No. 001-33765) filed with the SEC on June 27, 2013. We subsequently amended our memorandum and articles of association by shareholders' resolutions passed on July 18, 2013, the results of which have been filed as Exhibit 99.1 to our Form 6-K (File No. 001-33765) filed with the SEC on July 23, 2013.

Registered Office and Objects

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

Board of Directors

See “Item 6. Directors, Senior Management and Employees — A. Directors and Senior Management.”

Ordinary Shares

General

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

Dividend Rights

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

Voting Rights

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

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

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

Transfer of Shares

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

Repurchase of Shares

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

Liquidation

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

Redemption of Shares

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

Calls on Shares and Forfeiture of Shares

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

Variations of Rights of Shares

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

Inspection of Books and Records

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

See “— H. Documents on Display.”

C. Material Contracts

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

D. Exchange Controls

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

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

E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. No Cayman Islands stamp duty will be payable unless an instrument is executed in, or after execution, brought to or produced before a court in the Cayman Islands.

The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

Under the EIT Law, foreign corporate shareholders and corporate ADSs holders may be subject to a 10% income tax upon the dividends payable by us or on any gains they realize from the transfer of our shares or ADSs, if we are classified as a PRC resident enterprise and such income is regarded as income from "sources within the PRC." Given the fact that whether we would be regarded as "resident enterprise" is not clear, it is uncertain whether foreign corporate shareholders and corporate ADSs holders may be subject to a 10% income tax upon the dividends payable by us or on any gains they realize from the transfer of our shares or ADSs. If we are required under the PRC tax law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders and ADS holders or if any gains of the transfer of their shares or ADSs are subject to PRC tax, such holders' investment in our ADSs or ordinary shares may be materially and adversely affected.

United States Federal Income Taxation

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

General

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

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

It is generally expected that a U.S. Holder of ADSs should be treated as the beneficial owner, for United States federal income tax purposes, of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a holder of ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

Passive Foreign Investment Company Considerations

Based on the market price of our ADSs and the composition of our assets (in particular, the retention of a large amount of cash), we believe that we were a PFIC, for United States federal income tax purposes, for the taxable year ended December 31, 2016, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2017 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. In general, we will be classified as a PFIC for any taxable year if either (i) 75 percent or more of our gross income for such year is passive income or (ii) 50 percent or more of the average quarterly value of our assets (as generally determined on the basis of fair market value) produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are generally classified as passive and goodwill and other unbooked intangibles associated with active business activities may generally be classified as non-passive. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25 percent (by value) of the stock. Although the law in this regard is unclear, we treat the VIEs (and their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operations of such entities but also because we are entitled to substantially all of the economic benefits associated with such entities, and, as a result, we consolidate such entity's operating results in our consolidated financial statements. Because there are uncertainties in the application of the relevant rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given with respect to our PFIC status for any taxable year.

If we are classified as a PFIC for any year during which a U.S. Holder holds ADSs or ordinary shares, a U.S. Holder will generally, as discussed below under “—Passive Foreign Investment Company Rules,” be treated as holding an equity interest in a PFIC in the first taxable year of the U.S. Holder's holding period in which we are or become a PFIC and subsequent taxable years (“PFIC-Tainted Shares”) even if, we in fact, cease to be a PFIC in subsequent taxable years.

Passive Foreign Investment Company Rules

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2016, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2017. If we are classified as a PFIC for any taxable year during which a U.S. Holder holds ADSs or ordinary shares, and unless a mark-to-market election (as described below) is made, a U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make (which generally means any distribution received in a taxable year that is greater than 125 percent of the average annual distributions received in the three preceding taxable years or such U.S. Holder's holding period for the ADSs or ordinary shares, if shorter), and (ii) any gain realized on the sale or other disposition, including a pledge, of our ADSs or ordinary shares. Under the PFIC rules:

- such excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;
- such amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are classified as a PFIC (a “pre-PFIC year”) will be taxable as ordinary income;

- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to such U.S. Holder for that year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

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

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

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

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

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of holding and disposing ADSs or ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election, the “deemed sale” and “deemed dividend” elections.

Dividends

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

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

Although the ADSs are currently tradable on the NASDAQ Global Select Market, which is an established securities market in the United States, and thus we anticipate they will be considered readily tradable on an established securities market in the United States for purposes of the reduced tax rate, no assurance may be given in this regard. Furthermore, as mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2016, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2017. Each U.S. Holder is advised to consult its tax advisor regarding the rate of tax that will apply to such holder with respect to, dividend distributions, if any, received from us.

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

Sale or Other Disposition of ADSs or Ordinary Shares

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

Information Reporting

Certain U.S. Holders are required to report information to the IRS relating to an interest in "specified foreign financial assets", including shares issued by a non-United States corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds US\$50,000 (or a higher dollar amount prescribed by the IRS), subject to certain exceptions (including an exception for shares held in custodial accounts maintained with a United States financial institution). These rules also impose penalties if a U.S. Holder is required to submit such information to the IRS and fails to timely do so.

In addition, U.S. Holders may be subject to information reporting to the IRS with respect to dividends on and proceeds from the sale or other disposition of our ADSs or ordinary shares. Each U.S. Holder is advised to consult with its tax advisor regarding the application of the United States information reporting rules to their particular circumstances.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Expert

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C., 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

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

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates. A hypothetical 1% decrease in interest rates would have resulted in a decrease of approximately \$0.2 million in our interest income for the year ended December 31, 2016.

Foreign Exchange Risk

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

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between RMB and the U.S. dollar remained within a narrow band. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk.

To the extent that we need to convert our U.S. dollar-denominated assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on RMB amount we receive from the conversion. A hypothetical 10% decrease in the exchange rate of the U.S. dollar against RMB would have resulted in a decrease of \$1.1 million in the value of our U.S. dollar-denominated financial assets at December 31, 2016. Conversely, if we decide to convert our RMB-denominated cash amounts into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to us.

Inflation

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

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

Persons depositing or withdrawing shares must pay:

For:

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

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

\$0.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs \$0.05 (or less) per ADSs per calendar year (if the depositary has not collected any cash distribution fee during that year)

Any cash distribution to registered ADS holders

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to registered ADS holders
Depositary services

Expenses of the depositary

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); converting foreign currency to U.S. dollars

Registration or transfer fees

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities

As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. We recognize the reimbursable amounts in other income on our consolidated statements of operations on a straight-line basis over the contract term with the depositary. For the year ended December 31, 2016, we received nil from the depositary as reimbursement for our expenses incurred.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

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

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

As of December 31, 2016, the net proceeds from our initial public offering have been used up as follows:

- approximately \$122.4 million for the purchase of digital displays and other equipment and the construction of gas station media platforms;
- approximately \$24.8 million for share repurchases; and

- approximately \$10.1 million for the purchase of long-term investments.
- approximately \$29.7 million for business acquisition and the purchase of intangible assets.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, 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 upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, due to these material weaknesses described below, as of December 31, 2016, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management, including our chief executive officer and chief financial officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2016 using the criteria set forth in the report "Internal Control — Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO).

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 weaknesses in internal control over financial reporting have been identified as of December 31, 2016. These material weaknesses were related to the weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in our financial reporting and internal control team and administration team including information technology department.

Because of these material weaknesses described above, our management has concluded that we had not maintain effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited AirMedia Group Inc.'s (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company'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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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.



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Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control 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. The following material weaknesses have been identified and included in "Management's Annual Report on Internal Control Over financial Reporting":

The weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in the financial reporting and internal control team and administration team including information technology department.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the fiscal December 31, 2016 consolidated financial statements and financial statement schedule, and this report does not affect our report dated June 28, 2017.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, AirMedia Group Inc. has not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by COSO in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2016 and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows, and the financial statement schedule for the year ended December 31, 2016 of the Company, and our report dated June 28, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Marcum Bernstein & Pinchuk LLP
Beijing, China
June 28, 2017

Changes in Internal Control over Financial Reporting

In preparing our consolidated financial statements, we and our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting as of December 31, 2016. As defined in standards established by the PCAOB, 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 annual or interim financial statements will not be prevented or detected on a timely basis.

These material weaknesses identified were related to the weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in our financial reporting and internal control team and administration team including information technology department.

To remediate our identified material weaknesses, significant deficiencies and other control deficiencies in connection with preparation of our consolidated financial statements, we plan to adopt several measures to improve our internal control over financial reporting. For example, during the reporting period, we obtained support from an external consulting firm with experienced staff to assist us in the preparation of the financial statements for the year ended December 31, 2016. The consulting firm’s staff hold the AICPA qualification with a solid understanding of U.S. GAAP. In order to meet the requirements of internal audit, we outsourced this function department to a professional consulting company with related industry experience and it delivered the work on time.

Other than as described above, no changes in our internal controls over financial reporting occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that each of Songzuo Xiang and Conor Chia-hung Yang, members of our audit committee, is an audit committee financial expert. Each of Songzuo Xiang and Conor Chia-hung Yang is an independent director as defined by the rules and regulations of the NASDAQ Stock Market LLC and under Rule 10A-3 under the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief operating officer, chief technology officer, presidents, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-146825), as amended, initially filed on October 19, 2007.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Marcum Bernstein & Pinchuk LLP, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	Fiscal Year Ended December 31,	
	2015	2016
Audit Fees	\$ 1,336,388	\$ 445,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	38,380	—
TOTAL	\$ 1,374,768	\$ 445,000

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

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

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

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

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our external auditors, including audit services, audit-related services, tax services and other services as described above, other than those for de minimus services which are approved by the audit committee prior to the completion of the audit.

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

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

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

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Effective from March 3, 2017, we engaged Marcum Bernstein & Pinchuk LLP as our independent registered public accounting firm. We also dismissed Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”) on the same date. The decision was not made due to any disagreements with Deloitte. The change of our independent registered public accounting firm was approved by the audit committee of our board on March 3, 2017.

Other than an adverse opinion on our internal control over financial reporting due to a material weakness for the fiscal year ended December 31, 2015, Deloitte’s audit reports on our consolidated financial statements as of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During each of the years ended December 31, 2015, 2014 and 2013 and the subsequent interim period through March 3, 2017, there were (i) no disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to Deloitte’s satisfaction, would have caused Deloitte to make reference thereto in their reports, and (ii) no “reportable events” requiring disclosure pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F in connection with our annual report on Form 20-F.

We provided Deloitte with a copy of the disclosures under this Item 16F and requested from Deloitte a letter addressed to the Securities and Exchange Commission indicating whether it agrees with such disclosures. A copy of Deloitte’s letter dated June 28, 2017 is attached as Exhibit 16.1.

During each of the years ended December 31, 2015, 2014 and 2013 and the subsequent interim period through March 3, 2017, neither we nor anyone on behalf of us has consulted with Marcum Bernstein & Pinchuk LLP regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Marcum Bernstein & Pinchuk LLP concluded was an important factor considered by us in reaching a decision as to any accounting, auditing, or financial reporting issue, (ii) any matter that was the subject of a disagreement pursuant to Item 16F(a)(1)(iv) of the instructions to Form 20-F, or (iii) any reportable event pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

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

Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings. We held annual meetings in 2013. No annual meeting was held in 2012, 2014, 2015 and 2016. We may hold additional annual shareholder meetings in the future if there are significant issues that require shareholder approval.

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

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The full text of our audited consolidated financial statements begins on page F-2 of this annual report.

ITEM 19. EXHIBITS

Exhibit No. Description

1.1 Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.3 to Form 6-K (File No. 001-33765) filed on December 10, 2009)

Exhibit No.	Description
1.2	Amendment to Amended and Restated Memorandum and Articles of Association approved by the annual general shareholders meeting on July 18, 2013 (incorporated by reference to Exhibit 99.2 to Form 6-K (File No. 001-33765) filed on June 27, 2013)
2.1	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
2.2	Form of Deposit Agreement among the Company, the depository and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
2.3	Amended and Restated Shareholders' Agreement originally dated as of June 7, 2007, as amended and restated on September 27, 2007, among the Company and Shareholders (incorporated by reference to Exhibit 4.4 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.1	Amended and Restated 2007 Share Incentive Plan (incorporated by reference to Exhibit 99.2 to Form 6-K filed on December 10, 2009)
4.2	2011 Share Incentive Plan (incorporated by reference to Exhibit 4.49 to Annual Report on Form 20-F filed on April 30, 2012)
4.3	2012 Share Incentive Plan. (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-8 (File No. 333-187442) filed on March 22, 2013)
4.4	Form of Employment Agreement between the Company and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.5	Form of Employment Agreement between the Company and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)
4.6	Investment Framework Agreement dated October 18, 2005, as amended on September 27, 2007, among Man Guo, Qing Xu and CDH China Management Company Limited (incorporated by reference to Exhibit 10.4 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.7	English Translation of Business Cooperation Agreement dated June 14, 2007 between Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) and AirTV United Media & Culture Co., Ltd. (incorporated by reference to Exhibit 10.9 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.8	English Translation of Amended Power of Attorneys dated November 28, 2008 from each of the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.11 to Annual Report on Form 20-F filed on April 28, 2009)
4.9	English Translation of Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.12 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)

Exhibit No.	Description
4.10	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.1 to Annual Report on Form 20-F filed on April 30, 2008)
4.11	English Translation of Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.13 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.12	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.2 to Annual Report on Form 20-F filed on April 30, 2008)
4.13	English Translation of Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.14 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.14	English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.17 to Annual Report on Form 20-F filed on April 28, 2009)
4.15	English Translation of Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.15 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.16	English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.19 to Annual Report on Form 20-F filed on April 28, 2009)
4.17	English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.32 to Annual Report on Form 20-F filed on April 28, 2009)
4.18	English Translation of Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.22 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)

Exhibit No.	Description
4.19	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.5 to Annual Report on Form 20-F filed on April 30, 2008)
4.20	English Translation of Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.23 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.21	English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.6 to Annual Report on Form 20-F filed on April 30, 2008)
4.22	English Translation of Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.24 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.23	English Translation of Supplementary Agreement dated November 28, 2008 to the Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.38 to Annual Report on Form 20-F filed on April 28, 2009)
4.24	English Translation of Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.25 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
4.25	English Translation of Supplementary Agreement dated November 28, 2008 to the Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on April 28, 2009)
4.26	English Translation of Supplementary Agreement No. 2 to Call Option Agreement dated May 27, 2010 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on May 28, 2010)
4.27	English Translation of Supplementary Agreement dated October 31, 2008 among AirMedia Technology (Beijing) Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.), supplementing the original Loan Agreement dated January 1, 2007 (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on April 28, 2009)

Exhibit No.	Description
4.28	English Translation of Supplementary Agreement No. 2 to the Equity Pledge Agreement dated May 27, 2010 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on May 28, 2010)
4.29	English Translation of Power of Attorneys dated April 1, 2008 from each of the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.42 to Annual Report on Form 20-F filed on April 28, 2009)
4.30	English Translation of Technology Development Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.43 to Annual Report on Form 20-F filed on April 28, 2009)
4.31	English Translation of Technology Support and Service Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.44 to Annual Report on Form 20-F filed on April 28, 2009)
4.32	English Translation of Supplementary Agreement dated June 25, 2008 to the Technology Support and Service Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on April 28, 2009)
4.33	English Translation of Equity Pledge Agreement dated April 1, 2008 among AirMedia Technology (Beijing) Co., Ltd., Beijing Yuehang Digital Media Advertising Co., Ltd. and the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on April 28, 2009)
4.34	English Translation of Call Option Agreement dated April 1, 2008 among AirMedia Technology (Beijing) Co., Ltd., Beijing Yuehang Digital Media Advertising Co., Ltd. and the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on April 28, 2009)
4.35	English summary of Investment Agreement, dated May 12, 2013, by and among Elec-Tech International Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) and Beijing Zhongshi Aoyou Advertising Co., Ltd. (incorporated by reference to Exhibit 4.50 to Annual Report on Form 20-F filed on April 25, 2014)
4.36	English summary of Cooperation Agreement for the Establishment of Advertising Company, dated May 2013, by and between Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing AirMedia Shengshi Advertising Co., Ltd.), and Guangzhou Daozheng Advertising Co., Ltd. (incorporated by reference to Exhibit 4.51 to Annual Report on Form 20-F filed on April 25, 2014)
4.37	English summary of Equity Swap Agreement, dated September 29, 2013, by and between Beijing N-S Digital TV Co., Ltd. and AirMedia Group Co., Ltd. (incorporated by reference to Exhibit 4.52 to Annual Report on Form 20-F filed on April 25, 2014)
4.38	Agreement and Plan of Merger, dated as of September 29, 2015, by and among the Registrant, AirMedia Holdings Ltd. and AirMedia Merger Company Limited (incorporated herein by reference to Exhibit 99.2 of our current report on Form 6-K filed with the Commission on September 30, 2015) and Amendment No. 3 thereto (incorporated herein by reference to Exhibit 99.2 of our current report on Form 6-K filed with the Commission on June 28, 2017)

Exhibit No.	Description
4.39	English translation of Equity Interest Transfer Agreement in respect of AirMedia Group Co., Ltd., dated June 15, 2015, by and among AirMedia Group Inc., AirMedia Technology (Beijing) Co., Ltd, Beijing AirMedia Shengshi Advertising Co., Ltd., Man Guo and Beijing Longde Wenchuang Investment Fund Management Company. (incorporated by reference to Exhibit 4.39 to Annual Report on Form 20-F filed on May 16, 2016)
4.40	English translation of Supplement Agreement of Equity Transfer, dated November 30, 2015, by and among AirMedia Group Inc., AirMedia Technology (Beijing) Co., Ltd, Beijing AirMedia Shengshi Advertising Co., Ltd., Man Guo and Beijing Longde Wenchuang Investment Fund Management Company. (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on May 16, 2016)
4.41	English translation of Exclusive Technology Consulting and Service Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and AirMedia Online Network Technology Co., Ltd. (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on May 16, 2016)
4.42	English translation of Technology Development Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and AirMedia Online Network Technology Co., Ltd. (incorporated by reference to Exhibit 4.42 to Annual Report on Form 20-F filed on May 16, 2016)
4.43	English translation of Technology Support and Service Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and AirMedia Online Network Technology Co., Ltd. (incorporated by reference to Exhibit 4.43 to Annual Report on Form 20-F filed on May 16, 2016)
4.44	English translation of Loan Agreements, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang) (incorporated by reference to Exhibit 4.44 to Annual Report on Form 20-F filed on May 16, 2016)
4.45	English translation of Exclusive Call Option Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd., AirMedia Online Network Technology Co., Ltd. and each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang) (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on May 16, 2016)
4.46	English translation of Power of Attorney, dated June 5, 2015, by each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang) (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on May 16, 2016)
4.47	English translation of Equity Pledge Agreements, dated June 5, 2015, by and among AirMedia Technology (Beijing) Co., Ltd., AirMedia Online Network Technology Co., Ltd. and each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang) (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on May 16, 2016)
4.48	English translation of Supplement Agreement in respect of the Related Agreement Arrangement of Beijing AirMedia Shengshi Advertising Co., Ltd., dated January 21, 2016, by and among AirMedia Technology (Beijing) Co., Ltd., Man Guo and Qing Xu (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20-F filed on May 16, 2016)
4.49	English translation of Supplement Agreement in respect of the Related Agreement Arrangement of Beijing AirMedia Jiaming Advertising Co., Ltd., dated January 21, 2016, by and among AirMedia Technology (Beijing) Co., Ltd., Man Guo and Qing Xu (incorporated by reference to Exhibit 4.49 to Annual Report on Form 20-F filed on May 16, 2016)

Exhibit No.	Description
4.50	English translation of Supplement Agreement in respect of the Related Agreement Arrangement of AirMedia Online Network Technology Co., Ltd., dated March 15, 2016, by and among AirMedia Technology (Beijing) Co., Ltd., Man Guo, Qing Xu and Tao Hong (incorporated by reference to Exhibit 4.50 to Annual Report on Form 20-F filed on May 16, 2016)
4.51*	English translation of Capital Contribution Agreement for the Establishment of Unicom AirMedia (Beijing) Network Co. Ltd. by and among AirMedia Online Network Technology Co., Ltd., Unicom Boardband Online Co., Ltd. and Chengdu Haite Kairong Aeronautical Technology Co., Ltd.
8.1*	List of the Registrant's subsidiaries
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certifications by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certifications by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Marcum Bernstein & Pinchuk LLP
15.2*	Consent of Commerce & Finance Law Offices
15.3*	Consent of Maples and Calder (Hong Kong) LLP
15.4*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP
16.1*	Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP to the Securities and Exchange Commission
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

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

SIGNATURE

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

Date: June 28, 2017

AIRMEDIA GROUP INC.

/s/ Herman Man Guo

Herman Man Guo
Chairman and Chief Executive Officer

AIRMEDIA GROUP INC.

Reports of Independent Registered Public Accounting Firms
and Consolidated Financial Statements
For the years ended December 31, 2014, 2015 and 2016

AIRMEDIA GROUP INC.

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Report of the Independent Registered Public Accounting Firm



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders of
AIRMEDIA GROUP INC.

We have audited the accompanying consolidated balance sheet of AirMedia Group Inc. (the "Company") as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year then ended. Our audit also included the financial statement schedule as of and for the year listed in the index at Schedule 1. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our 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 the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AirMedia Group Inc. as of December 31, 2016, and the consolidated results of its operations and its cash flows for the year ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AirMedia Group Inc.'s internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated June 28, 2017 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of the existence of material weaknesses.

/s/ Marcum Bernstein & Pinchuk LLP
Beijing, China
June 28, 2017



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AIRMEDIA GROUP INC.

We have audited the accompanying consolidated balance sheet of AirMedia Group Inc. (the “Company”), its subsidiaries, its variable interest entities (the “VIEs”) and its VIEs’ subsidiaries (collectively the “Group”) as of December 31, 2015 and the related consolidated statements of operations, comprehensive (loss) income, changes in equity and cash flows for each of the two years in the period ended December 31, 2015 and related financial statement schedule included in Schedule I. These consolidated financial statements and financial statement schedule are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 2(ee) to the consolidated financial statements, the accompanying consolidated balance sheet as of December 31, 2015 has been adjusted for the retrospective application of the authoritative guidance on the classification of deferred taxes which was adopted by the Group for the year ended December 31, 2016.

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, 2015, based on the criteria established *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 16, 2016 expressed an adverse opinion on the Group’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 16, 2016 (June 28, 2017 as to Notes 2(ee))

AIRMEDIA GROUP INC.

CONSOLIDATED BALANCE SHEETS

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

	As of December 31,	
	2015	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 86,960	\$ 117,547
Short-term investment	3,705	-
Accounts receivable, net	9,457	9,781
Prepaid concession fees	8,114	8,231
Consideration receivable	200,685	-
Other current assets, net	30,904	68,850
Amount due from related parties	2,752	835
Total current assets	342,577	205,244
Property and equipment, net	48,339	61,005
Prepaid equipment costs	27,708	16,200
Long-term investments	89,637	83,861
Long-term deposits	4,879	6,427
Deferred tax assets, net	4,524	-
Acquired intangible assets, net	2,325	1,682
Other non-current assets	11,612	6,771
TOTAL ASSETS	531,601	381,190
Liabilities		
Current liabilities:		
Accounts payable	36,371	40,366
Accrued expenses and other current liabilities	10,744	33,596
Deferred revenue	1,361	1,764
Income tax payable	43,567	14,483
Amounts due to related parties	15,389	-
Total current liabilities	107,432	90,209
Non-current liabilities:		
Other non-current liabilities	1,205	835
Deferred tax liabilities	91	-
Provision for earnout commitment	25,240	23,549
Total liabilities	133,968	114,593

Commitments and contingencies (Note 24 and 25)

AIRMEDIA GROUP INC.

CONSOLIDATED BALANCE SHEETS - CONTINUED
(In U.S. dollars in thousands, except share related data or otherwise noted)

	As of December 31,	
	2015	2016
Equity		
Ordinary shares (\$0.001 par value; 900,000,000 shares authorized in 2015 and 2016; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2015 and 2016, respectively; 124,395,645 shares and 125,629,779 shares outstanding as of December 31, 2015 and 2016, respectively)	128	128
Additional paid-in capital	317,414	287,094
Treasury stock (3,266,412 and 2,032,278 shares as of December 31, 2015 and 2016, respectively)	(3,778)	(2,351)
Retained earnings (accumulated deficits)	49,876	(15,842)
Accumulated other comprehensive income (loss)	22,928	(292)
Total AirMedia Group Inc.'s shareholders' equity	386,568	268,737
Non-controlling interests	11,065	(2,140)
Total equity	397,633	266,597
TOTAL LIABILITIES AND EQUITY	\$ 531,601	\$ 381,190

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

AIRMEDIA GROUP INC.

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

	For the years ended December 31,		
	2014	2015	2016
Revenues	\$ 75,947	\$ 50,866	\$ 16,597
Business tax and other sales tax	(1,254)	(633)	(84)
Net revenues	74,693	50,233	16,513
Less: Cost of revenues	96,608	89,577	49,042
Gross loss	(21,915)	(39,344)	(32,529)
Operating expenses:			
Selling and marketing	12,916	9,611	12,056
General and administrative	20,620	27,102	45,227
Total operating expenses	33,536	36,713	57,283
Loss from operations	(55,451)	(76,057)	(89,812)
Interest income, net	1,058	472	843
Other income, net	979	1,383	4,243
Loss from continuing operations before income taxes and share of loss on equity method investments	(53,414)	(74,202)	(84,726)
Income tax (benefits) expenses from continuing operations	(1,512)	6,421	4,483
Net loss before (loss) income on equity method investments	(51,902)	(80,623)	(89,209)
(Loss) income on equity method investments	(212)	2,352	(33)
Net loss from continuing operations	(52,114)	(78,271)	(89,242)
Less: Net loss from continuing operations attributable to non-controlling interests	6,808	7,620	23,617
Net loss from continuing operations attributable to AirMedia Group Inc.'s shareholders	(45,306)	(70,651)	(65,625)
Discontinued operation:			
Net income from discontinued operations (including gain of \$244,164 upon the disposal in the year ended December 31, 2015)	22,230	272,879	-
Income tax expenses from discontinued operations	(1,942)	(51,696)	-
Net income from discontinued operations, net of tax	20,288	221,183	-
Less: Net income from discontinued operations attributable to non-controlling interests	(677)	(885)	-
Net income from discontinued operations attributable to AirMedia Group Inc.'s shareholders	19,611	220,298	-
Net (loss) income	(31,826)	142,912	(89,242)
Net (loss) income attributable to AirMedia Group Inc.'s shareholders	\$ (25,695)	\$ 149,647	\$ (65,625)
Net (loss) income per ordinary share			
- basic	\$ (0.22)	\$ 1.23	\$ (0.52)
- diluted	(0.22)	1.16	(0.52)
Net (loss) income per ordinary shares from continuing operations			
- basic	(0.38)	(0.58)	(0.52)
- diluted	(0.38)	(0.58)	(0.52)
Net income per ordinary shares from discontinued operations			
- basic	0.16	1.81	-
- diluted	0.16	1.70	-
Weighted average shares used in calculating net (loss) income per ordinary share			
Basic			
Continuing operations	119,304,773	121,740,194	125,277,056
Discontinued operations	119,304,773	121,740,194	-
Diluted			
Continuing operations	119,304,773	121,740,194	125,277,056
Discontinued operations	119,924,927	129,372,158	-

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

AIRMEDIA GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In U.S. dollars in thousands)

	For the years ended December 31,		
	2014	2015	2016
Net (loss) income	\$ (31,826)	\$ 142,912	\$ (89,242)
Other comprehensive loss, net of tax of nil:			
Change in cumulative foreign currency translation adjustment	(6,874)	(11,478)	(24,140)
Comprehensive (loss) income	(38,700)	131,434	(113,382)
Less: comprehensive loss attributable to non-controlling interest	(6,591)	(7,326)	(24,537)
Comprehensive (loss) income attributable to AirMedia Group Inc.'s shareholders	\$ (32,109)	\$ 138,760	\$ (88,845)

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

AIRMEDIA GROUP INC.

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

	Ordinary shares		Additional paid-in capital	Treasury stock	(Accumulated deficits) retained earnings	Accumulated other comprehensive Income (loss)	Total AirMedia Group Inc.'s shareholders' equity	Non- controlling interests	Total Equity
	Shares	Amount							
Balance as of January 1, 2014	119,134,135	\$ 128	\$ 313,912	\$ (9,860)	\$ (73,443)	\$ 40,229	\$ 270,966	\$ 20,377	\$ 291,343
Ordinary shares issued for share based compensation	808,278	-	-	624	-	-	624	-	624
Share-based compensation	-	-	1,359	-	-	-	1,359	-	1,359
Foreign currency translation adjustment	-	-	-	-	-	(6,414)	(6,414)	(460)	(6,874)
Net loss	-	-	-	-	(25,695)	-	(25,695)	(6,131)	(31,826)
Disposal of equity interests of AM Film and AirMedia Lianhe to non-controlling interest	-	-	1,433	-	-	-	1,433	1,655	3,088
Profit distribution to non- controlling interest	-	-	-	-	-	-	-	(83)	(83)
Capital contribution from non-controlling interests	-	-	6,463	-	-	-	6,463	4,778	11,241
Balance as of December 31, 2014	119,942,413	128	323,167	(9,236)	(99,138)	33,815	248,736	20,136	268,872
Ordinary shares issued for share based compensation	4,453,232	-	-	5,458	(633)	-	4,825	-	4,825
Share-based compensation	-	-	598	-	-	-	598	-	598
Foreign currency translation adjustment	-	-	-	-	-	(10,887)	(10,887)	(591)	(11,478)
Net income	-	-	-	-	149,647	-	149,647	(6,735)	142,912
Profit distribution to non- controlling interest	-	-	-	-	-	-	-	(891)	(891)
Capital contribution from non-controlling interests	-	-	271	-	-	-	271	1,042	1,313
Capital contribution to Guangzhou Meizheng	-	-	(459)	-	-	-	(459)	459	-
Acquisition of non- controlling interests	-	-	(6,163)	-	-	-	(6,163)	(2,355)	(8,518)
Balance as of December 31, 2015	124,395,645	128	317,414	(3,778)	49,876	22,928	386,568	11,065	397,633
Stock option exercised	1,234,134	-	-	1,427	(93)	-	1,334	-	1,334
Share-based compensation	-	-	773	-	-	-	773	-	773
Foreign currency translation adjustment	-	-	-	-	-	(23,220)	(23,220)	(920)	(24,140)
Net income	-	-	-	-	(65,625)	-	(65,625)	(23,617)	(89,242)
Acquisition of equity interests from non- controlling shareholders	-	-	(34,570)	-	-	-	(34,570)	3,614	(30,956)
Capital contribution from non-controlling interests	-	-	3,477	-	-	-	3,477	7,718	11,195
Balance as of December 31, 2016	125,629,779	\$ 128	\$ 287,094	\$ (2,351)	\$ (15,842)	\$ (292)	\$ 268,737	\$ (2,140)	\$ 266,597

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

AIRMEDIA GROUP INC.

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

	For the years ended December 31,		
	2014	2015	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (31,826)	\$ 142,912	\$ (89,242)
Less: Net income from discontinued operations	20,288	221,183	-
Net loss from continuing operations	(52,114)	(78,271)	(89,242)
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Bad debt provisions	3,212	(2,661)	12,697
Depreciation and amortization	6,294	5,771	12,971
Deferred tax (recovery) provision	(2,288)	4,681	4,328
Impairment of fixed assets	-	-	826
Share-based compensation	1,281	567	773
Loss (income) on equity method investments	212	(2,352)	33
Loss on disposal of property and equipment	(11)	(129)	22
Gain on sale/maturity of short-term investments	(643)	(347)	-
Changes in assets and liabilities			
Accounts receivable	9,371	13,742	(3,250)
Notes receivable	(116)	762	-
Prepaid concession fees	(997)	7,302	(3,043)
Other current assets	2,224	(16,045)	(5,369)
Long-term deposits	(108)	3,632	(1,962)
Other non-current assets	(5,095)	2,778	(781)
Amount due from related parties	(953)	(4,873)	1,813
Accounts payable	(1,723)	(8,591)	6,730
Accrued expenses and other current liabilities	(466)	(6,762)	2,030
Deferred revenue	(1,905)	(2,643)	517
Amount due to related parties	-	12,803	(15,023)
Income tax payable	(68)	42,600	(27,377)
Other noncurrent liabilities	1,264	-	(303)
Net cash used in continuing operations	(42,629)	(28,036)	(103,610)
Net cash provided by (used in) discontinued operations	40,815	(41,026)	-
Net cash used in operating activities	(1,814)	(69,062)	(103,610)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Consideration receivable	-	-	195,915
Purchase of property and equipment	(4,306)	(10,389)	(21,558)
Prepaid equipment costs	(11,224)	-	-
Proceeds from disposal of property and equipment	18	978	-
Net amount received upon settlement of short-term investment	26,073	14,206	3,617
Dividend received from equity method investee	242	-	-
Restricted cash	(3,223)	3,223	-
Acquisition of Guangzhou Xinyu	-	(4,808)	-
Acquisition of AM Jiaming	-	325	-
Acquisition of non-controlling interests	-	-	(32,838)
Acquisition of equity investments	-	-	(475)
Proceeds from disposal of equity investment	-	-	3,014
Disposal of controlling interest in a former subsidiary	-	(14)	-
Loan to third parties	-	(5,572)	(17,093)
Purchase of long term investment	(1,629)	(3,033)	-
Net cash provided by (used in) continuing operations	5,951	(5,084)	130,582
Net cash (used in) provided by discontinued operations	(12,108)	93,226	-
Net cash (used in) provided by investing activities	(6,157)	88,142	130,582
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from short-term loan	3,000	-	-
Cash payment for a short-term loan	-	(3,000)	-
Capital contribution from non-controlling interest	11,241	-	9,796
Distribution of dividends to non-controlling interests	-	(221)	-
Proceeds from disposal of equity interests of AirMedia Lianhe	1,958	536	-
Proceeds from options exercised	624	4,826	1,334

Net cash provided by continuing operations	16,823	2,141	11,130
Net cash used in discontinued operations	-	-	-
Net cash provided by financing activities	16,823	2,141	11,130
Effect of exchange rate changes	(1,067)	(1,698)	(7,515)
Net increase in cash	7,785	19,523	30,587
Cash and cash equivalents, at beginning of year	59,652	67,437	86,960
Cash and cash equivalents, at end of year	\$ 67,437	\$ 86,960	\$ 117,547
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Income tax paid	\$ 1,812	\$ 957	\$ 27,712
Interests paid for short-term loan	\$ 75	\$ 10	\$ -
Fair value of property, equipment and other assets acquired in exchange of advertising services rendered and subsidiary's equity transferred	\$ 11,083	\$ 304	\$ 541
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:			
Payable for purchase of property and equipment	\$ 8,526	\$ 15,925	\$ -
Acquisition of non-controlling interests	\$ -	\$ -	\$ 1,882
Capital contribution from non-controlling interest	\$ -	\$ -	\$ 1,399
Dividend payable to non-controlling interests	\$ 73	\$ -	\$ -
Receivable for disposal of equity interests of AM Film and AM Lianhe	\$ 1,118	\$ 233	\$ -
Receivable for disposal of 51% equity in AM Jiaming	\$ 53	\$ -	\$ -
Consideration receivable	\$ -	\$ 200,685	\$ -

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

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Introduction of the Group

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

AirMedia, its subsidiaries, its variable interest entities ("VIEs") and VIEs' subsidiaries (collectively the "Group") operate its out-of-home advertising network, primarily air travel advertising network, in the People's Republic of China (the "PRC").

In June 2015, the Company, AM Technology, AirMedia Shengshi, which is the Company's VIE in China as well as the controlling shareholder of AirMedia Group Co., Ltd. ("AM Advertising,"), and Mr. Herman Guo, who is registered shareholder of AM Advertising under PRC law entered into a definitive agreement with Beijing Longde Wenchuang Fund Management Co., Ltd. ("Longde Wenchuang" or the "Buyer") to sell 75% equity interest of AM Advertising for a consideration of RMB2.1 billion (equivalent to \$302.4) in cash. As part of the transaction, the Company effected an internal business reorganization and transferred all its media business in airports (excluding digital TV screens in airports and TV-attached digital frames) and all billboard and LED media business outside of airports (excluding gas station media network and digital TV screens on airplanes) to AM Advertising to form the target business to be sold (the "Target Business") and transferred its other business out of AM Advertising. To effectuate the sale, the Company restructured the VIE structure with respect to AM Advertising. The change in the equity ownership of AM Advertising was registered with the local branch of the State Administration for Industry and Commerce, or the SAIC, in December 2015. Since then, there have been other investors invested in AM Advertising, the Company now holds approximately 20.18% equity interest in AM Advertising and has ceased to consolidate the results of AM Advertising since December 2015.

In December 2015, Longde Wenchuang transferred 46.43% equity interest of AM Advertising to Beijing Culture Center Construction Development Fund (LLP) ("Culture Center", together with Longde Wenchuang, the "Buyers"). Longde Wenchuang retained 28.57% equity interest of AM Advertising.

This disposal represents a strategic shift on our advertising business from air travel media to gas station media and Wi-Fi service and has a major effect on the Group's results of operations. Accordingly, assets and liabilities, revenues and expenses, and cash flows related to the disposed entities have been reclassified in the accompanying consolidated financial statements as discontinued operations for all periods presented.

On June 19, 2015, Mr. Herman Man Guo submitted to the Board of Directors of the Company a preliminary non-binding proposal letter (the "Proposal Letter") to acquire the Company in a going private transaction for \$3.00 in cash per share (or \$6.00 in cash per ADS) other than any ordinary shares or ADSs of the Company beneficially held by Mr. Herman Man Guo, his affiliates or other management shareholders who may choose to roll over their shares in connection with the proposed acquisition (the "Proposal"). The Board of Directors has formed a special committee consisting of three independent directors to consider the Proposal. On September 30, 2015, the Company entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with AirMedia Holdings Ltd. ("Parent") and AirMedia Merger Company Limited ("Merger Sub"), a wholly owned subsidiary of Parent, pursuant to which Parent will acquire AirMedia (the "Transaction") for US\$3.00 per ordinary share of the Company (a "Share") or US\$6.00 per American depositary share, each representing two Shares (an "ADS"). This amount represents a premium of 70.5% over the Company's closing price of US\$3.52 per ADS on June 18, 2015, the last trading day prior to June 19, 2015, the date that the Company announced that it had received a "going-private" proposal. Under the terms of the Merger Agreement, either the Company or Parent could terminate the Merger Agreement if the merger contemplated by the Merger Agreement (the "Merger") has not been completed by June 28, 2016 (the "Termination Date"). On June 27, 2016 and December 19, 2016, the Company entered into Amendment NO.1 and Amendment NO.2 to the Agreement and Plan of Merger Agreement. As a result, the Termination Date was further extended to June 30, 2017.

The special committee received a proposed amendment to the Merger Agreement from the buyer group, comprised of Mr. Guo, Ms. Dan Shao and Mr. Qing Xu, on May 23, 2017 to (a) acquire all of the outstanding shares not already owned by the buyer group for US\$4.00 per ADS or US\$2.00 per ordinary share in cash, and (b) extend the Termination Date to December 31, 2017. The special committee is evaluating the proposed amendment with the assistance of its financial and legal advisors. On June 28, 2017, the parties entered into Amendment No. 3 to the Merger Agreement to further extend the termination date to July 31, 2017 so as to give the special committee sufficient time to consider the proposed amendment.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

Introduction of the Group - continued

As of December 31, 2016, details of the Company's subsidiaries, VIEs and VIEs' subsidiaries are as follows:

Name	Date of incorporation/ acquisition	Place of incorporation	Percentage of legal ownership
Intermediate Holding Company:			
Broad Cosmos Enterprises Ltd. ("Broad Cosmos")	June 26, 2006	British Virgin Islands ("BVI")	100%
AirMedia International Limited ("AM International")	July 14, 2007	BVI	100%
AirMedia (China) Limited ("AM China")	August 5, 2005	Hong Kong	100%
Subsidiaries:			
AirMedia Technology (Beijing) Co., Ltd. ("AM Technology")	September 19, 2005	the PRC	100%
Shenzhen AirMedia Information Technology Co., Ltd. ("Shenzhen AM")	June 6, 2006	the PRC	100%
Xi'an AirMedia Chuangyi Technology Co., Ltd. ("Xi'an AM")	December 31, 2007	the PRC	100%
VIEs:			
Beijing AirMedia Shengshi Advertising Co., Ltd. (Formerly Beijing Shengshi Lianhe Advertising Co., Ltd.) ("AirMedia Shengshi")	August 7, 2005	the PRC	N/A
Beijing AirMedia Jiaming Advertising Co., Ltd. (Formerly Beijing AirMedia UC Advertising Co., Ltd.) ("Jiaming Advertising")	January 1, 2007	the PRC	N/A
Beijing Yuehang Digital Media Advertising Co., Ltd. ("AM Yuehang")	January 16, 2008	the PRC	N/A
AirMedia Online Network Technology Co., Ltd. ("AM Online")	April 30, 2015	the PRC	N/A

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

Introduction of the Group - continued

Name	Date of incorporation/ acquisition	Place of incorporation	Percentage of legal ownership
VIEs' subsidiaries:			
Beijing AirMedia Film & TV Culture Co., Ltd. ("AM Film")	September 13, 2007	the PRC	N/A
Flying Dragon Media Advertising Co., Ltd. ("Flying Dragon")	August 1, 2008	the PRC	N/A
Wenzhou AirMedia Advertising Co., Ltd. ("AM Wenzhou")	October 17, 2008	the PRC	N/A
Hainan Jinhui Guangming Media Advertising Co., Ltd. ("Hainan Jinhui")	June 23, 2009	the PRC	N/A
Beijing Dongding Gongyi Advertising Co., Ltd. ("Dongding")	February 1, 2010	the PRC	N/A
Beijing GreatView Media Advertising Co., Ltd. (Formerly Beijing Weimei Shengjing Media Advertising Co., Ltd.) ("GreatView Media")	April 28, 2011	the PRC	N/A
Guangzhou Meizheng Advertising Co., Ltd. ("Guangzhou Meizheng")	May 17, 2013	the PRC	N/A
Beijing AirMedia Tianyi Information Technology Co., Ltd. ("AM Tianyi")	September 25, 2013	the PRC	N/A
Guangzhou Xinyu Advertising Co., Ltd. ("Guangzhou Xinyu")	February 2, 2015	the PRC	N/A
AirMedia Mobile Network Technology Co., Ltd. ("AM Mobile")	April 23, 2015	the PRC	N/A
Guangzhou Meizheng Information Technology Co., Ltd. ("Guangzhou Tech")	June 18, 2015	the PRC	N/A
AirMedia Henglong Mobile Network Technology Co., Ltd. ("AMHL Mobile")	April 27, 2015	the PRC	N/A
Beijing AirMedia Jiaming Film & TV Culture Co., Ltd. ("AM Jiaming")	December 31, 2015	the PRC	N/A
Meizheng Network Information Technology Co., Ltd. ("Meizheng Network")	August 8, 2016	the PRC	N/A
Airmedia Network Technology Co., Ltd. ("AM Network")	August 18, 2016	the PRC	N/A
Wangfan Network Technology Co., Ltd. ("Iwangfan")	May 6, 2016	the PRC	N/A
Shandong Airmedia Car Safety Technology Co., Ltd. ("Shandong Car Safe")	July 21, 2016	the PRC	N/A
Dingsheng Ruizhi (Beijing) Investment Consulting Co., Ltd. ("Dingsheng Ruizhi")	May 25, 2016	the PRC	N/A

AIRMEDIA GROUP INC.

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

For the years ended December 31, 2015 and 2016, the Group acquired additional equity interests of 18% and 20% in Guangzhou Meizheng and AM Film, respectively, which were VIEs consolidated in the Group prior to these acquisitions, from non-controlling shareholders for an aggregated amount of \$8,518 and \$30,956, respectively. For the year ended December 31, 2015 and 2016, non-controlling shareholders contributed paid in capital to the Group's VIEs for an aggregated amount of \$1,313 and \$11,195, respectively.

The VIE arrangements

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

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

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

- **Technology support and service agreement:** AM Technology provides exclusive technology support and consulting services to the VIEs and in return, the VIEs are required to pay AM Technology service fees. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AirMedia Shengshi, and Jiaming Advertising, or 1.0% in the case of AM Yuehang, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology support and service fees for each given year payable by AM Online to AM Technology under AM Online's technology support and service agreement shall be determined by AM Online and AM Technology at the first month of such year taking into account several factors. Those factors include the credential of the team of AM Technology that provides services to AM Online, the number of service hours, the nature and value of the services provided by AM Technology, the extent to which AM Technology provides patent or other license to AM Online in its provision of technology support and service and the correlation between AM Online's results of operations and the technology support and service provided by AM Technology. In the event AM Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with AM Technology to determine the new fee. The technology support and service agreements are effective for ten years and such term is automatically renewed upon its expiry unless either party informs the other party of its intention of no extension at least twenty days prior to the expiration of the agreements.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

The VIE arrangements- continued

- Technology development agreement:** VIEs exclusively engaged AM Technology to provide technology development services. AM Technology owns the intellectual property rights developed in the performance of these agreements. Except for AM Online, the VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AirMedia Shengshi, and Jiaming Advertising, which final rate should be determined by AM Technology. It is at AM Technology's sole discretion that the rate and amount of fees ultimately charged the VIEs under these agreements are determined. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology development fees for each given year payable by AM Online to AM Technology under AM Online's technology development agreement shall be determined by AM Online and AM Technology at the first month of such year taking into account several factors. Those factors include the credential of the team of AM Technology that provides services to AM Online, the number of service hours, the nature and value of the services provided by AM Technology, the extent to which AM Technology provides patent or other license to AM Online in its provision of technology development service and the correlation between AM Online's results of operations and the technology development service provided by AM Technology. In the event AM Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with AM Technology to determine the new fee. The technology development agreements are effective for ten years and such terms is automatically renewed upon its expiry unless either party informs the other party of its intention of no extension at least twenty days prior to the expiration of the agreements.

- Exclusive Technology Consultation and Service Agreement:** AM online exclusively engages AM Technology to provide consultation services in relation to management, training, marketing and promotion. AM Online agrees to pay to AM Technology the amount of annual service fees as determined by AM Technology. In the event AM Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with AM Technology to determine the new fees. The exclusive technology consultation and service agreement remains effective for ten years and such term may be reviewed by AM Technology's written confirmation prior to the expiration of the agreement term.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

The VIE arrangements - continued

- **Call option agreement:** Under the call option agreements between AM Technology and the shareholders of AirMedia Shengshi, AM Yuehang and Jiaming Advertising, the shareholders of those VIEs irrevocably granted AM Technology or its designated third party an exclusive option to purchase from the VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. Under the call option agreements between AM Technology and the shareholders of AM Online, the shareholders of AM Online irrevocably granted AM Technology or its designated third party an exclusive option to purchase from the shareholders of AM Online, to the extent permitted under PRC law, all the equity interests in AM Online, as the case may be. To the extent the applicable PRC law does not require the valuation of the subject equity interests and does not otherwise restrict the purchase price for such equity interests, such purchase price shall equal the amount of actual payment made by the respective shareholders of AM Online with respect to the equity interests whether in the form of share capital injection or secondary purchase price. If and where the applicable PRC law requires the valuation of the subject equity interests or otherwise has restrictions on the purchase price for such equity interests, such purchase price shall equal the minimum amount of consideration permitted by the applicable law. In addition, under these agreements (except for the call option agreements between AM Technology and the shareholders of AM Online), AM Technology has undertaken to act as guarantor of VIEs in all operations-related contracts, agreements and transactions and commit to provide loans to support the business development needs of VIEs or if the VIEs suffer operating difficulties, provided that the relevant VIE's shareholders satisfy the terms and conditions in the call option agreements. Under PRC laws, to provide an effective guarantee, a guarantor needs to execute a specific written agreement with the beneficiary of the guarantee. As AM Technology has not entered into any written guarantee agreements with any third party beneficiaries to guarantee the VIEs' performance obligations to these third parties, none of these third parties can demand performance from AM Technology as a guarantor of the VIEs' performance obligations. The absence of a written guarantee agreement, however, does not affect our conclusion that we are the primary beneficiary of the VIEs and in turn should consolidate the financials of the VIEs. The term of each call option agreement is ten years and such terms can be renewed upon expiration at AM Technology's sole discretion.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

The VIE arrangements - continued

- **Equity pledge agreement:** Under the equity pledge agreements between AM Technology and the shareholders of our VIEs other than AM Online, the shareholders of those VIEs pledged all of their equity interests, including the right to receive declared dividends, in those VIEs to AM Technology to guarantee those VIEs' performance of their obligations under the technology support and service agreement and the technology development agreement. Under the equity pledge agreements between AM Technology and the shareholders of AM Online, the shareholders of AM Online pledged all of their equity interests, including the right to receive declared dividends, in AM Online to AM Technology to guarantee the performance by AM Online of its obligations under its call option agreement and its exclusive technology consultation and service agreement. If the VIEs fail to perform their obligations set forth in the applicable agreements, AM Technology shall be entitled to exercise all the remedies and powers set forth in the provisions of the applicable equity pledge agreements. Those agreements remain effective for as long as the technology support and service agreements and technology development agreement are effective, or, in the case of AM Online, until two years after the term of the obligations under the call option agreement and exclusive technology consultation and service agreement.

- **Authorization letter:** Each shareholder of the VIEs has executed an authorization letter to authorize AM Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. The authorization letters by the shareholders of our VIEs other than AM Online will remain effective during the operating periods of the respective VIEs. Such authorization is effective for ten years and such term is renewed upon its expiry at AM Technology's sole discretion. The authorization letters by the shareholders of AM Online will remain effective for as long as the respective parties remain shareholders of AM Online unless terminated earlier by AM Technology or the call option agreement with respect to AM Online is terminated prior to its expiration.

Through the above contractual arrangements, AM Technology has obtained 100% of shareholders' voting interest in the VIEs, has the right to receive all dividends declared and paid by the VIEs and may receive substantially all of the net income of the VIEs through the technical support and service fees as determined by AM Technology at its sole discretion. Accordingly, we have consolidated the VIEs because we believe, through the contractual arrangements, (1) AM Technology could direct the activities of the VIEs that most significantly affect its economic performance and (2) AM Technology could receive substantially all of the benefits that could be potentially significant to the VIEs. Other than the contractual arrangements described above, because the management and certain employees of AM Technology also serve in the VIEs as management or employees, certain operating costs paid by AM Technology, such as payroll costs and office rental, were re-charged to the VIEs.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

The VIE arrangements - continued

AM Technology also entered into loan agreements with each shareholder of AM Online, pursuant to which AM Technology permits to make loans in an aggregate amount of RMB 40 million to the shareholders of AM Online solely for the incorporation and capitalization of AM Online. The loan is interest free and the term of the loan is ten years and shall be automatically renewed on an annual basis unless AM Technology objects. AM Technology can require the shareholders to repay all or a portion of the loan before the maturity date with a 15 days prior written notice. Under such circumstances, AM Technology is entitled to, or designate a third party to, buy all or a portion of the shareholders' equity interests in AM Online on a pro rata basis based on the amount of the repaid principal of the loan.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

Risks in relation to the VIE structure

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

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

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

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

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

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

Risks in relation to the VIE structure - continued

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

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

	As of December 31,		
	2015	2016	
Total current assets	\$ 316,268	\$ 177,425	
Total non-current assets	190,684	127,486	
Total assets	506,952	304,911	
Total current liabilities	101,197	71,535	
Total non-current liabilities	26,536	24,384	
Total liabilities	\$ 127,733	\$ 95,919	
	For the years ended December 31,		
	2014	2015	2016
Net revenues	\$ 74,689	\$ 46,237	\$ 16,311
Net loss	(47,119)	(60,117)	(81,659)

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

Risks in relation to the VIE structure - continued

The VIEs contributed an aggregate of 100%, 98.0% and 98.8% of the consolidated net revenues for the years ended December 31, 2014, 2015 and 2016, respectively. As of December 31, 2016, the VIEs accounted for an aggregate of 95.4% and 80.0%, respectively, of the consolidated total assets, and 95.3% and 83.7%, respectively, of the consolidated total liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

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

The Group incurred losses from operations of US\$76.1 million and US\$89.8 million for the years ended December 31, 2015 and 2016. As of December 31, 2016, the Group had shareholders' deficit of US\$15.8 million. The Group had negative cash flows from operating activities for the years ended December 31, 2015 and 2016, the net cash used in operating activities was US\$69.1 million and US\$103.6 million for the years ended December 31, 2015 and 2016. As of December 31, 2016, the Group had cash and cash equivalents of US\$117.5 million and working capital of \$115.0 million. From 2017 and onwards, the Group will focus on improving operation efficiency and cost reduction, and enhancing marketing function to attract more users. The Group regularly monitors its current and expected liquidity requirements to ensure that it maintains sufficient cash balances and accessible credit to meet its liquidity requirements in the short and long term. Based on the existing cash and cash equivalents, working capital condition and forecast for future operations, the Group believes that it will be able to meet its payment obligations and other commitments for at least through the following twelve months from the date of filing.

(b) *Basis of consolidation*

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

(c) *Discontinued operations*

A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statements of operations. The amount of total current assets, total non-current assets, total current liabilities and total non-current liabilities are presented separately on the consolidated balance sheets.

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

(d) *Use of estimates*

The preparation of financial statements in conformity with US GAAP requires to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and accompanying notes, including allowance for doubtful accounts, the useful lives of property and equipment and intangible assets, impairment of long-term investments, impairment of long-lived assets, share-based compensation, provision for earnout commitment and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

(e) *Significant risks and uncertainties*

The Group participates in a dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations, or cash flows: net losses in the past and futures; failure in launching new business; a significant or prolonged economic downturn; contraction in the air travel advertising industry in China; competition from other competitors; regulatory or other PRC related factors; fluctuations in the demand for air travel; past and future acquisitions; failure to maintain an effective system of internal control over financial reporting and effective disclosure controls and procedures; risks associated with the Group's ability to attract and retain employees necessary to support its growth; risks associated with the Group's growth strategies; and general risks associated with the industry.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(f) *Fair value*

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

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

Level 1

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

Level 2

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

Level 3

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(g) *Fair value of financial instruments*

The Group's financial instruments include cash, accounts receivable, short-term investment, consideration receivable, accounts payable, and provision for earnout commitment. The Group did not have any other financial assets and liabilities or nonfinancial assets and liabilities that are measured at fair value on recurring basis as of December 31, 2015 and 2016.

The Group's financial assets and liabilities measured at fair value on a non-recurring basis include certain assets in connection with an equity share exchange transaction based on level 2 inputs and acquired assets and liabilities based on level 3 inputs in connection with business combinations.

(h) *Cash and cash equivalents*

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

(i) *Restricted cash*

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

(j) *Short-term investment*

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

The Group reviews its short-term investments for other-than-temporary impairment ("OTTI") based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its short-term investments. If the cost of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, and the Group's intent and ability to hold the investment, in determining if impairment is needed. OTTI is recognized as a loss in the income statement. The short-term investments held by the Group as of December 31, 2016 were Nil.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(k) Assets held for sale

The Group considers assets to be held for sale when all of the following criteria are met: i) a formal commitment to a plan to sell a property was made and exercised; ii) the property is available for sale in its present condition; iii) actions required to complete the sale of the property have been initiated; iv) sale of the property is probable and the Group expects the completed sale will occur within one year; v) the property is actively being marketed for sale at a price that is reasonable given its current market value; and vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Upon designation as assets held for sale, the Group records each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and the Group ceases depreciation.

(l) Property and equipment, net

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

Digital display network equipment	5 years
WIFI and network equipment	5 years
Gas station display network equipment	5 years
Office property	40 years
Furniture and fixture	5 years
Computer and office equipment	3-5 years
Vehicle	5 years
Software	5 years
Leasehold improvement	Shorter of the term of the lease or the estimated useful lives of the assets

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The gain or loss on disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated income statement. When property and equipment are retired or otherwise disposed of the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

(m) Impairment of long-lived assets

Long-lived assets held and used by the Group are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technology, economy or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Group first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, relief from royalty income approach, quoted market values and third-party independent appraisals, as considered necessary.

The Group makes various assumptions and estimates regarding estimated future cash flows and other factors in determining the fair values of the respective assets. The assumptions and estimates used to determine future values and remaining useful lives of long-lived assets are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as the Group's business strategy and its forecasts for specific market expansion.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(n) *Long-term investments*

Equity method investments

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

Cost method investments

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

Impairment for long-term investments

The Group assesses its long-term investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the companies, including current earnings trends and undiscounted cash flows, and other company-specific information. The fair value determination, particularly for investments in privately-held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and determination of whether any identified impairment is other-than-temporary. Other-than-temporary impairment loss is recognized in the consolidated statements of comprehensive income equal to the excess of the investment's carrying value over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of such investment.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(o) *Acquired intangible assets*

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

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

(p) *Revenue recognition*

The Group's revenues are derived from selling advertising time slots on the Group's advertising networks. For the years ended December 31, 2014, 2015 and 2016, the advertising revenues were generated from TV-attached digital frames in airports, digital TV screens in airports, digital TV screens on airlines, gas station media network and other media.

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

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

Deferred revenue

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

AIRMEDIA GROUP INC.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(p) *Revenue recognition* - continued

Nonmonetary exchanges

The Group occasionally exchanges advertising time slots and locations with other entities for assets or services, such as equipment and other assets. The amount of assets and revenue recognized is based on the fair value of the advertising provided or the fair value of the transferred assets, whichever is more readily determinable. The amounts of revenues recognized for nonmonetary transactions were \$209, \$473 and nil for the years ended December 31, 2014, 2015 and 2016, respectively. No direct costs are attributable to the revenues.

(q) *Value Added Tax ("VAT")*

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

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC, including Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Also a circular issued in May 2013 provided that such VAT pilot program is rolled out nationwide since August 2013. Since then, certain subsidiaries and VIEs became subject to VAT at the rates of 6% or 3%, on certain service revenues which were previously subject to business tax. The Company's gross revenue is presented net of VAT.

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(s) *Concession fees*

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

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

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

(t) *Agency fees*

The Group pays fees to advertising agencies based on a certain percentage of revenues made through the advertising agencies upon receipt of payment from advertisers. The agency fees are charged to cost of revenues in the consolidated statements of operations ratably over the period in which the advertising is displayed. Prepaid and accrued agency fees are recorded as current assets and current liabilities according to relative timing of payments made and advertising service provided. From time to time, the Group and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to reduce existing agency fee liabilities as calculated under the terms of existing contracts. Such reductions in the accrued agency fees are recorded as a reduction in cost of sales in the period the renegotiations are finalized.

AIRMEDIA GROUP INC.

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

(u) *Operating leases*

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

(v) *Advertising costs*

The Group expenses advertising costs as incurred. Total advertising expenses were \$1,785, \$350 and \$720 for the years ended December 31, 2014, 2015 and 2016, respectively, and have been included as part of selling and marketing expenses.

(w) *Foreign currency translation*

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(x) *Income taxes*

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

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the Group classifies the interest and penalties, if any, as a component of the income tax expense. For years ended December 31, 2016, 2015, and 2014, the Group did not have any material interest or penalties associated with tax positions nor did the Group have any significant unrecognized uncertain tax positions.

(y) *Share-based payments*

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

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

(z) *Comprehensive (loss) income*

Comprehensive (loss) income includes net (loss) income and foreign currency translation adjustments and is presented net of tax. The tax effect is nil for the three years ended December 31, 2014, 2015 and 2016 in the consolidated statements of comprehensive (loss) income.

(aa) *Allowance of doubtful accounts*

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(bb) *Concentration of credit risk*

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and accounts receivable. The Group places their cash with financial institutions with high-credit rating and quality in China. For the years ended December 31, 2014, 2015 and 2016, no individual customer accounted for over 10% of total revenue. There is no customer accounting for 10% or more of total accounts receivables as of December 31, 2015 and 2016.

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

Basic net (loss) income per share are computed by dividing net (loss) income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted net (loss) income reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Potential common shares in the diluted net loss per share computation are excluded in periods of losses from continuing operations, as their effect would be anti-dilutive.

(dd) *Government subsidies*

The Group primarily receives tax refund and development supporting bonus from tax bureau and local government without any condition or restriction. The government subsidies are recorded in other income on the consolidated statements of operations in the period in which the amounts of such subsidies are received without future performance requirement. The recognized government subsidies as other income are \$491, \$513 and \$86 for the years ended December 31, 2014, 2015 and 2016, respectively.

(ee) *Recent issued accounting standards*

In November 2015, the FASB issued ASU 2015-17, Income Taxes-Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 are effective for fiscal years beginning after December 15, 2016 including interim periods within those fiscal years. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Group adopted this ASU 2015-17 for the year ended December 31, 2016, as a result, the current portion of deferred tax assets of \$41 as of December 31, 2015 was reclassified and included in the non-current deferred tax assets.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ee) Recent issued accounting standards

In May 2017, the FASB issued ASU No. 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting", which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Group is currently evaluating the impact of this new standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Basically these amendments provide a screen to determine when a set is not a business. If the screen is not met, the amendments in this ASU first, require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and second, remove the evaluation of whether a market participant could replace missing elements. These amendments take effect for public businesses for fiscal years beginning after December 15, 2017 and interim periods within those periods, and all other entities should apply these amendments for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU No. 2015-14, "Deferral of the Effective Date" ("ASU 2015-14"), which defers the effective date for ASU 2014-09 by one year. For public entities, the guidance in ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods), which means it will be effective for the Company's fiscal year beginning January 1, 2018. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue versus Net)" ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In May 2016, the FASB issued ASU No. 2016-12 "Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"), which amends the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. In December 2016, the FASB further issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers" ("ASU 2016-20"), which makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are intended to address implementation issues that were raised by stakeholders and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. These amendments have the same effective date as the new revenue standard. Preliminarily, we plan to adopt Topic 606 in the first quarter of our fiscal 2018 using the retrospective transition method, and are continuing to evaluate the impact our pending adoption of Topic 606 will have on our consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ee) *Recent issued accounting standards - continued*

The Company's current revenue recognition policies are generally consistent with the new revenue recognition standards set forth in ASU 2014-09. Potential adjustments to input measures are not expected to be pervasive to the majority of the Company's contracts. While no significant impact is expected upon adoption of the new guidance, the Group will not be able to make that determination until the time of adoption based upon outstanding contracts at that time.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Group is currently evaluating the impact of this new standard on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 31, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Group does not expect the adoption of the ASU to have any impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory." This amendment is intended to improve accounting for the income tax consequences of intra-entity transfers of assets other than inventory. In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for the Company beginning in fiscal 2019. Early adoption is permitted in fiscal 2018 with modified retrospective application. The Company is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The Group is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses", which will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating this statement and its impact on its results of operations or financial position.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16. Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Group does not expect the adoption of the ASU to have any impact on its consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ee) Recent issued accounting standards - continued

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 31, 2016, and interim periods within those years. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Equity Method and Joint Ventures (Topic 323). The guidance eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance also requires an investor that has an available-for-sale security that subsequently qualifies for the equity method to recognize in net income the unrealized holding gains or losses in accumulated other comprehensive income related to that security when it begins applying the equity method. The guidance is effective for all entities for fiscal years beginning after December 31, 2016, and interim periods within those years. Early adoption is permitted in any interim or annual period. The guidance will be adopted on a prospective basis. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" This guidance revises the accounting related to the classification and measurement of investments in equity securities as well as the presentation for certain fair value changes in financial liabilities measured at fair value, and amends certain disclosure requirements. The guidance requires that all equity investments, except those accounted for under the equity method of accounting or those resulting in the consolidation of the investee, be accounted for at fair value with all fair value changes recognized in income. For financial liabilities measured using the fair value option, the guidance requires that any change in fair value caused by a change in instrument-specific credit risk be presented separately in other comprehensive income until the liability is settled or reaches maturity. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted for certain provisions. A reporting entity would generally record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements and related disclosures.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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3. DISCONTINUED OPERATION

The disposal of Target Business described in Note 1 was completed in December 2015.

According to the Equity Interest Transfer Agreement, the Buyers may require the Company to repurchase the equity interest of AM Advertising upon the occurrence of certain events. As these events are considered improbable, no fair value was allocated to the associated put option.

The Equity Interest Transfer Agreement also contains an earnout structure, in the event that the net profit (before or after adjustment for non-recurring gains and losses, whichever is less) of restructured AM Advertising in each of the fiscal years of 2015, 2016, 2017, and 2018 (collectively, the "Covered Period") is less than the profit target of RMB1.0592 billion (the "Profit Target") (being RMB200 million, RMB240 million, RMB288 million and RMB331.2 million, equivalent to \$30,875, \$37,050, \$44,459 and \$51,128, for the fiscal years of 2015, 2016, 2017, and 2018 respectively), other shareholders of AM Advertising, excluding the Buyers, will be obligated to compensate the Buyers for the deficiency by transferring their equity interest in AM Advertising to the Buyers for nil consideration and/or by cash, based on a pre-determined formula with such compensations in aggregate being subject to a cap equal to the amount of the consideration. The earnout commitment was recorded at fair value and amounted to \$25,240 as of December 31, 2015. As of December 31, 2016, the Group treated the provision for earnout commitment of \$23,549 as contingent liability (Note 25-d).

The disposal represents a strategic shift and has a major effect on the Group's results of operations. The disposed entities are accounted as discontinued operations in the consolidated financial statements for the years ended December 31, 2015. A gain of \$244,164 was recognized on the disposal, which is determined based on the total consideration of \$324,183, the fair value of the remaining 25% equity interest in AM Advertising of \$79,718 that continues to be held by the Group, the net book value of the Target Business of \$134,497 and the fair value of the earnout commitment of \$25,240. Upon the Group's disposal of its 75% interest in AM Advertising, the Group continues to hold 25% of the equity of AM Advertising, which is accounted for as an equity method investment. The Group's share of earnings for the fiscal year ended December 31, 2015 amounted to \$2,491 and was recorded within the (loss) income on equity method investments within the Consolidated Statements of Operations.

	For the years ended December 31, 2015
The financial results of the disposed business lines are set out below.	
Net revenues	\$ 166,843
Cost of revenues	(126,745)
Gross profit	40,098
Operating expenses	(13,239)
Income from operations	26,859
Gain from disposal of 75% equity interest in AM Advertising	244,164
Interest income	298
Other income, net	1,293
Income on equity method investments	265
Net income before income tax	272,879
Income taxes benefit/(expense)	(51,696)
Income from discontinued operations attributable to owners of the Company	\$ 221,183

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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3. DISCONTINUED OPERATION - continued

Details of related party transactions for the years ended December 31, 2014 and 2015 were as follows:

Concession cost purchased from:

Name of related parties	Relationship	For the years ended December 31	
		2014	2015
Guangxi Dingyuan (1)	Equity method investee	\$ 233	\$ 1,107
Qingdao AM (2)	Equity method investee	-	1,230
		<u>\$ 233</u>	<u>\$ 2,337</u>

Loan to a related party:

Name of related parties	Relationship	For the years ended December 31	
		2014	2015
AM Jiaming (3)	Equity method investee	\$ 1,612	-
		<u>\$ 1,612</u>	<u>-</u>

Equity transaction with a related party:

Name of related parties	Relationship	For the years ended December 31	
		2014	2015
Beijing Dayun Culture Communication Co., Ltd. ("Dayun Culture") (4)	Invested by management of the Group	-	8,605
Dingsheng Ruizhi (5)	Invested by management of the Group	322	-
		<u>\$ 322</u>	<u>\$ 8,605</u>

- (1) The Group purchased stand-alone digital frames, LED and lightbox concession in Nanning airport from Guangxi Dingyuan amounting to \$1,107 for the years ended December 31, 2015.
- (2) The Group purchased stand-alone digital frames concession in Qingdao airport from Qingdao AM amounting to \$1,230 for the year ended December 31, 2015.
- (3) In May 2014 and June 2014, the Group provided two loans to AM Jiaming, with amount of \$806 and \$806, respectively, at an annual interest rate equal to the bank lending rate over the same period, i.e. 6% for 2014. The loans will be due five days after the issuance of a written notice from the Group.
- (4) In November 2015, AM Advertising purchased 20% equity interest in Beijing AirMedia Lianhe Advertising Co., Ltd. ("AirMedia Lianhe") from Dayun Culture with consideration of \$8,605. After the transaction, AM Advertising held 100% equity interest in AirMedia Lianhe.
- (5) In June 2014, AM Advertising sold 20% equity interests in AM Film, a wholly-owned subsidiary, to Dingsheng Ruizhi with consideration of \$322.

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4. SEGMENT INFORMATION AND REVENUE ANALYSIS

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

The Group chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group; hence, the Group has only one operating segment.

Geographic information

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

Revenue by service categories

	For the years ended December 31,		
	2014	2015	2016
Revenues from continuing operations:			
Air Travel Media Network	\$ 59,200	\$ 38,917	\$ 12,178
Gas Station Media Network	11,164	9,840	4,009
Other Media	5,583	2,109	410
	<u>\$ 75,947</u>	<u>\$ 50,866</u>	<u>\$ 16,597</u>

5. SHORT-TERM INVESTMENTS

Short-term investments consist of various fixed-income financial products purchased from Chinese banks and trusts and are classified as held-to-maturity securities and carried at amortized costs. The maturity dates range from three months to less than one year, with interest rates ranging from 4% to 8.2%. The held-to-maturity securities are subject to penalty for early withdrawal before their maturity. The carrying amount of the held-to-maturity securities of \$3,705 and Nil as of December 31, 2015 and 2016, respectively, approximated their fair values due to their credit ratings and their short-term nature.

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6. LONG-TERM INVESTMENTS

(a) *Equity method investments*

The Group had the following equity method investments:

Name of company	As of December 31,			
	2015		2016	
	Percentage	Amount	Percentage	Amount
	%		%	
<i>Equity method investments</i>				
Beijing Eastern Media Corporation Ltd. ("BEMC") (1)	49	\$ 1,363	49	\$ 1,461
Zhejiang AirMedia Guangying Film Production Co., Ltd. ("AM Guangying") (2)	47.6	3,081	-	-
Beijing Hezhong Chuangjin Investment Co., Ltd. ("Hezhong Chuangjin") (3)	15	2,144	15	1,944
Lanmeihangbiao Tiandi Internet Investment Management (Beijing) Co., Ltd. ("LMHB") (4)	40	456	40	256
Beijing Yuyue Film Culture Co., Ltd ("Yuyue Film") (5)	-	-	25	432
Beijing Yunxing Chuangrong Investment Fund Management Co., Ltd ("Yunxing") (6)			50	2,083
AM Advertising (7)	25	82,177	-	-
		<u>\$ 89,221</u>		<u>\$ 6,176</u>

- (1) In March 2008, the Group entered into a definitive agreement with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, to establish a joint venture, BEMC. BEMC was incorporated on March 18, 2008 in the PRC with China Eastern Media Corporation and the Group holding 51% and 49% equity interest, respectively. BEMC obtained concession rights of certain media resources from China Eastern Group, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of BEMC.
- (2) In December 2013, the Group entered into an agreement with Zhejiang Tianguang Diying Production Co., Ltd. to establish AM Guangying. AM Guangying was incorporated on December 25, 2013. AM Guangying is mainly engaged in film production. The Group sold its interest in AM Guangying for the year ended December 31, 2016. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of AM Guangying. The Group disposed this investment for the year ended December 31, 2016 with proceeds of \$3,014 and loss of \$6.
- (3) In May 2015, AM Advertising, Beijing Financial Technology Investment Management Center (limited partnership), Beijing Hongdeshengzheng Investment Co., Ltd., and Beijing Hongyuan Zhixin Enterprise Management Consulting Co. Ltd. established Hezhong Chuangjin, which mainly focuses on internet financing. In July 2015, AM Advertising transferred its investment in Hezhong Chuangjin to AM Online, a subsidiary of the Group at carrying value. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Hezhong Chuangjin.
- (4) In September 2015, AM Online entered into an agreement with BlueFocus wireless Internet (Beijing) Investment Management Co., Ltd. and two individual investors to establish a joint venture, LMHB. LMHB was incorporated on September 25, 2015. LMHB is mainly engaged in investment management of Wi-Fi platform marketing and other mobile internet industries. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of LMHB.
- (5) In June 2016, AM Film entered into an agreement with two individual investors to establish a joint venture, Yuyue Film. Yuyue Film is mainly engaged in investment management of film investment and marketing. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Yuyue Film.

- (6) In February 2016, AM Online entered into an agreement with Haihang Wenhua Holding Group to invest in Yunxing. Yunxing was incorporated on December 17, 2013. Yunxing is mainly engaged in information technology investments in the Hainan Airline. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Yunxing.
- (7) On June 15, 2015, AirMedia entered into a definitive equity interest transfer agreement with Longde Wenchuang to sell 75% equity interest of AM Advertising for a cash consideration of \$324,183 as disclosed in Note 1. The transaction was completed on December 7, 2015. Due to various disputes incurred post-closing of the transaction (refer to Note 25- d), the Group is no longer able to have significant influence in operational and strategic decisions of the AM Advertising and cannot access to its financial information in fiscal 2016. As a result, the Group started to account its equity interest in AM advertising using cost method in fiscal 2016. During fiscal 2015, the Group accounted its investment in AM advertising using Equity method as the Group had the ability to exercise significant influence over the operation of AM Advertising at that time.

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6. LONG-TERM INVESTMENTS - continued

(a) Equity method investments – continued

The summarized financial information of the equity method investees were as follows:

	As of December 31,	
	2015	2016
Total current assets	\$ 277,634	\$ 24,633
Total assets	319,797	25,209
Total current liabilities	135,190	3,402
Total liabilities	135,342	3,402

	For the years ended December 31,		
	2014	2015	2016
Total net revenues	\$ 11,486	\$ 35,866	\$ 1,809
Total gross profits	567	15,341	1,241
Total net income	164	9,136	(733)

(b) Cost method investment

	As of December 31,			
	2015		2016	
Name of company	Percentage	Amount	Percentage	Amount
	%		%	
Zhangshangdong Air Service (Beijing) Co., Ltd. ("Zhangshangdong") (1)	20	\$ 367	20	\$ 388
Qingdao Jinshi Zhixing Investment Centre LLP ("Qingdao Jinshi") (2)	-	-	3	22
Beijing Zhongjiao Huineng Information Technology Co., Ltd ("Zhongjiao Huineng") (3)	-	-	13	541
AM Advertising (Refer to Note 25-d)	-	-	25	76,734
		\$ 367		\$ 77,685

- (1) In June 2010, the Group invested \$388 for 20% equity interest in Zhangshangdong Air Service (Beijing) Co., Ltd. ("Zhangshangdong"), a company established in the PRC that is mainly engaged in air tickets agency services.
- (2) In January 2016, the Group invested \$22 for 3.35% equity interest in Qingdao Jinshi Zhixing Investment Centre LLP. ("Qingdao Jinshi"), a limited partnership established in the PRC that is mainly engaged in fund management and investment.
- (3) In January 2016, the Group invested \$541 for 13.3% equity interest in Beijing Zhongjiao Huineng Information Technology Co., Ltd ("Zhongjiao Huineng"), a company established in the PRC that is mainly engaged in providing WIFI and GPS service to logistic industry.

The investment in AM Advertising was accounted for using the cost method of accounting in 2016, as the Group does not have the ability to exercise significant influence to the operation.

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7. **ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, consists of the following:

	As of December 31,	
	2015	2016
Accounts receivable, gross	\$ 11,184	\$ 13,596
Less: Allowance for doubtful accounts	(1,727)	(3,815)
Accounts receivable, net	\$ 9,457	\$ 9,781

Movement of allowance for doubtful accounts is as follows:

	Balance at beginning of the year	Charge to expenses	Write off	Exchange adjustment	Balance at end of the year
2014	\$ 1,433	3,212	(7)	(180)	4,458
2015	4,458	(2,661)	-	(70)	1,727
2016	1,727	2,248	-	(160)	3,815

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8. OTHER CURRENT ASSETS, NET

Other current assets, net, consist of the following:

	As of December 31,	
	2015	2016
Input VAT receivable	\$ 13,604	\$ 16,249
Prepaid selling and marketing fees	773	368
Short-term deposits	150	74
Prepaid income tax	447	417
Prepaid individual income tax and other employee advances	433	290
Loans to third parties ⁽ⁱ⁾	5,403	17,080
Receivable from third party ⁽ⁱⁱ⁾	4,110	11,635
Receivable from a non-controlling interest holders	1,313	6,377
Receivable from AM Advertising and its subsidiaries ⁽ⁱⁱⁱ⁾	-	19,021
Receivables from ADS depository	468	468
Other prepaid expenses	4,203	2,732
	30,904	74,711
Allowance for doubtful amounts	-	(5,861)
	\$ 30,904	\$ 68,850

- (i) For the years ended December 31, 2015 and 2016, the Group entered into various loan agreements with third parties amounting with aggregated amount of \$5,403 and \$17,080, respectively with the terms of one year. The weighted average interest rates were 5.10% and 3.19% without any assets pledged for the years ended December 31, 2015 and 2016, respectively. As of December 31, 2015 and 2016, the bad debt allowance for loan to third parties amounted to Nil and \$864, respectively.
- (ii) Receivable from third party represented the working capital provided by the Group to support the third party's daily operations. As of December 31, 2015 and 2016, the bad debt allowance was Nil and \$4,530, respectively.
- (iii) Receivable from AM Advertising and its subsidiaries balance amounted to \$19,021 as of December 31, 2016 and the payable to AM Advertising and its subsidiaries balance amounted to \$25,956 (See Note 15) as of December 31, 2016. No provision was made for the receivable balance. The receivable balance was still outstanding as of the date of issuance of the financial statement.

9. CONSIDERATION RECEIVABLE

As of December 31, 2015, consideration receivable of \$200,685 represents the second installment of the total consideration for the sale of 75% equity interest in AM Advertising to the Buyers. The transaction is disclosed in Note 1. The first installment of RMB 0.8 billion (\$123,498) was received in July 2015 and the second installment of RMB1.3 billion (\$200,685) was subsequently received in January 2016.

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10. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	As of December 31,	
	2015	2016
Investment in film and TV series ⁽ⁱ⁾	\$ 4,781	\$ 1,854
Prepaid office space and leasehold improvement fees ⁽ⁱⁱ⁾	6,831	4,917
	\$ 11,612	\$ 6,771

(i) The Group invests in films and TV series, which are produced by other third parties, and shares profit of the invested films and TV series based on its investment as a percentage of the total investment for a film or TV series.

The Group enters into agreements with other investors to invest together on certain film or TV series, which are produced by third parties, and shares the profit of the invested films and TV series proportionally based on their investments.

(ii) As the office spaces legal title had not been transferred to the Group, the prepaid amounts were recognized as other non-current assets as of December 31, 2015 and 2016.

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11. LONG-TERM DEPOSITS

Long-term deposits consist of the following:

	As of December 31,	
	2015	2016
Concession fee deposits	\$ 4,527	\$ 5,547
Office rental deposits	352	880
	<u>\$ 4,879</u>	<u>\$ 6,427</u>

Concession fee deposits normally have terms of three to five years and are refundable at the end of the concession terms. Office rental deposits normally have terms of one to three years and are refundable at the end of the lease term.

The long term deposits are not within the scope of the accounting guidance regarding interests on receivables and payables, because they are intended to provide security for the counterparty to the concession rights or office rental agreements. Therefore, the deposits are recorded at cost.

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12. ACQUIRED INTANGIBLE ASSETS, NET

Acquired intangible assets, net, consist of the following:

	As of December 31,							
	2015				2016			
	Gross carrying amount	Accumulated amortization	Accumulated impairment	Net carrying amount	Gross carrying amount	Accumulated amortization	Accumulated impairment	Net carrying amount
Audio-vision programming and broadcasting qualification	\$ 214	\$ (37)	\$ (177)	\$ -	\$ 200	\$ (35)	\$ (165)	\$ -
Customer relationships	739	(739)	-	-	689	(689)	-	-
Contract backlog	1,544	(1,544)	-	-	1,441	(1,441)	-	-
Concession agreements	10,459	(7,531)	(603)	2,325	9,758	(7,513)	(563)	1,682
Non-compete agreements	182	(172)	(10)	-	170	(161)	(9)	-
	<u>\$ 13,138</u>	<u>\$ (10,023)</u>	<u>\$ (790)</u>	<u>\$ 2,325</u>	<u>\$ 12,258</u>	<u>\$ (9,839)</u>	<u>\$ (737)</u>	<u>1,682</u>

The amortization expense for the years ended December 31, 2014, 2015 and 2016 were \$462, \$505 and \$510, respectively. During fiscal years 2017, 2018, 2019 and 2020, the Group expects to record amortization expenses for definite-lived intangible assets of \$510, \$455, \$360 and \$358, respectively.

13. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	As of December 31,	
	2015	2016
Digital display network equipment	\$ 8,341	\$ 6,314
WIFI and network equipment	17,708	27,719
Gas station display network equipment	33,412	38,615
Software	9,959	9,174
Office property	-	5,805
Computer and office equipment	3,140	2,828
Vehicle	774	938
Leasehold improvement	218	607
Construction in progress	-	1,422
Furniture and fixture	1,092	1,123
	<u>74,644</u>	<u>94,545</u>
Less: accumulated depreciation and impairment	<u>(26,305)</u>	<u>(33,540)</u>
	<u>\$ 48,339</u>	<u>\$ 61,005</u>

Depreciation expense recorded for the years ended December 31, 2014, 2015 and 2016 were \$5,832, \$5,266 and \$12,461, respectively. Due to the continuing losses and significant reduced revenue from operations, the Group recognized an impairment loss of nil, nil and \$826 on gas station related equipment for the year ended December 31, 2014, 2015 and 2016.

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14. PREPAID EQUIPMENT COST

On May 12, 2013, the Group entered into an agreement with Elec-Tech International Co., Ltd. ("Elec-Tech") to exchange the equity interests of GreatView Media, one of the VIE's subsidiary, with LED screens from Elec-Tech, pursuant to which Elec-Tech would invest \$104.0 million in total (equivalent to RMB640 million) to purchase approximately 21.27% of the equity interest of GreatView Media. In exchange, GreatView Media undertook to exclusively use the equal amounts of such injections to purchase LED screens from Elec-Tech or its subsidiaries. The Group would not recognize any gain or loss from this transaction. As of December 31, 2015 and 2016, the prepaid equipment cost amounting to \$27,708 and \$16,200, respectively.

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the follows:

	As of December 31,	
	2015	2016
Accrued payroll and welfare	\$ 1,860	\$ 2,848
Other tax payable	1,462	1,366
Accrued staff disbursement	1,166	1,447
Deposit payable	665	266
Accrued professional fees	4,382	290
Other current liabilities	1,209	1,288
Payable to non-controlling interest holders	-	135
Payable to AM Advertising and its subsidiaries ⁽¹⁾	-	25,956
	\$ 10,744	\$ 33,596

⁽¹⁾ The payable to AM Advertising and its subsidiaries was \$15,389 as of December 31, 2015 and included in amounts due to related parties. However, due to disputes with AM Advertising as described in Note 25-d, the Group no longer considers AM Advertising and its subsidiaries as related party in fiscal 2016, as a result, the Payable balance to AM Advertising and its subsidiaries of \$25,956 was included in other current liabilities as of December 31, 2016.

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16. INCOME TAXES

AirMedia is a tax-exempted company incorporated in the Cayman Islands.

Broad Cosmos is tax-exempted company incorporated in the British Virgin Islands.

AM China did not have any assessable profits arising in or derived from Hong Kong for the years ended December 31, 2014, 2015 and 2016, and accordingly no provision for Hong Kong Profits Tax was made in these years.

The Group's subsidiaries in the PRC are all subject to PRC Enterprise Income Tax ("EIT") on the taxable income in accordance with the relevant PRC income tax laws and regulations. The EIT rate for the Group's operating in PRC was 25% with the following exceptions.

AM Technology qualified for the High and New-Tech Enterprise ("HNTE") status that would allow for a reduced 15% tax rate under EIT Law since year 2006. AM Technology was subject to an EIT rate of 15% in 2014, 2015 and 2016, and is expected to be subject to an EIT rate of 15% as long as it maintains its status as a HNTE.

Xi'an AM qualified as a "Software Enterprise" in August 2008 by Technology Information Bureau of Shaanxi province, and therefore is entitled to a two-year exemption from the EIT commencing from its first profitable year and a 50% deduction of 25% EIT rate for the succeeding three years, with approval by the relevant tax authorities. As Xi'an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoyed the preferential income tax rate of 12.5% from 2011 to 2013. In 2014, Xi'an AM qualified as HNTE and entitled to an EIT rate of 15% for the years 2014, 2015 and 2016, and is expected to be subject to an EIT rate of 15% as long as it maintains its status as a HNTE.

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16. INCOME TAXES - continued

Income tax benefit / (expenses) are as follows:

	For the years ended December 31,		
	2014	2015	2016
Income tax benefits / (expenses):			
Current	\$ (988)	\$ (480)	\$ (50)
Deferred	2,500	(5,941)	(4,433)
	1,512	(6,421)	(4,483)

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

	As of December 31,	
	2015	2016
Deferred tax assets:		
Allowance for doubtful accounts	\$ 899	\$ 4,083
Employee education fee excess	6	-
Depreciation of property and equipment	127	-
Amortization of intangible assets and concession fees	2,274	1,606
Net operating loss carry forwards	15,404	30,697
Valuation allowance	(14,186)	(36,386)
Total deferred tax assets	4,524	-
Deferred tax liabilities:		
Acquired intangible assets	91	-
Total deferred tax liabilities	\$ 91	\$ -

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16. INCOME TAXES - continued

The valuation allowance provided as of December 31, 2016 and 2015 relates to the deferred tax assets generated by the Group's VIE. The Group periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes that either it is more likely than not that the deferred tax assets for these entities will not be realized as it does not expect to generate sufficient taxable income in future, or the amount involved is not significant. The Group's subsidiaries in the PRC had total net operating loss carry forwards approximately of \$137,040 million as of December 31, 2016, respectively. The net operating loss carry forwards for the PRC subsidiaries will expire on various dates through year 2021.

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

	For the years ended December 31,		
	2014	2015	2016
Net loss before provision for income taxes	\$ (53,414)	\$ (74,202)	\$ (84,726)
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	(13,354)	(18,551)	(21,182)
Expenses not deductible for tax purpose			
Entertainment expenses exceeded the tax limit	217	300	158
Tax effect of tax losses not recognized	10	-	-
Tax effect of other permanent differences	360	330	1,681
Changes in valuation allowance	2,748	9,276	22,200
Effect of preferential tax rates granted to PRC entities	7,912	14,404	642
Effect of income tax rate difference in other jurisdictions	595	662	984
Income tax expenses/ (benefits)	\$ (1,512)	\$ 6,421	\$ 4,483
Effective tax rates	2.8%	(8.7)%	(5.3)%

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16. INCOME TAXES - continued

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2014, 2015 and 2016. The Group did not incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2014, 2015 and 2016.

Since the commencement of operations in August 2005, only AM Technology and Shenzhen AM have been subjected to a tax examination by the relevant PRC tax authorities. The Group's subsidiaries, VIEs and VIEs' subsidiaries remain subject to tax examinations at the tax authority's discretion.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. New EIT Law includes a provision specifying that legal entities organized outside of China will be considered residents for Chinese income tax purposes if the place of effective management or control is within China. The Implementation Rules to the new EIT Law provide that non-resident legal entities will be considered China residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within China. Additional guidance is expected to be released by the Chinese government in the near future that may clarify how to apply this standard to tax payers. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that its legal entities organized outside of China should be treated as residents for new EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

However, the Company's subsidiaries located in the PRC were in a loss position and had accumulated deficit as of December 2016, and the tax basis for the investment was greater than the carrying value of this investment. A deferred tax asset should be recognized for this temporary difference only if it is apparent that the temporary difference will reverse in the foreseeable future. Absent of evidence of a reversal in the foreseeable future, no deferred tax asset for such temporary difference was recorded. The Company did not record any tax on any of the undistributed earnings because the relevant subsidiaries do not intend to declare dividends and the Company intends to permanently reinvest it within the PRC. Additionally, no deferred tax liability was recorded for taxable temporary differences attributable to the undistributed earnings of VIEs because the Company believes the undistributed earnings can be distributed in a manner that would not be subject to income tax.

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

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17. NET (LOSS) INCOME PER SHARE

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

	For the years ended December 31,		
	2014	2015	2016
Numerator:			
Net (loss) income attributable to AirMedia Group Inc.'s ordinary shareholders	\$ (25,695)	\$ 149,647	\$ (65,625)
- Continuing operations	(45,306)	(70,651)	(65,625)
- Discontinued operations	19,611	220,298	-
Denominator:			
Weighted average ordinary shares outstanding used in computing net (loss) income per ordinary share			
- basic	119,304,773	121,740,194	125,277,056
- diluted	119,304,773	129,372,158	125,277,056
Weighted average shares used in calculating (loss) income per ordinary shares			
Basic			
Continuing operations	119,304,773	121,740,194	125,277,056
Discontinued operations	119,304,773	121,740,194	-
Diluted			
Continuing operations (i)	119,304,773	121,740,194	125,277,056
Discontinued operations (ii)	119,924,927	129,372,158	-
Net (loss) income per ordinary share			
-basic	\$ (0.22)	\$ 1.23	\$ (0.52)
-diluted	(0.22)	1.16	(0.52)
Net (loss) income per ordinary share from continuing operations			
-basic	\$ (0.38)	\$ (0.58)	\$ (0.52)
-diluted	(0.38)	(0.58)	(0.52)
Net income per ordinary share from discontinued operations			
-basic	\$ 0.16	\$ 1.81	\$ -
-diluted	0.16	1.70	-

(i) The effect of options was excluded from the computation of diluted loss per share from continuing operations for the years ended December 31, 2014, 2015 and 2016, respectively, as the effect would be anti-dilutive.

(ii) An incremental weighted average number of 620,154, 7,631,964 and Nil ordinary shares from assumed exercise of share option were included in computing the diluted income per share for the discontinued operations for the years ended December 31, 2014, 2015 and 2016, respectively.

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18. SHARE BASED PAYMENTS

2007 Share incentive plan

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

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

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

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18. SHARE BASED PAYMENTS- continued

2007 Share incentive plan - continued

On April 15, 2014, the Board of Directors approved to extend the expiration dates of the options granted on November 29, 2007 and July 10, 2009 from April 28, 2014 to April 28, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options, which was \$0.21 and \$0.21 per share, respectively, as of the modification dates, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award were \$4 and \$4, respectively, which were recognized as share-based compensation expense for the year ended December 31, 2014.

On May 31, 2014, the former CFO resigned and the Board of Directors approved the amendment of his share option agreement. On the date of resignation, 575,440 unvested options were cancelled and the expiration date of 1,282,098 vested options was modified from September 3, 2017 to May 31, 2016. The fair value of the stock options, which was \$0.43 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was \$201, which was recognized as share-based compensation expense for the year ended December 31, 2014.

On June 9, 2014, the Board of Directors approved to extend the expiration date of the options granted on July 10, 2009 from July 11, 2014 to July 11, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value were \$0.22 and \$0.12 per share for the stock options whose exercise price were \$1.15 and \$1.57 per share, respectively, as of the modification date, was estimated using the Black-Scholes model. The incremental compensation costs of the modified award were \$686 and \$5, respectively, which were recognized as share-based compensation expense for the year ended December 31, 2014.

On June 9, 2014, Board of Directors of the Group approved to extend the expiration date of the options granted on November 1, 2012 from November 11, 2014 to November 11, 2016. Modified award is viewed as an exchange of the original award for a new award. The fair value of the stock options, which was \$0.25 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was \$4, which was recognized as share-based compensation expense for the year ended December 31, 2014.

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18. SHARE BASED PAYMENTS - continued

2011 Share incentive plan

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

On March 22, 2011, the Board of Directors granted options to Group's employees to purchase an aggregate of 2,180,000 ordinary shares of the Company under 2007 Option Plan and 2011 Option Plan, at an exercise price of \$2.3 per share. The contractual term of the options was 5 or 10 years. One twelfth of these options will vest each quarter through March 22, 2014. Subsequently on June 7, 2011, the Board of Directors approved to modify the exercise price of these stock options to \$1.57 per share. The fair value of these options at the modification date was estimated to be \$0.75 per option. The incremental share based compensation costs of the re-priced options was \$314 to be recognized over the remaining service period through March 22, 2014.

On August 23, 2011, the Board of Directors approved the adjustment of the exercise price of certain stock options that were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011, which were subsequently modified from \$1.57 per share to \$1.15 per share. The fair value of the options on the modification date was \$0.21, \$0.22, \$0.26, \$0.39 and \$0.53 per share, respectively, calculated using the Black-Scholes model. The incremental compensation cost of the re-priced options was \$1,259, of which \$950 was recognized on the modification date, and the remainder to be recognized over the remaining service period.

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

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18. SHARE BASED PAYMENTS - continued

2012 Share incentive plan

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

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

On June 1 and August 1, 2014, the Group granted 2,376,620 options and 140,000 options to its employees under the 2012 Option Plan to purchase the Company's ordinary shares at an exercise price of \$1.025 and \$1.045 per share, respectively. One twelfth of these options will vest each quarter through June 1, 2017 and August 1, 2017, respectively. The expiration date will be 5 years from the grant dates.

On October 13, 2014, an employee terminated his employment with the Group but continued to provide service as a nonemployee consultant. 50,000 options granted to him on August 1, 2014 were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense for the year ended December 31, 2014 was not material. On October 31, 2015, the consultant service contract terminated. Of the 50,000 options granted to him, 20,830 were vested through the service period end and the expiration date of the vested options was modified from August 1, 2019 to January 31, 2016. The rest 29,170 unvested options were cancelled at the service period end.

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18. SHARE BASED PAYMENTS - continued

2012 Share incentive plan - continued

On May 12, 2015, the Group granted 660,000 options its employees under the 2012 Option Plan to purchase the Company's ordinary shares at an exercise price of \$1.675 per share. One twelfth of these options will vest each quarter through May 12, 2018. The expiration date will be 5 years from the grant date.

On June 15, 2015, an employee terminated his employment with the Group but continued to provide service as a nonemployee consultant. 200,000 options granted to him on June 1, 2014 were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense for the year ended December 31, 2015 was not material.

On October 31, 2015, an employee terminated his employment with the Group but continued to provide service as a nonemployee consultant. 100,000 options granted to him on May 12, 2015 were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense for the year ended December 31, 2015 was not material.

On December 31, 2015, two consultants resigned. Of the 200,000 options granted to one of them on May 12, 2015, 3,332 were vested through her date of resignation. The expiration date of the vested options was modified from May 12, 2020 to May 31, 2016. For the rest 166,668 unvested options, one twelfth of the total granted options will still vest on February 12, 2016 following the original vesting schedule and the rest 150,002 options were cancelled on the date of resignation. The fair value of the stock options, which was \$1.12 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was immaterial for the year ended December 31, 2015. Of the 100,000 options granted to the other consultant on May 12, 2015, 16,664 were vested through her date of resignation. The expiration date of the vested options was modified from May 12, 2020 to January 31, 2016, and the 83,336 unvested options were cancelled on the date of resignation.

On March 10, 2016, Board of Directors approved to extend the expiration dates of the 685,000 options from various original expiration dates in March and April 2016 to December 31, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options of \$1.67 as of the modification dates, was estimated using the Black-Scholes model. The incremental share-based compensation expense for the year ended December 31, 2016 was not material.

On July 10, 2016, Board of Directors approved to extend the expiration dates of the 2,139,918 options from original expiration date of July 11, 2016 to December 31, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options of \$0.38 as of the modification dates, was estimated using the Black-Scholes model. The incremental share-based compensation expense of \$79 was recognized for the year ended December 31, 2016.

For the year ended December 31, 2016, four employees terminated their employments with the Group, but continued to provide service as nonemployee consultant. The options were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense of \$179 was recognized for the year ended December 31, 2016.

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18. SHARE BASED PAYMENTS - continued

The following summary of stock option activities under the 2007, 2011 and 2012 Share incentive plans as of December 31, 2016, reflective of all modifications is presented below:

	Outstanding Options				
	Number of options	Weighted average exercise price per option	Weighted average grant-date fair value	Weighted average remaining contractual terms	Aggregate intrinsic value
Outstanding as of January 1, 2016	10,438,840	\$ 1.14	\$ 1.07	2.16	\$ 17,236
Exercised	(1,234,134)	1.08	0.70		
Forfeited	(1,494,530)	1.17	1.47		
Outstanding as of December 31, 2016	<u>7,710,176</u>	<u>\$ 1.15</u>	<u>\$ 1.05</u>	<u>1.57</u>	<u>\$ 1,552</u>
Options vested and expected to vest as of December 31, 2016	<u>7,680,203</u>	<u>1.15</u>	<u>1.05</u>	<u>1.57</u>	<u>1,546</u>
Options exercisable as of December 31, 2016	<u>7,373,036</u>	<u>\$ 1.15</u>	<u>\$ 1.12</u>	<u>1.52</u>	<u>\$ 1,447</u>

The total intrinsic value of options exercised during the years ended December 31, 2014, 2015 and 2016 were \$442, \$7,039 and \$1,928, respectively. The total fair value of options vested during the years ended December 31, 2014, 2015 and 2016 were \$357, \$649 and \$694, respectively. The Group recorded share-based compensation of \$1,281, \$567 and \$773 for the years ended December 31, 2014, 2015 and 2016, respectively. There was \$843 and \$390 of total unrecognized compensation expense related to unvested share options granted as of December 31, 2015 and 2016, respectively. The expense is expected to be recognized over a weighted-average period of 1.67 and 0.5 years on a straight-line basis as of December 31, 2015 and 2016, respectively.

The fair value of each option granted was estimated on the date of grant/modification using the Black-Scholes option pricing model with the following assumptions used during the applicable period.

	For the years ended December 31,		
	2014	2015	2016
Risk-free interest rate of return	0.10% - 1.07%	0.00%-1.24%	0.14%-0.80%
Expected term	1.00 - 3.32 years	0.04-2.93years	0.04-2.48 years
Volatility	63.10% - 67.06%	7.19%-126.63%	9%-74.8%
Dividend yield	-	-	-

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18. SHARE BASED PAYMENTS – continued

(1) Volatility

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

(2) Risk-free rate

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

(3) Expected term

The expected term is estimated based on a consideration of factors including the original contractual term and the vesting term.

(4) Dividend yield

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

(5) Exercise price

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

(6) Fair value of underlying ordinary shares

The closing market price of the ordinary shares of the Company as of the grant/modification date was used as the fair value of the ordinary shares on that date.

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19. FAIR VALUE MEASUREMENT

Measured on recurring basis

The Group measured its financial assets and liabilities, including cash, accounts receivable, short-term investment, amounts due from related parties, consideration receivable, accounts payable and amounts due to related parties on a recurring basis as of December 31, 2015 and 2016.

Cash and short-term investment are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market. The carrying amounts of accounts receivable, consideration receivable, amounts due from related parties, accounts payable and amounts due to related parties approximate their fair values due to their short-term maturity.

Measured on non-recurring basis

The Group measured intangible assets and property and equipment at fair value on a nonrecurring basis. The fair value was determined using models with significant unobservable inputs (Level 3 inputs). This was based on a number of key assumptions, including, but not limited to, a discount rate of 18% and the annual net revenue projections based on the projected levels of advertising activities during the forecast periods, all of which were classified as Level 3 in the fair value hierarchy. As a result, the Group recorded Nil, Nil and \$826 impairment charge for the year ended December 31, 2014, 2015 and 2016, respectively.

The Group measured its long-term investment in AM Advertising at fair value on a nonrecurring basis as result of the disposal transaction of Target Business as set forth in Note 1. The fair value was determined using the market approach (AM Advertising's recent capital transaction announced to the public) with quoted price for the assets in active markets (Level 1 inputs). No impairment was recorded for the years ended December 31, 2015 and 2016.

The Group measured the provision for earnout commitment at fair value on a nonrecurring basis as result of the disposal transaction of Target Business as of December 31, 2015. The fair value was determined using the Monte Carlo method with significant unobservable inputs (Level 3 inputs) which primarily included forecast adjusted net income over the contingent consideration period and the risk-adjusted discount rate of 7.5%. As of December 31, 2016, due to disputes, the Company considered the provision for earnout commitment as contingent liability and disclosed in Note 25.

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20. SHARE REPURCHASE PLAN

On March 21, 2011, the Board of Directors authorized the Company to repurchase up to \$20 million of its own outstanding ADSs within two years from March 21, 2011. On September 26, 2012, the Board of Directors approved to increase the amount of the share repurchase program to \$40 million of its own outstanding ADS and to extend the termination date of the share repurchase program to March 20, 2014.

Up to December 31, 2016, the Company had repurchased an aggregate of 6,532,429 ADSs from the open market for a total consideration of \$17.4 million, of which 2,190,685 ADSs had been cancelled and 4,341,744 ADSs were recorded as treasury stock. As of December 31, 2015 and 2016, 2,708,538 and 617,067 ADS of treasury stock has been reissued.

21. MAINLAND CHINA CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' income. The total contribution for such employee benefits were \$2,717, \$2,202 and \$4,029 for the years ended December 31, 2014, 2015 and 2016, respectively.

22. STATUTORY RESERVES

As stipulated by the relevant law and regulations in the PRC, the Group's subsidiaries, VIEs and VIEs' subsidiaries in the PRC are required to maintain non-distributable statutory surplus reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the subsidiaries' statutory financial statements prepared under the PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the general reserve is accumulated to 50% of the subsidiaries' registered capital, the subsidiaries can choose not to provide more reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and increase in registered capital of the subsidiaries. The Group allocated \$413, \$17,542 and \$Nil to statutory reserves during the years ended December 31, 2014, 2015 and 2016, respectively. The statutory reserves cannot be transferred to the Company in the form of loans or advances and are not distributable as cash dividends except in the event of liquidation.

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23. RESTRICTED NET ASSETS

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

As of December 31, 2015, the balance of restricted net assets was \$313,780, of which \$114,695 was attributed to the paid-in-capital and statutory reserves of the VIEs and VIEs' subsidiaries, and \$199,085 was attributed to the paid in capital and statutory reserves of WFOE. As of December 31, 2016, the balance of restricted net assets was \$342,860, of which \$138,496 was attributed to the paid-in-capital and statutory reserves of the VIEs and VIEs' subsidiaries, and \$204,364 was attributed to the paid in capital and statutory reserves of WFOE. Under applicable PRC laws, loans from PRC companies to their offshore affiliated entities require governmental approval, and advances by PRC companies to their offshore affiliated entities must be supported by bona fide business transactions.

24. COMMITMENTS

(a) Operating leases

The Group has entered into operating lease agreements principally for its office spaces in the PRC. These leases expire through 2018 and are renewable upon negotiation. Rental expenses under operating leases for the years ended December 31, 2014, 2015 and 2016 were \$1,316, \$1,507 and \$1,988, respectively.

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

Year	
2017	\$ 2,364
2018	2,067
2019	96
	<u>\$ 4,527</u>

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(b) Concession fees

The Group has entered into concession right agreements with vendors, such as airports, airlines, trains and a petroleum company. The contract terms of such concession rights are usually three to five years. The concession rights expire through 2029 and are renewable upon negotiation. Concession fees charged into statements of operations for the years ended December 31, 2014, 2015 and 2016 were \$71,533, \$64,752 and \$17,264 respectively.

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

<u>Year</u>	
2017	\$ 29,621
2018	22,426
2019	19,061
2020	17,193
2021	864
thereafter	6,049
	<u>\$ 95,214</u>

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25. CONTINGENT LIABILITIES

(a) Outdoor advertisement registration certificate

On May 22, 2006, the State Administration for Industry and Commerce, or the SAIC, a governmental authority in the PRC, amended the Provisions on the Registration Administration of Outdoor Advertisements, or the new outdoor advertisement provisions. Pursuant to the amended outdoor advertisement provisions, advertisements placed inside or outside of the "departure halls" of airports are treated as outdoor advertisements and must be registered in accordance with the local SAIC by "advertising distributors". To ensure that the Group's airport operations comply with the applicable PRC laws and regulations, the Group is in the process of making inquiries with the local SAICs in the cities in which the Group has operations or intends to operate with respect to the application for an advertising registration certificate. However, the local SAICs with whom the Group consulted have expressed different views on whether the advertisements shown on the Group's digital TV screens should be regarded as outdoor advertisements and how to register those advertisements. As of the date of these consolidated financial statements, the Group has registered and received outdoor advertising licenses for our advertisements in Beijing Capital International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao Airport, and Shenyang Taoxian International Airport, and Changchun Longjia International Airport, and registrations have been approved by the SAIC offices in four other cities and provinces where the Group has operations for advertisements in the airports of those regions. Some local SAICs need more time to consider the implementation of the new outdoor advertising provisions and some SAICs do not require the Group to register. The Group intends to register with the relevant SAICs if the Group is required to do so, but the Group cannot assure that the Group will obtain the registration certificate in compliance with the new outdoor advertisement provisions due to the uncertainty in the implementation and enforcement of the regulations promulgated by the SAIC. If the requisite registration is not obtained, the relevant local SAICs may require the Group to forfeit advertising income earned, impose administrative fines of up to \$5. They may also require the Group to discontinue advertisements at airports where the requisite advertising registration is not obtained, which may result in a breach of one or more of the Group's agreements with the Group's advertising clients and materially and adversely affect the Group's business and results of operations. As of December 31, 2016, the Group did not record a provision for this matter as management believes the possibility of an adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.

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25. CONTINGENT LIABILITIES - continued

(b) Approval for non-advertising content

A majority of the digital frames and digital TV screens in the Group's network include programs that consist of both advertising content and non-advertising content. On December 6, 2007, the State Administration of Radio, Film or Television, or the SARFT, a governmental authority in the PRC, issued the Circular regarding Strengthening the Management of Public Audio-Video in Automobiles, Buildings and Other Public Areas, or the SARFT Circular. According to the SARFT Circular, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT. The Group intends to obtain the requisite approval of the SARFT for the Group's non-advertising content, but the Group cannot assure that the Group will obtain such approval in compliance with this new SARFT Circular, or at all. In January 2014, the Group entered into a strategic alliance with China Radio International Oriental Network (Beijing) Co., Ltd ("CRION"), which manages the internet TV business of China International Broadcasting Network, to operate the CIBN-AirMedia channel for broadcast network TV programs to air travellers in China. According to the terms of the cooperation arrangement with CRION, during the cooperation period from March 28, 2014 to March 27, 2024, CRION shall obtain and, from time to time, be responsible for obtaining any approval, license and consent regarding the regulation of broadcasting and television from relevant authorities.

There is no assurance that CRION will be able to obtain or maintain the requisite approval or the Group will be able to renew the contract with CRION when they expire. If the requisite approval is not obtained, the Group will be required to eliminate non-advertising content from the programs included in the Group's digital frames and digital TV screens and advertisers may find the Group's network less attractive and be unwilling to purchase advertising time slots on the Group's network. As of December 31, 2016, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.

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25. CONTINGENT LIABILITIES - continued

(c) Class action

The Company and two of its officers were named as defendants in a putative securities class action filed on June 25, 2015 in the U.S. District Court for the Southern District of New York: Huang v. AirMedia Group Inc. et al., Civil Action No. 1:15-CV-04966-ALC (S.D.N.Y.). The complaint in this putative class action alleges that certain of the defendants' financial statements and other public statements and disclosures contained misstatements or omissions, including with respect to the alleged sale of an equity interest in the Company's advertising subsidiary, in violation the U.S. securities laws. The complaint states that plaintiffs seek to represent a class of persons who allegedly suffered damages as a result of their trading activities related to the Company's ADRs between April 15 and June 15, 2015, and alleges violations of Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. On November 10, 2015, the Court appointed China Xiayuan Transportation Co. Ltd. as the lead plaintiff and appointed a lead counsel. On January 15, 2016, the lead plaintiff filed an amended complaint, advancing similar allegations and claims as the previously filed complaint and seeking to represent a class of persons who allegedly suffered damages as a result of their trading activities related to the Company's ADRs between April 7 and June 15, 2015. On February 5, 2016, the Company filed a letter pursuant to the judge's individual practice rules, in which the Company identified the bases for its anticipated motion to dismiss the amended complaint and requested a pre-motion conference. On February 10, 2016, the lead plaintiff filed a letter in response to the Company's February 5, 2016 letter. On February 11, 2016, the court denied the request for a pre-motion conference, and ordered the following briefing schedule: the Company should file its motion to dismiss by March 10, 2016, with the plaintiffs' opposition due by April 7, 2016, and the Company's reply due by April 21, 2016. On March 10, 2016, the Company and one of its officers filed a motion to dismiss the Amended Complaint. On April 21, 2016, the Filing Defendants filed a reply to the lead plaintiff's opposition. On March 27, 2017, the Court granted the motion to dismiss and entered a judgment dismissing the Amended Complaint with prejudice. As of December 31, 2016, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements.

(d) AM Advertising Dispute

AM Shengshi had served a legal letter, dated June 29, 2016 (the "Legal Letter"), on Longde Wenchuang and Culture Center to challenge the proposed transfers by Longde Wenchuang and Cultural Center of their equity interests in AM Advertising to Shanghai Golden Bridge InfoTech Co., Ltd. (stock code: 603918), a PRC company with its shares listed on the Shanghai Stock Exchange ("Golden Bridge"). As of the date of the Legal Letter, AM Shengshi held 24.84% of the equity interests in AM Advertising. Longde Wenchuang and Culture Center held 28.57% and 46.43%, respectively, of the equity interests in AM Advertising. On June 14, 2016, Longde Wenchuang and Culture Center entered into an equity interest transfer agreement with Golden Bridge to transfer 75% equity interests in AM Advertising to Golden Bridge in consideration for shares in Golden Bridge (the "Transfer"). Neither of Longde Wenchuang and Culture Center sought consent from AM Shengshi with respect to the Transfer in accordance with the provisions of the Company Law of the People's Republic of China (the "Company Law"). In the Legal Letter, AM Shengshi challenges the validity of the Transfer on the ground that it violated the statutory right of first refusal of AM Shengshi under the Company Law. Subsequent to the Company's legal letter, Golden Bridge ceased acquisition of 75% equity interest of AM Advertising from Longde Wenchuang and Culture Center. Longde Wenchuang and Culture Center further dismissed the Group's representative from Co-CEO position of AM Advertising.

On September 2, 2016, the Group received notice (the "September 2, 2016 Notice") from the China International Economic and Trade Arbitration Commission (the "CIETAC") that the Company, AM Technology, AM Shengshi and Mr. Herman Man Guo (collectively, the "Respondents") were named as respondents by the Culture Center in an arbitration proceeding submitted by the Culture Center to the CIETAC in connection with the sale by the Company of 75% equity interests in AM Advertising to Culture Center and Longde Wenchuang in June 2015. Culture Center seeks specific performance by the Respondents of certain obligations under the transaction documents, which include, among other things, (i) the pledge by AM Shengshi and Mr. Guo of their respective equity interests in AM Advertising to Culture Center as security for their obligations under the transaction documents, (ii) the use of best efforts by the Respondents to cooperate with the Culture Center and Longde Wenchuang to procure the listing of AM Advertising in China and (iii) the performance by the Company and Mr. Guo of their respective non-compete obligations to refrain from holding, operating, or otherwise participating in any business that is the same or substantially the same as that of AM Advertising. The Company believes the arbitration request is without merit and intends to defend the actions vigorously. However, no assurances can be provided that the Company will prevail in this arbitration proceeding. In response to the September 2, 2016 Notice, the Group filed a notice against Culture Center to CIETAC for their breach of contract.

As a result of the above disputes, the Group is no longer able to exercise significant influence in operating and strategic decision of AM Advertising and cannot access to AM Advertising's financial information. Accordingly, the Group accounted its investment in AM Advertising using cost method (see Note 6) for the year ended December 31, 2016. AM Advertising and its subsidiaries are no longer related parties to the Group. As of December 31, 2016, the Group treated the provision for earnout commitment of \$23,549 as contingent liability and did not record any additional provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements.

(e) AM Shengshi Equity Transfer

Mr. Xiaoya Zhang, a former shareholder of AM Shengshi, had initiated legal proceedings against Mr. Qing Xu, a director and the executive president of the Company, with respect to the transfers by Mr. Zhang of his equity interests in the company to Mr. Xu. In December 2015, AM Shengshi received an equity interest transfer agreement (the "AM Shengshi SPA"), dated December 4, 2015, by and between Mr. Xiaoya Zhang and Mr. Qing Xu, pursuant to which Mr. Zhang agrees to transfer 8.2% equity interests in AM Shengshi to Mr. Xu for RMB82,000 (the

“AM Shengshi Equity Transfer”). The AM Shengshi Equity Transfer was completed in December 2015. In February 2016, Mr. Zhang initiated legal proceedings in a court in China against Mr. Xu, challenging the authenticity of his signatures to the AM Shengshi SPA and consequently the validity of AM Shengshi Equity Transfer. On February 14, 2017, the court’s final decision supported Mr. Xiaoya Zhang’s claim. The Group then further filed an arbitration against Mr. Xiaoya Zhang on April 21, 2017, which is under the process. However, none of the Company or AM Shengshi is a party to the AM Shengshi SPA. As of the date of this Report, none of the Company or AM Shengshi is named as a party in those legal proceedings. However, due to the uncertainty of the outcome of these proceedings, there is no assurance that they will not result in material adverse effect on the Group, substantial costs by the Group and/or the diversion of its resources and management attention. As of December 31, 2016, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)

26. RELATED PARTY TRANSACTIONS

(a) Details of outstanding balances with the Group's related parties as of December 31, 2015 and 2016 were as follows:

Amount due from related parties:

Name of related parties	Relationship	As of December 31,	
		2015	2016
Beijing Dayun Culture Communication Co., Ltd. ("Dayun Culture") (1)	Invested by management members of the Group	\$ 233	\$ -
Mr. Xu Qing (2)	Shareholder of the Company		835
Beijing AirMedia Advertising Co., Ltd. ("AM Jinshi") (3)	Wholly-owned subsidiary of AM Advertising	1,182	-
Beijing AirMedia Lianhe Advertising Co., Ltd. ("AirMedia Lianhe") (3)	Wholly-owned subsidiary of AM Advertising	615	-
AirMedia City (Beijing) Outdoor Advertising Co., Ltd. ("AM Outdoor") (3)	Wholly-owned subsidiary of AM Advertising	360	-
Beijing AirMedia Jinshi Advertising Co., Ltd. ("TianJin Jinshi") (3)	Wholly-owned subsidiary of AM Advertising	362	-
		<u>\$ 2,752</u>	<u>\$ 835</u>

- (1) The amounts due from Dayun Culture represent the unreceived consideration of \$233 and Nil for selling 20% of equity interests in AirMedia Lianhe as of December 31, 2015 and 2016.
- (2) The amounts due from Mr. Xu Qing represents interest free advances to the related party in a short term basis for general business purpose.
- (3) The amounts due from AM Jinshi, AirMedia Lianhe, AM Outdoor and TianJin Jinshi represents the amount of concession using fees receivable as of December 31, 2015. These entities are subsidiaries of AM Advertising. The Group owns approximately 25% of equity interest of AM Advertising and accounted the investment in AM Advertising using equity method for the year ended December 31, 2015. Accordingly, the subsidiaries of AM Advertising were considered as related parties of the Group for the year ended December 31, 2015.

Due to various disputes incurred in fiscal 2016, management is no longer able to have significant influence in operating and strategic decision of AM Advertising and cannot access to AM Advertising's financial information. Accordingly, the Group accounted its investment in AM Advertising using cost method (see Note 25) for the year ended December 31, 2016. AM Advertising and its subsidiaries are no longer related parties to the Group. As of December 31, 2016, all the balance related to AM Advertising and its subsidiaries are included in the other current asset (See Note 8) and accrued expenses and other current liabilities (See Note 15).

AIRMEDIA GROUP INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)**

26. RELATED PARTY TRANSACTIONS - continued

(b) Details of outstanding balances with the Group's related parties as of December 31, 2015 and 2016 were as follows:

Amount due to related parties:

Name of related parties	Relationship	As of December 31,	
		2015	2016
AirTV United (1)	Wholly-owned subsidiary of AM Advertising	\$ 296	\$ -
AM Advertising (2)	Long term investment	15,093	-
		\$ 15,389	\$ -

(1) The amounts due to AirTV United raised from the restructuring before the disposal. AirTV United is a subsidiary of AM Advertising. The Group owns approximately 25% of equity interest of AM Advertising and accounted the investment in AM Advertising using equity method for the year ended December 31, 2015. Accordingly, AirTV United were considered as related parties of the Group for the year ended December 31, 2015.

Due to various disputes incurred in fiscal 2016, management is no longer able to have significant influence in operating and strategic decision of AM Advertising and cannot access to AM Advertising's financial information. Accordingly, the Group accounted its investment in AM Advertising using cost method (see Note 25) for the year ended December 31, 2016. AM Advertising and its subsidiaries are no longer related parties to the Group. As of December 31, 2016, all the balance related to AM Advertising and its subsidiaries are included in the other current asset (See Note 8) and accrued expenses and other current liabilities (See Note 15).

(2) The amounts due to AM Advertising mainly represent the concession fee payables for using concessions owned by AM Advertising, unpaid loans incurred before the disposal and related interests due to AM Advertising as of December 31, 2015. As of December 31, 2016, all the balance related to AM Advertising and its subsidiaries are included in other current asset (See Note 8) and accrued expenses and other current liabilities (See Note 15).

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)

26. RELATED PARTY TRANSACTIONS - continued

(c) Details of related party transactions occurred, for the years ended December 31, 2014, 2015 and 2016 were as follows - continued:

Revenues earned from:

Name of related parties	Relationship	For the years ended December 31		
		2014	2015	2016
AM Jinshi ⁽¹⁾	Wholly-owned subsidiary of AM Advertising	-	278	-
AM Advertising ⁽¹⁾	Long term investment	-	2	-
		\$	-	\$ 280
				\$ -

Concession cost purchased from:

Name of related parties	Relationship	For the years ended December 31		
		2014	2015	2016
AM Jinshi ⁽¹⁾	Wholly-owned subsidiary of AM Advertising	-	2	-
AM Advertising ⁽¹⁾	Long term investment	-	142	-
		\$	-	\$ 144
				\$ -

Equity transaction with related parties:

Name of related parties	Relationship	For the years ended December 31		
		2014	2015	2016
Dayyun Culture ⁽²⁾	Invested by management members of the Group	\$ 2,766	\$ -	\$ -
		\$ 2,766	\$ -	\$ -

- (1) Entities in continuing operations sold some concession in certain airports to discontinued operation. Also continuing operations purchased some concession in certain airports from discontinued operation after the disposal.
- (2) In August 2014, the Group sold 20% equity interest in AirMedia Lianhe, a wholly-owned subsidiary, to Dayun Culture, with a consideration of \$2,766.

AIRMEDIA GROUP INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016
(In U.S. dollars in thousands, except share data or otherwise noted)**

27. SUBSEQUENT EVENTS

On April 7, 2017, the Group announced that it, through AM Online, established Unicom AirMedia (Beijing) Network Co., Ltd., or Unicom AirMedia, jointly with Unicom Broadband Online Co., Ltd., a wholly owned subsidiary of China Unicom, and Chengdu Haite Kairong Aeronautical Technology Co., Ltd., a wholly owned subsidiary of a listed company providing aeronautical technical services. Pursuant to a capital contribution agreement entered into by the relevant parties, AM Online invested approximately RMB120 million in Unicom AirMedia. After this transaction, AM Online currently holds 39% of equity interests in Unicom AirMedia, and has the right to appoint three directors to its seven-member board. Unicom AirMedia is expected to build a global network for aeronautical communication and provide in-flight internet and provide other value-added services.

The special committee received a proposed amendment to the Merger Agreement from the buyer group, comprised of Mr. Guo, Ms. Dan Shao and Mr. Qing Xu, on May 23, 2017 to (a) acquire all of the outstanding shares not already owned by the buyer group for US\$4.00 per ADS or US\$2.00 per ordinary share in cash, and (b) extend the Termination Date to December 31, 2017. The special committee is evaluating the proposed amendment with the assistance of its financial and legal advisors. On June 28, 2017, the parties entered into Amendment No. 3 to the Merger Agreement to further extend the termination date to July 31, 2017 so as to give the special committee sufficient time to consider the proposed amendment.

AIRMEDIA GROUP INC.

ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
FINANCIAL INFORMATION OF PARENT COMPANY
BALANCE SHEETS
(In U.S. dollars in thousands, except share related data or otherwise noted)

	As of December 31,	
	2015	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 332	\$ 139
Amount due from subsidiaries	179,619	178,083
Other current assets	1,369	3,825
Total current assets	181,320	182,047
Non-current assets		
Investment in subsidiaries	205,501	86,896
TOTAL ASSETS	386,821	268,943
Liabilities		
Current liabilities		
Accrued expenses and other current liabilities	253	206
Total liabilities	253	206
Equity		
Ordinary Shares (\$0.001 par value; 900,000,000 shares authorized in 2015 and 2016; 127,662,057 shares issued as of December 31, 2015 and 2016; 124,395,645 shares and 125,629,779 shares outstanding as of December 31, 2015 and 2016, respectively)	128	128
Additional paid-in capital	317,414	287,094
Treasury stock (3,266,412 and 2,032,278 shares as of December 31, 2015 and 2016, respectively)	(3,778)	(2,351)
Retained earnings (accumulated deficits)	49,876	(15,842)
Accumulated other comprehensive income	22,928	(292)
Total equity	386,568	268,737
TOTAL LIABILITIES AND EQUITY	\$ 386,821	\$ 268,943

AIRMEDIA GROUP INC.

ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
 FINANCIAL INFORMATION OF PARENT COMPANY
 STATEMENTS OF OPERATIONS
 (In U.S. dollars in thousands)

	For the years ended December 31,		
	2014	2015	2016
Operating expenses			
Selling and marketing	\$ (144)	\$ -	\$ (8)
General and administrative	(1,676)	(2,070)	(2,356)
Total operating expenses	(1,820)	(2,070)	(2,364)
Other income, net	-	-	548
Investment (loss) income in subsidiaries	(23,875)	151,717	(63,809)
Net (loss) income attributable to holders of ordinary shares	\$ (25,695)	\$ 149,647	\$ (65,625)

AIRMEDIA GROUP INC.

ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
 FINANCIAL INFORMATION OF PARENT COMPANY
 STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
 (In U.S. dollars in thousands)

	For the years ended December 31,		
	2014	2015	2016
Net (loss) income	\$ (25,695)	\$ 149,647	\$ (65,625)
Other comprehensive loss, net of tax:			
Change in cumulative foreign currency translation adjustment	(6,414)	(10,887)	(23,220)
Comprehensive (loss) income attributable to Parent Company	\$ (32,109)	\$ 138,760	\$ (88,845)

AIRMEDIA GROUP INC.

ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
 FINANCIAL INFORMATION OF PARENT COMPANY
 STATEMENTS OF CHANGES IN EQUITY
 (In U.S. dollars in thousands, except share related data or otherwise noted)

	Ordinary shares		Additional paid-in capital	Treasury stock	(Accumulated deficits) retained earnings	Accumulated other comprehensive Income (loss)	Total equity
	Shares	Amount					
Balance as of January 1, 2014	<u>119,134,135</u>	<u>\$ 128</u>	<u>\$ 313,912</u>	<u>\$ (9,860)</u>	<u>\$ (73,443)</u>	<u>\$ 40,229</u>	<u>\$ 270,966</u>
Ordinary shares issued for share based compensation	808,278	-	-	624	-	-	624
Share-based compensation	-	-	1,359	-	-	-	1,359
Foreign currency translation adjustment	-	-	-	-	-	(6,414)	(6,414)
Capital contribution from non-controlling interests	-	-	6,463	-	-	-	6,463
Disposal of equity interests of AM Film and AirMedia Lianhe	-	-	1,433	-	-	-	1,433
Net loss	-	-	-	-	(25,695)	-	(25,695)
Balance as of December 31, 2014	<u>119,942,413</u>	<u>\$ 128</u>	<u>\$ 323,167</u>	<u>\$ (9,236)</u>	<u>\$ (99,138)</u>	<u>\$ 33,815</u>	<u>\$ 248,736</u>
Ordinary shares issued for share based compensation	4,453,232	-	-	5,458	(663)	-	4,825
Share-based compensation	-	-	598	-	-	-	598
Foreign currency translation adjustment	-	-	-	-	-	(10,887)	(10,887)
Net income	-	-	-	-	149,647	-	149,647
Capital contribution from non-controlling interests	-	-	271	-	-	-	271
Capital contribution to Guangzhou Meizheng	-	-	(459)	-	-	-	(459)
Acquisition of non-controlling interests	-	-	(6,163)	-	-	-	(6,163)
Balance as of December 31, 2015	<u>124,395,645</u>	<u>\$ 128</u>	<u>317,414</u>	<u>(3,778)</u>	<u>49,876</u>	<u>22,928</u>	<u>386,568</u>
Stock option exercised	1,234,134	-	-	1,427	(93)	-	1,334
Share-based compensation	-	-	773	-	-	-	773
Foreign currency translation adjustment	-	-	-	-	-	(23,220)	(23,220)
Net income	-	-	-	-	(65,625)	-	(65,625)
Acquisition of equity interests from non-controlling shareholders	-	-	(34,570)	-	-	-	(34,570)
Capital contribution from non-controlling interests	-	-	3,477	-	-	-	3,477
Balance as of December 31, 2016	<u>125,629,779</u>	<u>\$ 128</u>	<u>\$ 287,094</u>	<u>\$ (2,351)</u>	<u>\$ (15,842)</u>	<u>\$ (292)</u>	<u>\$ 268,737</u>

AIRMEDIA GROUP INC.

ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
 FINANCIAL INFORMATION OF PARENT COMPANY
 STATEMENTS OF CASH FLOWS
 (In U.S. dollars in thousands)

	For the years ended December 31,		
	2014	2015	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	\$ (25,695)	\$ 149,647	\$ (65,625)
Investment loss (income) in subsidiaries	23,875	(151,717)	63,809
Share-based compensation	1,359	598	773
CHANGES IN WORKING CAPITAL ACCOUNTS			
Other current assets	(221)	(813)	(2,456)
Accrued expenses and other current liabilities	(308)	169	(47)
Amount due to subsidiaries	(517)	(3,135)	483
Amount due from subsidiaries	2,898	(1,272)	1,536
Net cash provided by (used in) operating activities	1,391	(6,523)	(1,527)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercises of stock options	624	4,826	1,334
Net cash provided by financing activities.	624	4,826	1,334
Net increase (decrease) in cash	2,015	(1,697)	(193)
Cash, at beginning of year	14	2,029	332
Cash, at end of year	<u>\$ 2,029</u>	<u>\$ 332</u>	<u>\$ 139</u>

AIRMEDIA GROUP INC.

**NOTES TO ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I
FINANCIAL INFORMATION OF PARENT COMPANY
(In U.S. dollars in thousands)**

Notes:

1. BASIS FOR PREPARATION

The condensed financial information of the parent company, AirMedia Group Inc., only has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the parent company has used equity method to account for its investment in its subsidiaries.

2. INVESTMENTS IN SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

The Company, its subsidiaries, its VIEs and VIEs' subsidiaries are included in the consolidated financial statements where the inter-company balances and transactions are eliminated upon consolidation. For the purpose of the Company's stand-alone financial statements, its investments in subsidiaries, VIEs and VIEs' subsidiaries are reported using the equity method of accounting. The Company's share of income and losses from its subsidiaries, VIEs and VIEs' subsidiaries is reported as earnings from subsidiaries, VIEs and VIEs' subsidiaries in the accompanying condensed financial information of parent company.

3. INCOME TAXES

The Company is a tax exempted company incorporated in the Cayman Islands.

Contract Serial Number: KD22-0101-2017-000035



Capital Contribution Agreement

for the Establishment of Unicom Hangmei (Beijing) Network Co. Ltd.

Party A: China Unicom Broadband Online Co. Ltd.

Domicile: Unicom Office Building, No. A133, North Xidan Avenue, Xicheng District, Beijing

Legal Representative: Ma Yan

Party B: Hangmei Online Network Technology Co., Ltd.

Domicile: Sky Plaza, No.46 Dongzhimenwai Avenue, Dongcheng District, Beijing

Legal Representative: Xu Qing

Party C: Chengdu Haite Kairong Aeronautical Technology Co., Ltd.

Domicile: No. 1, 1st Floor, Building 4, No. 18-2, 2nd Section of Lushan Avenue, Wan'an Subdistrict, Tianfu New Area, Chengdu City

Legal Representative: Li Jiangshi

(Party A, Party B and Party C shall hereinafter be referred to individually as “a Party” and collectively as the “Parties”)

WHEREAS

1. Party A is a wholly owned subsidiary of China United Network Communications Co., Ltd. (hereinafter referred to as China Unicom), a Beijing-based high-tech enterprise with a number of national patents and software copyrights, as well as national value-added telecommunications business permit.



2. Party B is a high-tech mobile Internet company headquartered in Beijing, focusing on construction and operation of Wi-Fi business in areas of interurban coach, railway and aviation, providing travel and entertainment solutions to passengers by integrating passenger transport resources, communications networks, entertainment and O2O services.

3. Party C is a limited liability company initiated by Sichuan Haite High-Tech Co., Ltd. and Shenzhen Qianhai Kairong Capital Management Co., Ltd. and specially established for the establishment of Unicom Hangmei (Beijing) Network Co., Ltd. Sichuan Haite High-Tech Co., Ltd. is a listed company engaged in comprehensive aviation technology services, focusing on the maintenance of airborne equipment and the overhaul of aircraft power equipment and the development and sales of airborne equipment and test equipment, with its business concerning Boeing series, Airbus series and other types of general-purpose aircrafts.

In order that Party A's advantages in the field of communication business, Party B's experience in industrialization and operation of Wi-Fi construction and marketing and Party C's advantages in aviation technical services and capital operation can be brought into full play, the Parties intend to jointly invest in the establishment of a mixed ownership company, Unicom Hangmei (Beijing) Network Co., Ltd., to carry out the in-flight public communication business. After friendly consultations, the Parties have agreed on the matters concerning industrialization cooperation and joint contribution for the establishment of Unicom Hangmei (Beijing) Network Co., Ltd. in accordance with *the Company Law of the People's Republic of China*, *the Contract Law of the People's Republic of China* and other relevant laws and regulations. NOW, THEREFORE, as the code of conduct to be mutually observed by the parties for contribution, it is agreed by and between the parties hereto as follows:



Article 1 Basic Profile of Unicom Hangmei

1. The name of the limited liability company to be established by the parties is tentatively designated as "Unicom Hangmei (Beijing) Network Co., Ltd. (hereinafter referred to as "Unicom Hangmei" or "the Company"), which shall be subject to the approval of the company registration authority.

The name of Unicom Hangmei is subject to alternation within three (3) working days from the date of completion of the matters agreed in paragraph 5 of Article 4 of this Agreement. After the alternation, the name of the Company shall be Unicom Hangmei Network Co., Ltd.

2. The intended registered office of Unicom Hangmei is the Business Development Center of Beijing Miyun Economic Development Zone.

3. The organizational form of Unicom Hangmei shall be limited liability company.

4. The operating period of Unicom Hangmei shall be long-term. The date of issuance of the business license shall be that of establishment of Unicom Hangmei.

5. Liabilities: Party A, Party B and Party C shall be liable for Unicom Hangmei to the extent of their respective capital contribution to Unicom Hangmei, and Unicom Hangmei shall be liable for its debts to the extent of its total assets.

Article 2 Objects and Scope of Business of Unicom Hangmei

1. The objects of operation of Unicom HangMei are: to create an air-to-ground communication network which provides safe, reliable and smooth services and is compliant with relevant regulations and standards; to provide integrated air-to-ground Internet access and value-added services; and to become a world-class WIFI business and value-added service operator both in China and worldwide.



2. The scope of business of Unicom HangMei is: satellite communication; data processing; satellite resource leasing; civil aviation communication system engineering and equipment installation, commissioning and maintenance; sales of civil communication equipment and spare parts; navigation equipment installation; database management; development of computer software; sales of self-developed products; telecommunications network equipment agent services; computer systems integration; computer systems services; integration of communication and information services; advertising design, production and publishing. (The company shall, in accordance with the law, make its own selection of operating items and its own managerial decisions; for items subject to approval in accordance with the law, its business activities shall be in conformity with the contents approved by relevant authorities; it shall not engage in business activities concerning items prohibited and restricted by the industrial policies of the city.) The specific scope of business of the Company shall be subject to the contents approved by the company registration authority.

Article 3 Business Planning of the Company

Unicom Hangmei is a company with an asset-light developing strategy, and the business cooperation between the parties is exclusive.

The business planning of Unicom Hangmei is: to form a satellite communication network with the capacity to meet global needs for aviation business and to build a perfect control center of air-to-ground network operations; to achieve Internet access and value-added services in global airlines and business aircraft passenger cabins as well as extended business in ground WIFI, with an ultimate goal of providing integrated air-to-ground Internet access and value-added services.



Article 4 Registered Capital

1. The initial registered capital of Unicom Hangmei is RMB 10 million yuan in monetary term, where:

(1) Party A's subscribed capital contribution is RMB 4.1 million yuan, representing 41% of the equity share of Unicom Hangmei;

(2) Party B invests RMB 117.9 million yuan, of which RMB 3.9 million yuan is included in the registered capital, representing 39% of the equity share of Unicom Hangmei, with the remaining amount of RMB 114 million yuan included in the capital reserve of Unicom Hangmei;

(2) Party C invests RMB 78 million yuan, of which RMB 2 million yuan is included in the registered capital, representing 20% of the equity share of Unicom Hangmei, with the remaining amount of RMB 76 million yuan being included in the capital reserve of Unicom Hangmei.

2. The payment of the above-mentioned registered capital shall be made at one time in full within ten (10) working days from the date of opening of the temporary account of Unicom Hangmei.

3. The parties agree that the subscribed capital contribution of Party A shall be borne by Party B and Party C in proportion, with the part borne by Party B being RMB 2.1 million yuan and the part borne by Party C being 2 million yuan. Party B and Party C undertake to voluntarily bear the above-mentioned obligation of contribution for Party A. (Matters in respect of Party B and Party C's jointly bearing the contribution of Party A shall be subject to the Supplementary Agreement to the Capital Contribution Agreement to be entered into separately by and between the parties).

4. The parties agree that the following contributions shall be made within ten (10) working days from the date of opening of the temporary account of Unicom Hangmei:

(1) Party B and Party C shall remit the amount of contribution they respectively commit to bear for Party A, totaling RMB 4.1 million yuan, to the account designated by Party A;

(2) Party B and Party C shall remit their respective contributions to Unicom Hangmei to the temporary account of Unicom Hangmei.



In case any Party fails to make its contribution in accordance with the aforesaid provisions, the breaching party shall be responsible for the non-breaching parties for violating this Agreement in addition to making full payment to Unicom Hangmei.

5. The parties agree to carry out capital increase to Unicom Hangmei from the date of completion of the industrial and commercial registration of the Company, and the registered capital shall be increased from RMB 10 million yuan to RMB 200 million yuan with the increased registered capital being transferred from the capital reserve of Unicom Hangmei.

The parties agree that after the increase of registered capital by transferring from the capital reserve, the shareholding ratio of Party A, Party B and Party C shall remain the same, that is 41% for Party A, 39% for Party B and 20% for Party C.

Article 5 Capital Contribution Certificate

After the establishment of the Company, the contributor who has made full payment of its contribution shall be entitled to the contribution certificate issued by the Company in a timely fashion. The contribution certificates shall be with the common seal of the Company on them and shall include the following:

- (1) the name of the Company;
- (2) the date of registration of the Company;
- (3) the registered capital of the Company;
- (4) the name or title of shareholders, the amount of capital contribution made and the date of capital contribution; and
- (5) the serial number and date of issuance of the capital contribution certificate.



Article 6 The Rights and Obligations of Contributors in the Establishment Stage of Unicom Hangmei

1. Applying for the establishment of Unicom Hangmei and following up the progress of establishment from time to time.
2. Signing the documents required for the establishment of Unicom Hangmei.
3. Reviewing the preliminary expenses incurred in the establishment phase.
4. Timely provision of documents and materials required in applying for the establishment of Unicom Hangmei.
5. Bearing liability for damages to Unicom Hangmei in case of losses incurred to Unicom Hangmei due to fault on the part of contributors in the process of establishing Unicom Hangmei.
6. In case a contributor fails to pay its due capital contribution on time in accordance with the provisions of this Agreement, the contributor shall be liable for the losses of other contributors caused by such failure in addition to making up the balance due to Unicom Hangmei.
7. After the establishment of Unicom Hangmei, the contributors shall not illegally withdraw the capital they have contributed.
8. After the establishment of Unicom Hangmei, the contributors shall exercise their rights of shareholders and bear their obligations of shareholders in accordance with relevant provisions of national laws and the Articles of Association of Unicom Hangmei.

Article 7 Bearing of Costs

1. The parties agree that after the establishment of Unicom Hangmei, all the expenses incurred for the establishment of Unicom Hangmei shall be included in the preliminary expenses of Unicom Hangmei and be borne by the established Unicom Hangmei.



2. In the event that the application for the establishment of Unicom Hangmei is terminated for reasons other than the fault of the parties hereto, the expenses having incurred for the establishment of Unicom Hangmei shall be borne by the shareholders in proportion to their respective subscribed capital contributions.

Article 8 Registration of Unicom Hangmei

The parties agree to appoint a representative jointly designated by Party A and Party B to act as the applicant for the application of the name pre-approval registration and establishment registration of Unicom Hangmei with the registration authority. The applicant shall ensure the authenticity, validity and legality of the documents and certificates to be submitted to the registration authority and bear corresponding responsibilities.

Article 9 Shareholders and the Board of Shareholders

1. Shareholders

(1) The shareholders of the Company are legal persons holding the shares of the Company in accordance with law. The shareholders shall have the rights and obligations set forth in the Articles of Association of the Company.

(2) The Company shall establish a register of shareholders according to law, and the name of a shareholder therein shall be sufficient evidence that the shareholder holds the shares of the Company.

2. The shareholders of the Company shall have the following rights and obligations:

(1) to receive dividends and other benefit distributions in proportion to the shares held;



- (2) to request, convene, preside over, participate in or appoint agents to participate in the board of shareholders and exercise the corresponding voting rights;
- (3) to transfer, donate or pledge the shares held in accordance with laws, administrative regulations and the Articles of Association of the Company;
- (4) to supervise the company's businesses and make corresponding recommendations and inquisition which shall be replied definitely by the board of directors of the Company.
- (5) to examine the Articles of Association of the Company, the register of shareholders, the stubs of creditor's rights of the Company, the minutes of shareholders' meetings, the minutes of the board of directors meetings, the resolutions and minutes of the meetings of the board of supervisors, the financial reports and accounting books of the Company;
- (6) to obtain the residual properties of the Company in proportion to the equity shares in case of termination or liquidation of the Company in accordance with relevant laws and the Articles of Association of the Company;
- (7) to subscribe, in proportion to the respective equity shares in the Company, on equal terms for the equity securities or potential equity securities to be issued by the Company (including securities with the right to subscribe for such equity securities, securities convertible or exchangeable for such equity securities, etc.), but except for the new shares issued by the Company for the employee equity incentive scheme.
- (8) to dilute the corresponding equity shares proportionally in case the Company adopts effective resolutions of introducing new investors by way of capital increase (other than the equity incentive scheme).
- (9) Party B and Party C to jointly bear the capital contribution of Party A;
- (10) The shareholder shall, by using their operations and resources, make every effort to assist the Company in achieving its business objectives, including but not limited to:



- (a) advising the Company in integration of industrial resources and brand building;
- (b) participating in developing the Company's strategic planning and providing recommendations for the Company's operations and management;
- (c) providing support in financing and in mergers and acquisitions;
- (d) assisting the Company in team building;
- (e) assisting the Company in optimizing the governance structure and improving the financial management system;
- (f) assisting in the selection / recommendation of appropriate intermediaries;
- (g) advising on other major decisions in the course of achieving business objectives.

(11) Subject to prior resolutions of the board of shareholders, the Company shall have the right to mortgage its properties to borrow any additional funds it requires. The Company may, with its assets as a guarantee, borrow from a third party or a financial institution. The Company may also borrow from the shareholders of the Company, with the amount, interest rate (up to the minimum commercial loan interest rate of banks for the same period) and term of the borrowings being determined by the shareholders through consultations.

(12) Party C undertakes not to act in concert with either Party A or Party B.

(13) other rights and obligations of shareholders stipulated in other laws and regulations, administrative regulations, department rules and the Articles of Association of the Company.

(14) Sichuan Haite High-Tech Co., Ltd., a shareholder of Party C, is a provider of aviation technology services specialized in aircraft modifications concerning airborne public communication businesses, which, under equal terms, shall be the preferred partner of Unicom Hangmei in conducting businesses in this area.

(15) The shareholders shall ensure that the joint venture company maximize its benefits in conducting the subsequent value-added businesses.



3. Board of Shareholders

The board of shareholders of the Company shall be composed of all the shareholders. The board of shareholders shall be the organ of authority of the Company and shall exercise the following functions and powers pursuant to the "Company Law":

- (1) to decide on the business policies and investment plans of the Company;
- (2) to elect and replace directors and supervisors that are not appointed from representatives of staff and workers, and to decide on matters concerning the remunerations of directors and supervisors;
- (3) to consider and approve reports of the board of directors;
- (4) to consider and approve reports of the board of supervisors;
- (5) to consider and approve the Company's proposed annual financial budgets and final accounts as well as major adjustments and modifications thereto;
- (6) to consider and approve the Company's profit distribution plans and plans for making up losses;
- (7) to pass resolutions on the increase or reduction of the Company's registered capital;
- (8) to pass resolutions on the issuance of corporate bonds;
- (9) to pass resolutions on matters such as the merger, division, dissolution, liquidation or change of the corporate form and operating period of the company;
- (10) to develop or amend the Articles of Association of the Company;
- (11) to pass resolutions on provision of security by the shareholders;
- (12) to pass resolutions on any capital expenditure or commitment to dispose of any assets outside the normal range, except for resolutions made under the Company's annual budget;
- (13) to pass resolutions on establishment of subsidiaries, or any merger and acquisition transaction, or foreign investment;



- (14) to pass resolutions on sale, transfer, distribution, disposal or addition of any mortgage, guarantee, pledge or any other encumbrance to the Company's all or significant assets;
- (15) to consider and approve any action that is outside the current business scope of the Company;
- (16) to consider and approve any borrowing and other financial support (including but not limited to any third party, subsidiary, employee) of the Company;
- (17) to consider and approve, as the guarantor, matters beyond the scope of daily operations of the Company;
- (18) to consider the resolution on engaging a third party auditor to conduct a comprehensive audit of the Company;
- (19) to consider and approve single connected transactions of more than RMB 2 million yuan conducted with associated enterprises;
- (20) to consider the equity incentive scheme;
- (21) to consider and approve such matters as merger and acquisition, sale, transfer, restructuring and disposal of equity, creditor's rights and major assets of more than RMB 2 million yuan as well as debt increases which may affect the solvency of the Company;
- (22) to consider other matters to be determined by the board of shareholders in accordance with laws, administrative regulations and the Articles of Association of the Company.

When the board of shareholders considers a connected transaction, the associated shareholder may participate in the consideration of such connected transaction and may make explanations and interpretations on the fairness, lawfulness and causes of the connected transaction to the board of shareholders, but such shareholder shall not participate in voting on the matter in question and the voting shares represented by such shareholder shall not be included in the total effective votes. The associated shareholder shall apply for a withdrawal, and other shareholders shall have the right to propose the withdrawal of such shareholder. In case all the shareholders are associated with the connected transaction under consideration, the meeting of the board of shareholder shall proceed as usual with all the shareholders present, and the matter under consideration shall be voted through by all the voting rights held by the shareholders.



5. The shareholder that has made the largest capital contribution shall convene and preside over the first meeting of the board of shareholders and shall exercise the due functions and powers.

6. The meetings of the board of shareholders shall be divided into regular meetings and extraordinary meetings.

Regular meetings shall be convened on time in accordance with the Articles of Association of the Company. An extraordinary meeting shall be convened in case it is proposed by shareholders representing one tenth or more of the voting rights, or by one third or more of the directors or the supervisor(s).

All the shareholders shall be notified fifteen (15) days prior to the meetings of the board of shareholders.

The board of shareholders shall make the decisions on the matters under consideration at the meeting into minutes of the meeting. The shareholders present at the meeting shall sign the minutes of the meeting.

9. The shareholders shall exercise their voting rights at the meeting of the board of shareholders in proportion to the capital contributions.

10. The meeting of the board of shareholders shall be presided over by the chairman of the board of directors. In case the chairman of the board of director is unable to or does not perform his duty, the meeting shall be presided over by a director jointly designated by more than half of the directors.

11. The resolutions of the board of shareholders shall be divided into ordinary resolutions and special resolutions.



(1) The ordinary resolutions of the board of shareholders shall be adopted by more than one-half of the voting rights held by the shareholders (including shareholders' agents) present at the meeting of the board of shareholders.

(2) The following special resolutions of the board of shareholders shall be adopted by more than two-thirds of the voting rights held by the shareholders (including shareholders' agents) present at the meeting of the board of shareholders:

- a. to consider and approve the Company's proposed annual financial budgets and final accounts;
- b. to consider and approve the Company's profit distribution plans and plans for making up losses;
- c. to pass resolutions on the increase or reduction of the Company's registered capital; to pass resolutions on matters such as the merger, division, dissolution and liquidation of the Company;
- e. to amend the Articles of Association of the Company;
- f. to pass resolutions on foreign investment, establishment of subsidiaries or any merger and acquisition transaction;
- g. to consider the equity incentive scheme;
- h. Changes in the financial system and significant accounting policies, selection and replacement of auditors;
- i. single loans of more than RMB 10 million yuan but less than 20 million yuan (including 200 million yuan).

(3) The following special resolutions of the board of shareholders shall be adopted unanimously by the shareholders present at the meeting of the board of shareholders:

- a. to pass resolutions on the issuance of corporate bonds of more than RMB 100 million yuan;
- b. to pass resolutions on the change of the corporate form of the Company;
- c. single loans of more than RMB 20 million yuan;
- d. any provision of security to a foreign party;
- f. any provision of borrowings to a foreign party;



13. Decision-making power over major issues

For the sake of clarity, without prejudice to the above provisions on voting rights of the shareholders, it is agreed unanimously by the parties that Party A shall have the power of veto over major matters involving information security, national security, etc.

14. The shareholders guarantee that the above-mentioned rights of the shareholders are their real intention and that the directors / senior officers / representatives appointed by them will comply with and implement the above provisions when voting.

Article 10 Directors and Board of Directors

1. The directors of the Company shall be natural persons and shall not be involved in cases set forth in the "Company Law" as not being permitted to serve as directors of the Company.

2. The directors shall abide by laws, administrative regulations and the Articles of Association of the Company, and shall have the following fiduciary obligations to the company, specifically:

- (1) shall not take advantage of their positions and powers to collect or accept bribes or other illegal incomes, and shall not encroach upon the property of the Company;
- (2) shall not misappropriate the funds of the Company;
- (3) shall not deposit the funds of the Company in an account opened in one's own name or in the name of another individual;
- (4) shall not, in violation of the provisions of this Agreement, lend the funds of the Company to other persons or use the property of the Company to provide security for other persons without the consent of the board of shareholders or the board of directors;
- (5) shall not enter into a contract or transaction with the Company in violation of the provisions of this Agreement or without the consent of the board of shareholders;



- (6) shall not take advantage of the convenience of one's own position to seek for himself or other persons commercial opportunities that should belong to the Company or to operate by himself or for another person the same type of business as that of the Company without the consent of the board of shareholders;
- (7) shall not accept as one's own the commissions for a transaction between another person and the Company;
- (8) shall not disclose the secrets of the Company without authorization;
- (9) shall not take advantage of one's own relationships to damage the interests of the Company;
- (10) other fiduciary obligations stipulated in laws, administrative regulations, department rules and this Agreement.

The income earned by a director from violating this article shall belong to the Company. The director shall also be liable for compensation for the losses of the Company caused by such violation (if any).

3. The directors shall abide by laws, administrative regulations and the Articles of Association of the Company, and shall have the following obligations of diligence to the Company, specifically:

- (1) shall exercise the rights granted by the Company with prudence, seriousness and diligence so as to ensure that the business practices of the Company comply with the requirements of laws, administrative regulations and economic policies of the state and the business activities are in conformity with the scope of business stipulated in the business license;
- (2) shall treat all the shareholders fairly;
- (3) shall keep informed in time of the operations and management of the Company's businesses;
- (4) shall make written confirmations of the Company's regular reports;
- (5) shall faithfully provide relevant information and materials to the board of supervisors and shall not prevent the board of supervisors or the supervisor(s) from exercising functions and powers;



(6) shall prudently treat and strictly control the debt risks arising from provision of security by the Company to controlling shareholders and associated parties and shall be jointly and severally liable for losses arising from illegal or inappropriate security. However, a director shall be exempted from liability in case it is recorded in the minutes of a meeting of the board of directors that such director has voted against the relevant matters at such meeting.

(7) other obligations of diligence under laws, administrative regulations, department rules and this Agreement.

4. The Company shall have a board of directors. The board of directors shall be formally established on the date of registration of the Company.

5. The board of directors shall be composed of seven members, with 3 of them being appointed by Party A, 3 by Party B and 1 by Party C. The board of directors shall have one chairman of the board who shall be elected from the directors appointed by Party A. The term of office of directors and the chairman of the board of directors shall be 3 years, and they may serve consecutive terms if appointed by the original appointing Party. A director shall not be removed from office before the expiry of his term by the board of directors without good cause.

In case no new director is elected in time upon expiration of the term of office of a director, the original director shall perform his duties as director in accordance with laws, administrative regulations, department rules and this Agreement before a newly elected director takes office.

6. The board of directors shall exercise the following functions and powers:

- (1) to convene and report to the board of shareholders;
- (2) to implement the resolutions of the board of shareholders;
- (3) to decide on the business plans and investment plans of the Company;
- (4) to formulate the Company's proposed annual financial budgets and final accounts;



- (5) to formulate the Company's profit distribution plans and plans for making up losses;
- (6) to formulate plans for the Company's increase or reduction of the registered capital or plans for the issuance of corporate bonds or other bonds or listing plans;
- (7) to formulate plans for major acquisitions or acquisitions of shares of the Company, or plans for the merger, division, dissolution or change of corporate form of the Company;
- (8) to decide on matters within the scope of authorization of the board of shareholders such as foreign investment, acquisitions and sales of assets, asset mortgages, provision of security to foreign parties, entrust financing, connected transactions.;
- (9) to decide on the establishment of the Company's internal management organization;
- (10) to decide on the employment or dismissal of the general manager of the Company; to decide on the employment or dismissal of senior officers of the Company (including the deputy manager(s) and person(s) in charge of financial affairs), as well as matters concerning remunerations, rewards and punishments for them, according to the recommendations of the general manager;
- (11) to examine and approve basic management systems of the Company, including financial system, seal and certificate management system, salary management and evaluation system and employee equity incentive scheme;
- (12) to develop the seal management system of the Company and to decide on the appointment and removal of the keeper of the common seal and the seal for contract of the Company;
- (13) to make proposals to the board of shareholders on the engagement or replacement of the accounting firm which acts as the auditor of the Company;
- (14) to be briefed on the work report by the general manager of the Company and to check the general manager's work;



(15) to discuss and assess whether the governance mechanism of the Company provides appropriate protection and equal rights to all shareholders and whether the governance structure of the Company is reasonable and effective;

(16) other functions and powers specified in laws, administrative regulations, department rules or the Articles of Association of the Company.

7. Meetings of the board of directors shall be convened and presided over by the chairman of the board. In case the chairman of the board is unable to or does not perform his duty, the meeting shall be convened and presided over by a director jointly designated by more than half of the directors.

8. Meetings of the board of directors may be held only if attended by more than two-thirds of all directors. If a director is unable to attend a meeting of the board of directors, he may entrust in writing another director to attend the meeting on his behalf and to exercise the power set forth in the Power of Attorney according to law.

9. The functions and powers of the board of directors specified in term 3-13 above shall be deemed as major issues which shall be effective only after they are adopted through voting by more than two-thirds of the members of the board of directors. Decisions on the other matters under consideration shall be effective after they are adopted through voting by more than one half of the directors, and the results of the decisions shall be recorded as minutes which shall be signed by the directors present at the meetings.

10. When voting on a resolution of the board of directors, each director present at the meeting shall have one vote.

11. The chairman of the board of directors shall be the legal representative of the Company. In case the chairman of the board of directors is unable to perform his duties for some reason, he may temporarily authorize another director to act on his behalf.

12. Meetings of the board of directors shall be divided into regular meetings and extraordinary meetings. Regular meetings shall be convened at least twice a year, including meetings to consider the regular reports of the Company.



An extraordinary meeting of the board of directors may be proposed by shareholders representing 10% or more of the voting rights or by one third or more of the directors or by the board of supervisors. The chairman of the board of directors shall convene and preside over the meeting of the board of directors within ten (10) days upon the receipt of the proposal.

13 All the directors, supervisors and senior officers shall be notified in writing ten (10) days prior to each regular meeting. Notice of an extraordinary meeting shall be given by the board of directors two (2) days prior to such meeting.

The notice of the first meeting of each board of directors of the Company may be given on the day of such meeting.

14. The notice of a meeting of the board of directors may be given by way of personal service, mail, announcement, E-mail, facsimile or telephone.

15. A notice of a meeting of the board of directors shall include at least the following:

- (1) the date and place of the meeting;
- (2) the duration of the meeting;
- (3) the subject and agenda of the meeting;
- (4) the date of the notice.

16. In case a director is related to an enterprise involved in a resolution of a meeting of the board of directors, such director shall not vote on such resolution either on his own behalf or on behalf of any other director. Meetings of the board of directors may be held if attended by more than half of the unrelated directors. Resolutions of the board of directors shall be adopted with the consent of more than half of the unrelated directors. In case the number of unrelated directors present at a meeting of the board of directors is less than three, the matter in question shall be submitted to the board of shareholders for consideration.

17. Resolutions of the board of directors shall be voted on by disclosed ballots or by show of hands.



Extraordinary meetings of the board of directors may be held and resolutions be adopted and signed by the participating directors by means of communications, provided that full expression of opinions of the directors is ensured.

18. Meetings of the board of directors shall be attended by the directors in person. In case a director for any reason is unable to attend the meeting, he may appoint another director in writing to attend the meeting on his behalf, and the Power of Attorney shall specify such matters as the name of the agent, entrusted task, scope of authorization and time of validity and shall be signed or sealed by the commissioning party. The director present at the meeting as an agent shall exercise the rights of the directors within the scope of authorization. In case a director does not attend a meeting of the board of directors, nor does he entrust an agent to attend such meeting on his behalf, the director shall be deemed to have waived the right to vote at such meeting.

19. The board of directors shall keep minutes of its decisions on the matters under consideration at the meeting, and the directors present at the meeting shall sign the minutes of the meeting.

The minutes of the meetings of the board of directors shall be kept as the company's archives for a period of not less than ten years.

20. The minutes of the meetings of the board of directors shall include at least the following:

- (1) the date, place and convener's name of the meeting;
- (2) the names of directors present, including those of directors entrusted to attend the meeting as agents;
- (3) the agenda of the meeting;
- (4) main points of the directors' speeches;
- (5) the voting method and result of each resolution (the result of the voting shall indicate the number of votes in favor, against or abstention).

21. Generally, meetings of the board of directors shall be held at the Company's usual residence.



Article 11 The Board of Supervisors

1. The provisions of Article 10 hereof on limitation to serving as directors shall also apply to supervisors.

Directors, the general manager and other senior officers shall not concurrently serve as supervisors.

2. Supervisors shall abide by laws, administrative regulations and this Agreement, and have fiduciary obligations and obligations of diligence to the Company. They shall not take advantage of their positions and powers to collect or accept bribes or other illegal incomes, and shall not encroach upon the property of the Company.

3. The term of office of supervisors shall be three years. A supervisor may serve consecutive terms if re-elected upon expiration of his term of office.

4. Meetings of the board of supervisors shall be convened and presided over by the chairman of the board of supervisors. In case the chairman of the board of supervisors is unable to or does not perform his duty, the meeting shall be convened and presided over by a supervisor jointly designated by more than half of the supervisors.

5. The first meeting of each board of supervisors shall be convened and presided over by a supervisor jointly designated by more than half of the supervisors

6. The company shall have a board of supervisors. The board of supervisors shall be composed of three members, with the chairman of the board of supervisors being appointed by Party C, one by Party A, and one employee supervisor being elected by the workers' congress. The Company shall have a convener of the board of supervisors, appointed by Party A. In case the convener of the board of supervisors is unable to perform his duty, he may appoint another supervisor to act on his behalf.

In case no new supervisor is elected in time upon expiration of the term of office of a supervisor, the original supervisor shall perform his duties as supervisor according to the provisions of laws, administrative regulations and the Articles of Association of the Company before a newly elected supervisor takes office.



7. The board of supervisors shall exercise the following functions and powers:

- (1) to examine the Company's financial affairs;
- (2) to supervise the behaviors that violate laws, regulations or the Articles of Association of the Company of the directors, the general manager and other senior officers upon execution of company duties and to recommend the removal of directors and senior officers that violate laws, administrative regulations, the Articles of Association of the Company or the resolutions of the board of shareholders;
- (3) when an act of a director or the general manager or any other senior officer damages the Company's interests, to require them to rectify such act and, if necessary, to report such act to the board of shareholders or competent authorities of the state;
- (4) to propose the convening of an extraordinary meeting of the board of shareholders;
- (5) to give proposals at meetings of the board of shareholders;
- (6) to institute proceedings against the directors and senior officers according to Article 152 of the "Company Law";
- (7) other functions and powers specified in the Articles of Association of the Company.

8. The board of supervisors shall convene at least one meeting every six month, with the notice of the meeting being given to all the supervisors ten (10) days prior to such meeting; supervisors may propose to convene an extraordinary meeting of the board of supervisors, the notice of which shall be given two (2) days prior to such meeting; the notice of the first meeting of each board of supervisors may be given to all the supervisors on the date of such meeting.

9. Resolutions of the board of supervisors shall be adopted by more than half of the supervisors.



10. The board of supervisors shall formulate the rules of procedure of the board of supervisors and specify the method of deliberation and voting procedures of the board of supervisors to ensure the efficiency and scientific decision-making of the board of supervisors. The rules of procedure of the board of supervisors shall be attached hereto after being formulated by the board of supervisors and approved by the board of shareholders.

11. The board of supervisors shall keep minutes of its decisions on the matters under consideration at the meeting. The supervisors present at the meeting shall sign the minutes of the meeting.

The minutes of the meetings of the board of supervisors shall include: the date, place and convener's name of the meeting; the names of supervisors present (including those of supervisors entrusted to attend the meeting as agents); the agenda of the meeting; main points of the supervisors' speeches; the voting method and result of each resolution (the result of the voting shall indicate the number of votes in favor, against or abstention).

A supervisor shall have the right to request an illustrative record of his speech at the meeting. The minutes of the meetings of the board of supervisors shall be kept as the Company's archives for a period of not less than ten years.

12. A notice of a meeting of the board of supervisors shall include at least the following:

- (1) the date, place and duration of the meeting;
- (2) the subject and agenda of the meeting;
- (3) the date of the notice.



Article 13 Management Organization

1. The company shall have a management organization responsible for daily operations and management of the Company. The management organization shall have a general manager, who shall be engaged or dismissed by the board of directors; and shall have another three senior officers, separately recommended by the three parties with each Party recommending one candidate, all of whom shall be examined by the general manager and engaged or dismissed by the board of directors.

2. The provisions of Article 10 hereof on limitation to serving as directors shall also apply to senior officers.

3. The provisions of Article 10 hereof on the fiduciary obligation of directors shall also apply to senior officers.

4. The engagement or dismissal of the general manager shall be decided by the board of directors. The term of office of the general manager shall be one years. A general manager may serve consecutive terms if so decided by the board of directors upon expiration of his term of office. The general manager shall be accountable to the board of directors and shall exercise the following functions and powers in accordance with the "Company Law" and the Articles of Association of the Company:

- (1) to be in charge of the production, operation and management of the Company, and to organize the implementation of the resolutions of the board of directors;
- (2) to organize the implementation of the annual business plans and investment plans of the Company;
- (3) to draft the plan for the establishment of the Company's internal management organization;
- (4) to draft the basic management system of the Company;
- (5) to formulate the specific rules and regulations of the Company;
- (6) to request the board of directors for the employment or dismissal of the deputy manager(s), the financial director and the senior director(in charge of ground WiFi);
- (7) to decide on the employment or dismissal of management personnel other than those to be employed or dismissed by the board of directors; and
- (8) other functions and powers delegated by the board of directors.



The above paragraph (3) and (4) shall be submitted to the board of directors for consideration and approval.

The board of directors may replace the general manager, deputy general manager(s) or other senior officers by resolutions of the board of directors at any time in case such persons are proved to have been engaged in malpractices for selfish ends or have seriously neglected their duties.

6. The general manager, deputy general manager(s) and other senior management personnel are required to work full-time in the company. A labor contracts between such person and the company shall be entered into in accordance with law, stating the duties, rights and obligations of such person.

7. The financial department shall have a financial director. The parties agree that the financial director shall be recommended by Party A, and the candidates recommended by Party A shall be nominated, engaged and dismissed by the board of directors.

8. In case the general manager or a senior officer violates the provisions of laws, administrative regulations, department rules or the Articles of Association of the Company in the execution of company duties, such person shall be liable for compensation for the losses of the Company caused thereby(if any).

The Company shall establish scientific and perfect employment, evaluation, incentive and restraint mechanisms based on the requirements for the development of the Company and in accordance with laws, administrative regulations, department rules or the provisions hereof.

Article 14 Equity Transfer and Capital Increase

1. The parties agree that the shareholders may transfer all or part of their equity interests among them three years after the establishment of the Company. The Company shall apply for registration of change in case of a transfer of equity interests within thirty(30) days from the date of such transfer.



2. The parties agree that the shareholders may transfer their equity interests to persons other than the shareholders. Where a shareholder transfers its equity interests to a person other than a shareholder, it shall obtain unanimous consent of the other shareholders. The shareholder shall notify the other shareholders in writing of the transfer of equity interests and seek their consent. Where the other shareholders do not reply within thirty (30) days of receipt of the written notice, they shall be deemed to consent to the transfer. If the other shareholders do not consent to the transfer, the dissenting shareholders shall purchase the equity interests to be transferred. If they do not purchase the equity interests, they shall be deemed to consent to the transfer. Under identical terms, the other shareholders shall have the preemptive right for the equity interests the transfer of which has been consented by the shareholders.

3. After a transfer of equity interests in accordance with law or after introducing a new shareholder to the Company, the Company shall amend the records concerning relevant shareholder and its capital contribution in the Articles of Association of the Company and the register of shareholders.

After a transfer of equity interests or after introducing a new shareholder to the Company, the Company shall cancel the capital contribution certificate of the original shareholder and issue a capital contribution certificate to the new shareholder and amend the records concerning the relevant shareholder and its capital contribution in the Articles of Association of the Company and the register of the company.

Article 15 Labor Management

1. Matters such as the employment and dismissal of employees, their remunerations, labor insurance, labor protection, welfare, rewards and punishments shall be dealt with on the basis of programs developed and implemented by the board of directors of the Company. (a separate agreement may be entered into and attached hereto)



2. The engagement of senior officers recommended by the parties, as well as their remunerations, social insurance, welfare and the standards of travel expenses for them shall be discussed and decided by the board of directors.

3. The senior management personnel and key technical staff of the Company shall enter into non-competition agreement with the Company. Such persons, during their term of office, shall not engage in or assist others to engage in any business activities that form a competitive relationship with those of the Company. They are also forbidden to take office in other enterprises having businesses related to those of the Company within two years after leaving the Company.

Article 16 Financial Affairs, Accounting and Profit Distribution

1. The Company shall establish financial and accounting systems in accordance with laws, administrative regulations and regulations of the finance department of the State Council.

2. The Company shall, as an independent financial entity, prepare its financial statements independently on the basis of the businesses of the Company. The financial statements shall reflect the overall financial status of the Company, as well as financial indexes such as operating conditions and cash flow.

3. The Company shall prepare financial and accounting reports at the end of each fiscal year. Such reports shall be audited by an accounting firm according to law.

4. In the first three months of each business year, the Company shall prepare the balance sheet, profit and loss statement and profit distribution plan for the previous year to be submitted to the board of directors for consideration and approval.

5. The Company shall deliver its financial and accounting reports to each of the shareholders within the time limit specified in the Articles of Association of the Company.



6. When distributing its after-tax profits for a given year, the Company shall allocate 10% of profits to its statutory surplus reserve. The Company shall no longer be required to make allocations to its legal reserve once the aggregate amount of such reserve exceeds 50% of the registered capital.

7. If the Company's statutory surplus reserve is insufficient to make up its losses of the previous years, such losses shall be made up from the profit for the current year prior to making allocations to the statutory surplus reserve pursuant to the preceding paragraph.

8. The parties agree that the Company has no distributable profits and is not intended to distribute at present.

9. Profit distribution shall, in principle, be carried out after 15 days from the date of conclusion of the audit of the financial statements of each year. The distributable profits of the unallocated profits of the previous years may be distributed together with the distributable profits of the current year. Matters in respect of the distribution of profits shall be adopted by the resolutions of the board of shareholders.

The Company may, if so resolved by the board of shareholders, make allocations to the discretionary surplus reserve from its after-tax profits after making allocations to the legal reserve from the after-tax profits. The Company's after-tax profits remaining after it has made up its losses and made allocations to its reserves shall be distributed in proportion to the shareholding ratio.

11. If the board of shareholders or board of directors violates the preceding paragraph by distributing profits to shareholders before the Company has made up its losses and made allocations to the legal reserve, the profit distributed in violation of regulations shall be returned to the Company by the shareholders. The Company shall not be entitled to profit distribution for its own shares it holds.

12. The Company shall provide to the accounting firm it employs truthful and complete accounting vouchers, account books, financial and accounting reports and other accounting materials, and shall not refuse to do so or conceal or submit untruthful materials.



13. The Company shall not establish any account books in addition to those required by law. No accounts may be opened in the name of any individual for the keeping of the Company's assets.

Article 17 Liquidation

Where a cause of legal liquidation occurs, the parties shall conduct the liquidation in accordance with law. The property of the Company remained after the liquidation shall be distributed in proportion to the capital contributions of the parties. However, the control platform of in-flight WiFi services and the network operating platform can be recovered only by Party A.

Article 18 Liability for Breach of Agreement

1. In case any party hereto fails to pay its capital contribution in accordance with the time and amount stipulated herein, the breaching party shall pay the non-breaching party a penalty of 0.05% of its capital contribution for each delay day. In case the payment has been delayed for more than three month, the non-breaching party shall be entitled to rescind the Agreement.

In case this Agreement is unable to be performed in whole or in part due to the fault of a Party, such default party shall be liable for losses to Unicom Hangmei caused by its actions.

3. In the event that this Agreement is unable to be performed due to a Force Majeure event, the parties are not obliged to bear liabilities for breach of the Agreement.



Article 19 Representations and Warranties

The signatories of this Capital Contribution Agreement represent and warrant that:

- (1) each party hereto is a legal entity duly established in accordance with law, assuming its civil liabilities independently and having the legal right or authorization to enter into this Agreement.
- (2) the contribution of each party to Unicom Hangmei is its lawful property without involving any third party objection or claim of infringement.
- (3) the documents and materials submitted by each Party to Unicom Hangmei are true, accurate and valid.
- (4) Party B and Party C undertake that, considering the in-light communication business to be carried out by the Joint Venture, they will no longer cooperate with any other party on such business, including but not limited to establishment of joint ventures, holding equity interests of other companies conducting similar businesses (regardless of the shareholding ratio), conducting business cooperation with other parties, providing technical and financial support to other parties or acting as adviser of other parties. In respect of the existing satellite communication stations of Party B, the parties shall consult with each other for subsequent solutions.

Article 20 Confidentiality

1. The parties guarantee to keep confidential all the documents and information, obtained by the parties in the course of discussion, signing and implementation of this Agreement, which belong to a party and are not available from open channels, as well as trade secrets involved in the course of cooperation such as tripartite operating information, state secrets, technical secrets, business secrets, company plans, operating activities, financial information, technical information, business information, etc. Neither party shall disclose any content of such trade secrets to any third party without written consent of the provider of information and documents concerning such secrets, except as otherwise provided by laws and regulations. The confidentiality period shall expire till such secret is available from legal channels.



2. Neither party shall disclose the contents of this Agreement in any way without the written consent of the other parties, and neither party shall make any excessive publicity of the contents of this Agreement in any way even after obtaining the written consent of the other parties.

Article 21 Notice

1. All the notices issued by a Party to the other parties in accordance with this Agreement, as well as the correspondence between the parties and the notices and requirements relating to this Agreement, shall be delivered in writing, such as through letters, facsimile, telegram, service in person, etc. A notice may be delivered by way of announcement only when the above methods are not applicable.

2. The addresses of the parties are as follows:

Party A: Unicom Office Building, No.A133 N.Section of XiDan Street, Xicheng District, Beijing Municipality

Party B: 15th Floor Suite A, Tianheng Building, No.46 DongZhiMenWai Street, Dongcheng District, Beijing Municipality

Party C: No.1 KeYuan NanLu S, High-tech Zone, Chengdu City

3. In case any Party changes its address for service or correspondence address, it shall notify the other parties in writing of such change within two(2) days from the date of such change. Otherwise, the responsibilities arising from not giving such notice shall be borne by the Party that has failed to do so.



Article Change of Agreement

In the event that any party requires to change this Agreement due to special circumstance, the party requiring a change shall promptly notify the other parties in writing. With the consent of the other parties and within the prescribed time limit (within 5 days from the date of the notice), the parties shall enter into an amendment to this Agreement which shall form an integral part of this Agreement. No party shall make any change to this Agreement without written consent of all the parties hereto. All the responsibilities arising from violation of this provision shall be borne by the violating party.

Article 23 Settlement of Disputes

1. This Agreement shall be governed by and construed in accordance with the laws of the People's Republic of China.
2. All disputes arising from or in connection with the performance of this Agreement shall be settled through friendly consultations. In case no settlement to disputes can be reached through consultations, the disputes shall be submitted to a People's Court in Xicheng District, Beijing that have jurisdiction.

Article 24 Force Majeure

1. In the event that any party hereto fails to perform all or part of its obligations under this Agreement due to a force majeure event, the performance of the obligations shall be suspended for the duration when such event prevents it from performing the obligations.
2. The party claiming to have been affected by a force majeure event shall, as far as practicable, notify the other parties of the occurrence of such force majeure event in writing in the shortest possible time and shall, within thirty (30) days after the occurrence of such force majeure event, furnish the other Parties with appropriate evidence of such force majeure event and the duration thereof, as well as written materials on nonperformance or delay of performance of this Agreement. The Party that claims the force majeure event has made its performance of this Agreement impossible or impracticable shall use all reasonable endeavors to eliminate or mitigate the consequences of such Force Majeure event.



3. In case of occurrence of a force majeure event, the parties shall immediately decide on how to carry out this Agreement through friendly consultations. After the force majeure event or its effect is terminated or eliminated, the parties shall immediately resume the performance of their respective obligations under this Agreement. In case any Party hereto is unable to continue its performance of this Agreement as a result of the persistence of the Force Majeure event or the effect thereof, the parties may negotiate on the termination or delay of performance of this Agreement, and the Party affected by such Force Majeure event is not responsible for such termination or delay. However, a party shall not be exempted from liabilities in case a Force Majeure event occurs after it has delayed its performance of this Agreement.

4. The term "Force Majeure event" as used in this Agreement means any event which is unforeseen or is unavoidable and insurmountable even it is foreseen and is beyond reasonable control of the affected Party and which, when occurs after the date of this Agreement, has made it objectively impossible or impracticable for the affected party to perform this Agreement in whole or in part. Such event include, but is not limited to, natural disaster such as flood, fire, drought, typhoon, earthquake, and social event such as war (whether declared or not), unrest, strike, government action or legal provision.

Article 25 Interpretation of Agreement

Matters left unmentioned in this Agreement or ambiguity in any provision hereto shall be reasonably interpreted by the parties in accordance with the principle and purpose of this Agreement, transaction practices, the contents of related terms hereto and common understandings. Such interpretations shall be binding unless they are inconsistent with laws or this Agreement.



Article 26 Supplementary Terms and Annexes

Matters left unmentioned in this Agreement shall be governed by relevant laws and regulations. In case there is no applicable law or regulation, the parties may enter into separate supplementary agreements in respect of such matters. The annexes and supplementary agreements hereto shall form an integral part of this Agreement and shall have the same legal validity as the body of this Agreement. In case of any inconsistency between the contents of a supplementary agreement and those of this Agreement, the supplementary agreement shall prevail.

Article 27 Validity of Agreement

1. This Agreement shall take effect from the date on which it is signed and affixed with official seals or contract seals by the legal representatives or authorized representatives of the parties.
2. This Agreement is made out in octuplicate, all the copies being equally authentic, and each party shall hold two copies with the other copies being kept for registration.
3. The annexes and supplementary agreements hereto shall form an integral part of this Agreement and shall have the same legal validity as the body of this Agreement. (The remainder of this page is intentionally left blank)



(this is the signature page of the Capital Contribution Agreement for the establishment of Unicom Hangmei(Beijing) Network Co. Ltd.)

Party A (seal):China Unicom Broadband Online Co. Ltd.

Legal Representative /Authorized Representative (signature):

Date:

Party B (seal):Hangmei Online Network Technology Co., Ltd

Legal Representative /Authorized Representative (signature):

Date:

Party C (seal): Chengdu Haitekairong Aviation Technology Co., Ltd

Legal Representative /Authorized Representative (signature):

Date:

List of the Registrant's Significant Subsidiaries

Wholly-Owned Subsidiaries

	<u>Place of Incorporation</u>
1. Broad Cosmos Enterprises Ltd.	British Virgin Islands
2. AirMedia International Limited	British Virgin Islands
3. AirMedia (China) Limited	Hong Kong
4. AirMedia Technology (Beijing) Co., Ltd.	PRC
5. Shenzhen AirMedia Information Technology Co., Ltd.	PRC
6. Xi'an AirMedia Chuangyi Technology Co., Ltd.	PRC

Affiliated Entities Consolidated in the Registrant's Financial Statements

	<u>Place of Incorporation</u>
7. Beijing AirMedia Shengshi Advertising Co., Ltd. (formerly known as Beijing Shengshi Lianhe Advertising Co., Ltd.)	PRC
8. Beijing AirMedia Jiaming Advertising Co., Ltd. (formerly known as Beijing AirMedia UC Advertising Co., Ltd.)	PRC
9. Beijing Yuehang Digital Media Advertising Co., Ltd.	PRC
10. AirMedia Online Network Technology Co., Ltd.	PRC
11. Beijing AirMedia Film & TV Culture Co., Ltd.	PRC
12. Flying Dragon Media Advertising Co., Ltd.	PRC
13. Wenzhou AirMedia Advertising Co., Ltd.	PRC
14. Hainan Jinhui Guangming Media Advertising Co., Ltd.	PRC
15. Beijing Dongding Gongyi Advertising Co., Ltd.	PRC
16. Beijing GreatView Media Advertising Co., Ltd. (formerly known as Beijing Weimei Shengjing Advertising Co., Ltd.)	PRC
17. Guangzhou Meizheng Advertising Co., Ltd.	PRC
18. Beijing AirMedia Tianyi Information Technology Co., Ltd.	PRC
19. AirMedia Mobile Network Technology Co., Ltd.	PRC
20. Guangzhou Meizheng Information Technology Co., Ltd.	PRC
21. AirMedia Henglong Mobile Network Technology Co., Ltd.	PRC
22. Beijing AirMedia Jiaming Film & TV Culture Co., Ltd.	PRC
23. Guangzhou Xinyu Advertising Co., Ltd.	PRC

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

I, Herman Man Guo, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of 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 control over financial reporting.

Date: June 28, 2017

By: /s/ Herman Man Guo

Name: Herman Man Guo

Title: Chief Executive Officer

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

I, Richard Peidong Wu, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 28, 2017

By: /s/ Richard Peidong Wu

Name: Richard Peidong Wu

Title: Chief Financial Officer

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

In connection with the Annual Report of AirMedia Group Inc. (the "Company") on Form 20-F for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Herman Man Guo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2017

By: /s/ Herman Man Guo

Name: Herman Man Guo

Title: Chief Executive Officer

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

In connection with the Annual Report of AirMedia Group Inc. (the "Company") on Form 20-F for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Peidong Wu, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2017

By: /s/ Richard Peidong Wu
Name: Richard Peidong Wu
Title: Chief Financial Officer



INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of AirMedia Group Inc. on Form S-8 No. 333-148352, No. 333-164219, No. 333-183448 and No. 333-187442 and on Form F-3 No. 333-161067 of our report dated June 28, 2017, with respect to our audit of the consolidated financial statements and related financial statement schedule of AirMedia Group Inc. as of December 31, 2016 and for the year ended December 31, 2016 and our report dated June 28, 2017 with respect to our audit of the effectiveness of internal control over financial reporting of AirMedia Group Inc. as of December 31, 2016 appearing in the Annual Report on Form 20-F of AirMedia Group Inc. for the year ended December 31, 2016.

Our report on the effectiveness of internal control over financial reporting expressed an adverse opinion because of the existence of material weaknesses.

/s/ Marcum Bernstein & Pinchuk llp

Marcum Bernstein & Pinchuk llp
Beijing, China
June 28, 2017



BEIJING OFFICE • Unit 2419-2422 • Kerry Center South Tower • 1 Guang Hua Road • Chaoyang District, Beijing • 100020
Phone 8610.8518.7992 • Fax 8610.8518.7993 • www.marcumbp.com

通商律師事務所

Commerce & Finance Law Offices

中國北京市朝阳区建国门外大街甲12号新华保险大厦6层 邮编: 100022
電話: 8610-65693399 傳真: 8610-65693838, 65693836, 65693837, 65693839
電子郵件: beijing@tongshang.com 網址: www.tongshang.com.cn

June 28, 2017

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

Dear Sirs,

We hereby consent to the reference to our firm under the headings "Item 3. Key Information—D. Risk Factor" and "Item 4. Information on the Company—B. Business Overview," insofar as they purport to describe the provisions of PRC laws and regulations, in AirMedia Group Inc.'s Annual Report on Form 20-F for the year ended December 31, 2016 (the "Annual Report") filed with the Securities and Exchange Commission (the "SEC"), and further consent to the incorporation by reference into the Registration Statements No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 of AirMedia Group Inc. of the summary of our opinions under the headings of "Item 3. Key Information—D. Risk Factor" and "Item 4. Information on the Company—B. Business Overview." We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Sincerely Yours,

/Stamp/ Commerce & Finance Law Offices

Commerce & Finance Law Offices

Our ref SSY/629535-00001/11109521v2

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

28 June 2017

Dear Sirs

AirMedia Group Inc.

We have acted as legal advisors as to the laws of the Cayman Islands to AirMedia Group Inc., an exempted limited liability company incorporated in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2016 (the "**Annual Report**").

We hereby consent to the reference of our name under the heading "Item 16G Corporate Governance" in the Annual Report, and further consent to the incorporation by reference into the Registration Statements No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 of the Company of the summary of our opinion under the heading of "Item 16G Corporate Governance" in the Annual Report. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours faithfully

/s/ Maples and Calder (Hong Kong LLP)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 and No. 333-161067 on Form F-3 of our report dated May 16, 2016, relating to the consolidated financial statements (June 28, 2017 as to Note 2(ee)) and financial statement schedule of AirMedia Group Inc. (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and the VIEs' subsidiaries (collectively, the "Group") as of December 31, 2015 and the years ended December 31, 2014 and 2015, and the effectiveness of the Group's internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Group's internal control over financial reporting because of a material weakness), appearing in this Annual Report on Form 20-F of AirMedia Group Inc. for the year ended December 31, 2016.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
June 28, 2017

June 28, 2017
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC20549

Dear Commissioners:

We have read Item 16F of Form 20-F of AirMedia Group Inc. (the "Company") for the year ended December 31, 2016, which the Company expects to file on or about June 28, 2017, and have the following comments:

1. We agree with the statements made in the second and third sentences of paragraph 1, paragraphs 2 and 3, and the first sentence of paragraph 4 of Item 16F for which we have a basis on which to comment on, and we agree with, the disclosures.
2. We have no basis on which to agree or disagree with the statements made in the first and fourth sentences of paragraph 1, the second sentence in paragraph 4 and entire paragraph 5 of Item 16F.

Very truly yours,

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