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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, 2013**

OR

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

OR

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

Date of event requiring this shell company report \_\_\_\_\_

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

Commission file number: **001-33765**

**AIRMEDIA GROUP INC.**

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

**Not Applicable**

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

**Cayman Islands**

*(Jurisdiction of incorporation or organization)*

**17/F, Sky Plaza**

**No. 46 Dongzhimenwai Street  
Dongcheng District, Beijing 100027  
The People's Republic of China**  
*(Address of principal executive offices)*

**Henry Hin-hung Ho  
Chief Financial Officer  
AirMedia Group Inc.**

**17/F, Sky Plaza  
No. 46 Dongzhimenwai Street  
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**Email: [henry.ho@airmedia.net.cn](mailto:henry.ho@airmedia.net.cn)**

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

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

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

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

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

**None**  
(Title of Class)

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

**None**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 127,662,057 shares issued, with 119,134,135 shares outstanding and 8,527,922 shares in treasury stock, par value \$0.001 per share, as of December 31, 2013.

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

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

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

Item 17  Item 18

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

Yes  No

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

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



**AIRMEDIA GROUP INC.**

*Annual Report on Form 20-F*

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## USE OF CERTAIN DEFINED TERMS

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

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

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

## FORWARD-LOOKING INFORMATION

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

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

- our growth strategies;
- our future business development, results of operations and financial condition;
- our plans to expand our air travel advertising network into additional locations, airports and airlines;
- our plans to expand our advertising network into other out-of-home advertising platforms such as billboards, light boxes and LED screens located at gas stations, large LED screens at selected airports and in-flight internet platforms;
- competition in the advertising industry and the air travel advertising industry in China;
- the expected growth in consumer spending, average income levels and advertising spending levels;
- the growth of the air travel sector in China; and
- PRC governmental policies relating to the advertising industry.

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

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

*Selected Consolidated Financial Data*

The following table represents our selected consolidated financial information. The selected consolidated statements of operations data for the years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheet data as of December 31, 2012 and 2013 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, 2009 and 2010 have been derived from our audited financial statements for the relevant periods, which are not included in this annual report. The selected consolidated balance sheet data as of December 31, 2009, 2010 and 2011 have been derived from our audited financial statements for the relevant periods, which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

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.

|   | <b>Years Ended December 31,</b>  |             |             |             |             |
|---|--|-------------|-------------|-------------|-------------|
|   | <b>2009</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
|   | (In thousands of U.S. Dollars, except share, per share and per ADS data) |             |             |             |             |
| <b>Consolidated Statements of Operations Data:</b>  |  |             |             |             |             |
| Revenues:   |  |             |             |             |             |
| <i><b>Air Travel Media Network</b></i>  |  |             |             |             |             |
| Digital frames in airports  | \$ 66,255  | \$ 113,196  | \$ 126,539  | \$ 137,342  | \$ 152,346  |
| Digital TV screens in airports  | 37,260   | 28,905      | 21,937      | 13,731      | 14,110      |
| Digital TV screens on airplanes   | 17,082   | 27,564      | 26,734      | 26,612      | 16,160      |
| Traditional media in airports   | 27,192   | 48,418      | 73,535      | 83,478      | 64,845      |
| Other revenues in air travel  | 4,639  | 4,063       | 6,416       | 7,346       | 9,183       |
| <i><b>Gas Station Media Network</b></i>   | 102  | 3,664       | 12,873      | 14,217      | 12,726      |
| <i><b>Other Media</b></i>   | —  | 10,650      | 9,787       | 10,239      | 7,146       |
| Total revenues  | 152,530  | 236,460     | 277,821     | 292,965     | 276,516     |
| Business tax and other sales tax  | (3,102)  | (5,955)     | (7,197)     | (6,223)     | (4,250)     |
| Net revenues  | 149,428  | 230,505     | 270,624     | 286,742     | 272,266     |
| Cost of revenues  | (147,541)  | (197,908)   | (244,470)   | (250,606)   | (244,673)   |
| Gross profit  | 1,887  | 32,597      | 26,154      | 36,136      | 27,593      |
| Operating expenses:   |  |             |             |             |             |
| Selling and marketing (including share-based compensation of \$1,158, \$1,540, \$2,424, \$1,422, \$859 and nil in 2008, 2009, 2010, 2011, 2012 and 2013, respectively)            | (13,439)   | (18,112)    | (18,238)    | (17,995)    | (20,069)    |
| General and administrative (including share-based compensation of \$3,805, \$4,226, \$5,547, \$3,192, \$2,643 and \$1,251 in 2008, 2009, 2010, 2011, 2012 and 2013, respectively) | (34,936)   | (24,646)    | (22,004)    | (21,842)    | (25,723)    |
| Impairment of goodwill  | —  | —           | (1,003)     | (20,611)    | —           |
| Impairment of intangible assets   | —  | (1,000)     | (656)       | (9,583)     | —           |
| Total operating expenses  | (48,375)   | (43,758)    | (41,901)    | (70,031)    | (45,792)    |
| Loss from operations  | (46,488)   | (11,161)    | (15,747)    | (33,895)    | (18,199)    |
| Interest income   | 2,025  | 694         | 1,242       | 1,355       | 1,213       |
| Gain on remeasurement of fair value of cost and equity method investments (net)   | —  | 919         | —           | —           | —           |
| Other income, net   | 1,239  | 940         | 1,848       | 2,770       | 3,822       |
| Loss before income taxes  | (43,224)   | (8,608)     | (12,657)    | (29,770)    | (13,164)    |
| Income tax benefits (expenses)  | 6,032  | 735         | (266)       | (2,493)     | 1,713       |
| Loss before share of income/(loss) on equity method investments   | (37,192)   | (7,873)     | (12,923)    | (32,263)    | (11,451)    |
| Share of income/(loss) on equity method investments   | 164  | 290         | 243         | 22          | (69)        |
| Net loss  | (37,028)   | (7,583)     | (12,680)    | (32,241)    | (11,520)    |
| Less: Net income/(loss) attributable to noncontrolling interests  | 211  | (2,666)     | (3,084)     | 487         | (894)       |
| Net loss attributable to AirMedia Group Inc.'s shareholders   | \$ (37,239)  | \$ (4,917)  | \$ (9,596)  | \$ (32,728) | \$ (10,626) |
| Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share—basic  | \$ (0.28)  | \$ (0.04)   | \$ (0.07)   | \$ (0.26)   | \$ (0.09)   |
| Net loss attributable to AirMedia Group Inc.'s shareholders per   | \$ (0.28)  | \$ (0.04)   | \$ (0.07)   | \$ (0.26)   | \$ (0.09)   |

ordinary share—diluted

|   |    |             |    |             |    |             |    |             |    |             |
|---|----|-------------|----|-------------|----|-------------|----|-------------|----|-------------|
| Net loss attributable to AirMedia Group Inc.'s shareholders per ADS—<br>basic(1)    | \$ | (0.57)      | \$ | (0.07)      | \$ | (0.15)      | \$ | (0.53)      | \$ | (0.18)      |
| Net loss attributable to AirMedia Group Inc.'s shareholders per ADS—<br>diluted(1)  | \$ | (0.57)      | \$ | (0.07)      | \$ | (0.15)      | \$ | (0.53)      | \$ | (0.18)      |
| Weighted average shares used in calculating net loss per ordinary share<br>—basic   |    | 131,320,730 |    | 131,252,115 |    | 129,537,955 |    | 124,269,245 |    | 120,386,635 |
| Weighted average shares used in calculating net loss per ordinary share<br>—diluted |    | 131,320,730 |    | 131,252,115 |    | 129,537,955 |    | 124,269,245 |    | 120,386,635 |

(1) Each ADS represents two ordinary shares.



The following table presents a summary of our consolidated balance sheet data as of December 31, 2009, 2010, 2011, 2012 and 2013:

|  | <b>As of December 31,</b>      |             |             |             |             |
|--|--------------------------------|-------------|-------------|-------------|-------------|
|  | (In thousands of U.S. Dollars) |             |             |             |             |
|  | <b>2009</b>                    | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> |
| <b>Balance Sheet Data:</b>                       |                                |             |             |             |             |
| Cash   | \$ 123,754                     | \$ 106,505  | \$ 112,734  | \$ 73,634   | \$ 59,652   |
| Total assets                                     | 316,651                        | 347,186     | 361,468     | 343,867     | 402,791     |
| Total liabilities                                | 50,372                         | 70,470      | 91,410      | 104,432     | 111,448     |
| Total AirMedia Group Inc.'s shareholders' equity | 263,042                        | 275,668     | 272,148     | 241,876     | 270,966     |
| Noncontrolling interests                         | 3,237                          | 1,048       | (2,090)     | (2,441)     | 20,377      |
| Total equity                                     | \$ 266,279                     | \$ 276,716  | \$ 270,058  | \$ 239,435  | \$ 291,343  |

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

Our reporting and financial statements are expressed in the U.S. dollar, which is the reporting and functional currency of our Cayman Islands parent company. However, substantially all of the revenues and expenses of our consolidated operating subsidiaries and VIEs are denominated in RMB. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.0537 to US\$1.00, the noon buying rate in effect as of December 31, 2013. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case maybe, at any particular rate, the rates stated below, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange. On April 18, 2014, the noon buying rate was RMB6.2240 to US\$1.00.

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

| Period                         | Noon Buying Rate (1) |             |        |        |
|--------------------------------|----------------------|-------------|--------|--------|
|                                | Period-End           | Average (2) | Low    | High   |
|                                | (RMB per US\$1.00)   |             |        |        |
| 2009                           | 6.8259               | 6.8307      | 6.8470 | 6.8176 |
| 2010                           | 6.6000               | 6.7603      | 6.8330 | 6.6000 |
| 2011                           | 6.2939               | 6.4475      | 6.6364 | 6.2939 |
| 2012                           | 6.2301               | 6.2990      | 6.3879 | 6.2221 |
| 2013                           | 6.0537               | 6.1412      | 6.2438 | 6.0537 |
| October                        | 6.0943               | 6.1032      | 6.1209 | 6.0815 |
| November                       | 6.0922               | 6.0929      | 6.0993 | 6.0903 |
| December                       | 6.0537               | 6.0738      | 6.0927 | 6.0537 |
| 2014                           |                      |             |        |        |
| January                        | 6.0590               | 6.0509      | 6.0600 | 6.0402 |
| February                       | 6.1448               | 6.0816      | 6.1448 | 6.0591 |
| March                          | 6.2164               | 6.1729      | 6.2273 | 6.1183 |
| April (through April 18, 2014) | 6.2240               | 6.2121      | 6.2240 | 6.1966 |

(1) The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

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

#### B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

#### D. Risk Factors

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

#### RISKS RELATED TO OUR BUSINESS

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

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

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

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

- preserve our market position in the air travel advertising market in China;
- manage our relationships with airports and airlines to retain existing concession rights contracts and obtain new concession rights contracts on commercially advantageous terms or at all;
- retain existing and acquire new advertisers and third party content providers;
- secure a sufficient number of low-cost digital frames and digital TV screens from our suppliers;
- manage our expanding operations, including effectively integrating acquired businesses;
- successfully expand into other advertising media platforms, including traditional media platforms in airports, interactive platform on TV-attached digital frames, gas station media platforms, outdoor media platforms and in-flight media platforms;
- successfully expand into other non-advertising business, including in-flight internet 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.***

The market for air travel advertising network in China is relatively new and its potential is uncertain. We compete for advertising spending with many forms of more established advertising media such as television, print media, Internet and other types of out-of-home advertising. Our success depends on the acceptance of our air travel advertising network, including our in-flight media platforms, by advertisers and their interest in this medium as a part of their advertising strategies. In this annual report, the term “advertisers” refer to the ultimate brand-owners whose brands and products are being publicized by our advertisements, including both advertisers that purchase advertisements directly from us and advertisers that do so through third-party advertising agencies. Our advertisers may elect not to use our services if they believe that consumers are not receptive to our media network or that our network is not a sufficiently effective advertising medium. If consumers find our network to be disruptive or intrusive, airports and airplane companies may refuse to allow us to operate our air travel advertising network in airports or to place our programs on airplanes, and our advertisers may reduce spending on our network.

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

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

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

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

In 2013, the top three industries that advertise on our network were automobile, finance, and food and beverages, based on revenues derived from advertisers in these industries. Any significant or prolonged slowdown or decline of the economy of China, countries like Japan or the overall global economy will affect consumers' disposable income and consumer spending in these industries, and lead to a decrease in demand for our services. 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.

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

In 2013, China grew at a lower rate than in earlier years. This had a negative impact on the overall media industry in China, and made it more difficult for middle and small sized companies to maintain their profit levels in the future. Globally, the financial crisis in Europe and the United States and its resulting effects had a negative impact on our stock prices from 2011 to 2013.

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

Substantially all of our historical revenues have been and a significant portion of our expected future revenues will be generated from the provision of air travel advertising services, in particular through the display of advertisements on digital frames located in airports and digital TV screens located in airports and on airplanes. Most of our traditional advertising media platforms, such as billboards and painted advertisements on gate bridges and light boxes, and other displays, such as logo displays, are located in or near airports. A contraction in air travel advertising industry in China could have a material adverse effect on our business and results of operations.

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

Our ability to generate revenues from advertising sales depends largely upon our ability to provide a large air travel advertising network for the display of advertisements. However, we cannot assure you that we will be able to carry out our operations as specified in our concession rights contracts, and any failure to perform may damage our relationships with advertisers and advertising agencies and materially and negatively affect our business.

We may also be unable to retain or renew concession rights contracts when they expire. Most of our concession rights contracts to operate advertising media in airports and on airplanes typically have terms ranging from one to five years, with no automatic renewal provisions. As of December 31, 2013, we had in total approximately 38 concession rights contracts to be renewed in the next twelve months, with aggregated concession fees of approximately \$51.1 million. We cannot assure you that we will be able to renew any or all of these contracts when they expire, and the terms of any renewal may not be commercially advantageous to us. The concession fees that we incur under our concession rights contracts comprise a significant portion of our cost of revenues, but airports and airlines tend to increase concession fees overtime, so as some of our concession rights contracts terminate, we may experience a significant increase in our costs of revenues when we renew these contracts. If we cannot pass increased concession costs onto our advertisers through rate increases, our earnings and our results of operations could be materially and adversely affected. In addition, many of our concession rights contracts to operate in airports and on airplanes contain provisions granting us certain exclusive concession rights. We cannot assure you that we will be able to retain these exclusivity provisions when we renew these contracts. If we were to lose exclusivity, our advertisers may decide to advertise with our competitors or otherwise reduce their spending on our network and we may lose market share.

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

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

***A significant portion of our revenues has been derived from the six largest airports and three largest airlines in China. If any of these airports or airlines experiences a material business disruption or if there are changes in our arrangements with these airports or airlines, we may incur substantial losses of revenues.***

We derived a significant portion of our total revenues in 2013 from the six largest airports in China: Beijing Capital International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao Airport, Chengdu Shuangliu International Airport, and Shenzhen Baoan International Airport. A material business disruption, major construction or renovation or natural disaster affecting any of the airports in our network could negatively affect our advertising media in such airport or materially limit where we can place our advertising media.

In addition, we derived a significant portion of our advertising revenues in 2013 from the three largest domestic airlines in China: Air China, China Southern Airlines, and China Eastern Airlines. If we are not able to renew concession rights contract with these or other airlines, or if any of the airlines in our network loses market share and we are not able to add other airlines or increase the revenues generated from existing airlines in our network, our advertisers may decide to spend less on our advertising network.

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

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

The programs on the majority of our digital TV screens include both advertising and non-advertising content. Third-party content providers such as 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 TV screens on aircrafts. For example, in January 2014, we formed a strategic partnership with an affiliate of China Radio International to obtain internet TV contents from China International Broadcasting Network to be broadcasted on our airport digital TV screens. 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.

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

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

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

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

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

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

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

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

In addition, we intend to build a nationwide advertising platform of mega-size LEDs in selected airports in China, which may require capital expenditures on equipment and installations if we choose to purchase new LEDs with cash prepayments. As part of our strategic efforts to become a one-stop provider for advertising, we may continue to expand in the traditional media area as opportunities present themselves and we could also incur significant costs in installing new light boxes or maintaining existing ones.

A large amount of our concession rights contracts contain exclusive concession rights that grant us exclusivity with respect to digital frames, digital TV screens and mega-size LEDs. By entering and expanding into traditional advertising media platforms inside airports, we may face competition from other companies that are already in these areas. We also have limited experience working in these areas. It is uncertain how these businesses will perform. Our failure to expand our air travel advertising network to introduce new platforms and into new areas could materially reduce the attractiveness of our network and materially and adversely affect our business and results of operations.

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

Our growth strategy also includes expansion into other media outside of airports. For example, in May 2013, we entered into an investment agreement with Elec-Tech International Co., Ltd., or Elec-Tech, pursuant to which Elec-Tech agreed to invest RMB640 million (US\$104 million) to purchase ordinary shares representing approximately 21.27% of the equity interest of GreatView Media. The then-existing shareholders of GreatView Media agreed to cause GreatView Media to utilize Elec-Tech's contribution for the sole purpose of purchasing LED screens from Elec-Tech or its subsidiaries. We intend to install more LED screens in gas stations to further develop our existing gas station media network utilizing Elec-Tech's investment to purchase LED screens from Elec-Tech or its subsidiaries. On August 1, 2013, we extended our exclusive concession rights contract with Sinopec which allows us to operate media platforms in Sinopec gas stations throughout China through the end of 2020. Our VIE, AM Advertising, now holds 100% of AM Outdoor which operates out-of-home advertising media in urban locations in Beijing.

As we are still in the developing stage in the gas station media advertising and outdoor media advertising market, it may take us an extended period of time to ramp up revenues from these businesses. However, under all of our existing concession rights agreements regarding our gas station and outdoor media displays, we are required to pay periodic, fixed concession fees for the media platforms regardless of revenues. We may also incur significant costs in maintaining and upgrading our gas station and outdoor traditional media platforms such as billboards, which are more vulnerable to weather and other accidental damages than indoor displays.

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

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

Our concession rights contract with Sinopec also sets forth a schedule which states that we must develop and begin operating a number of gas station media platforms by the end of 2017, subject to various exemptions. We cannot assure you that we can fulfill this schedule as anticipated under this concession rights agreement, and failure to fulfill the schedule may lead to termination of the relevant concession rights agreement by the other party.

We began to implement changes in the sales management team for our gas station advertising business in mid-year 2011. We also began to implement changes in the operational model and structure of our gas station advertising business in the second half of 2011 with the intention of accelerating growth and profitability. We may experience significant obstacles and challenges as we move forward with our strategy. Our gas station advertising business achieved significant revenues growth in the second half of 2011, 2012 and 2013, but we can make no assurance that such growth is indicative of future results.

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

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

Applicable PRC regulations promulgated by the State Administration for Industry and Commerce, or the SAIC, specify that advertisements placed inside or outside of the “departure halls” of airports are considered outdoor advertisements and must be registered with local SAIC offices by “advertising distributors.” According to the Outdoor Advertising Registration Administrative Regulations, or the Outdoor Regulations, which were issued by the SAIC and became effective on July 1, 2006, if we fail to comply with such requirements, we may be ordered by the local SAIC office to (1) forfeit the relevant advertising income, (2) pay an administrative fines of up to RMB30,000 and (3) register the advertisements within a set period. If we fail to register these advertisements within the required timeframe, the relevant local SAIC office may require us to discontinue the relevant advertisements where the required advertising registration has not been obtained. We understand that these Outdoor Regulations apply to our operations, and intend to register with the relevant local SAIC offices if requested by the local SAIC offices or any specific airport authorities; so far we have registered and received outdoor advertising licenses for our advertisements in Beijing Capital International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao Airport and Shenyang Taoxian International Airport, and our registrations have been approved by the SAIC offices in three other cities and provinces where we have operations for our advertisements in the airports of those regions. However, we cannot assure you that we will obtain all applicable registration certificates in compliance with the outdoor advertisement provisions due to the uncertainty in the implementation and enforcement of the regulations promulgated by the SAIC. If we are found to be in violation of the Outdoor Regulations, we may be subject to any or all of the penalties set forth above, including forfeiture of relevant income and the payment of administrative fines.

***If we fail to obtain approvals for the inclusion of non-advertising content in our programs broadcast in digital TV screens in airlines, we may be unable to continue to include such non-advertising content in our programs, which may cause our revenues to decline and our business and prospects to deteriorate.***

Most of the digital TV screens in our network include programs that consist of both advertising content and non-advertising content. The State Administration of Radio, Film and Television, or the SARFT, issued a circular which stated that displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops and other outdoor public systems must be approved by the SARFT.



The relevant authority in China has not promulgated any implementation rules on the procedure of applying for the requisite approval pursuant to this circular. We intend to obtain such approval for our non-advertising content, but we cannot assure you that we will be able to obtain such approval in compliance with this circular, or at all. In January 2014, we entered into a strategic partnership with China Radio International Oriental Network (Beijing) Co., Ltd, or CRION, 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. 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. We believe that CRION has obtained the necessary approvals, licenses and consents. However, there is no assurance that CRION will be able to maintain the requisite approval or we will be able to renew the contract with CRION when it expires. If the requisite approval is not obtained, we will be required to eliminate non-advertising content from the programs displayed on our digital TV screens and advertisers may find our network less attractive and be unwilling to purchase advertising time slots and locations on our network, which may in turn cause our revenues to decline and our business and prospects to deteriorate.

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

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

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

A limited number of advertisers historically accounted for a significant portion of our revenues. Our top five advertisers collectively accounted for approximately 20.3%, 32.7% and 26.0% of our total revenues in the years ended December 31, 2011, 2012 and 2013, respectively. Our largest advertisers have changed from year to year primarily because of our limited operating history and rapid growth, broadened advertiser base and increased sales. However, given our limited operating history and the rapid growth of our competition, we cannot assure you that we will not be dependent on a small number of advertisers in the future.

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

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

The market for air travel advertising requires us to continuously identify new advertising trends and the technological needs of both advertisers and consumers, which may require us to develop new formats, features and enhancements for our advertising network. We currently play advertisements on digital frames through wireless networks, on digital TV screens in our network airports through closed-circuit television systems and on digital TV screens on our network airplanes mostly through video tapes. We may be required to incur development and acquisition costs to keep pace with new technology needs, but we may not have the financial resources necessary to fund and implement future technological innovations or to replace obsolete technology. We may also fail to respond to changing technology needs altogether.

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

If we fail to define, develop and introduce new formats, features and technologies on a timely and cost-effective basis, advertising demand for our advertising network may decrease and we may not be able to compete effectively or attract advertisers, which may materially and adversely affect our business and results of operations.

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

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

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

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

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

- *Downturns in the economy.* Business travel is one of the primary drivers of the air travel industry and it tends to increase in times of economic growth and decrease in times of economic slowdown. A decrease in air passengers in China could lead to lower advertiser spending on our air travel advertising network.
- *Terrorist attacks or fear of such attacks.* The terrorist attacks of September 11, 2001 in the United States, involving commercial aircraft severely and adversely affected the air travel industry throughout the world. Additional terrorist attacks or fear of such attacks, even if not made directly on the air travel industry, may negatively affect the air travel industry and reduce the demand for air travel.

- *Additional security measures regarding air travel.* Terrorist attacks have led to significantly increased security costs and associated passenger inconvenience. Since September 11, 2001, relevant authorities in the United States, China and other countries have implemented numerous security measures that affect airport and airline operations and costs. These increasingly stringent security measures have led to higher costs for airports and airlines and may cause some air travelers to consider other travel options, which may in turn lead to higher concession fees and reduced advertising demand for us.
- *Plane crashes or other accidents.* An aircraft crash or other accident could create a public perception that air travel is not safe or reliable, which could result in air travelers being reluctant to fly. Significant aircraft delays due to capacity constraints, weather conditions or mechanical problems could also reduce demand for air travel, especially for shorter domestic flights.

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

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

We have experienced a period of rapid growth and expansion that has placed, and continues to place, significant strain on our management personnel, systems and resources. We must continue to expand our operations to meet the demands of advertisers for broader and more diverse network coverage. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management efforts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our management has concluded that our internal control over financial reporting and disclosure controls and procedures were effective as of December 31, 2013. Our independent registered public accounting firm has issued an audit report stating that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting. This could negatively affect the reliability of our financial information and reduce investors' confidence in our reported financial information, which in turn could result in lawsuits being filed against us by our shareholders, otherwise harm our reputation or negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements of the Sarbanes-Oxley Act.

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

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

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

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

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

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

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

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

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

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

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

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

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

## RISKS RELATED TO OUR CORPORATE STRUCTURE

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

Substantially all of our operations are conducted through contractual arrangements with our consolidated VIEs in China: AirMedia Group Co., Ltd, or AM Advertising, Beijing Shengshi Lianhe Advertising Co., Ltd., or Shengshi Lianhe, Beijing AirMedia UC Advertising Co., Ltd., or AirMedia UC, and Beijing Yuehang Digital Media Advertising Co., Ltd., or AM Yuehang. Although the Foreign-invested Advertising Enterprise Management Regulations, or the Foreign-invested Advertising Regulations, which became effective on October 1, 2008, currently permit 100% foreign ownership of companies that provide advertising services, subject to approval by relevant PRC government authorities, these regulations also require any foreign entities that establish a wholly owned advertising company must have at least three years of direct operations in the advertising industry outside of China. In addition, the Foreign Investment Industrial Guidance Catalogue, which became effective on December 24, 2011, stated that non-advertising television program production and operation companies fall into the category of a prohibited foreign investment industry. We believe that these regulations apply to our business and are therefore carrying out the portions of our business that involve the production of non-advertising content through our VIEs. Our wholly owned Hong Kong subsidiary AM China, the 100% shareholder of AM Technology and Xi'an AM, has been operating an advertising business in Hong Kong since 2008, and thus it is allowed to directly invest in advertising business in China. We are in the process of establishing a wholly-owned subsidiary of AM China to provide advertising services in China directly, as AM China has operated outside of China for more than three years and is now qualified to directly invest in advertising business in China. However, the establishment of this subsidiary is subject to review and approval by SAIC or its authorized local branch, and we can make no assurance as to the specific time when this wholly-owned subsidiary will be established. Once this subsidiary commences operation, we intend to gradually shift our advertising business to this subsidiary, and thus to gradually reduce our reliance on the current VIE structure. Our advertising business is currently primarily provided through our contractual arrangements with our four consolidated VIEs in China. These entities directly operate our advertising network, enter into concession rights contracts and sell advertising time slots and locations to our advertisers. We have contractual arrangements with these VIEs pursuant to which we, through AM Technology, provide technical support and consulting services to these entities. We also have agreements with our VIEs and each of their shareholders that provide us with the substantial ability to control these entities. For a description of these contractual arrangements, see Item 4, "Information on the Company—Organizational Structure" and Item 7, "Major Shareholders and Related Party Transactions—Related Party Transactions—Contractual Arrangements."

We believe that the VIE arrangements are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of the VIEs were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing the VIEs not to pay the service fees when required to do so.

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

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

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

require the Company or its PRC subsidiaries and affiliates to restructure the relevant ownership structure or operations.

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

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

Certain of our directors and officers are shareholders in the VIEs, AM Advertising, Shengshi Lianhe, AirMedia UC, and AM Yuehang. Mr. Herman Man Guo, our chairman and chief executive officer, in addition to holding 16.09% in our company, also directly and indirectly holds approximately 80.10% of AM Advertising, 79.86% of Shengshi Lianhe and 80.14% of AirMedia UC. Mr. Qing Xu, our director and executive president, in addition to holding 2.34% of our company, also directly and indirectly holds approximately 11.79% of AM Advertising, 11.94% of Shengshi Lianhe and 11.87% of AirMedia UC. Mr. James Zhonghua Feng, our director and president, in addition to holding 3.87% of our company, also holds 80% of AM Yuehang. In addition, Mr. Guo and Mr. Xu are each a director of AirMedia UC, Shengshi Lianhe and AM Advertising, Mr. Guo is the legal representative of each of Shengshi Lianhe and AirMedia UC and Mr. Feng is the sole director and legal representative of AM Yuehang. For these directors and officers, their fiduciary duties toward our company under Cayman law—to act honestly, in good faith and with a view to our best interests—may conflict with their roles in the VIEs, as what is in the best interest of the VIEs may not be in the best interests of our company or the unaffiliated public shareholders of our company.

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

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



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

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

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

***We have not registered the 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.***

The shareholders of our VIEs, each a consolidated affiliated entity of ours, have pledged all of their equity interests, including the right to receive declared dividends, in the relevant VIEs to AM Technology, our wholly-owned subsidiary. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. We have registered all these pledges except for two pledges entered into by Mr. Xiaoya Zhang, a nominee shareholder of Shengshi Lianhe and AM Advertising. We are in the process of assembling the necessary documents for application to the relevant PRC authorities to register these pledges, and we believe that the registration will be completed in due course; however, 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 Shengshi Lianhe or AM Advertising. As a result, if Shengshi Lianhe or AM 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 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. AM Technology and Xi'an AM have made the applicable annual appropriations required under PRC law. Shenzhen AM is not currently required to fund any statutory surplus reserve because it still has accumulated losses. Any direct or indirect limitation on the ability of our PRC subsidiaries to distribute dividends and other distributions to us could materially and adversely limit our ability to make investments or acquisitions at the holding company level, pay dividends or otherwise fund and conduct our business.

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

## **RISKS RELATED TO DOING BUSINESS IN CHINA**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Labor Contract Law, which came into effect January 1, 2008 and was amended in 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.

***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.

AirMedia Technology (Beijing) Co., Ltd., one of our PRC subsidiaries, or AM Technology, was recognized as a HNTE under the new rules and therefore, it is entitled to enjoy a preferential EIT rate of 15%. It was also eligible for a 50% tax reduction from 2009 to 2010 under the applicable tax laws and regulations that were in effect before January 1, 2008, the date the EIT Law came into effect. As a result, AM Technology was subject to an EIT rate of 7.5% in 2009 and 2010. In September 2011, AM Technology received a new HNTE certificate. As a result, AM Technology was subject to an EIT rate of 15% in 2011, 2012 and 2013 and is expected to be subject to an EIT rate of 15% as long as it maintains its status as a HNTE.

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

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

Hainan Jinhui Guangming Media Advertising Co., Ltd., or Hainan Jinhui, one of our VIEs’ PRC subsidiaries, is subject to EIT on the taxable income at the gradual rate, which was 22% in 2010, 24% in 2011, 25% in 2012, 25% in 2013 and will be 25% in 2014 at the gradual rate as set out in Circular 39.

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

## RISKS RELATED TO THE MARKET FOR OUR ADSs

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

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. During the year of 2013, the trading prices of our ADSs on the NASDAQ Global Select Market ranged from \$3.20 to \$1.50 per ADS and the closing sale price on April 24, 2014 was \$2.16 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors including, changes in the economic performance or market valuations of other advertising companies, conditions in the air travel advertising industry and the sales or perceived potential sales of additional ordinary shares or ADSs.

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

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

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

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

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

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

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

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

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

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

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

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our subsidiaries and 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 (2013 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary responsibilities of our directors are to a large extent governed by the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our 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 March 31, 2014, our principal shareholder, Mr. Herman Man Guo, along with his wife, Ms. Dan Shao, beneficially owned approximately 33.07% of our outstanding ordinary shares. Mr. Guo and other principal shareholders of our company could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

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

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

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

Although we do not believe that we were classified as a “passive foreign investment company,” or “PFIC,” for U.S. federal income tax purposes for our taxable year ended December 31, 2013, there is a significant risk that we will be a PFIC for our taxable year ending December 31, 2014 and future taxable years unless our share value 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.

Although the law in this regard is unclear, we treat the VIEs as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operations of such entities but also because we are entitled to substantially all of the economic benefits associated with such entities, and, as a result, we consolidate such entities' operating results in our consolidated financial statements.

If we were to be classified as a PFIC in any taxable year, a U.S. Holder (as defined in Item 10, "Additional Information — Taxation – United States Federal Income Taxation") may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an "excess distribution" under the U.S. federal income tax rules. Furthermore, a U.S. Holder will generally be treated as holding an equity interest in a PFIC in the first taxable year of the U.S. Holder's holding period in which we become a PFIC and subsequent taxable years even if, we, in fact, cease to be a PFIC in subsequent taxable years. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of an investment in our ADSs or ordinary shares if we are treated as a PFIC for our current taxable year ending 2014 or any future taxable year, including the possibility of making a "mark-to-market" election. For more information, see "Item 10. Additional Information – E. Taxation – 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 Shengshi Lianhe, a consolidated variable interest entity of our principal subsidiary, AM Technology. Later, we established additional PRC consolidated VIEs to conduct our operations in China. Substantially all of our current operations are conducted through contractual arrangements with these VIEs.

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

In 2008, we acquired an airport gate bridge advertising business through two concurrent acquisitions: one of our VIEs, AM Advertising, purchased 80% equity interest in Flying Dragon Media Advertising Co., Ltd., or Flying Dragon, a PRC company which operates an airport gate bridge advertising businesses in mainland China, and we directly acquired all of the equity interest in Excel Lead International Limited, or Excel Lead, a BVI company that is an affiliate of Flying Dragon.

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

In April 2011, we formed Beijing GreatView Media Advertising Co., Ltd., (formerly known as Beijing Weimei Shengjing Advertising Co., Ltd.), or GreatView Media, a PRC company, as a wholly-owned subsidiary of AirMedia UC, with a registered capital of RMB1.0 million. GreatView Media is currently the primary operating entity of our gas station media network. In the same month, we also formed Beijing AirMedia Jinsheng Advertising Co., Ltd., a PRC company, as a wholly-owned subsidiary of Beijing AirMedia Media Advertising Co., Ltd., a PRC company and a majority-owned subsidiary of AirMedia UC, with a registered capital of RMB5.0 million. We also changed the name of Beijing Union of Friendship Advertising Media Co. Ltd., a subsidiary of AM Advertising, to Beijing Youtong Hezhong Advertising Media Co., Ltd. and subsequently to Beijing AirMedia Jiaming Film & TV Culture Co., Ltd. and the name of AM Advertising itself as described above. In November 2012, our board of directors approved a share capital increase for GreatView Media and a share purchase by the senior management of GreatView Media; GreatView Media increased its share capital by issuing new registered capital to AirMedia UC for RMB38.0 million in cash and to Beijing Zhongshi Aoyou Advertising Co., Ltd., or Zhongshi Aoyou, for RMB15.0 million in cash. After this share capital increase, AirMedia UC and Zhongshi Aoyou held 78% and 22% equity interest in GreatView Media, respectively. Certain members of the management of GreatView Media purchased all equity interests of Zhongshi Aoyou on February 25, 2013 for a cash consideration of approximately RMB15 million, which was equal to the fair value of the equity interests purchased.

In May 2013, several entities affiliated with AirMedia, including GreatView Media, the primary operating entity of our gas station media network, and its then-existing shareholders, entered into an investment agreement with Elec-Tech International Co., Ltd., or Elec-Tech. Pursuant to the investment agreement, Elec-Tech agreed to invest RMB640 million (US\$104 million) to purchase ordinary shares representing approximately 21.27% of the equity interest of GreatView Media. After the completion of the transaction, AirMedia controls 61.41% of the equity interest of GreatView Media and the senior management team of GreatView Media indirectly holds 17.32% equity interest in GreatView Media through Zhongshi Aoyou, which is wholly owned by the management team. Pursuant to this agreement, the then-existing shareholders of GreatView Media agreed to cause GreatView Media to utilize Elec-Tech's contribution for the sole purpose of purchasing LED screens from Elec-Tech or its subsidiaries. As of December 31, 2013, GreatView Media purchased 1,000 sets of LED screens in total from Elec-Tech for our gas station media business in the amount of approximately US\$57 million.

In February and March 2012, we and Beijing N-S Digital TV Co., Ltd., or N-S Digital, established two joint ventures: Beijing Xinghe Union Media Co., Ltd, or Beijing Xinghe, and Beijing Shibo Movie Technology Co., Ltd., or Beijing Shibo, respectively. Our company and N-S Digital each contributed RMB5.0 million in cash for 50% of the equity interest in each of Beijing Xinghe and Beijing Shibo. In September 2013, we entered into an equity swap agreement with N-S Digital, under which we exchanged our 50% holding in Beijing Shibo for the 50% equity interest in Beijing Xinghe held by N-S Digital. The two joint venture agreements were terminated at the same time.

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

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

We are in the process of establishing a wholly-owned subsidiary for our wholly owned Hong Kong subsidiary, AM China, which has been operating an advertising business in Hong Kong since 2008. We intend to gradually shift our advertising business to this subsidiary once it is set up, and thus to gradually reduce the reliance on our current VIE structure.

In May 2013, Shengshi Lianhe entered into a joint venture agreement with Guangzhou Daozheng Advertising Co., Ltd. to establish a joint venture, Guangzhou Meizheng Advertising Co., Ltd., to operate tablet device advertisements on board the high speed trains on the Wuhan-Guangzhou and Guangzhou-Shenzhen-Hong Kong lines. Guangzhou Daozheng transferred to the joint venture the concession rights to operate such advertisement businesses for the period from September 1, 2012 to August 31, 2018. Shengshi Lianhe holds 54% while Guangzhou Daozheng Advertising Co., Ltd. holds 46% of the equity interest in the joint venture. The joint venture has a term of 30 years.

In October 2013, we entered into a strategic alliance agreement with HNA Culture Holding Group Co., Ltd., or HNA Culture, to jointly develop in-flight internet coverage on HNA Group's planes. Pursuant to this agreement, HNA Culture is responsible for obtaining exclusive rights to develop and operate in-flight internet service and in-air multimedia platform from member airlines of HNA Group. The joint development will be carried out through a fund to be managed by a fund management company, Beijing Yunxing Chuangrong Investment Fund Management, Co., Ltd., jointly owned by us and HNA Culture. As of March 31, 2014, we had contributed RMB15 million to the joint fund management company.

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, Umland 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.

## Business Overview

### *General*

We are a leading operator of out-of-home advertising platforms in China targeting mid-to-high-end consumers. As of December 31, 2013, we operated digital frames and digital TV screens in 31 airports in China, including the six largest airports in China: Beijing Capital International Airport, Guangzhou Baiyun International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao International Airport, Shenzhen Baoan International Airport and Chengdu Shuangliu International Airport. In addition, we had contractual concession rights to sell advertisements on digital TV screens on the airplanes operated by seven airlines, including leading airlines in China such as China Southern Airlines, Air China, China Eastern Airlines, Hainan Airlines and Shanghai Airlines.

We started operating advertising media platforms at gas stations owned by Sinopec in 2009. In 2011, we established GreatView Media. And from 2012 onwards, GreatView Media began to exclusively operate our gas station media business. In the same year, we decided to increase GreatView Media's capital and align the interests of its senior management team with the interests of the company by allowing them to indirectly hold equity right in GreatView Media. From 2012 onwards, we intend to put more efforts into developing our gas station network, expand locations in top tier cities and strengthen our existing advantages by installing LED screens. In 2013, Elec-Tech agreed to invest RMB640 million (US\$104 million) to purchase ordinary shares representing approximately 21.27% of the equity interest of GreatView Media. See "Item 4.A—Information on the Company—History and Development of the Company." On August 1, 2013, we extended our exclusive concession rights contract with Sinopec which allows us to operate media platforms in Sinopec gas stations throughout China through the end of 2020.

In addition, we also hold concession rights to operate various traditional advertising media including billboards, light boxes and other media platforms outside the air travel sector, such as unipole signs and other outdoor media.

Air travel advertising in China has grown significantly in recent years because of growth in China's advertising market and air travel sector. By focusing on air travel advertising, we enable our advertisers to target air travelers in China, whom we believe are an attractive demographic for advertisers due to the fact that they have higher-than-average disposable income compared to the rest of China's population. We strategically place our digital frames, digital TV screens and traditional media displays in high-traffic locations inside airports, particularly in areas where there tend to be significant waiting time, such as departure halls, security check areas, boarding gates, baggage claim areas and arrival halls. The digital TV screens on our network airplanes are located in highly visible locations in passenger compartments and on the backs of passenger seats. We also provide in-flight advertising and non-advertising contents. Our combined coverage in airports and on airplanes enables our programs to attract air travelers at multiple points during their travel experience, from check-in, boarding, flight time, to arrival.

We combine advertising content with non-advertising content, such as weather, sports and comedy clips, in our digital TV screen programs. We have contracts with many Chinese TV stations such as Dragon TV, the Travel Channel and CCTV-5, to show video clips of their programs in airports and on airplanes. We also obtain TV programs such as documentaries and "hidden camera" type reality shows from other third-party content providers. In 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. Starting in 2010, our standard programs in airports typically include 20 minutes of advertising content during each hour of programming and are shown for approximately 16 hours per day. The length of our in-flight programs typically ranges from approximately 45 minutes to an hour per flight, approximately five to 15 minutes of which consist of advertising content.

We derive revenues principally by selling advertising time slots and locations on our network to our advertisers, including both direct advertisers and advertising agencies. In the short term, we will focus on selling our current media resources and improve the utilization rates of our existing product lines. Before we obtain a higher level of profitability in our operations, we expect that we would not obtain significantly more media resources either inside or outside the air travel advertising sector. In the long term, however, we will continue to acquire new media platforms to provide a broader range of advertising services for our advertisers and to become a one-stop provider for air travel as well as other forms of advertising.



## *Advertising Network and Services*

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

### *Digital Frames in Airports*

We operate a network of digital frames, strategically placed in areas of airports such as departure halls, terminals and arrival halls, where most of the air travelers congregate and spend significant amounts of time waiting. Our digital frames are high-definition liquid crystal display, or LCD, screens that typically change digital picture displays approximately every 6 or 12 seconds, with certain exceptions of 5 to 10 seconds in certain large airports. Our digital frames include standalone digital frames, TV-attached digital frames and mega-size LEDs. Standalone digital frames display advertisements on vertical or horizontal display panels ranging in size from 52 to 108 inches. TV-attached digital frames consist of a vertical digital frame beneath a digital TV screen and are typically in sizes ranging from 47 to 55 inches. In response to advertiser advertising needs, we also own and operate digital frames of a larger size, up to 108 inches and 106 inches, in the airports of Beijing and Guangzhou and the airport of Haikou, respectively. In both international and domestic arrival halls of Terminals 2 and 3 of the Beijing International Airport, we operate 44 sets of 108-inch LCD screens that measure four square meters (or 43.1 square feet) each; we also operate 11 sets of 108-inch LCD screens in departure halls, security checkpoints, luggage pickup and subway entrance areas inside Guangzhou Baiyun International Airport. In addition, as of March 31, 2014, we were operating mega-size LED screens in eleven airports, including, Beijing Airport, Changsha Huanghua International Airport, Chengdu Shuangliu International Airport, Dalian Zhoushuizi International Airport, Guangzhou Baiyun International Airport, Hangzhou Xiaoshan International Airport, Hohhot Baita International Airport, Jinan Yaoqiang International Airport, Nanjing Lukou International Airport, Shenyang Taoxian International Airport and Xi'an Xianyang International Airport. As of March 1, 2014, we operated approximately 3,180 digital frames in 31 airports, 1,183 of which were standalone digital frames, including 108-inch LCD display screens and mega-size LED screens, 1,705 of which were TV-attached digital frames, and 292 of which were frames displayed in groups. These 31 airports accounted for more than 77% of the total air travelers in China in 2013, according to the General Administration of Civil Aviation of China. Our digital frames play advertising content repeatedly mainly in five-minute - and ten-minute cycles, and we also offer two-minute and three-minute cycles to our advertisers. In 2013, we started experimenting with an interactive platform with a lucky draw system on our TV-attached digital frames. The interactive platform is built on our TV-attached digital frames and will integrate with our digital TV screens in airports in the future. By sending a text message or scanning a QR code through mobile devices, air passengers can attend lucky draws to win attractive prizes. Through the interactive platform, clients can continuously reach and engage air passengers not only at airports but elsewhere in their daily lives through mobile devices. We believe that this interactive platform will not only increase the media value of our products by attracting greater viewer attention, but also enable us to charge clients an effectiveness based performance fee in addition to the regular display fee.

We believe digital frames provide an effective advertising platform to our advertisers. We sell our advertisements on digital frames in one-week units which affords scheduling flexibility and cost-effectiveness to our advertisers. In addition, as our digital frames are located in both domestic and international terminals in a number of airports, in certain of the major airports we cover, our advertisers can choose to place their advertisements in domestic terminals only, international terminals only or a mix of domestic and international terminals. This flexibility in terms of location selection provides our advertisers with the ability to tailor their advertisement packages to effectively attract their target audiences. We also continue to diversify the arrangement and placement of our digital frames to offer enhanced visual effects. For example, in Guangzhou Baiyun International Airport, we have some digital frames in sets of two or three screens together as a group, in Shenyang Airport we present four groups of digital frames with 20 combined LED screens each and in Xi'an Airport we present three screens as a group. An advertisement can be displayed in one picture on multiple screens to better attract air travelers' attention.

### *Digital TV Screens in Airports*

We strategically place our digital TV screens in high-traffic areas of airports such as departure halls, security check areas, boarding gates, baggage claim areas and arrival halls, where there tend to be significant waiting time. A majority of our standard digital TV screens are 42-inch plasma display panels or LCDs. As of March 1, 2014, we operated approximately 2,343 digital TV screens in 30 airports in China under various concession rights contracts. These 30 airports accounted for approximately 72% of the total air travelers in China in 2013, according to the General Administration of Civil Aviation of China.

Our airport programs consist of advertising and non-advertising content and are played for approximately 16 hours per day. Our non-advertising content is played in two-hour cycles, during which our advertising content is repeated hourly. During each hour, 20 minutes of the program consists of advertising content provided to us by our advertisers and the rest of the program consists of non-advertising content such as sports and entertainment content provided by third-party content providers. In addition to separate advertising messages or videos, which are updated weekly, we promote the brand names of our advertisers by naming our programs after their brand names. The non-advertising content consists of humor clips such as hidden camera shows and funny home videos, sports clips such as soccer, snooker and extreme sports, movie previews and interviews with celebrities, as well as the latest world fashion shows. These programs are updated weekly in most of the major airports including Beijing, Shanghai and Guangzhou, etc., but monthly in six airports including Nanchang, Ningbo and Zhangjiajie, etc.

#### *Digital TV Screens on Airplanes*

As of March 1, 2014, our programs were placed on digital TV screens on planes operated by seven airlines. The displays on our network airplanes, which have been installed by aircraft manufacturers, are located at the top of passenger compartments and on the back of passenger seats. The digital TV screens at the top of passenger compartments typically range from 9 to 15 inches in size, while the display screens on the back of passenger seats typically range from 7 to 9 inches in size. There are approximately 10 to 280 on an airplane. The TV system installed on each plane differs from one another according to the requirements of each specific airline. For instance, if the airline chooses to implement audio-video on demand, or AVOD, systems and personal TV, or PTV, systems, then it would have to install TV screens on the back of each and every seat on the airplane.

Our airplane display programs are played once for approximately 45 minutes to an hour per flight. Approximately 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.

#### *Traditional Media in Airports*

Our traditional media in airports currently includes light boxes and billboards in airports. As of March 1, 2014, we operated approximately 437 light boxes and billboards mainly in six airports, such as Beijing Capital International Airport and Wenzhou Yongqiang International Airport.

Light box advertisements are static poster advertisements illuminated with back lighting and billboard advertisements are only static poster advertisements.

#### *Other Media in Air Travel*

We have logos for various display equipment in airports prominently displayed on this equipment, for which logos we charge advertising fees.

#### *Gas Station Media Network*

In April 2009, we entered into an exclusive contract with Sinopec under which we obtained the concession right to develop and operate outdoor advertising platforms at all Sinopec gas stations located throughout China until December 31, 2014, with limited exceptions. In August 2013, we extended the concession period with Sinopec to December 31, 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 month-long slots.

### *Other Media Network*

We currently operate approximately 23 unipole signs and other outdoor media in locations throughout Beijing and 5,500 tablets on high-speed trains in China.

We believe our recently developed outdoor media network and our tablets on high-speed trains provide alternative advertising platforms to our advertisers in addition to our existing air travel media network. The terms of our concession right contracts of high-speed train platforms range from three to six years, and we generally sell advertisements on those platforms in units ranging from one month to one year long. We currently plan to focus on improving the utilization rates of our existing outdoor media network resources and to expand our presence of tablet advertising on more high-speed trains.

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

We typically offer advertisers 6-second and 12-second time slots for advertising on our digital frames, though, in some airports, we occasionally offer time slots of 5, 7.5 and 10 seconds. With respect to our digital TV screens, we offer advertising time slots of 5, 15 and 30 seconds. Sales are made pursuant to written contracts with commitments ranging from one week to two years. These digital frames and digital TV screens sales contracts typically fix the duration, time and frequency of advertisements. For billboards and light boxes, we offer advertisers spaces on a monthly basis or a year-long basis; sales are made pursuant to written contracts with commitments ranging from one month to one year. These billboards and light boxes sales contracts typically fix the commencement date and duration of such advertisements.

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

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

##### *Airports*

As of December 31, 2013, our major concession rights contracts that will expire and need to be renewed in the next 12 months include LED screens, digital TV screens and digital TV screens media assets in Beijing Capital International Airport and digital TV screens and digital TV screens media assets in Guangzhou Baiyun International Airport, among others.

As of March 31, 2014, we had 100 concession rights contracts to operate our digital frames, digital TV screens, other displays in our air travel network and traditional media network. Many of these concession rights contracts contained provisions granting us exclusive concession rights. The scope of the exclusivity, however, varies from contract to contract. Most of these exclusivity provisions limit the exclusivity to certain areas of an airport. For example, our contract with Guangzhou Baiyun International Airport granted us the exclusive right to operate all the closed-circuit displays located in the domestic and international arrival and departure areas.

From March 2009, we have had a concession rights contract with Beijing Capital International Airport to operate traditional advertising formats including billboards, light boxes and other formats at Terminals 1, 2, and 3 of Beijing Capital International Airport. We renewed these concession rights, which now expire on March 31, 2015. We began operating these traditional media on April 1, 2009. In addition, in February 2012, we obtained a concession rights contract to operate 58 digital frames, 54 digital TV screens, and two large LED screens at the newly built Terminal 2 of Chengdu Shuangliu International Airport, or Chengdu Airport, from April 1, 2012 to March 31, 2017. We also obtained concession rights to operate six light boxes at the departure aisle and one other traditional advertising format at Terminal 2 of Chengdu Airport from April 1, 2012 to March 31, 2015. Chengdu Airport surpassed Shenzhen Baoan International Airport in 2011 in terms of air traveler volume to become the fifth largest airport in mainland China. As of March 31, 2014, we obtained concession rights to install and operate various mega-size LED screens in Beijing Capital International Airport, Hangzhou Xiaoshan International Airport in Zhejiang province, Changchun Longjia International Airport in Jilin province, Xi'an Xianyang International Airport in Shaanxi province, Chengdu Shuangliu International Airport in Sichuan province, Sanya Fenghuang International Airport in Hainan province, and Hohhot Baita International Airport in Inner Mongolia province. These contracts have durations of two to five years. Most concession fees are fixed under our concession rights contracts with escalation clauses attached, meaning the fees undergo fixed levels of increases over each year of the agreement. Payments under concession rights contracts are usually due three months in advance, but payments under a few material concession rights contracts are due six months or one year in advance. The concession fees that we pay for our networks in each airport vary by each airport's passenger volume and depend on the city where the airport is located. A majority of our concession rights contracts for our digital frames, digital TV screens and traditional media in airports have terms ranging from three to five years without any automatic renewal provisions. However, we can opt to renew the agreements three or five months before the expiration of certain concession rights contracts, on the condition that if another third party offers to enter into concession rights contracts in relation to the same media platforms, we shall have first right of refusal to renew our existing concession rights contracts on similar terms as those proposed by such third party. As of March 1, 2014, 31 out of our 100 concession rights contracts to operate in airports would be subject to renewal by the end of 2014. The number of displays and placement locations are explicitly specified in the majority of our concession rights contracts.

### *Airlines*

As of December 31, 2013, our programs were placed on digital TV screens located on routes operated by the following airlines:

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

As of December 31, 2013, we had seven concession rights contracts to place our programs on these network airlines, three of which contained provisions granting us exclusive concession rights. The scope of the exclusivity, however, varies from contract to contract. Most of these exclusivity provisions limit the exclusivity to certain types of programs played on airplanes. Most of the concession fees are fixed by escalation clauses under the relevant concession rights contracts, and their amounts vary by the number of routes and airplanes, type of aircraft and the departure and destination cities.

Some of the concession rights contracts set forth the number and model of airplanes on which our programs can be played. In 2013, in order to control our concession cost, we changed our business cooperation model with Air China so that instead of holding the exclusive concession rights for Air China, we now 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 six largest airports and three largest airlines in China. If any of these airports or airlines experiences a material business disruption or if there are changes in our arrangements with these airports or airlines, we may incur substantial losses of revenues."

We hold 49% of the equity interests in a joint venture, Beijing Eastern Media Corporation, Ltd., or BEMC. BEMC is formed in partnership with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, which holds 51% equity interests in BEMC. BEMC obtained concession rights of certain media resources from its shareholders, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. We believe this innovative strategic partnership further strengthened our relationship with China Eastern Group and we renewed our concession rights contract on February 20, 2010 with China Eastern Airlines to operate digital TV screens on China Eastern Airlines on an exclusive basis until December 31, 2020. As of December 31, 2013, BEMC also obtained media resources other than digital TV screens, including other existing media resources of China Eastern Airlines and new media resources to be developed through cooperative efforts by China Eastern Airlines and us.

#### *Gas Station Media*

In April 2009, we entered into a concession rights agreement with Sinopec under which we hold the right to exclusively operate all of the outdoor advertising media at Sinopec gas stations throughout China until December 31, 2014, except for those stations in a limited number of cities whose media platforms have previously been leased by Sinopec to third parties. 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.

#### ***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 2011, the top three industries that advertised on our network were automobile, finance and high-end food and beverage, based on revenues derived from advertisers in these industries. Advertising revenues from automobile, finance and high-end food and beverage industries accounted for approximately 34.6%, 18.1% and 8.3% of our total revenues in 2011, respectively. In 2012, the top three industries that advertised on our network were automobile, finance, and electronic and home appliances, which accounted for approximately 33.2%, 16.1% and 9.3% of our total revenues, respectively. In 2013, the top three industries that advertised on our network were automobile, finance and food and beverages, which accounted for approximately 33.1%, 11.4% and 9.1% of our total revenues, respectively. One customer accounted for more than 10% of our total revenues for 2012, and none of customers accounted for more than 10% of our total revenues for 2011 and 2013.

##### *Sales and Marketing*

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

Our experienced advertising sales team is organized by region and city with a presence in 27 cities as of December 31, 2013. We provide in-house education and training to our sales force to ensure they provide our current and prospective advertisers with comprehensive information about our services, the advantages of using our air travel advertising network as a marketing channel, and relevant information regarding the advertising industry. Our performance-linked compensation structure and career-oriented training are key drivers that motivate our sales employees.

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

### ***Pricing***

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

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

### ***Programming***

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

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

Substantially all of the advertisements on our network are provided by our advertisers. All of the advertising content displayed on our advertising network is reviewed by us to ensure compliance with PRC laws and regulations. See “Regulation—Regulation of Advertising Services—Advertising Content.” We update advertising content for our programs played on the digital frames and digital TV screens in our network airports and airplanes on a weekly and monthly basis, respectively. A majority of the non-advertising content played on our network is provided by third-party content providers such as Dragon TV, the Travel Channel and various satellite and cable television stations and television production companies. In 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 network are the digital frames and digital TV screens that we use in our media network. Our digital frames are flat-panel LCD displays and mega-size LED screens. The majority of our digital TV screens consist of plasma display panels and LCDs. Maintaining a steady supply of our display equipment is important to our operations and the growth of our network. The top suppliers of our digital frames in 2013 were Sharp, Vewell and Samsung, which collectively provided 100% of our total digital frames. The top five suppliers of our digital TV screens in 2013 were TCL, AUO and NEC, which collectively provided approximately 100% of our total digital TV screens. Our digital frame suppliers typically provide us with one- to two-year warranties while our TV screen suppliers typically provide us with one-year warranties.

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

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

### ***Customer Service***

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



### ***Competition***

We compete primarily with several different groups of competitors:

- advertising companies that operate airport advertising networks, such as JC Decaux;
- in-house advertising companies of airports and airlines that may operate their own advertising networks; and
- other advertising media companies for advertising budgets, such as Internet, street facility displays, billboard and public transport advertising companies, and with traditional advertising media, such as newspapers, television, magazines and radio, some of which may advertise in the airports in which we have exclusive contract rights to operate digital TV screens and some of which may advertise in the gas stations and other areas where we have our displays.

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

### ***Intellectual Property***

To protect our brand and other intellectual property, we rely on a combination of trademark and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. We have registered 18 major trademarks in China, including “航美传媒”, “”, “”, “AIRMEDIA”, “AirMedia” and “AirTV.” We cannot be certain that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights.

We have registered our domain name [www.AirMedia.net.cn](http://www.AirMedia.net.cn) with the Internet Corporation for Assigned Names and Numbers. We were granted one patent relating to the design of our TV-attached digital frame, each of which consists of a LCD TV screen placed above a digital frame and which allows simultaneous display of advertisement on both the LCD TV screen and the digital frame. The patent was granted in April 2009 and will expire in December 2017. We have registered 31 computer software copyrights with the national copyright administration of China.

### ***Regulation***

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

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

### ***Limitations on Foreign Ownership in the Advertising Industry***

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

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

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

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

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



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

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel: the respective ownership structures of AM Technology and our consolidated VIEs are in compliance with existing PRC laws and regulations, and the contractual arrangements among AM Technology and our consolidated VIEs, in each case governed by PRC law, are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect.

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

#### *Regulation of Advertising Services*

##### Business License for Advertising Companies

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

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

##### Advertising Content

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

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

### Outdoor Advertising

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

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

In addition to the Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations to govern the outdoor advertising industry in China. Outdoor advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit an application form and other supporting documents for registration. After review and examination, if an application complies with the requirements, the local SAIC will issue a certificate approving such advertisement. The content, format, specifications, periods and locations of dissemination of the outdoor advertisement must be filed with the local SAIC. See Item 3, “Key Information—Risk Factors—Risks Related to Our Business—If advertising registration certificates are not obtained for our airport advertising operations where such registration certificates are deemed to be required, we may be subject to administrative sanctions, including the discontinuation of our advertisements at airports where the required advertising registration is not obtained.”

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

### *Regulations on Foreign Exchange*

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

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

## *Regulations on Dividend Distribution*

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

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

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

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

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

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

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

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

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

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

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

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

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

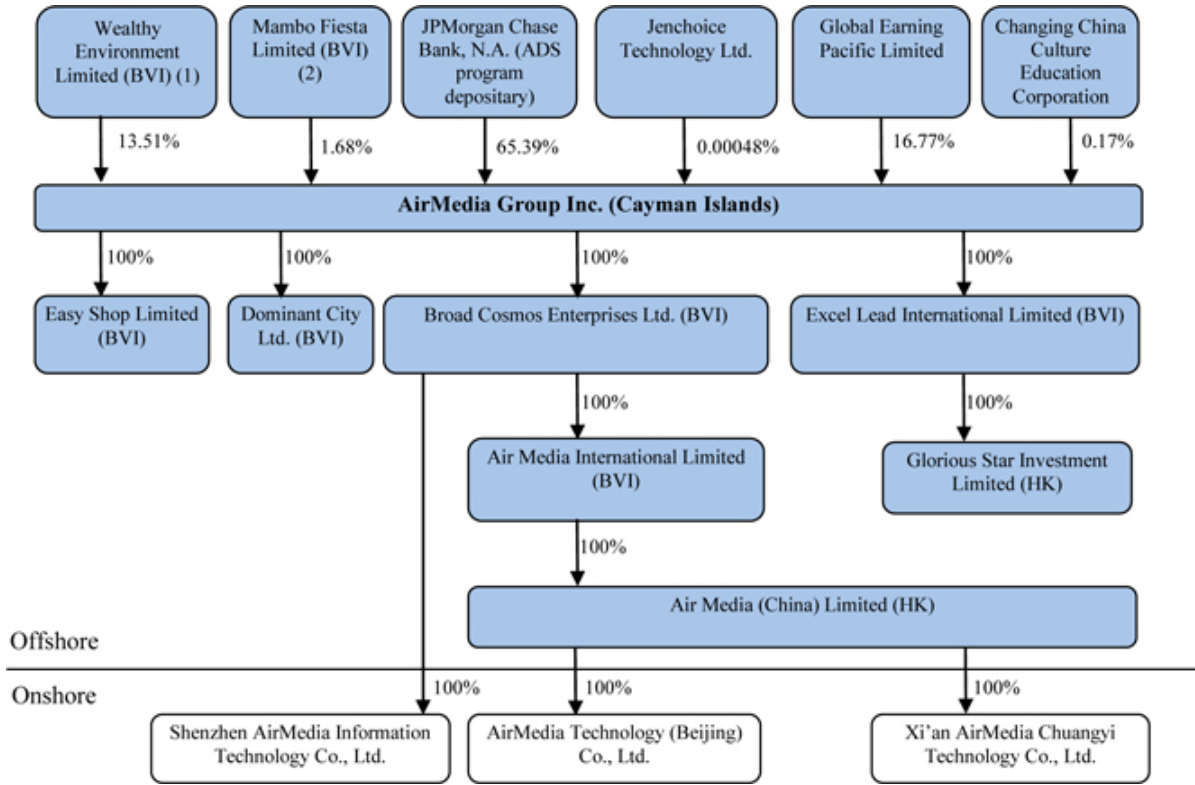
In addition, the State Administration of Taxation has issued a few circulars concerning employee stock options. Under these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related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

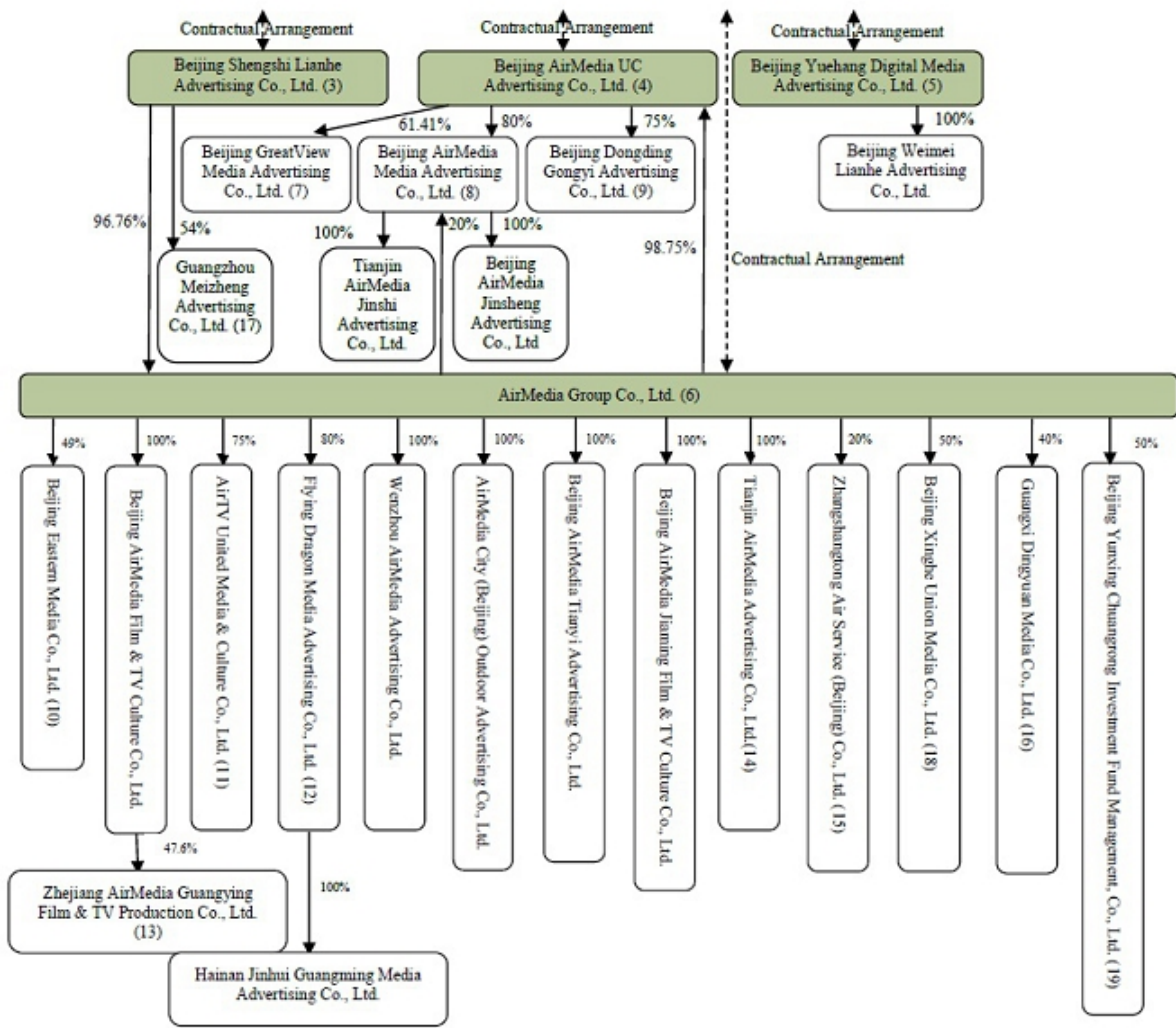
### *Seasonality*

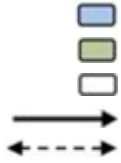
Our operating results and operating cash flows historically have been subject to seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

### **C. Organizational Structure**

The following diagram illustrates our corporate structure as of March 31, 2014:







Offshore

VIE

Onshore

Equity Interest

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

- (1) Wealthy Environment Limited is 100% owned by Mr. Herman Man Guo, our chairman and chief executive officer.
- (2) Mambo Fiesta Limited is 100% owned by Mr. Qing Xu, our director and executive president.
- (3) Beijing Shengshi Lianhe Advertising Co., Ltd., or Shengshi Lianhe, is 79.86% owned by Mr. Herman Man Guo, our chairman and chief executive officer, 11.94% owned by Mr. Qing Xu, our director and executive president, and 8.20% owned by Mr. Xiaoya Zhang, former president and chief financial officer of AirMedia Group Inc. and AirMedia Group Co., Ltd.
- (4) Beijing AirMedia UC Advertising Co., Ltd. is 98.75% owned by AirMedia Group Co., Ltd., 1.035% owned by Mr. Herman Man Guo, our chairman and chief executive officer, 0.215% owned by Mr. Qing Xu, our director and executive president.
- (5) Beijing Yuehang Digital Media Advertising Co., Ltd. is 80% owned by Mr. James Zhonghua Feng, our president and director, and 20% owned by Mr. Tao Hong, senior administrative director of AirMedia Group Co., Ltd.
- (6) AirMedia Group Co., Ltd. is 2.833% owned by Mr. Herman Man Guo, our chairman and chief executive officer, 0.241% owned by Mr. Qing Xu, our director and executive president, 0.166% owned by Mr. Xiaoya Zhang, former president and chief financial officer of AirMedia Group Inc. and AirMedia Group Co., Ltd., and 96.76% owned by Shengshi Lianhe.
- (7) Beijing GreatView Media Advertising Co., Ltd. is formerly known as Beijing Weimei Shengjing Media Advertising Co., Ltd. Beijing GreatView Media Advertising Co., Ltd. is 21.27% owned by Elec-Tech International Co., Ltd. and 17.32% owned by Beijing Zhongshi Aoyou Advertising Co., Ltd. Elec-Tech International Co., Ltd. had contributed RMB6,755,000 out of its subscribed registered capital of RMB13,510,000 as of March 31, 2014 and is obligated to complete its duty of contribution before June 28, 2015.
- (8) Beijing AirMedia Media Advertising Co., Ltd. changed into its current corporate name in March 2014 and was formerly known as Beijing AirMedia Jinshi Advertising Co., Ltd. Beijing AirMedia Media Advertising Co., Ltd. is 20% owned by AirMedia Group Co., Ltd.
- (9) Beijing Dongding Gongyi Advertising Co., Ltd. is 25% owned by Mr. Jin Li, director and deputy general manager of Beijing Dongding Gongyi Advertising Co., Ltd.
- (10) Beijing Eastern Media Co., Ltd. is 51% owned by Shanghai Eastern Media Co., Ltd.
- (11) AirTV United Media & Culture Co., Ltd. is 25% owned by Beijing Dalu Culture Media Co., Ltd.
- (12) Flying Dragon Media Advertising Co., Ltd. is 16% owned by Ms. Mingfang Zhang, president of Flying Dragon Media Advertising Co., Ltd., and 4% owned by Mr. Hulin Zhang, general manager of Flying Dragon Media Advertising Co., Ltd.
- (13) Zhejiang AirMedia Guangying Film & TV Production Co., Ltd. is 52.4% owned by Zhejiang Tianguangdiying Film & TV Production Co., Ltd.
- (14) As of the date of this annual report, Tianjin AirMedia Advertising Co., Ltd. is in the process of deregistration and is expected to be deregistered in 2014.
- (15) Zhangshangtong Air Service (Beijing) Co., Ltd. is 61.4% owned by Beijing Zhangshangtong Network Technology Co., Ltd. and 18.6% owned by 16 individuals.
- (16) Guangxi Dingyuan Advertising Co., Ltd. is 20% owned by Guangxi Civil Aviation Development Co., Ltd. and 40% owned by Beijing Asiaray Advertising Co., Ltd.



- (17) Guangzhou Meizheng Advertising Co., Ltd. is 46% owned by Guangzhou Daozheng Advertising Co., Ltd.
- (18) Beijing Xinghe Union Media Co., Ltd. is 50% owned by N-S Digital.
- (19) Beijing Yunxing Chuangrong Investment Fund Management, Co., Ltd. is 50% owned by HNA Xinhua Culture Holding Group Co., Ltd..

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

#### **D. Property, Plants and Equipment**

Our headquarters are located in Beijing, China, where we lease approximately 4,393 square meters (approximately 47,281 square feet) of office space. Our branch offices lease approximately 4,757 square meters (approximately 51,209 square feet) of office space in approximately 35 other locations.

In addition, we own approximately 841 square meters (approximately 9,051 square feet) of office space in China.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

##### **A. Operating Results**

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

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

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

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

## *Service Offerings*

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

## *Number of Our Advertising Time Slots and Locations Available for Sale*

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

By increasing the number of airports, airlines and gas stations in our network, we can increase the number of advertising time slots and locations that we have available to sell. In addition, the length of our advertising cycle for our digital frames and digital TV screens can potentially be extended to longer durations depending on demand in each airport or airline. However, advertisers may be unwilling to accept placement of their advertisements on a longer time cycle which decreases the frequencies of their advertisements displayed each day. Also, beginning April 6, 2012, in an effort to improve the attractiveness of our digital frames, we changed our sales method for stand-alone digital frames in the airports for second-tier and third-tier cities in China. The length of advertising time slot was changed from 12 seconds to six seconds per time slot. The cycle time of advertisements was changed from 10 minutes to five minutes. These changes increased the frequency of exposure for advertisements and had no impact on the time slots available for sale of our digital frames. In addition, advertisers now have the choice to purchase time slots on our stand-alone digital frames at departure halls or arrival halls separately or as a whole in the airports for second-tier and third-tier cities. For more details, see “Item 4. Information on the Company—A. History and Development of the Company—Business Overview—Programming.” In addition, by increasing the number of light boxes, billboards and gate bridges in our network, we can increase the number of advertising spaces and locations that we have available to sell. See Item 3, “Key Information — D. Risk Factors — Risks Related to our Business — When our current advertising network of digital frames, digital TV screens, light boxes, billboards and gate bridges becomes saturated in the major airports, airlines and other locations where we operate, we may be unable to offer additional time slots or locations to satisfy all of our advertisers’ needs, which could hamper our ability to generate higher levels of revenues and profitability over time.”

## *Pricing*

The average selling price for our advertising time slots is generally calculated by dividing our advertising revenues from these time slots by the number of 6- and 12-second equivalent advertising time slots for digital frames in airports and 30-second equivalent advertising time slots for digital TV screens in airports and on airplanes sold during that period. The average selling price for our traditional media spaces and locations in airports is calculated by dividing the revenues derived from all the locations sold by the number of locations sold during the period presented, and we use a similar method to calculate average selling price for our gas station and outdoor media locations. The primary factors that affect the effective price we charge advertisers for time slots and locations on our network and our utilization rate include the attractiveness of our network to advertisers, which depends on the number of displays and locations, the number and scale of airports and airplanes in our network, the level of demand for time slots and locations, and the perceived effectiveness by advertisers of their advertising campaigns placed on our network. We may increase the selling prices of our advertising time slots and locations from time to time depending on the demand for our advertising time slots, spaces and locations. For example, starting from October 23, 2012, after approximately 40-day operation, we completed the upward adjustment of the listing price of our mega-size LED screens at Terminals 2 of Chengdu Shuangliu International Airport by approximately 75%; the price adjustment was due to strong demand from advertisers.

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

#### *Utilization Rate*

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

#### *Network Coverage and Concession Fees*

During the past three fiscal years, the demand for our advertising time slots and locations and the effective price we charged advertisers for time slots and locations on our network depended on the attractiveness and effectiveness of our network as viewed by our advertisers which, in turn, was related to the breadth of our network coverage, including significant coverage in major airports and airlines that advertisers wish to reach. As a result, it has been, and will continue to be, important for us to secure and retain concession rights contracts to operate our digital frames, digital TV screens and traditional media in major airports and to place our programs on major airlines and to increase the number of displays which we operate in those airports and programs we place on those airlines. In addition, our future results of operations will also be affected by our network coverage beyond airports and airlines, including gas stations.

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

## Revenues

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

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

|                                  | Fiscal Years Ended December 31, |                     |                   |                     |                   |                     |
|----------------------------------|---------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|                                  | 2011                            |                     | 2012              |                     | 2013              |                     |
|                                  | Amount                          | % of Total Revenues | Amount            | % of Total Revenues | Amount            | % of Total Revenues |
| <b>Air Travel Media Network</b>  |                                 |                     |                   |                     |                   |                     |
| Digital frames in airports       | \$ 126,539                      | 45.5%               | \$ 137,342        | 46.9%               | \$ 152,346        | 55.1%               |
| Digital TV screens in airports   | 21,937                          | 7.9%                | 13,731            | 4.7%                | 14,110            | 5.1%                |
| Digital TV screens on airplanes  | 26,734                          | 9.6%                | 26,612            | 9.1%                | 16,160            | 5.8%                |
| Traditional media in airports    | 73,535                          | 26.5%               | 83,478            | 28.5%               | 64,845            | 23.5%               |
| Other revenues in air travel     | 6,416                           | 2.4%                | 7,346             | 2.4%                | 9,183             | 3.3%                |
| <b>Gas station Media Network</b> | 12,873                          | 4.6%                | 14,217            | 4.9%                | 12,726            | 4.6%                |
| <b>Other Media</b>               | 9,787                           | 3.5%                | 10,239            | 3.5%                | 7,146             | 2.6%                |
| <b>Total revenues</b>            | <b>277,821</b>                  | <b>100.0%</b>       | <b>292,965</b>    | <b>100.0%</b>       | <b>276,516</b>    | <b>100.0%</b>       |
| Business tax and other sales tax | (7,197)                         | (2.6)%              | (6,223)           | (2.1)%              | (4,250)           | (1.5)%              |
| <b>Net revenues</b>              | <b>\$ 270,624</b>               | <b>97.4%</b>        | <b>\$ 286,742</b> | <b>97.9%</b>        | <b>\$ 272,266</b> | <b>98.5%</b>        |

### Revenues from Air Travel Media Network

Revenues from our digital frames in airports accounted for 45.5%, 46.9% and 55.1% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. We operated a total of 3,092 digital frames in 34 airports, 3,403 digital frames in 34 airports and 3,380 digital frames in 31 airports as of December 31, 2011, 2012 and 2013, respectively.

Revenues from digital frames in airports for fiscal year 2013 increased by 10.9% to \$152.3 million in 2013 from \$137.3 million in 2012 mainly due to the rapid growth of our mega-size LED screens advertisement business and our continued sales efforts. The number of digital frames advertising time slots sold increased 13.0% from 49,558 in 2012 to 56,010 in 2013, and the average selling price decreased slightly from \$2,771 in 2012 to \$2,720 in 2013.

Revenues from digital frames in airports for fiscal year 2012 increased by 8.5% to \$137.3 million in 2012 from \$126.5 million in 2011 mainly due to our continued sales efforts and the rapid growth of our mega-size LED screens. The number of digital frames advertising time slots sold increased 6.8% from 46,399 in 2011 to 49,558 in 2012, and the average selling price increased slightly from \$2,727 in 2011 to \$2,771 in 2012.

Revenues from our digital TV screens in airports accounted for 7.9%, 4.7% and 5.1% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. We operated 2,104 digital TV screens in 36 airports, 2,579 digital TV screens in 34 airports and 2,969 digital TV screens in 31 airports as of December 31, 2011, 2012 and 2013, respectively. The increase in the number of digital TV screens from 2012 to 2013 was due to the commencement of operations of digital TV screens in certain new terminals and airports.

Revenues from digital TV screens in airports for fiscal year 2013 increased by 2.8% to \$14.1 million in 2013 from \$13.7 million in 2012 due to our continued sales efforts. Meanwhile, there was a 23.5% upward adjustment in the average selling price of our digital TV screens in airports to \$725 in 2013 from \$587 in 2012 and a 16.8% decrease in the number of digital TV advertising time slots sold to 19,452 in 2013 from 23,385 in 2012.

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

Revenues from our digital TV screens on airplanes accounted for 9.6%, 9.1% and 5.8% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Our network operating digital TV screens consisted of nine airlines as of December 31, 2011 and 2012 and seven airlines as of December 31, 2013.

Revenues from digital TV screens on airplanes decreased by 39.3% to \$16.2 million in 2013 from \$26.6 million in 2012 due to a decrease in revenues from digital TV screens on Air China's airplanes. We did not renew the concession rights contract with Air China, which expired on December 31, 2012, but regained some advertising time on Air China's airplanes on August 1, 2013 through an arrangement with an intermediary advertising agent. Additionally, the number of time slots sold decreased by 32.5% to 527 from 781 in 2012 and there was a 10.0% decrease in the average selling price of digital TV screens on airplanes to \$30,662 in 2013 from \$34,074 in 2012.

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

Revenues from traditional media in airports, consisting of billboards and light boxes in airports and billboards and painted advertisements on gate bridges, accounted for 26.5%, 28.5% and 23.5% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively. We have offered light box displays since the commencement of our operations.

Revenues from traditional media in airports decreased by 22.3% to \$64.8 million in 2013 from \$83.5 million in 2012. The decrease was primarily due to our termination of certain unprofitable or low-margin contracts so as to focus our resources on the more profitable ones. There was a 17.5% decrease in the average selling price of traditional media in airports to \$27,999 in 2013 from \$33,920 in 2012 and a 5.9% decrease in the number of locations sold to 2,316 locations in 2013 from 2,461 locations in 2012.

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

Other revenues in air travel, generated from advertising equipment such as digital TV screens and light boxes, accounted for 2.4%, 2.4% and 3.3% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively.

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

Our gas station media network was started during 2009, when we gained concession rights to develop and operate an outdoor advertising network in Sinopec gas stations throughout China. Revenues from our gas station media network, consisting of outdoor advertising platforms such as LED screens, billboards and light boxes at Sinopec gas stations in China, accounted for 4.6%, 4.9% and 4.6% of our total revenues for the years ended December 31, 2011, 2012 and 2013 respectively. Due to our growing coverage of LED screens in gas stations and the growing acceptance of our gas stations media network, we expect the revenues from gas station media network to continue to grow in 2014.

#### *Revenues from Other Media*

Revenues from other media were primarily revenues from AM Outdoor, a company our variable interest entity AM Advertising acquired in January 2010, which operates unipole signs and other outdoor media. Revenues from our other media amounted to \$7.1 million in 2013 and accounted for 3.5%, 3.5% and 2.6% of our total revenues for the years ended December 31, 2011, 2012 and 2013 respectively.

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

Prior to 2012, our PRC subsidiaries and consolidated VIEs were subject to PRC business tax and other sales related taxes at the rate of 8.5% on total revenues after deduction of certain costs of revenues permitted by the PRC tax laws. For purposes of calculating the amount of business and other sales tax, concession fees were permitted to be deducted from total revenues under applicable PRC tax law.

In 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot VAT reform program, which changed the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai starting from January 1, 2012, and has been gradually implemented in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. The pilot program has also been applied to the pilot industries and expanded nationwide since August 1, 2013. The majority of our PRC subsidiaries and consolidated VIEs fall within the scope of the pilot program and have been recognized as VAT tax payers in 2012.

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

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

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

Starting from August 2013, certain of our subsidiaries and VIEs became subject to VAT at the rates of 6% or 3% on certain service revenues which were previously subject to business tax. The amount of VAT included as a deduction to revenue amounted to \$21.5 million for the year ended December 31, 2013.

### *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,                                    |         |              |         |              |         |
|------------------------|--|---------|--------------|---------|--------------|---------|
|                        | 2011   |         | 2012         |         | 2013         |         |
|                        | (All amounts are in thousands of U.S. Dollars, except percentages) |         |              |         |              |         |
|                        | Amount   | %       | Amount       | %       | Amount       | %       |
| Net revenues           | \$ 270,624   | 100.0%  | \$ 286,742   | 100.0%  | \$ 272,266   | 100.0%  |
| Cost of revenues       |  |         |              |         |              |         |
| Concession fees        | (160,199)  | (59.2)% | (177,996)    | (62.1)% | (180,990)    | (66.5)% |
| Agency fees            | (54,824)   | (20.2)% | (45,778)     | (16.0)% | (37,413)     | (13.7)% |
| Others                 | (29,447)   | (10.9)% | (26,832)     | (9.4)%  | (26,270)     | (9.6)%  |
| Total cost of revenues | \$ (244,470)   | (90.3)% | \$ (250,606) | (87.4)% | \$ (244,673) | (89.9)% |

### *Concession Fees*

We incurred concession fees to airports for placing and/or operating our digital frames, digital TV screens and other traditional media displays, to airlines for placing our programs on their digital TV screens and to gas stations for operating our traditional media displays such as light boxes and billboards. These fees constitute a significant portion of our cost of revenues and equaled approximately 59.2%, 62.1% and 66.5% of our net revenues and were \$160.2 million, \$178.0 million and \$181.0 million in the years ended December 31, 2011, 2012 and 2013, respectively. Most of the concession fees paid to airports and airlines were fixed under the relevant concession rights contracts with escalation clauses, which required fixed fee increases over each year of the relevant contract, and payments were usually due three or six months in advance. For gas stations, the actual concession fees paid to Sinopec were RMB 38 million (approximately \$6.0 million) for the year ended December 31, 2011. From 2012 onwards, the concession fees paid to Sinopec were based on the actual number of developed gas stations with our operating LEDs and associated standard annual concession fees for each developed gas station or a fixed minimum payment if any base on negotiation with the petroleum company.

Concession fees increased significantly from 2011 to 2013 because we significantly expanded our media resources with an additional number of concession rights contracts entered into over the years and, while concession fee payments under these additional concession rights contracts began almost immediately after signing and were paid on a fixed schedule, it took a while for us to ramp up sales of advertising time slots and locations and build up revenues from these newly signed concession rights contracts. The concession fees that we incur under concession rights contracts for our digital frames and digital TV screens in airports vary depending on the airport's passenger flow, the city where the airport is located and the profiles of air passengers. The concession fees that we incur under concession rights contracts for our programs on airlines vary depending on the number of routes and airplanes, types of aircrafts and the departure and destination cities.

Concession fees tend to increase over time as growth in passenger volume increases demand for air travel advertising among advertisers. Our concession fees have increased significantly due to the new concession rights contracts that we have entered into during the period from 2011 to 2013, including the ones with billboard and painted advertisements on interior or exterior walls of gate bridges at Terminal 3 of Beijing Capital International Airport, mega-size LED screens in several airports, and new media resources in newly opened terminals. As some of our concession rights contracts are subject to renewal in the next few years, we may experience an increase in our concession fees in order to retain these concession rights contracts.

#### *Agency Fees*

We engaged third-party advertising agencies to help source advertisers from time to time. These third-party advertising agencies assisted us in identifying and introducing advertisers to us. In return, we paid fees to these advertisers if they generated advertising revenues for us. Fees that we paid to these third-party agencies were calculated based on a pre-set percentage of revenues generated from the advertisers introduced to us by the third-party agencies and were paid when payments were received from the advertisers. We recorded these agency fees as cost of revenues ratably over the period in which the related advertisements were displayed. Agency fees were equal to 20.2%, 16.0% and 13.7% of our net revenues for the years ended December 31, 2011, 2012 and 2013, respectively. We expect to continue using these third-party advertising agencies in the near future.

From time to time, we and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to reduce the 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 in which the renegotiations are finalized. During the years ended December 31, 2011, 2012 and 2013, reversals in cost of sales as a result of renegotiated agency fees amounted to nil, \$6.4 million and \$3.3 million, respectively.

#### *Others*

Our other cost of revenues represented 10.9%, 9.4% and 9.6% of our net revenues for the years ended December 31, 2011, 2012 and 2013, respectively, and included the following:

- *Display Equipment Depreciation.* Generally, we capitalized the cost of our digital frames, digital TV screens, light boxes, LED screens and billboards and related equipment in the gas station media network and recognized depreciation costs on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation costs were the number of digital frames, digital TV screens and mega-size LED screens in airports 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. As we add new digital frames digital TV screens and other media platforms, we expect that our network maintenance staff, and associated costs, will increase.
- *Non-advertising Content Cost.* The programs on the majority of our digital TV screens combine advertising content with non-advertising content, such as weather, sports and comedy clips. Our standard programs in airports currently include 40 minutes of non-advertising content during each hour of programming and are shown for approximately 16 hours per day. The length of our in-flight programs typically ranges from approximately 45 to 60 minutes per flight, approximately 40 to 45 minutes of which consist of non-advertising content. We believe that the non-advertising program content makes air travelers more receptive to the advertisements included in our programs and ultimately make our program more effective for our advertisers. This in turn allows us to charge a higher price for each advertising time slot. We also promoted the brand names of our advertisers through our program content by naming our programs after their brand names or displaying their logos on the corner of the digital TV screens during the programs. We produced some of the non-advertising content shown on our network through our VIEs. The majority of the non-advertising content broadcast on our network was provided by third-party content providers such as Shanghai Media Group and various local television stations and television production companies. In 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.

## 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,                                    |         |             |         |             |         |
|-------------------------------------|--|---------|-------------|---------|-------------|---------|
|                                     | 2011   |         | 2012        |         | 2013        |         |
|                                     | (All amounts are in thousands of U.S. Dollars, except percentages) |         |             |         |             |         |
|                                     | Amount   | %       | Amount      | %       | Amount      | %       |
| Net revenues                        | \$ 270,624   | 100.0%  | \$ 286,742  | 100.0%  | \$ 272,266  | 100.0%  |
| Operating expenses                  |  |         |             |         |             |         |
| General and administrative expenses | (22,004)   | (8.1)%  | (21,842)    | (7.6)%  | (25,723)    | (9.5)%  |
| Selling and marketing expenses      | (18,238)   | (6.7)%  | (17,995)    | (6.3)%  | (20,069)    | (7.4)%  |
| Impairment of goodwill              | (1,003)  | (0.4)%  | (20,611)    | (7.2)%  | -           | -       |
| Impairment of intangible assets     | (656)  | (0.2)%  | (9,583)     | (3.3)%  | -           | -       |
| Total operating expenses            | \$ (41,901)  | (15.4)% | \$ (70,031) | (24.4)% | \$ (45,792) | (16.8)% |

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

### General and Administrative Expenses

General and administrative expenses were equal to 8.1%, 7.6% and 9.5% of our net revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Our general and administrative expenses included share-based compensation expenses of \$3.2 million, \$2.6 million and \$1.3 million in the fiscal years ended December 31, 2011, 2012 and 2013, respectively. General and administrative expenses consisted primarily of office and utility expenses, salaries and benefits for general management, finance and administrative personnel, bad debt provisions, depreciation of office equipment, public relations related expenses and other administration related expenses.

### Selling and Marketing Expenses

Selling and marketing expenses accounted for 6.7%, 6.3% and 7.4% of our net revenues for the years ended December 31, 2011, 2012 and 2013, respectively. Our selling and marketing expenses consisted primarily of salaries and benefits for our sales and marketing personnel, office and utility expenses related to our selling and marketing activities, travel expenses incurred by our sales personnel, expenses for the promotion, advertisement and sponsorship of media events, and other sales and marketing related expenses.

### Impairment of Goodwill

For purposes of evaluating goodwill impairment, we have four reporting units: the advertising media in air travel areas, the advertising media in gas station, the outdoor advertising media and the fire station advertising media, and have determined to perform the annual impairment tests on December 31 of each year. We recognized \$1.0 million, \$20.6 million and nil for impairment of goodwill for the years ended December 31, 2011, 2012 and 2013, respectively.

### Impairment of Intangible Assets

We evaluate the recoverability of our long-lived assets, including intangible assets with definite life, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable and have determined to perform the annual impairment tests on December 31 of each year. We recognized \$0.7 million, \$9.6 million and nil for impairment of intangible assets for the years ended December 31, 2011, 2012 and 2013, respectively.



## **Taxation**

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

*Hong Kong.* We did not record any Hong Kong profits tax for the years ended December 31, 2011 and 2012 on the basis that our Hong Kong subsidiaries did not have any assessable profits arising in or derived from Hong Kong for 2011 and 2012. One of our Hong Kong subsidiaries, Glorious Star Investments Ltd, did not record any Hong Kong profits tax for the year ended December 31, 2013 on the basis that it did not have any assessable profits arising in or derived from Hong Kong for 2013. Our other Hong Kong subsidiary, Air Media (China) Ltd, did not record any Hong Kong profits tax for the year ended December 31, 2013 on the basis that its assessable profits arising in or derived from Hong Kong for 2013 were offset by the losses carried forward from previous years. 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, 2011, 2012 and 2013.

*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 qualifying entities. Under the EIT Law, entities that qualify as HNTE are entitled to the preferential income tax rate of 15%. A company's status as a HNTE is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential income tax rate. In addition, according to the Administrative Regulations on the Recognition of High and New Technology Enterprises, the Guidelines for Recognition of High and New Technology Enterprises and the Notice of Favorable Enterprise Income Tax Policies jointly issued by the PRC Ministry of Science and Technology, the PRC Ministry of Finance and the PRC State Administration of Taxation in April 2008, July 2008 and February 2008, respectively, "new software enterprises" can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

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

AM Technology was recognized as a HNTE under the new rules and therefore, it is entitled to enjoy a preferential EIT rate of 15%. It was also eligible for a 50% tax reduction from 2009 to 2010 under the applicable tax laws and regulations that were in effect before January 1, 2008, the date the EIT Law came into effect. As a result, AM Technology was subject to an EIT rate of 7.5% in 2009 and 2010. In September 14, 2011, AM Technology received a new HNTE certificate. As a result, AM Technology was subject to an EIT rate of 15% in 2011, 2012 and 2013 and is expected to be subject to an EIT rate of 15% as long as it maintains its tax status as a HNTE.

Xi'an AM was designated as a "new software enterprise" in August 2008 by the Technology Information Bureau of Shaanxi Province and has received the written notice from Xi'an local tax bureau that it will be granted a two-year exemption from EIT commencing on its first profitable year and a 50% deduction of the 25% EIT rate for the succeeding three years. As Xi'an AM first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoys the preferential income tax rate of 12.5% from 2011 to 2013.

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

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

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

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

We do not believe we and our subsidiaries established outside of the PRC are PRC resident enterprises. However, if the PRC tax authorities subsequently determine that we and our subsidiaries established outside of China should be deemed as a resident enterprise, we and our subsidiaries established outside of China will be subject to PRC income tax at a rate of 25%. In addition, under the EIT law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The BVI, where Broad Cosmos, our wholly owned subsidiary and the 100% shareholder of Shenzhen AM, is incorporated, does not have such a tax treaty with China. AM China, the 100% shareholder of AM Technology and Xi'an AM, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). However, if the Hong Kong company is not considered to be the beneficial owner of dividends paid to it by its PRC subsidiaries under a tax notice promulgated on October 27, 2009, such dividends would be subject to withholding tax at a rate of 10%. See “Item 3. Key Information — D. Risk Factors — Risks Related to our Business — Dividends payable to us by our wholly-owned operating subsidiaries may be subject to PRC withholding taxes, or we may be subject to PRC taxation on our worldwide income and dividends distributed to our investors may be subject to PRC withholding taxes under the PRC tax law.”

### ***Critical Accounting Policies***

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

### ***Business combination***

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any non-controlling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired.

Where the consideration in an acquisition includes contingent consideration, the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings.

### *Revenue Recognition*

Our revenues are derived from selling advertising time slots on our advertising networks, primarily air travel advertising network. For the years ended December 31, 2011, 2012 and 2013, the advertising revenues were generated from digital frames in airports, digital TV screens in airports, digital TV screens on airlines, traditional media in airports, gas station media network and other media.

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

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

### *Deferred Revenue*

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

### *Non-monetary Exchanges*

We occasionally exchange advertising time slots and locations with other entities for assets or services, such as equipment and other assets. The amount of assets and revenue recognized is based on the fair value of the advertising provided or the fair value of the transferred assets, whichever is more readily determinable. The amounts of revenues recognized for nonmonetary transactions were \$2.8 million, \$1.3 million and \$0.7 million for the years ended December 31, 2011, 2012 and 2013, respectively. No direct costs are attributable to the revenues.

### *Concession Fees*

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

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

The fee structure of the concession right agreement with the petroleum company is based on the actual number of developed gas stations and associated standard annual concession fee for each developed gas station. Each gas station has its specific lease term starting from the time when it is actually put into operation. The calculation of rental payments is based on how many months the gas stations are actually put into operation during the year and the standard annual concession fee determined based on the location of the gas station. Accordingly, each gas station is treated as a separate lease and rental payments are recognized on a straight-line basis over its lease term. The amount of annual concession fee to-be-paid is determined by an actual incurred concession fee or a fixed minimum payment, 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. During the years ended December 31, 2011, 2012 and 2013, reversals in cost of sales as a result of renegotiated agency fees amounted to nil, \$6.4 million and \$3.3 million, respectively.

### *Allowance for Doubtful Accounts*

We conduct credit evaluations of clients and generally do not require collateral or other security from clients. We establish an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific clients, and utilize both specific identification and a general reserve 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.

### *Impairment of Goodwill*

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

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

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

We incurred impairment loss on goodwill of \$1.0 million, \$20.6 million and nil for the years ended December 31, 2011, 2012 and 2013, respectively. As a result, we do not have any goodwill left for any reporting until now and will not incur any more impairment loss on goodwill in the future.

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

We evaluate the recoverability of our long-lived assets, including intangible assets with definite life, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the excess of carrying amount over the fair value of the assets.

We have determined to perform the annual impairment tests on December 31 of each year. We did not recognize an impairment loss of intangible assets for the year ended December 31, 2013.

#### *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 other taxes payable.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program was gradually implemented in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. 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. The amount of VAT included as a deduction to revenue amounted to \$8.8 million and \$21.5 million for the years ended December 31, 2012 and 2013, respectively.

#### *Share-based Compensation*

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

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

#### *Comprehensive Income/(loss)*

Comprehensive income/(loss) includes net income/(loss) and foreign currency translation adjustments and is presented net of tax, the amount of which is nil for the three years ended December 31, 2013.

#### ***Our Results of Operations***

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

The following table presents selected operating data for the years ended December 31, 2011, 2012 and 2013, respectively.

|   | Years Ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2011                     | 2012      | 2013      |
| <b>Selected Operating Data:</b>                                 |                          |           |           |
| <b>Digital frames in airports</b>                               |                          |           |           |
| Number of airports in operation                                 | 34                       | 34        | 31        |
| Number of digital frames in our network airports as of year end | 3,092                    | 3,403     | 3,380     |
| Number of time slots available for sale <sup>(1)</sup>          | 139,252                  | 131,060   | 141,922   |
| Number of time slots sold <sup>(2)</sup>                        | 46,399                   | 49,558    | 56,010    |
| Utilization rate <sup>(3)</sup>                                 | 33.3%                    | 37.8%     | 39.5%     |
| Average advertising revenue per time slot sold <sup>(4)</sup>   | \$ 2,727                 | \$ 2,771  | \$ 2,720  |
| <b>Digital TV screens in airports</b>                           |                          |           |           |
| Number of airports in operation                                 | 36                       | 34        | 31        |
| Number of screens in our network airports as of year end        | 2,104                    | 2,579     | 2,969     |
| Number of time slots available for sale <sup>(5)</sup>          | 74,028                   | 67,592    | 66,994    |
| Number of time slots sold <sup>(2)</sup>                        | 14,439                   | 23,385    | 19,452    |
| Utilization rate <sup>(3)</sup>                                 | 19.5%                    | 34.6%     | 29%       |
| Average advertising revenue per time slot sold <sup>(4)</sup>   | \$ 1,519                 | \$ 587    | \$ 725    |
| <b>Digital TV screens on airplanes</b>                          |                          |           |           |
| Number of airlines in operation                                 | 9                        | 9         | 7         |
| Number of time slots available for sale <sup>(5)</sup>          | 1,656                    | 1,776     | 1,486     |
| Number of time slots sold <sup>(2)</sup>                        | 896                      | 781       | 527       |
| Utilization rate <sup>(3)</sup>                                 | 54.1%                    | 44.0%     | 35.5%     |
| Average advertising revenue per time slot sold <sup>(4)</sup>   | \$ 29,837                | \$ 34,074 | \$ 30,662 |
| <b>Traditional media in airports</b>                            |                          |           |           |
| Numbers of locations available for sale <sup>(6)</sup>          | 3,621                    | 3,751     | 3,849     |
| Numbers of locations sold <sup>(7)</sup>                        | 2,559                    | 2,461     | 2,316     |
| Utilization rate <sup>(8)</sup>                                 | 70.7%                    | 65.6%     | 60.2%     |
| Average advertising revenue per location <sup>(9)</sup>         | \$ 28,736                | \$ 33,920 | \$ 27,999 |

(1) We define a time slot for digital frames as a 12-second equivalent advertising time unit for digital frames in airports, which is shown during each standard advertising cycle on a weekly basis in a given airport. Our standard airport advertising programs are shown repeatedly on a daily basis during a given week in 10-minute cycles, which allows us to sell a maximum of 50 time slots per week.

(2) The length of time slot and advertising program cycle of some digital frames in several airports are different from the standard ones. The number of time slots available for our digital frames in airports during the period presented is calculated by multiplying the number of time slots per week per airport by the number of weeks during the period presented when we had operations in each airport and then calculating the sum of all the time slots available for each of our network airports.

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

(4) Utilization rate refers to total time slots for digital frames in airports, digital TV screens in airports and digital TV screens on airplanes sold as a percentage of total time slots available for sale during the relevant period.

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

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

(7) We define the number of locations available for sale in traditional media as the sum of (1) the number of light boxes and billboards in Beijing, Shenzhen, Wenzhou and certain other airports, and (2) the number of gate bridges in airports where we have concession rights to place advertisements on gate bridges.

- (8) Number of locations sold is defined as the sum of (1) the number of light boxes and billboards sold and (2) the number of gate bridges sold. To calculate the number of light boxes and billboards sold in a given airport, we first calculate the "utilization rates of light boxes and billboards" in such airport by dividing the "total value of light boxes and billboards sold" in such airport by the "total value of light boxes and billboards" in such airport. The "total value of light boxes and billboards sold" in a given airport is calculated as the respective daily listing prices of light boxes and billboards sold multiplied by their respective number of days sold during the period presented. The "total value of light boxes and billboards" in a given airport is calculated as the sum of listing prices of all the light boxes and billboards during the period presented. The number of light boxes and billboards sold in a given airport is then calculated as the number of light boxes and billboards available for sale in such airport multiplied by the utilization rates of light boxes and billboards in such airport. The number of gate bridges sold in a given airport is counted based on the contracts.
- (9) Utilization rate for traditional media in airports refers to total locations sold as a percentage of total locations available for sale during the period presented.
- (10) Average advertising revenue per location sold is calculated by dividing the revenues derived from all the locations sold by the number of locations sold during the period presented.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

*Net Revenues.* Our net revenues decreased by 5.0% from \$286.7 million in 2012 to \$272.3 million in 2013. The decrease was primarily due to the decrease in revenues from traditional media in airports, digital TV screens on airplanes, other media, and gas station media network, which were partially offset by increases in revenues from digital frames in airports, other revenues in air travel, and digital TV screens in airports.

Revenues from digital frames in airports: Revenues from digital frames in airports for fiscal year 2013 increased by 10.9% from \$137.3 million in 2012 to \$152.3 million in 2013 due to the additional revenues from the rapidly growing product line of mega-size LED screens and our continued sales efforts.

We operated our digital frames in 31 airports as of December 31, 2013 which decreased from 34 airports as of December 31, 2012. However, the number of digital frames advertising time slots available for sale in airports increased by 8.3% from 131,060 in 2012 to 141,922 in 2013, while the number of time slots sold increased by 13.0% from 49,558 in 2012 to 56,010 in 2013. Our utilization rate for digital frames in airports increased from 37.8% in 2012 to 39.5% in 2013 due to the increase in the number of time slots sold, which was partially offset by the increase in the number of time slots available for sale. The average advertising revenue of digital frames decreased by 1.8% from \$2,771 in 2012 to \$2,720 in 2013 due to higher discounts offered in 2013 than in 2012.

Revenues from digital TV screens in airports: Revenues from digital TV screens in airports increased by 2.8% to \$14.1 million in 2013 from \$13.7 million in 2012 due to our continued sales efforts.

The number of time slots sold for 2013 decreased by 16.8% year-over-year to 19,452 time slots primarily due to a drop in demand from advertisers. The number of time slots available for sale for 2013 decreased by 0.9% year-over-year to 66,994 time slots in 2013 primarily due to the termination of operations of digital TV screens in certain airports. Utilization rate of digital TV screens in airports for fiscal year 2013 decreased to 29% from 34.6% in 2012 primarily due to the increase in the number of time slots sold and the decrease in the time slots available for sale. The average selling price of digital TV screens in airports increased by 23.5% to \$725 in 2013 from \$587 in 2012 primarily due to the fact that revenues from the top tier airports accounted for a higher percentage, which had higher than average selling prices.

Revenues from digital TV screens on airplanes: Revenues from digital TV screens on airplanes decreased by 39.3% to \$16.2 million in 2013 from \$26.6 million in 2012.

The number of time slots sold decreased by 32.5% to 527 time slots in 2013 from 781 time slots in 2012 primarily due to a decrease in time slots sold of digital TV screens on Air China's airplanes. We did not renew our concession rights contract with Air China, which expired on December 31, 2012, but regained some advertising time on Air China's airplanes on August 1, 2013. The number of time slots available for sale decreased by 16.3% to 1,486 time slots in 2013 from 1,776 time slots in 2012. Utilization rate decreased to 35.5% in 2013 from 44.0% in 2012 primarily due to the decrease in the number of time slots sold. The average selling price of digital TV screens on airplanes decreased by 10% to \$30,662 in 2013 from \$34,074 in 2012 primarily due to higher discounts offered in 2013 than in 2012.

**Revenues from traditional media in airports:** Revenues from traditional media in airports decreased by 22.3% to \$64.8 million in 2013 from \$83.5 million in 2012. The decrease was primarily due to our decision not to renew certain unprofitable or low-margin contracts after expiration.

The number of locations sold decreased by 5.9% to 2,316 locations in 2013 from 2,461 in 2012. The number of locations available increased by 2.6% to 3,849 locations in 2013 from 3,751 in 2012, primarily due to the full year operations of some additional airports. The utilization rate of traditional media decreased by 5.4% to 60.2% in 2013 from 65.6% in 2012 due to the decrease in the number of locations sold and the increase in the number of locations available for sale. The average selling price of traditional media in airports decreased by 17.5% to \$27,999 in 2013 from \$33,920 in 2012 primarily we chose not to renew some traditional media contracts, which had higher listing prices.

**Revenues from the gas station media network:** Revenues from the gas station media network decreased by 10.5% to \$12.7 million from \$14.2 million in 2012 due to the temporary service suspension caused by the gap between the retirement of old scrolling light boxes and the full operation of the replacing new LED screen in gas stations across many cities.

**Revenues from other media:** Revenues from other media were primarily revenues from AM Outdoor which was acquired by our variable interest entity, AM Advertising, in January 2011, which operates unipole signs and other outdoor media across Beijing. Revenues from other media for fiscal year 2013 decreased by 30.2% year-over-year to \$7.2 million in 2013 from \$10.2 million in 2012, primarily due to the expiration of the contracts for some locations in November and December 2012.

**Cost of Revenues.** Our cost of revenues decreased by 2.4% from \$250.6 million in 2012 to \$244.7 million in 2013, primarily due to a decrease in agency fees for third-party advertising agencies. The year-over-year decrease in agency fees was primarily due to a partial reversal of certain previously accrued agency fees of \$3.3 million that were waived by the related agents. Our cost of revenues as a percentage of our net revenues increased from 87.4% in 2012 to 89.9% in 2013. Concession fees increased 1.7% from \$178.0 million in 2012 to \$181.0 million in 2013, primarily due to the number of new concession rights contracts and renewals entered into in 2013, which were partially offset by the number of expired contracts that we decided not to renew. Concession fees as a percentage of net revenues increased from 62.1% in 2012 to 66.5% in 2013.

**Operating Expenses.** Our operating expenses decreased by 34.6% from \$70.0 million in 2012 to \$45.8 million in 2013. Our total operating expenses in 2012 included share-based compensation expenses of \$3.5 million while our total operating expenses in 2013 included share-based compensation expenses of \$1.3 million.

- **Selling and Marketing Expenses.** Our selling and marketing expenses increased by 11.5% from \$18.0 million in 2012 (including \$0.9 million of share-based compensation expenses) to \$20.1 million in 2013 (including nil of share-based compensation expenses) mainly due to higher expenses related to our direct sales force, higher service fees, higher expenses of office and equipment, and higher travel expenses.
- **General and Administrative Expenses.** Our general and administrative expenses increased by 17.9% from \$21.8 million (including \$2.6 million of share-based compensation expenses) in 2012 to \$25.7 million (including \$1.3 million of share-based compensation expenses) in 2013, primarily due to higher salary expenses associated with more headcount for new businesses, higher bad-debt provisions, higher expenses of office and equipment and higher professional fee.
- **Impairment of goodwill.** We perform the annual impairment tests on December 31 of each year. All the goodwill was impaired in 2012, thus no impairment for goodwill was recorded in 2013.
- **Impairment of intangible assets.** We perform the annual impairment tests on December 31 of each year. Due to the fact that actual sales and profits for air travel areas and outdoor advertising media were below forecast in the year ended December 31, 2012, the future undiscounted cash flow that the finite-lived intangible assets were expected to generate were less than the carrying amount as of December 31, 2012, the impairment loss of \$9.6 million on intangible assets was recognized for the year ended December 31, 2012, and no impairment loss was recognized for the year ended December 31, 2013.

**Loss from Operations.** We recorded a net loss from operations of \$18.2 million in 2013, as compared to a net loss from operations of \$33.9 million in 2012 as a cumulative result of the above factors.

**Other income, net.** We recorded \$3.8 million of other income net in 2013 as compared to \$2.8 million in 2012. The increase was primarily due to increase in the investment income from short-term investments.



*Income Taxes.* We recorded \$1.7 million of income tax benefit in 2013 as compared to income tax expenses of \$2.5 million in 2012. Our effective income tax rate changed to positive 13% in 2013 from negative 8.4% in 2012.

*Net Loss Attributable to Noncontrolling Interests.* We recorded \$0.9 million in net loss attributable to noncontrolling interests in 2013, as compared to \$0.5 million in net income attributable to noncontrolling interests in 2012. The non-controlling interest primarily refers to other shareholders' minority equity interests in Konggang, Flying Dragon, GreatView Media, Meizheng and Dongding, each majority owned by one of our VIEs.

*Net Loss Attributable to AirMedia's Shareholders.* As a result of the foregoing, we had net loss attributable to our shareholders of \$10.6 million in 2013, as compared to \$32.7 million in 2012.

*Year Ended December 31, 2012 Compared to Year Ended December 31, 2011*

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

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

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

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

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

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

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

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

The number of locations sold decreased by 3.8% to 2,461 locations in 2012 from 2,559 in 2011. The number of locations available increased by 3.6% to 3,751 locations in 2012 from 3,621 in 2011, primarily due to the commencement of operations in additional airports. The utilization rate of traditional media decreased by 5.1% to 65.6% in 2012 from 70.7% in 2011 due to the decrease in the number of locations sold and the increase in the number of locations available for sale. The average selling price of traditional media in airports increased by 18.0% to \$33,920 in 2012 from \$28,736 in 2011 primarily due to an increase in the listing prices of some traditional media in 2012, lower discounts offered in 2012 than in 2011, and more locations with higher listing prices sold in 2012 than in 2011.

Revenues from the gas station media network: Revenues from the gas station media network increased by 10.4% to \$14.2 million from \$12.9 million in 2011 due to our continued sales efforts and advertisers' continually growing acceptance of our gas station media network.

Revenues from other media: Revenues from other media were primarily revenues from AM Outdoor which was acquired by our variable interest entity, AM Advertising, in January 2011, which operates unipole signs and other outdoor media across Beijing. Revenues from other media for fiscal year 2012 increased by 4.6% year-over-year to \$10.2 million in 2012 from \$9.8 million in 2011, primarily due to our continued sales efforts.

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

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

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

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

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

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

*Net Loss Attributable to Noncontrolling Interests.* We recorded \$0.5 million in net income attributable to noncontrolling interests in 2012, as compared to \$3.1 million in net loss attributable to noncontrolling interests in 2011. The non-controlling interest primarily refers to other shareholders' minority equity interests in Konggang, Flying Dragon, Beijing AirMedia Media Advertising Co., Ltd., and Dongding, each majority owned by one of our VIEs.

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

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

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

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

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

On August 23, 2011, the Board of Directors voted to adjust the exercise price of certain stock options which were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011 from \$1.57 per share respectively to \$1.15 per share. The fair value of the options on August 23, 2011, the modification date, was \$0.21, \$0.22, \$0.26, \$0.39 and \$0.53 per option, respectively, calculated using the Black-Scholes model based on the closing market price of the ordinary shares of the Company on the date. The incremental compensation cost of the re-priced options was \$1.3 million, with totaling \$1.1 million recognized as compensation cost during 2011, and \$0.2 million to be recognized as expense over the remaining vesting period.

On September 1, 2012, the Board of Directors approved to grant options to an employee of our company, under the 2011 Share Incentive Plan, to purchase an aggregate of 1,857,538 ordinary shares of our company, at an exercise price of \$0.72 per ordinary share. One twelfth of the options will vest each quarter starting from September 4, 2012. The expiration date will be 5 years from the grant date.

In September 2012, the former chief financial officer of our company resigned. Of the 600,000 options granted to her on March 22, 2011, 300,000 were vested through her date of resignation. In conjunction with her resignation, she signed a supplementary agreement with us, pursuant to which the Company granted her 100,000 options that are immediately exercisable and 200,000 options that would vest through September 22, 2013. During the vesting period, she would provide consulting service as a consultant. For the 100,000 immediately exercisable options, a measurement date was reached upon grant and we immediately recognized \$35,000 into expense, which is equal to the fair value of the options as of September 30, 2012. For the 200,000 options that will vest through September 22, 2013, we recognized expense based on the fair value of the options as of each reporting date through the measurement date. For the year ended December 31, 2013, we recognized \$59,000 expense for these options.

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

On November 30, 2012, the Board of Directors adopted the 2012 Share Incentive Plan (the "2012 Option Plan"), which allows the Company to grant options for the issuance of up to 6,000,000 ordinary shares of the Company subject to vesting requirements.

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

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 \$4.6 million, \$3.5 million and \$1.3 million for the years ended December 31, 2011, 2012 and 2013, respectively.

### ***Inflation***

Historically inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 5.4%, 2.6% and 3.0% in the years 2011, 2012 and 2013, respectively. In 2013, China's inflation has been regarded as relatively high.

The higher inflation in 2013 has caused an increase in our operation expenses due to an increase in employee salaries and benefits. Although it has not materially impacted our results of operations in 2013, we can provide no assurance that we will not be affected in the future by potentially higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

### **B. Liquidity and Capital Resources**

To date, we have financed our operations primarily through internally generated cash, the sale of preferred shares in private placements and the proceeds we received from our initial public offering. As of December 31, 2013, we had approximately \$59.7 million in cash. We generally deposit our excess cash in interest bearing bank accounts. Although we consolidate the results of our VIEs in our consolidated financial statements, we can only receive cash payments from them pursuant to our contractual arrangements with them and their shareholders. See Item 4, "Information on the Company — C. Organizational Structure." Our principal uses of cash primarily include capital expenditures, contractual concession fees, business acquisitions, share repurchases, and other investments and, to a lesser extent, salaries and benefits for our employees and other operating expenses. We expect that these will remain our principal uses of cash in the foreseeable future. We may also use additional cash to fund strategic acquisitions.

### ***Cash Flow***

The following table shows our cash flows with respect to operating activities, investing activities and financing activities for the years ended December 31, 2011, 2012 and 2013:

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2011</b>                    | <b>2012</b> | <b>2013</b> |
| Net cash provided by operating activities           | 17,932                         | 20,230      | 537         |
| Net cash used in investing activities               | (5,192)                        | (57,006)    | (70,466)    |
| Net cash (used in) provided by financing activities | (10,919)                       | (3,260)     | 54,311      |
| Effect of exchange rate changes                     | 4,408                          | 936         | 1,636       |
| Net increase/(decrease) in cash                     | 6,229                          | (39,100)    | (13,982)    |
| Cash at the beginning of the year                   | 106,505                        | 112,734     | 73,634      |
| Cash at the end of the year                         | 112,734                        | 73,634      | 59,652      |

## Operating Activities

Net cash provided by operating activities was \$0.5 million for the year ended December 31, 2013. This was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$21.9 million, impairment loss of loan receivable from third party of \$1.6 million, loss on disposal of property and equipment of \$1.0 million, allowance for doubtful accounts of \$2.4 million and share-based compensation of \$1.3 million and (2) an increase of \$12.1 million in accounts payable. The foregoing was partly offset by (1) an increase of \$11.0 million in accounts receivable and notes receivable, (2) an increase of \$7.8 million in prepaid concession fee (3) an increase of \$3.9 million in other current assets, (4) a decrease of \$4.0 million in deferred tax assets (liability) and (5) a decrease of \$ 2.7 million in deferred revenue.

Net cash provided by operating activities was 20.2 million for the year ended December 31, 2012. This was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally depreciation and amortization of \$24.0 million, impairment loss of goodwill of \$20.6 million, impairment loss of intangible assets of \$9.6 million, loss on disposal of property and equipment of \$1.2 million, allowance for doubtful accounts of \$1.2 million and share-based compensation of \$3.5 million, (2) an increase of \$8.3 million in accounts payable, and (3) an increase of \$6.9 million in deferred revenues. The foregoing was partly offset by (1) an increase of \$8.6 million in accounts receivable and (2) an increase of \$7.0 million in long-term deposits.

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

## *Accounts Receivable*

Our gross accounts receivable balance increased by \$8.9 million, or approximately 8%, from \$105.8 million as of December 31, 2012 to \$114.7 million as of December 31, 2013. Our allowance for doubtful accounts increased from \$4.6 million as of December 31, 2012 to \$7.2 million as of December 31, 2013. The net effect of these changes resulted in an increase of net accounts receivable of \$6.3 million or approximately 6%, from \$101.2 million for the year ended December 31, 2012 to \$107.5 million for the year ended December 31, 2013. Our revenues decreased by \$16.5 million, or approximately 6%, from \$293.0 million in 2012 to \$276.5 million in 2013. The reason for an increase in net accounts receivables with a decrease in revenues is that in 2013, due to the economic downturn in China, we extended the credit period of some of our long-term customers with large scale, good reputation in the industry and with good historical collection records. As of December 31, 2013, our net accounts receivable balance aged less than and greater than six months was \$89.4 million and \$18.1 million, respectively.

To the extent we need to convert our Renminbi assets and liabilities into U.S. dollars, depreciation of the Renminbi against the U.S. dollar will have an impact on our financial statements. The spot rate decreased from 6.23 Renminbi against 1 U.S. dollar to 6.05, or a depreciation of approximately 2.83%, from December 31, 2012 to 2013. This change in Renminbi exchange rate contributed to a \$3.2 million increase in the value of our accounts receivable as of December 31, 2013.

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

Our revenues have fluctuated and may continue to fluctuate significantly from period to period, primarily due to the seasonality of air travel, consumer spending and corresponding advertising trends in China. Air travel and advertising spending in China generally tend to increase during the second half of the year and tend to decrease during the first quarter of each year.

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

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

#### *Allowance for Doubtful Accounts*

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

Our allowance for doubtful accounts increased from \$3.3 million as of December 31, 2011 to \$4.6 million as of December 31, 2012 and further to \$7.2 million as of December 31, 2013, as we charged approximately \$1.2 million in 2012 and \$2.4 million in 2013 to expenses based on continuous monitoring and our best estimate of the uncollectible accounts.

#### *Investing Activities*

Net cash used in investing activities for the year ended December 31, 2013 amounted to \$70.5 million, mainly as a result of our purchase of property and equipment for \$13.1 million, a payment of \$57.0 million of prepaid equipment cost, a payment of \$4.1 million of long term investment and a payment of \$2.1 million restricted cash, offset by proceeds from short term investment of \$4.8 million.

Net cash used in investing activities for the year ended December 31, 2012 amounted to \$57.0 million, mainly as a result of our purchase of \$42.5 million of held-to-maturity securities, purchase of property and equipment for \$11.3 million, a payment of \$2.2 million for equity investments in Xinghe Union, Shibo Movie, and Guangxi Dingyuan Advertising Co., Ltd., and an increase in loans from a third party of \$1.6 million, which was partially offset by \$0.1 million in proceeds from the disposal of property and equipment.

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

#### *Prepaid Equipment Costs*

In 2013, we recorded approximately \$57.0 million for the prepaid equipment cost primarily as a result of our purchase of 1,000 sets of gas station LEDs. Since these equipment were under installation but still in the process of acceptance, the amount we incurred for the purchase was recorded as prepaid equipment costs. This purchase was funded entirely with the proceeds we received from Elec-Tech as part of their investment in GreatView Media. As of December 31, 2013, Elec-Tech contributed \$57.2 million to the share capital of GreatView Media, \$56.1 million of which was recorded as additional paid-in capital.

### *Capital Expenditures*

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

Our capital expenditures were \$4.2 million in 2011, \$9.3 million in 2012 and \$70.1 million in 2013, 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 in financing activities amounted to \$54.3 million for the year ended December 31, 2013, as a result of \$59.4 million provided by capital contribution from non-controlling interests and \$0.7 million dividend paid to former shareholders of subsidiaries, \$2.8 million used to repurchase shares as treasury stock and a payment of \$1.6 million for acquisition of non-controlling interests.

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

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

### *Intra-Company Transfers*

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

### ***Recently Issued Accounting Pronouncements***

#### *Recently adopted accounting pronouncements*

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. We adopted this pronouncement on January 1, 2013 which did not have a significant impact on its consolidated financial statements.

*Recently issued accounting pronouncements not yet adopted*

In March 2013, the FASB issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

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

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

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



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

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

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

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

##### *Research and Development*

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

#### **D. Trend Information**

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

#### **E. Off-Balance Sheet Arrangements**

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

#### **F. Tabular Disclosure of Contractual Obligations**

We have entered into operating lease agreements primarily for our office spaces in China. These leases expire through 2015 and are renewable upon negotiation. In addition, the contract terms of our concession rights contracts are usually three to five years. Most of these concession rights expire through 2015 and are renewable upon negotiation. The following table sets forth our contractual obligations and commercial commitments as of December 31, 2013:

|                             | Total      | Payments Due by Period         |            |           |                     |
|-----------------------------|------------|--------------------------------|------------|-----------|---------------------|
|                             |            | 2014                           | 2015-2016  | 2017-2018 | 2019 and thereafter |
|                             |            | (in thousands of U.S. Dollars) |            |           |                     |
| Operating lease agreements  | \$ 5,363   | \$ 3,522                       | \$ 1,825   | \$ 16     | \$ -                |
| Concession rights contracts | 448,997    | 182,500                        | 173,455    | 50,769    | 42,273              |
| Purchase obligations        | 52,736     | 52,440                         | 296        | -         | -                   |
| Total                       | \$ 507,096 | \$ 238,462                     | \$ 175,576 | \$ 50,785 | \$ 42,273           |

## G. Safe Harbor

See the section headed “Forward-Looking Information.”

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The following table sets forth certain information regarding our directors and executive officers as of March 31, 2014.

| NAME                 | AGE | POSITION  |
|----------------------|-----|---|
| Herman Man Guo       | 50  | Chairman and Chief Executive Officer              |
| James Zhonghua Feng  | 43  | Director and President                            |
| Henry Hin-hung Ho    | 57  | Chief Financial Officer                           |
| Qing Xu              | 53  | Director and Executive President                  |
| Peixin Xu            | 43  | Director  |
| Conor Chia-hung Yang | 51  | Independent Director                              |
| Shichong Shan        | 83  | Independent Director                              |
| Junjie Ding          | 50  | Independent Director                              |
| Songzuo Xiang        | 49  | Independent Director                              |
| Jack Qun Yao Gao     | 55  | Independent Director                              |
| Bailing Zeng         | 54  | Vice President                                    |
| Yunfeng Yu           | 42  | Vice President                                    |
| Tong Wu              | 45  | Chief Strategy Officer                            |
| Mina Deng            | 32  | Vice President                                    |
| Wei He               | 39  | Chief Public Relations Officer and 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. James Zhonghua Feng* has served as our president and director since May 2011. Prior to that, he served as chief operating officer since our inception and with respect to certain of our pre-existing affiliated entities since October 2005. Before joining us in 2005, he served as the general manager of New Chang’an Media Advertising Company from 2004 to 2005. From 2002 to 2004, Mr. Feng served as the deputy general manager of Beijing Tianzhi Creative Advertising Company. Prior to that, he was the general manager of the Beijing and Shanghai branches of Shenzhen Nantong Umbrella Industry Group Co., Ltd. Mr. Feng received his bachelor’s degree in Chinese literature from Sichuan Normal University in China in 1993 and an Executive MBA degree from Peking University in China in 2009.

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

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

*Mr. Peixin Xu* has served as our director since January 2014. Mr. Xu is the founder of Bison Capital. Mr. Xu is also chairman of Huasheng Taitong Media Investment Co., Ltd., a TV production company and a researcher at Peking University. He was founder and chairman of Beijing Redbaby Info-Tech Co., Ltd., a B2C e-commerce company mainly focusing on the maternal and infant products, and a partner of New Enterprise Associates, a venture capital fund. Prior to that, Mr. Xu was a manager for new business at Beijing Northstar Industrial Group, a state-owned comprehensive real estate development and services business group. Mr. Xu received a bachelor of arts degree in business administration from the Tianjin University of Commerce. Mr. Xu has also served as an independent director and chairman of strategy committee of Bona Film Group Limited, a Nasdaq listed public company, since November 2011.

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

*Dr. Junjie Ding* has served as our independent director since November 2008. Dr. Ding is also an independent director of SinoMedia Holding Limited, a media advertising operator in China that is listed on the Hong Kong Stock Exchange and has served as an independent director of a China-based private company since December 2013. Dr. Ding is a vice president of the Communication University of China and the deputy officer of the China Advertising Association of Commerce. With nearly 20 years of experience in the media and advertisement industry, Dr. Ding is the editor of various periodicals, such as International Advertising and the Annual Book of Chinese Advertising Works. He received his Ph.D. degree in communications in 2003 from the Communication University of China.

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

*Dr. Jack Q. Gao* has served as our independent director since January 2014. He currently serves as a board member of Tianji Media Group, Beijing Vantone Holding Co., Global Financial Technology, Digu.com and Bona Film Group and as a senior vice president of News Corporation, the chief executive officer of News Corporation China Investments and the chief representative of News Corporation Beijing Representative Office. Prior to joining News Corporation in 2006, Dr. Gao was corporate vice president and president of Emerging Markets at Autodesk, where he oversaw the company's emerging markets business with a focus on Greater China and India. Prior to Autodesk, he was president and general manager of Microsoft (China) Ltd. Co., where he was responsible for operations, sales and marketing, government relations and business developments. Additionally, he has been a general partner of Walden International, a venture capital fund, and Asia business manager at MSC Software. Dr. Gao received his PhD, master's and bachelor's degrees in engineering from Harbin Institute of Technology and University of California, Los Angeles.

*Dr. Bailing Zeng* has served as our vice president since January 2010 in charge of AirMedia City (Beijing) Outdoor Advertising Co., Ltd., a company that we acquired in January 2010. Prior to joining AirMedia, Dr. Zeng founded and served as the chief executive officer of AirMedia City (Beijing) Outdoor Advertising Co., Ltd. since 2005. Prior to that, Dr. Zeng served as an executive vice president and chief editor of China Youth & Children Audio-Visual Publishing House from 2001 to 2005. During the same period, he was also an assistant to the president of the China Youth Magazine. From 1997 to 2001, Dr. Zeng served as the head of the rights and benefits department of the central committee of the communist youth league of China. Dr. Zeng received his doctorate degree in law from the Party School of the Central Committee of the Communist Party of China in 2009, his master's degree in law from China University of Political Science and Law in 1991 and his bachelor's degree in law from Southwest University of Political Science and Law in 1988.

*Mr. Yunfeng Yu* has served as our vice president since July 2010. Mr. Yu joined us as special assistant to executive president in February 2009. Prior to that, Mr. Yu was marketing and sales department manager at Beijing Capital Airport Advertising Co. Ltd. Mr. Yu received his bachelor's degree in economic management from the Party School of the Central Committee of the Communist Party of China in September 2000.

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

*Ms. Mina Deng*, also known as Liang Mi, has served as our vice president in charge of business development since October 2013. Ms. Deng has also been a soloist with Beijing Dance Drama & Opera Co., Ltd. since December 2005 and with Art Troupe of the General Political Department of the People's Liberation Army Air Force of China from July 2000 to December 2005. Ms. Deng attended the music education department of China Conservatory from July 2001 to July 2003 and the school of music of People's Liberation Army Academy of Art from July 1998 to July 2000.

*Ms. Wei He* has served as our chief public relations officer since our inception in April 2007 and for certain of our pre-existing affiliated entities since April 2006. Prior to joining our company, she worked as the deputy general manager of Taixiang Investment Consulting Co. Ltd. from 2003 to 2006. Prior to this, she served as the director of the liaison department of Kelon Electrical Holdings Company Ltd. from 2000 to 2002. She served as the account manager of Hong Kong Pengli Group from 1999 to 2000. She received her bachelor's degree from Qufu Normal University in China in 1998 and her MBA degree from the City University of Washington in 2006. Ms. He enrolled in the EMBA program in Cheung Kong Graduate School of Business in year 2012 and expects to receive her degree in 2014.

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

### ***Employment Agreements***

We have entered into employment agreements with all of our senior executive officers, namely Herman Man Guo, Henry Hin-hung Ho and James Zhonghua Feng. Under these employment agreements, each of our executive officers is employed for a specified time period, unless either we or the executive officer gives a one-month prior notice to terminate such employment. We have also entered into employment agreements with our other executive officers. Each of the contract terms was a period of two or three years. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the employee, including but not limited to a conviction or plea of guilty to certain crimes, negligence or dishonesty to our detriment and failure to perform the agreed-to duties after a reasonable opportunity to cure the failure. Furthermore, either we or an executive officer may terminate the employment at any time without cause upon advance written notice to the other party. These agreements do not provide for any special termination benefits, nor do we have other arrangements with these executive officers for special termination benefits.

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

## B. Compensation

In 2013, the aggregate cash compensation to our executive officers was approximately \$790,992 and the aggregate cash compensation to our non-executive directors was approximately \$141,592. 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, 2013, options to purchase 14,655,530 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, 2013, the outstanding options granted to our executive officers, directors and to other individuals as a group under our 2007 Option Plan, as amended, 2011 Option Plan and 2012 Option Plan.

| Name                         | Ordinary Shares Underlying Options | Exercise Price (US\$/Share) (1) | Date of Grant     | Expiration Date   |
|------------------------------|------------------------------------|---------------------------------|-------------------|-------------------|
| Herman Man Guo               | 2,000,000                          | 1.15                            | July 2, 2007      | July 2, 2017      |
| Qing Xu                      | *                                  | 1.15                            | March 22, 2011    | March 22, 2021    |
| Henry Hin-hung Ho            | 1,857,538                          | 0.72                            | September 4, 2012 | September 4, 2017 |
| Shichong Shan                | *                                  | 1.15                            | July 20, 2007     | July 20, 2017     |
| Junjie Ding                  | *                                  | 1.15                            | July 10, 2009     | July 10, 2014     |
| Songzuo Xiang                | *                                  | 1.15                            | July 10, 2009     | July 10, 2014     |
| James Zhonghua Feng          | 625,514                            | 1.15                            | July 2, 2007      | July 2, 2017      |
|                              | 150,000                            | 1.15                            | July 20, 2007     | July 20, 2017     |
|                              | 840,000                            | 1.15                            | July 10, 2009     | July 10, 2014     |
|                              | 110,000                            | 1.15                            | November 29, 2007 | November 29, 2015 |
| Conor Chia-hung Yang         | *                                  | 1.15                            | July 2, 2007      | July 2, 2017      |
|                              | *                                  | 1.15                            | November 29, 2007 | November 29, 2015 |
|                              | *                                  | 1.15                            | July 10, 2009     | July 10, 2014     |
| Wei He                       | *                                  | 1.15                            | July 20, 2007     | July 20, 2017     |
|                              | *                                  | 1.15                            | July 10, 2009     | July 10, 2014     |
|                              | *                                  | 1.15                            | March 22, 2011    | March 22, 2016    |
| Tong Wu                      | —                                  | —                               | —                 | —                 |
| Bailing Zeng                 | *                                  | 1.15                            | March 22, 2011    | March 22, 2021    |
| Yunfeng Yu                   | *                                  | 1.15                            | July 10, 2009     | July 10, 2014     |
|                              | *                                  | 1.15                            | March 22, 2011    | March 22, 2016    |
| Liang Mi                     | —                                  | —                               | —                 | —                 |
| Other individuals as a group | 366,000                            | 1.57                            | July 20, 2007     | July 20, 2017     |
| Other individuals as a group | 1,590,616                          | 1.15                            | July 20, 2007     | July 20, 2017     |
| Other individuals as a group | 830,000                            | 1.57                            | November 29, 2007 | November 29, 2015 |
| Other individuals as a group | 330,418                            | 1.15                            | November 29, 2007 | November 29, 2015 |
| Other individuals as a group | 483,000                            | 1.57                            | July 10, 2009     | July 10, 2014     |
| Other individuals as a group | 1,787,336                          | 1.15                            | July 10, 2009     | July 10, 2014     |
| Other individuals as a group | 581,600                            | 1.15                            | March 22, 2011    | September 1, 2017 |
| Other individuals as a group | 120,000                            | 1.15                            | March 22, 2011    | March 22, 2016    |
| Other individuals as a group | 20,000                             | 1.11                            | November 1, 2012  | November 1, 2014  |
| Other individuals as a group | 60,000                             | 1.11                            | November 30, 2012 | November 1, 2014  |

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

(1) On August 23, 2011, 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 nine directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. The remuneration to be paid to the directors is determined by the board of directors. There is no age limit requirement for directors.

#### ***Board Committees***

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

*Audit Committee.* Our audit committee consists of Messrs. Songzuo Xiang, Shichong Shan 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. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

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

*Compensation Committee.* Our compensation committee consists of Messrs. Junjie Ding, Conor Chia-hung Yang and Shichong Shan. Our board of directors has determined that Messrs. Junjie Ding, 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 four most senior executives;
- approving and overseeing the total compensation package for our executives other than the four most senior executives;
- reviewing and making recommendations to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

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

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

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

Under Cayman Islands law, our directors have a fiduciary duty 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. Every director who does not retire by rotation at the annual general meeting held in 2013 shall serve a term of office which shall expire on 31 July 2014. Any director who is newly appointed 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 such 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 31 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. The articles of association also provide that the office of a director shall also be vacated in a limited number of circumstances, namely if the director: (a) becomes bankrupt or makes any arrangement or composition with his creditors; (b) is found to be or becomes of unsound mind; (c) resigns his office by notice in writing to the Company; or (d) without special leave of absence from the board of directors, is absent from meetings of the board of directors for six consecutive months and the board of directors resolves that his office be vacated. Officers are elected by and serve at the discretion of the board of directors.



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

#### D. Employees

We had 723, 795 and 887 employees as of December 31, 2011, 2012 and 2013, respectively. The following table sets forth the number of our employees by area of business as of December 31, 2011, 2012 and 2013:

|   | As of December 31,  |            |                     |            |                     |            |
|---|---------------------|------------|---------------------|------------|---------------------|------------|
|   | 2011                |            | 2012                |            | 2013                |            |
|   | Number of Employees | % of Total | Number of Employees | % of Total | Number of Employees | % of Total |
| Sales and Marketing Department            | 319                 | 44.1       | 352                 | 44.3       | 370                 | 41.7       |
| Quality Control and Technology Department | 173                 | 23.9       | 215                 | 27.0       | 244                 | 27.5       |
| Programming Department                    | 31                  | 4.3        | 32                  | 4.1        | 52                  | 5.9        |
| Resources Development Department          | 57                  | 7.9        | 44                  | 5.5        | 57                  | 6.4        |
| General Administrative and Accounting     | 143                 | 19.8       | 152                 | 19.1       | 164                 | 18.5       |
| Total                                     | 723                 | 100.0      | 795                 | 100.0      | 887                 | 100.0      |

The following table sets forth the breakdown of employees by geographic location as of December 31, 2013:

| City      | Number of Employees | % of Total |
|-----------|---------------------|------------|
| Beijing   | 554                 | 62.5%      |
| Shanghai  | 82                  | 9.2%       |
| Guangzhou | 43                  | 4.8%       |
| Shenzhen  | 35                  | 3.9%       |
| Chengdu   | 25                  | 2.8%       |
| Wenzhou   | 16                  | 1.8%       |
| Others    | 132                 | 14.9%      |
| Total     | 887                 | 100.0%     |

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

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

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

#### E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2014, 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 119,235,841 ordinary shares outstanding as of March 31, 2014. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after March 31, 2014, 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.

|  | <b>Shares Beneficially Owned</b> |          |
|--|----------------------------------|----------|
|  | <b>Number</b>                    | <b>%</b> |
| <b>Directors and Executive Officers:</b>   |                                  |          |
| Herman Man Guo <sup>(1)</sup>              | 40,090,194                       | 33.07%   |
| James Zhonghua Feng <sup>(2)</sup>         | 4,682,324                        | 3.87%    |
| Henry Hin-hung Ho                          | *                                | *        |
| Qing Xu <sup>(3)</sup>                     | 2,800,000                        | 2.34%    |
| Peixin Xu <sup>(6)</sup>                   | 16,040,000                       | 13.45%   |
| Conor Chiahung Yang                        | *                                | *        |
| Shichong Shan                              | *                                | *        |
| Junjie Ding                                | *                                | *        |
| Songzuo Xiang                              | *                                | *        |
| Jack Qun Yao Gao                           | —                                | —        |
| Bailing Zeng                               | *                                | *        |
| Yunfeng Yu                                 | *                                | *        |
| Tong Wu                                    | —                                | —        |
| Mina Deng                                  | —                                | —        |
| Wei He                                     | *                                | *        |
| <b>Principal Shareholders:</b>             |                                  |          |
| Wealthy Environment Limited <sup>(4)</sup> | 17,505,980                       | 14.68%   |
| Dan Shao <sup>(5)</sup>                    | 20,584,214                       | 17.26%   |
| Bison Capital Media Limited <sup>(6)</sup> | 16,040,000                       | 13.45%   |

\* 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, (iii) 2,000,000 ordinary shares issuable upon exercise of options held by Mr. Guo that are exercisable within 60 days, (iv) 20,000,000 ordinary shares held by Global Earnings Pacific Limited, a BVI company wholly owned and controlled by Ms. Dan Shao, Mr. Guo's wife, and (v) 584,214 ordinary shares represented by American Depositary Shares held by Ms. Dan Shao. Mr. Guo disclaims beneficial ownership of the ordinary shares held by Global Earnings Pacific Limited and by Ms. Dan Shao.
- (2) Includes (i) 1,725,514 ordinary shares issuable upon exercise of options held by Mr. James Zhonghua Feng that are exercisable within 60 days, and (ii) 2,956,810 ordinary shares held by Leader Smart Capital Limited, a Hong Kong company wholly owned by Mr. James Zhonghua Feng. The registered address of Leader Smart Capital Limited is 13/F, Shum Tower, 268 Des Voeux Road, Central, Hong Kong.
- (3) Includes (i) 2,000,000 ordinary shares held by Mambo Fiesta Limited, a BVI company wholly owned by Mr. Qing Xu, (ii) 200,000 ordinary shares represented by American Depositary Shares held by Mr. Qing Xu, and (iii) 600,000 ordinary shares issuable upon exercise of options held by Mr. Xu that are exercisable within 60 days.
- (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) 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.
- (6) 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. Mr. Peixin Xu is the husband of Ms. Jiang and, as such, Mr. Xu may be deemed to beneficially own the 16,040,000 ordinary shares directly held by Bison Capital Media Limited.

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

As of March 31, 2014, 127,662,057 of our ordinary shares were issued, with 119,235,841 shares outstanding and 8,426,216 shares in Treasury Stock. To our knowledge, we had only one record shareholder in the United States, JPMorgan Chase Bank, N. A., which is the depository of our ADS program and held approximately 65.39% of our total outstanding ordinary shares as of March 31, 2014. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

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

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

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

### B. Related Party Transactions

#### *Contractual Arrangements*

Since December 10, 2005, foreign investors have been permitted to own directly a 100% interest in PRC advertising companies with at least three years of direct operations outside of China. Prior to 2011, although AM China, our subsidiary and the 100% shareholder of AM Technology and Xi’an AM, has been operating its advertising business in Hong Kong since 2008, its operation experience was less than three years and was not qualified under the PRC regulations to own a PRC advertising company. Accordingly, our domestic PRC subsidiaries, AM Technology, Shenzhen AM and Xi’an AM, which are considered foreign-invested enterprises, were ineligible to operate a business with advertising as a part of their business scope in China. Our advertising business is currently provided through contractual arrangements with our consolidated VIEs in China, principally AM Advertising, certain of its subsidiaries, Shengshi Lianhe, AirMedia UC and AM Yuehang. Since the beginning of 2012, AM China has been in operation for more than three years and as a result, AM China is now allowed to directly invest in advertising business in China. We are in the process of establishing a wholly-owned subsidiary to provide advertising services in China through it directly. However, we can make no assurance as to the specific time when this wholly-owned subsidiary shall be established. Once this subsidiary is put into operation, we intend to gradually shift our advertising business to this subsidiary, and thus to gradually reduce the reliance on the current VIE structure. Our consolidated VIEs directly operate our advertising network, enter into concession rights contracts and sell advertising time slots and advertising locations to our advertisers. We have been and expect to continue to be dependent on our VIEs to operate our advertising business until we qualify for direct ownership of an advertising business in China under the PRC laws and regulations and acquire our VIEs as our direct, wholly-owned subsidiaries. AM Technology has entered into contractual arrangements with our VIEs, pursuant to which AM Technology provides exclusive technology support and service and technology development services in exchange for payments from them. In addition, AM Technology has entered into agreements with our VIEs and each of their shareholders, which provide AM Technology with the substantial ability to control our VIEs. These agreements are summarized in the following paragraphs.

**Technology support and service agreements:** AM Technology provides exclusive technology support and consulting services to our VIEs and in return, the VIEs are required to pay AM Technology service fees. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost- plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, or 1.0% in the case of AM Yuehang. It is at AM Technology’s sole discretion that the rate and amount of service fees ultimately charged the VIEs under these agreements are determined. The “net cost-plus rate” refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology support and service agreements are effective for ten years and such term is automatically renewed upon their expiration unless either party to an agreement informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.

- **Technology development agreements:** Our VIEs exclusively engage AM Technology to provide technology development services. AM Technology owns the intellectual property rights developed in the performance of these agreements. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, which final rate should be determined by AM Technology. It is at AM Technology's sole discretion the rate and amount of fees ultimately charged the VIEs under these agreements are determined. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology development agreements are effective for ten years and such term is automatically renewed upon their expiration unless either party informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.
- **Call option agreements:** Under the call option agreements, the shareholders of our VIEs irrevocably granted AM Technology or its designated third party an exclusive option to purchase from the VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. In addition, under these agreements, AM Technology has undertaken to act as guarantor of VIEs in all operations- related contracts, agreements and transactions and commit to provide loans to support the business development needs of VIEs or if the VIEs suffer operating difficulties, provided that the relevant 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.
- **Equity pledge agreements:** Under the equity pledge agreements, the shareholders of the VIEs pledged all of their equity interests, including the right to receive declared dividends, in the VIEs to AM Technology to guarantee VIEs' performance of their obligations under the technology support and service agreement and the technology development agreement. If the VIEs fail to perform its obligations set forth in the technology support and service agreement, AM Technology shall be entitled to exercise all the remedies and powers set forth in the provisions of the equity pledge agreement. The agreement is effective for as long as the technology support and service agreements and technology development agreement are effective.
- **Authorization letters:** Each shareholder of the VIEs has executed an authorization letter to authorize AM Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. Such authorization letters will remain effective during the operating periods of the VIEs. The authorization is effective for ten years and such term is renewed upon its expiry at AM Technology's sole discretion.

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

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

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

#### *Amounts Due to BEMC*

We assigned concession rights of certain media resources to BEMC, our joint venture with China Eastern Media Corporation, Ltd. As of December 31, 2013, we did not have amount due to BEMC as the deposits received for publishing advertisement.

#### *Amounts Due from BEMC*

As of December 31, 2013, we had \$0.19 million due from BEMC as the uncollected advertising revenue earned from BEMC.

#### *Transactions with BEMC*

In 2013, we earned \$0.68 million of advertising revenue from BEMC.

#### *Share Options*

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

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

Not applicable

## **ITEM 8. FINANCIAL INFORMATION**

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

#### *Financial Statements*

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

#### *Legal Proceedings*

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

#### *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 applicable laws. Even if our board of directors decides to pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

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

**B. Significant Changes**

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

**ITEM 9. THE OFFER AND LISTING**

**A. Offer and Listing Details**

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

| <i>Annual Market Prices</i> | <b>High</b> | <b>Low</b> |
|-----------------------------|-------------|------------|
| Year 2009                   | 9.26        | 3.80       |
| Year 2010                   | 8.90        | 2.83       |
| Year 2011                   | 7.60        | 2.10       |
| Year 2012                   | 4.01        | 1.33       |
| Year 2013                   | 3.20        | 1.50       |

| <i>Quarterly Market Prices</i> |      |      |
|--------------------------------|------|------|
| Second Quarter 2013            | 2.06 | 1.50 |
| Third Quarter 2013             | 1.89 | 1.68 |
| Fourth Quarter 2013            | 3.20 | 1.55 |
| First Quarter 2014             | 2.47 | 1.70 |

| <i>Monthly Market Prices</i>      |      |      |
|-----------------------------------|------|------|
| October 2013                      | 3.20 | 1.66 |
| November 2013                     | 1.89 | 1.58 |
| December 2013                     | 2.23 | 1.55 |
| January 2014                      | 2.93 | 1.92 |
| February 2014                     | 2.66 | 1.90 |
| March 2014                        | 3.24 | 1.96 |
| April 2014 (until April 24, 2014) | 2.46 | 1.96 |

**B. Plan of Distribution**

Not applicable.

**C. Markets**

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

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

The following are summaries of material terms and provisions of our amended and restated memorandum and articles of association and the Companies Law (2013 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.

#### **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 — C. Board Practices—Board of Directors.”

#### **Ordinary Shares**

##### *General*

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

##### *Dividend Rights*

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

##### *Voting Rights*

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

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

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

### ***Transfer of Shares***

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

### ***Repurchase of Shares***

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

### ***Liquidation***

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

### ***Redemption of Shares***

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

### ***Calls on Shares and Forfeiture of Shares***

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

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

All or any of the special rights attached to any class of shares may, subject to the provisions of 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**

In May 2013, several entities affiliated with AirMedia, including Beijing GreatView Media Advertising Co., Ltd. or GreatView Media, the primary operating entity of our gas station media network, and its current shareholders, entered into an investment agreement with Elec-Tech International Co., Ltd., or Elec-Tech. Pursuant to the investment agreement, Elec-Tech agreed to invest RMB640 million (US\$104 million) to purchase ordinary shares representing approximately 21.27% of the equity interest of GreatView Media. After the completion of the transaction, AirMedia controls 61.41% of the equity interest of GreatView Media. As of December 31, 2013, GreatView Media purchased 1,000 sets of LED screens from Elec-Tech. As of March 31, 2014, we have installed more than 300 LED screens in six cities. We intend to install more screens to further develop our existing gas station media network.



In May 2013, Shengshi Lianhe entered into a joint venture agreement with Guangzhou Daozheng Advertising Co., Ltd. to establish a joint venture, Guangzhou Meizheng Advertising Co., Ltd. to operate tablet device advertisements on board the high speed trains on the Wuhan-Guangzhou and Guangzhou-Shenzhen-Hong Kong lines. Guangzhou Daozheng Advertising Co., Ltd. transferred to the joint venture the concession rights to operate such advertisement businesses for the period from September 1, 2012 to August 31, 2018. Shengshi Lianhe holds 54% while Guangzhou Daozheng Advertising Co., Ltd. holds 46% of the equity interest in the joint venture. The joint venture was set to exist for 30 years.

In September 2013, we entered into an equity swap agreement with N-S Digital, under which we exchanged our 50% holding in Beijing Shibo for the 50% equity interest in Beijing Xinghe held by N-S Digital. The two joint venture agreements that were entered into in February and March 2012 to establish Beijing Shibo and Beijing Xinghe were terminated at the same time.

In October 2013, AirMedia Group Co., Ltd., or AM Advertising, one of our consolidated affiliated entities, entered into a strategic alliance agreement with HNA Xinhua Culture Holding Group Co., Ltd., or HNA Culture, a subsidiary of HNA Group, to form an industry development fund of in-flight internet, or the Fund, to explore the opportunity of in-flight internet service and in-air multimedia platform. Such arrangement will include the establishment of a fund management company, or the Joint Fund Management Company, by AM Advertising and HNA Culture each holding 50% of the equity interest therein. The Joint Fund Management Company will act as the general partner for the Fund. HNA Culture will be responsible for obtaining exclusive rights to develop and operate in-flight internet service and in-air multimedia platform from member airlines of HNA Group. In a power of attorney, HNA Group authorized HNA Culture to act as the exclusive general coordinator for HNA Group's in-flight connectivity project, with full authority to coordinate with all member airlines of HNA Group, HNA Technik, equipment providers and satellite service providers in setting up in-flight internet connectivity for HNA Group-operated airplanes. HNA Group recognizes the documents executed by HNA Culture on behalf of HNA Group in relation to the Fund and the Joint Fund Management Company, including the strategic alliance agreement, as within the scope of such authorization.

AM Advertising will act as a limited partner, primarily in charge of fundraising and capital contribution for the Fund. The Fund has a planned fund raising target of approximately RMB1,000 million, to be adjusted according to the Fund's operational needs. AM Advertising alone commits to invest no less than 40% of the total targeted fund size in the Fund and to provide the remaining portion of the total targeted fund size if it cannot secure other limited partners. The first round of fund raising for the Fund was originally expected to be RMB400 million, and AM Advertising commits to invest no less than 60% in the first round. Due to changes in business needs since the entering into of the strategic alliance agreement, the parties are currently under discussion to adjust the size and timetable of the fundraising.

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

#### **D. Exchange Controls**

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

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

## **E. Taxation**

*The following is a general summary of certain material Cayman Islands and U.S. federal income tax considerations. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective shareholder. The discussion is based on laws and relevant interpretations thereof in effect as of the date hereof, all of which are subject to change or different interpretations, possibly with retroactive effect.*

### ***Cayman Islands Taxation***

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

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

### ***PRC Taxation***

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

## ***United States Federal Income Taxation***

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

### ***General***

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

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

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

### ***Passive Foreign Investment Company Considerations***

Although we do not believe that we were classified as a PFIC, for U.S. federal income tax purposes, for the taxable year ended December 31, 2013, there is a significant risk that we will become a PFIC for our current taxable year ending December 31, 2014 and future taxable years unless our share value increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. In general, we will be classified as a PFIC for any taxable year if either (i) 75 percent or more of our gross income for such year is passive income or (ii) 50 percent or more of the average quarterly value of our assets (as generally determined on the basis of fair market value) produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are generally classified as passive and goodwill and other unbooked intangibles associated with active business activities may generally be classified as non-passive. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25 percent (by value) of the stock. Although the law in this regard is unclear, we treat the VIEs as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operations of such entities but also because we are entitled to substantially all of the economic benefits associated with such entities, and, as a result, we consolidate such 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. Accordingly, a U.S. Holder, who acquires our ADSs should consider making a mark-to-market election, as discussed below under "—Passive Foreign Investment Company Rules," in the first taxable year of such holder's holding period in which are a PFIC in order to avoid owning PFIC-Tainted Shares.

### ***Passive Foreign Investment Company Rules***

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

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

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

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

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

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

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

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

#### ***Sale or Other Disposition of ADSs or Ordinary Shares***

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

#### ***Information Reporting and Backup Withholding***

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 do so.

In addition, U.S. Holders may be subject to backup withholding and 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](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

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

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

Not applicable.

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

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

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates. A hypothetical 1% decrease in interest rates would have resulted in a decrease of approximately \$0.7 million in our interest income for the year ended December 31, 2013.

#### ***Foreign Exchange Risk***

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

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

To the extent that we need to convert our U.S. dollar-denominated assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on RMB amount we receive from the conversion. A hypothetical 10% decrease in the exchange rate of the U.S. dollar against RMB would have resulted in a decrease of \$0.05 million in the value of our U.S. dollar-denominated financial assets at December 31, 2013. 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 depositary 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 depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

#### **Persons depositing or withdrawing shares must pay:**

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

\$0.05 (or less) per ADS

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

Expenses of the depositary

Registration or transfer fees

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

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

#### **For:**

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

Any cash distribution to registered ADS holders

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

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

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

As necessary

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, 2013, we received \$285,761 from the depository as reimbursement for our expenses incurred and recognized \$539,000 as other income in our consolidated statements of operations, and the depository waived an estimated nil in servicing fees for ongoing program maintenance.

## **PART II**

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

None.

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

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, 2013, the net proceeds from our initial public offering have been used as follows:

- approximately \$106.1 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 \$8.4 million for the purchase of long-term investments.
- approximately \$29.7 million for business acquisition and the purchase of intangible assets.

In 2014, we expect to use the net proceeds received from our initial public offering as follows:

- approximately \$3.4 million to fund capital expenditure.

### **ITEM 15. CONTROLS AND PROCEDURES**

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

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

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) at December 31, 2013. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures required by paragraph (b) of Rules 13a-15 or 15d-15 were effective.

## **Management's Annual Report on Internal Control over Financial Reporting**

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

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

Our management, including our chief executive officer and chief financial officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment, our management has concluded that our internal control over financial reporting was effective at December 31, 2013.

## **Report of the Independent Registered Public Accounting Firm**

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

We have audited the internal control over financial reporting of AirMedia Group Inc. (the "Company"), its subsidiaries, its variable interest entity ("VIEs") and its VIEs' subsidiaries (collectively, the "Group") as of December 31, 2013, based on the criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2013 of the Group and our report dated April 25, 2014 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China

April 25, 2014

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Conor Chia-hung Yang, a member of our audit committee, is an audit committee financial expert. 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, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

|                    | <b>Fiscal Year Ended December 31,</b> |                     |
|--------------------|---------------------------------------|---------------------|
|                    | <b>2012</b>                           | <b>2013</b>         |
| Audit Fees         | \$ 1,331,890                          | \$ 1,288,775        |
| Audit-Related Fees | —                                     | —                   |
| Tax Fees           | —                                     | —                   |
| All Other Fees     | 51,215                                | 71,994              |
| <b>TOTAL</b>       | <b>\$ 1,383,105</b>                   | <b>\$ 1,360,769</b> |

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

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

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

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

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

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

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

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

On March 21, 2011, our board of directors authorized the repurchase of up to \$20 million of our outstanding ADSs within two years from March 21, 2011. Subsequently, our board of directors approved to increase the size of our share repurchase program to \$40 million from \$20 million and to extend the date of the share repurchase program to March 20, 2014. The following tables set forth information about our repurchases made under this share repurchase program in the year ended December 31, 2013.

| Period                                | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| January 1, 2013 to January 31, 2013   | 396,242                          | 1.17                         | 10,464,350   | 24,966,114   |
| February 1, 2013 to February 28, 2013 | 42,336                           | 1.15                         | 10,506,686   | 24,917,409   |
| March 1, 2013 to March 31, 2013       | 180,000                          | 0.93                         | 10,686,686   | 24,749,559   |
| April 1, 2013 to April 30, 2013       | 656,858                          | 0.92                         | 11,343,544   | 24,142,118   |
| May 1, 2013 to May 31, 2013           | 301,812                          | 0.95                         | 11,645,356   | 23,856,362   |
| June 1, 2013 to June 30, 2013         | 681,624                          | 0.92                         | 12,326,980   | 23,231,558   |
| July 1, 2013 to July 31, 2013         | 159,378                          | 0.92                         | 12,486,358   | 23,084,658   |

| Period                                  | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|----------------------------------|------------------------------|--|--|
| August 1, 2013 to August 31, 2013       | -                                | -                            | 12,486,358   | 23,084,658   |
| September 1, 2013 to September 30, 2013 | -                                | -                            | 12,486,358   | 23,084,658   |
| October 1, 2013 to October 31, 2013     | -                                | -                            | 12,486,358   | 23,084,658   |
| November 1, 2013 to November 30, 2013   | 155,100                          | 2.03                         | 12,641,458   | 22,769,646   |
| December 1, 2013 to December 31, 2013   | 423,400                          | 0.44                         | 13,064,858   | 22,584,659   |

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

None.

**ITEM 16G. CORPORATE GOVERNANCE**

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

Maples and Calder, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings. We held annual meetings in 2013. No annual meeting was held in 2011 or 2012. We may hold additional annual shareholder meetings in the future if there are significant issues that require shareholder approval.

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

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

We will post this annual report on Form 20-F on our company website [www.airmedia.net.cn](http://www.airmedia.net.cn). In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

### PART III

#### **ITEM 17. FINANCIAL STATEMENTS**

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

#### **ITEM 18. FINANCIAL STATEMENTS**

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

#### **ITEM 19. EXHIBITS**

| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| 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)   |
| 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                | 2012 Share Incentive Plan. (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-8 (File No. 333-187442) filed on March 22, 2013)   |
| 4.3                | Form of Employment Agreement between the Company and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)   |
| 4.4                | Form of Employment Agreement between the Company and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)   |
| 4.5                | Investment Framework Agreement dated October 18, 2005, as amended on September 27, 2007, among Man Guo, Qing Xu and CDH China Management Company Limited (incorporated by reference to Exhibit 10.4 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)   |
| 4.6                | English Translation of Business Cooperation Agreement dated June 14, 2007 between Beijing Shengshi Lianhe Advertising Co., Ltd. and AirTV United Media & Culture Co., Ltd. (incorporated by reference to Exhibit 10.9 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)                                   |
| 4.7                | English Translation of Amended Power of Attorneys dated November 28, 2008 from each of the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.11 to Annual Report on Form 20-F filed on April 28, 2009)  |
| 4.8                | English Translation of Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.12 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)         |
| 4.9                | English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.1 to Annual Report on Form 20-F filed on April 30, 2008)           |
| 4.10               | English Translation of Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.13 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007) |

| Exhibit No. | Description  |
|-------------|--|
| 4.11        | English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.2 to Annual Report on Form 20-F filed on April 30, 2008)  |
| 4.12        | English Translation of Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.14 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007) |
| 4.13        | English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.17 to Annual Report on Form 20-F filed on April 28, 2009)  |
| 4.14        | English Translation of Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.15 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)   |
| 4.15        | English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.19 to Annual Report on Form 20-F filed on April 28, 2009)    |
| 4.16        | English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia Advertising Co., Ltd. (Beijing AirMedia Advertising Co., Ltd. has undergone a corporate name change and is now known as AirMedia Group Co., Ltd.) (incorporated by reference to Exhibit 4.20 to Annual Report on Form 20-F filed on April 28, 2009)  |
| 4.17        | English Translation of Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.17 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)   |
| 4.18        | English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.3 to Annual Report on Form 20-F filed on April 30, 2008)   |
| 4.19        | English Translation of Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.18 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)   |
| 4.20        | English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.4 to Annual Report on Form 20-F filed on April 30, 2008)   |
| 4.21        | English Translation of Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.19 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)               |
| 4.22        | English Translation of Supplementary Agreement No. 1 dated June 19, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.26 to Annual Report on Form 20-F filed on April 28, 2009)              |
| 4.23        | English Translation of Supplementary Agreement No. 2 dated November 28, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.27 to Annual Report on Form 20-F filed on April 28, 2009)          |
| 4.24        | English Translation of Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 10.20 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)                 |
| 4.25        | English Translation of Supplementary Agreement No. 1 dated June 19, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.29 to Annual Report on Form 20-F filed on April 28, 2009)                |

| Exhibit No. | Description   |
|-------------|---|
| 4.26        | English Translation of Supplementary Agreement No. 2 dated November 28, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia Advertising Co., Ltd. and the shareholders of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.30 to Annual Report on Form 20-F filed on April 28, 2009) |
| 4.27        | English Translation of Supplementary Agreement dated November 28, 2008 to the Loan Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd. and Guo Man, a shareholder of Beijing AirMedia Advertising Co., Ltd. (incorporated by reference to Exhibit 4.31 to Annual Report on Form 20-F filed on April 28, 2009)   |
| 4.28        | English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.32 to Annual Report on Form 20-F filed on April 28, 2009)  |
| 4.29        | English Translation of Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.22 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)   |
| 4.30        | English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.5 to Annual Report on Form 20-F filed on April 30, 2008)   |
| 4.31        | English Translation of Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.23 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)  |
| 4.32        | English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.6 to Annual Report on Form 20-F filed on April 30, 2008)   |
| 4.33        | English Translation of Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.24 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)                   |
| 4.34        | English Translation of Supplementary Agreement dated November 28, 2008 to the Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.38 to Annual Report on Form 20-F filed on April 28, 2009)                    |
| 4.35        | English Translation of Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 10.25 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)                     |
| 4.36        | English Translation of Supplementary Agreement dated November 28, 2008 to the Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on April 28, 2009)                      |
| 4.37        | English Translation of Supplementary Agreement dated October 31, 2008 among AirMedia Technology (Beijing) Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd., supplementing the original Loan Agreement dated January 1, 2007 (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on April 28, 2009)  |
| 4.38        | English Translation of Power of Attorneys dated April 1, 2008 from each of the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.42 to Annual Report on Form 20-F filed on April 28, 2009)  |
| 4.39        | English Translation of Technology Development Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.43 to Annual Report on Form 20-F filed on April 28, 2009)   |
| 4.40        | English Translation of Technology Support and Service Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.44 to Annual Report on Form 20-F filed on April 28, 2009)   |
| 4.41        | English Translation of Supplementary Agreement dated June 25, 2008 to the Technology Support and Service Agreement dated April 1, 2008 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on April 28, 2009)  |



| Exhibit No. | Description   |
|-------------|---|
| 4.42        | English Translation of Equity Pledge Agreement dated April 1, 2008 among AirMedia Technology (Beijing) Co., Ltd., Beijing Yuehang Digital Media Advertising Co., Ltd. and the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on April 28, 2009)               |
| 4.43        | English Translation of Call Option Agreement dated April 1, 2008 among AirMedia Technology (Beijing) Co., Ltd., Beijing Yuehang Digital Media Advertising Co., Ltd. and the shareholders of Beijing Yuehang Digital Media Advertising Co., Ltd. (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on April 28, 2009)                 |
| 4.44        | Share Purchase Agreement dated July 4, 2008 among the Registrant, First Reach Holdings Limited and Excel Lead International Limited (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20-F filed on April 28, 2009)   |
| 4.45        | English Translation of Supplementary Agreement No. 2 to Call Option Agreement dated May 27, 2010 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on May 28, 2010)       |
| 4.46        | English Translation of Supplementary Agreement No. 2 to the Equity Pledge Agreement dated May 27, 2010 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on May 28, 2010) |
| 4.47        | Framework Cooperation Agreement (English summary), by and between AirMedia Group Co., Ltd. and Beijing Super TV Co., Ltd (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on April 30, 2012)  |
| 4.48        | Supplementary Agreement to Framework Cooperation Agreement (English summary), by and among AirMedia Group Co., Ltd., Beijing Super TV Co., Ltd and Beijing N-S Digital TV Co., Ltd. (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20-F filed on April 30, 2012)   |
| 4.49        | 2011 Share Incentive Plan (incorporated by reference to Exhibit 4.49 to Annual Report on Form 20-F filed on April 30, 2012)   |
| 4.50*       | English summary of Investment Agreement, dated May 12, 2013, by and among Elec-Tech International Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and Beijing Zhongshi Aoyou Advertising Co., Ltd.   |
| 4.51*       | English summary of Cooperation Agreement for the Establishment of Advertising Company, dated May 2013, by and between Beijing Shengshi Lianhe Advertising Co., Ltd., and Guangzhou Daozheng Advertising Co., Ltd.   |
| 4.52*       | 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.  |
| 4.53*       | English summary of Strategic Alliance Agreement, dated October 28, 2013, by and between HNA Xinhua Culture Holding Group Co., Ltd. and AirMedia Group Co., Ltd.   |
| 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)  |
| 8.1*        | List of the Registrant's subsidiaries   |
| 12.1*       | Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 12.2*       | Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 13.1**      | Certifications by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 13.2**      | Certifications by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 15.1*       | Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP  |
| 15.2*       | Consent of Commerce & Finance Law Offices   |
| 15.3*       | Consent of Maples and Calder  |
| 101.INS*    | XBRL Instance Document  |
| 101.SCH*    | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*    | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF*    | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB*    | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*    | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Filed herewith  
\*\* Furnished with this annual report on Form 20-F

**SIGNATURE**

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

Date: April 25, 2014

**AIRMEDIA GROUP INC.**

/s/ Herman Man Guo

Herman Man Guo

Chairman and Chief Executive Officer

AIRMEDIA GROUP INC.

Report of Independent Registered Public Accounting Firm  
and Consolidated Financial Statements  
For the years ended December 31, 2011, 2012 and 2013

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**AIRMEDIA GROUP INC.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of AirMedia Group Inc. (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and its VIEs' subsidiaries (collectively the "Group") as of December 31, 2012 and 2013 and the related consolidated statements of operations, comprehensive income/(loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2013 and 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, 2012 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2013, based on the criteria established *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 25, 2014 expressed an unqualified opinion on the Group's internal control over financial reporting.

Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People's Republic of China  
April 25, 2014

**AIRMEDIA GROUP INC.**

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

|  | As of December 31, |                   |
|--|--------------------|-------------------|
|  | 2012               | 2013              |
| <b>Assets</b>  |                    |                   |
| <b>Current assets:</b>   |                    |                   |
| Cash   | \$ 73,634          | \$ 59,652         |
| Restricted cash  | 8,026              | 10,366            |
| Short-term investment  | 44,622             | 42,949            |
| Accounts receivable, net of allowance for doubtful accounts of \$4,609 and \$7,221 as of December 31, 2012 and 2013, respectively  | 101,222            | 107,529           |
| Notes receivable   | -                  | 1,901             |
| Prepaid concession fees  | 20,759             | 29,307            |
| Other current assets   | 9,788              | 20,437            |
| Amount due from related parties  | 1,310              | 187               |
| Deferred tax assets - current  | 2,064              | 2,776             |
| <b>Total current assets</b>  | <b>261,425</b>     | <b>275,104</b>    |
| Property and equipment, net  | 45,930             | 36,084            |
| Prepaid equipment costs  | -                  | 49,415            |
| Long-term investments  | 4,337              | 7,829             |
| Long-term deposits   | 22,307             | 20,497            |
| Deferred tax assets - non-current  | 8,347              | 11,755            |
| Acquired intangible assets, net  | 1,521              | 1,446             |
| Other non-current assets   | -                  | 661               |
| <b>TOTAL ASSETS</b>  | <b>343,867</b>     | <b>402,791</b>    |
| <b>Liabilities</b>   |                    |                   |
| <b>Current liabilities:</b>  |                    |                   |
| Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$71,045 and \$75,182 as of December 31, 2012 and 2013, respectively)  | 72,895             | 81,157            |
| Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$8,716 and \$8,016 as of December 31, 2012 and 2013, respectively)                        | 10,999             | 10,883            |
| Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$18,596 and \$17,374 as of December 31, 2012 and 2013, respectively)  | 18,602             | 17,380            |
| Income tax payable (including income tax payable of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$169 and \$455 as of December 31, 2012 and 2013, respectively)  | 1,109              | 1,667             |
| Amounts due to related parties (including amounts due to related parties of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$447 and nil as of December 31, 2012 and 2013, respectively)  | 447                | -                 |
| <b>Total current liabilities</b>   | <b>104,052</b>     | <b>111,087</b>    |
| <b>Non-current liabilities:</b>  |                    |                   |
| Deferred tax liabilities - non-current (including deferred tax liabilities - non-current of the consolidated variable interest entities without recourse to AirMedia Group Inc. \$380 and \$361 as of December 31, 2012 and 2013, respectively)  | 380                | 361               |
| <b>Total liabilities</b>   | <b>104,432</b>     | <b>111,448</b>    |
| <b>Commitments and contingencies (Note 22 and Note 23)</b>   |                    |                   |
| <b>Equity</b>  |                    |                   |
| Ordinary shares (\$0.001 par value; 900,000,000 shares authorized in 2012 and 2013; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2012 and 2013, respectively; 122,112,485 shares and 119,134,135 shares outstanding as of December 31, 2012 and 2013, respectively) | 128                | 128               |
| Additional paid-in capital   | 278,652            | 313,912           |
| Treasury stock (5,549,572 and 8,527,922 shares as of December 31, 2012 and 2013, respectively)   | (7,035)            | (9,860)           |
| Statutory reserves   | 10,144             | 10,968            |
| Accumulated deficits   | (72,961)           | (84,411)          |
| Accumulated other comprehensive income   | 32,948             | 40,229            |
| <b>Total AirMedia Group Inc.'s shareholders' equity</b>  | <b>241,876</b>     | <b>270,966</b>    |
| Non-controlling interests  | (2,441)            | 20,377            |
| <b>Total equity</b>  | <b>239,435</b>     | <b>291,343</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>  | <b>\$ 343,867</b>  | <b>\$ 402,791</b> |

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

**AIRMEDIA GROUP INC.**

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

|  | For the years ended December 31, |             |             |
|--|----------------------------------|-------------|-------------|
|  | 2011                             | 2012        | 2013        |
| Revenues   | \$ 277,821                       | \$ 292,965  | \$ 276,516  |
| Business tax and other sales tax   | (7,197)                          | (6,223)     | (4,250)     |
| Net revenues   | 270,624                          | 286,742     | 272,266     |
| Cost of revenues   | 244,470                          | 250,606     | 244,673     |
| Gross profit   | 26,154                           | 36,136      | 27,593      |
| Operating expenses:  |                                  |             |             |
| Selling and marketing (including share-based compensation of \$1,422, \$859 and nil in 2011, 2012 and 2013, respectively)            | 18,238                           | 17,995      | 20,069      |
| General and administrative (including share-based compensation of \$3,192, \$2,643 and \$1,251 in 2011, 2012 and 2013, respectively) | 22,004                           | 21,842      | 25,723      |
| Impairment of intangible assets  | 656                              | 9,583       | -           |
| Impairment of goodwill   | 1,003                            | 20,611      | -           |
| Total operating expenses   | 41,901                           | 70,031      | 45,792      |
| Loss from operations   | (15,747)                         | (33,895)    | (18,199)    |
| Interest income  | 1,242                            | 1,355       | 1,213       |
| Other income, net  | 1,848                            | 2,770       | 3,822       |
| Loss before income taxes and share of loss on equity method investments  | (12,657)                         | (29,770)    | (13,164)    |
| Income tax (expenses)/benefits   | (266)                            | (2,493)     | 1,713       |
| Loss before share of loss on equity method investments   | (12,923)                         | (32,263)    | (11,451)    |
| Share of income/(loss) on equity method investments  | 243                              | 22          | (69)        |
| Net loss   | (12,680)                         | (32,241)    | (11,520)    |
| Less: Net (loss)/income attributable to non-controlling interests  | (3,084)                          | 487         | (894)       |
| Net loss attributable to AirMedia Group Inc.'s shareholders  | (9,596)                          | (32,728)    | (10,626)    |
| Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share - basic   | \$ (0.07)                        | \$ (0.26)   | \$ (0.09)   |
| Net loss attributable to AirMedia Group Inc.'s shareholders per ordinary share - diluted   | \$ (0.07)                        | \$ (0.26)   | \$ (0.09)   |
| Weighted average shares used in calculating net loss per ordinary share - basic  | 129,537,955                      | 124,269,245 | 120,386,635 |
| Weighted average shares used in calculating net loss per ordinary share - diluted  | 129,537,955                      | 124,269,245 | 120,386,635 |

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



**AIRMEDIA GROUP INC.**

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

|  | For the years ended December 31, |                    |                   |
|--|----------------------------------|--------------------|-------------------|
|  | 2011                             | 2012               | 2013              |
| Net loss   | \$ (12,680)                      | \$ (32,241)        | \$ (11,520)       |
| Other comprehensive income, net of tax:  |                                  |                    |                   |
| Change in cumulative foreign currency translation adjustment                   | <u>12,327</u>                    | <u>2,144</u>       | <u>7,582</u>      |
| Comprehensive loss   | (353)                            | (30,097)           | (3,938)           |
| Less: comprehensive (loss)/income attributable to non-controlling interest     | <u>(3,138)</u>                   | <u>417</u>         | <u>(593)</u>      |
| Comprehensive income/(loss) attributable to AirMedia Group Inc.'s shareholders | <u>\$ 2,785</u>                  | <u>\$ (30,514)</u> | <u>\$ (3,345)</u> |

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)

|   | AirMedia Group Inc.'s shareholder's equity |               |                               |                   |                       |                         |   | Total<br>AirMedia Group<br>Inc.'s shareholders'<br>equity | Non-controlling<br>interests | Total<br>equity   |
|---|--|---------------|-------------------------------|-------------------|-----------------------|-------------------------|---|---|------------------------------|-------------------|
|   | Ordinary shares                            |               | Additional<br>paid-in capital | Treasury<br>stock | Statutory<br>reserves | Accumulated<br>deficits | Accumulated<br>other<br>comprehensive<br>income |   |                              |                   |
|   | Shares                                     | Amount        |                               |                   |                       |                         |   |   |                              |                   |
| Balance as of January 1, 2011                               | 131,905,011                                | \$ 132        | \$ 277,676                    | \$ -              | \$ 7,671              | \$ (28,164)             | \$ 18,353                                       | \$ 275,668  | \$ 1,048                     | \$ 276,716        |
| Ordinary shares issued for share based compensation         | 138,416                                    | -             | 229                           | -                 | -                     | -                       | -   | 229   | -                            | 229               |
| Share repurchase  | (4,381,370)                                | (4)           | (7,369)                       | -                 | -                     | -                       | -   | (7,373)   | -                            | (7,373)           |
| Share repurchase as treasury stock                          | (2,414,460)                                | -             | -                             | (3,775)           | -                     | -                       | -   | (3,775)   | -                            | (3,775)           |
| Provision for statutory reserve                             | -  | -             | -                             | -                 | 378                   | (378)                   | -   | -   | -                            | -                 |
| Share-based compensation                                    | -  | -             | 4,614                         | -                 | -                     | -                       | -   | 4,614   | -                            | 4,614             |
| Foreign currency translation adjustment                     | -  | -             | -                             | -                 | -                     | -                       | 12,381  | 12,381  | (54)                         | 12,327            |
| Net loss  | -  | -             | -                             | -                 | -                     | (9,596)                 | -   | (9,596)   | (3,084)                      | (12,680)          |
| <b>Balance as of December 31, 2011</b>                      | <b>125,247,597</b>                         | <b>\$ 128</b> | <b>\$ 275,150</b>             | <b>\$ (3,775)</b> | <b>\$ 8,049</b>       | <b>\$ (38,138)</b>      | <b>\$ 30,734</b>                                | <b>\$ 272,148</b>   | <b>\$ (2,090)</b>            | <b>\$ 270,058</b> |
| Ordinary shares issued for share based compensation         | 137,166                                    | -             | -                             | 161               | -                     | -                       | -   | 161   | -                            | 161               |
| Share repurchase as treasury stock                          | (3,272,278)                                | -             | -                             | (3,421)           | -                     | -                       | -   | (3,421)   | -                            | (3,421)           |
| Provision for statutory reserve                             | -  | -             | -                             | -                 | 2,095                 | (2,095)                 | -   | -   | -                            | -                 |
| Share-based compensation                                    | -  | -             | 3,502                         | -                 | -                     | -                       | -   | 3,502   | -                            | 3,502             |
| Foreign currency translation adjustment                     | -  | -             | -                             | -                 | -                     | -                       | 2,214   | 2,214   | (70)                         | 2,144             |
| Net loss  | -  | -             | -                             | -                 | -                     | (32,728)                | -   | (32,728)  | 487                          | (32,241)          |
| Dividends payable to minority shareholders of Flying Dragon | -  | -             | -                             | -                 | -                     | -                       | -   | -   | (768)                        | (768)             |
| <b>Balance as of December 31, 2012</b>                      | <b>122,112,485</b>                         | <b>\$ 128</b> | <b>\$ 278,652</b>             | <b>\$ (7,035)</b> | <b>\$ 10,144</b>      | <b>\$ (72,961)</b>      | <b>\$ 32,948</b>                                | <b>\$ 241,876</b>   | <b>\$ (2,441)</b>            | <b>\$ 239,435</b> |
| Ordinary shares issued for share based compensation         | 18,400                                     | -             | -                             | 21                | -                     | -                       | -   | 21  | -                            | 21                |
| Share repurchase as treasury stock                          | (2,996,750)                                | -             | -                             | (2,846)           | -                     | -                       | -   | (2,846)   | -                            | (2,846)           |
| Provision for statutory reserve                             | -  | -             | -                             | -                 | 824                   | (824)                   | -   | -   | -                            | -                 |
| Share-based compensation                                    | -  | -             | 1,251                         | -                 | -                     | -                       | -   | 1,251   | -                            | 1,251             |
| Foreign currency translation adjustment                     | -  | -             | -                             | -                 | -                     | -                       | 7,281   | 7,281   | 301                          | 7,582             |
| Net loss  | -  | -             | -                             | -                 | -                     | (10,626)                | -   | (10,626)  | (894)                        | (11,520)          |
| Capital contribution from non-controlling interests         | -  | -             | 39,825                        | -                 | -                     | -                       | -   | 39,825  | 20,384                       | 60,209            |
| Acquisition of non-controlling interests                    | -  | -             | (5,816)                       | -                 | -                     | -                       | -   | (5,816)   | 3,027                        | (2,789)           |
| <b>Balance as of December 31, 2013</b>                      | <b>119,134,135</b>                         | <b>\$ 128</b> | <b>\$ 313,912</b>             | <b>\$ (9,860)</b> | <b>\$ 10,968</b>      | <b>\$ (84,411)</b>      | <b>\$ 40,229</b>                                | <b>\$ 270,966</b>   | <b>\$ 20,377</b>             | <b>\$ 291,343</b> |

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, |                  |                  |
|--|----------------------------------|------------------|------------------|
|  | 2011                             | 2012             | 2013             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                  |                  |                  |
| Net loss   | \$ (12,680)                      | \$ (32,241)      | \$ (11,520)      |
| Adjustments to reconcile net loss to net cash provided by operating activities:  |                                  |                  |                  |
| Allowance for doubtful accounts  | 2,044                            | 1,242            | 2,439            |
| Depreciation and amortization  | 25,138                           | 24,033           | 21,862           |
| Share-based compensation   | 4,614                            | 3,502            | 1,251            |
| Share of (loss)/income on equity method investments  | (243)                            | (22)             | 69               |
| Loss on disposal of property and equipment   | 4,380                            | 1,192            | 964              |
| Impairment loss of loan receivable from a third party  | -                                | -                | 1,562            |
| Gain on sale/maturity of short-term investments  | (1,040)                          | (2,023)          | (1,888)          |
| Impairment of intangible assets  | 656                              | 9,583            | -                |
| Impairment of goodwill   | 1,003                            | 20,611           | -                |
| Changes in assets and liabilities  |                                  |                  |                  |
| Accounts receivable  | (28,728)                         | (8,609)          | (9,147)          |
| Notes receivable   | -                                | -                | (1,874)          |
| Prepaid concession fees  | 10,178                           | 2,358            | (7,830)          |
| Other current assets   | (3,705)                          | (3,147)          | (3,945)          |
| Long-term deposits   | (499)                            | (7,033)          | 2,425            |
| Other non-current assets   | -                                | -                | (651)            |
| Amount due from related parties  | 169                              | (1,148)          | 1,144            |
| Accounts payable   | 18,734                           | 8,269            | 12,083           |
| Accrued expenses and other current liabilities   | 1,555                            | (1,397)          | 217              |
| Deferred revenue   | (1,805)                          | 6,586            | (2,716)          |
| Amount due to related parties  | -                                | -                | (454)            |
| Deferred tax assets (liabilities), net   | (1,319)                          | (1,831)          | (3,972)          |
| Income tax payable   | (520)                            | 305              | 518              |
| Net cash provided by operating activities  | <u>17,932</u>                    | <u>20,230</u>    | <u>537</u>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                  |                  |                  |
| Payment for contingent consideration in connection with a business combination   | (2,966)                          | -                | -                |
| Purchase of property and equipment   | (4,186)                          | (9,287)          | (13,096)         |
| Prepaid equipment costs  | -                                | -                | (56,996)         |
| Proceeds from disposal of property and equipment   | 172                              | 127              | 30               |
| Net amount received (paid) upon settlement of short-term investment  | 1,040                            | (42,464)         | 4,769            |
| Dividend received from equity method investee  | -                                | -                | 686              |
| Restricted cash  | 748                              | (1,580)          | (2,076)          |
| Purchase of long-term investments  | -                                | (2,223)          | (4,112)          |
| Loan receivable from a third party   | -                                | (1,579)          | 329              |
| Net cash used in investing activities  | <u>(5,192)</u>                   | <u>(57,006)</u>  | <u>(70,466)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                  |                  |                  |
| Share repurchase   | (7,373)                          | -                | -                |
| Cash paid for treasury stock   | (3,775)                          | (3,421)          | (2,846)          |
| Capital contribution from non-controlling interests  | -                                | -                | 59,438           |
| Acquisition of non-controlling interests   | -                                | -                | (1,627)          |
| Dividend paid to non-controlling interests   | -                                | -                | (675)            |
| Proceeds from options exercised  | 229                              | 161              | 21               |
| Net cash (used in) provided by financing activities  | <u>(10,919)</u>                  | <u>(3,260)</u>   | <u>54,311</u>    |
| Effect of exchange rate changes  | 4,408                            | 936              | 1,636            |
| Net increase/(decrease) in cash  | <u>6,229</u>                     | <u>(39,100)</u>  | <u>(13,982)</u>  |
| Cash, at beginning of year   | 106,505                          | 112,734          | 73,634           |
| Cash, at end of year   | <u>\$ 112,734</u>                | <u>\$ 73,634</u> | <u>\$ 59,652</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>   |                                  |                  |                  |
| Income tax paid  | \$ 2,105                         | \$ 4,016         | \$ 2,728         |
| Fair value of property, equipment and other assets acquired in exchange of advertising services rendered and subsidiary's equity transferred | <u>\$ 2,823</u>                  | <u>\$ 1,987</u>  | <u>\$ 50,305</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:</b>   |                                  |                  |                  |
| Payable for purchase of property and equipment   | \$ 5,251                         | \$ 5,679         | \$ 3,561         |
| Dividend payable to non-controlling interests  | \$ -                             | \$ 663           | \$ -             |



**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

*Introduction of the Group*

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

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

As of December 31, 2013, details of the Company's subsidiaries, VIEs and VIEs' subsidiaries are as follows:

| Name  | Date of<br>incorporation/<br>acquisition | Place of<br>incorporation         | Percentage of<br>legal<br>ownership |
|---|--|-----------------------------------|-------------------------------------|
| <b>Intermediate Holding Company:</b>  |  |                                   |                                     |
| Broad Cosmos Enterprises Ltd.   | June 26, 2006                            | British Virgin Islands<br>("BVI") | 100%                                |
| AirMedia International Limited ("AM International")   | July 14, 2007                            | BVI                               | 100%                                |
| AirMedia (China) Limited ("AM China")   | August 5, 2005                           | Hong Kong                         | 100%                                |
| Excel Lead International Limited ("Excel Lead")   | August 1, 2008                           | BVI                               | 100%                                |
| Dominant City Ltd. ("Dominant City")  | July 1, 2009                             | BVI                               | 100%                                |
| Easy Shop Ltd. ("Easy Shop")  | January 1, 2010                          | BVI                               | 100%                                |
| Glorious Star Investment Limited ("Glorious Star")  | August 1, 2008                           | Hong Kong                         | 100%                                |
| <b>Subsidiaries:</b>  |  |                                   |                                     |
| AirMedia Technology (Beijing) Co., Ltd. ("AM Technology")                                     | September 19, 2005                       | the PRC                           | 100%                                |
| Shenzhen AirMedia Information Technology Co., Ltd. ("Shenzhen AM")                            | June 6, 2006                             | the PRC                           | 100%                                |
| Xi'an AirMedia Chuangyi Technology Co., Ltd. ("Xi'an AM")                                     | December 31, 2007                        | the PRC                           | 100%                                |
| <b>VIEs:</b>  |  |                                   |                                     |
| Beijing Shengshi Lianhe Advertising Co., Ltd. ("Shengshi Lianhe")                             | August 7, 2005                           | the PRC                           | N/A                                 |
| AirMedia Group Co., Ltd. (Formerly Beijing AirMedia Advertising Co., Ltd.) ("AM Advertising") | November 22, 2005                        | the PRC                           | N/A                                 |
| Beijing AirMedia UC Advertising Co., Ltd. ("AirMedia UC")                                     | January 1, 2007                          | the PRC                           | N/A                                 |
| Beijing Yuehang Digital Media Advertising Co., Ltd. ("AM Yuehang")                            | January 16, 2008                         | the PRC                           | N/A                                 |

**AIRMEDIA GROUP INC.**

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

*Introduction of the Group - continued*

| Name   | Date of<br>incorporation/<br>acquisition | Place of<br>incorporation | Percentage of<br>legal<br>ownership |
|--|--|---------------------------|-------------------------------------|
| <b>VIEs' subsidiaries:</b>   |  |                           |                                     |
| AirTV United Media & Culture Co., Ltd. ("AirTV United")  | October 10, 2006                         | the PRC                   | N/A                                 |
| Beijing AirMedia Film & TV Culture Co., Ltd. ("AM Film")   | September 13, 2007                       | the PRC                   | N/A                                 |
| Flying Dragon Media Advertising Co., Ltd. ("Flying Dragon")  | August 1, 2008                           | the PRC                   | N/A                                 |
| Wenzhou AirMedia Advertising Co., Ltd. ("AM Wenzhou")  | October 17, 2008                         | the PRC                   | N/A                                 |
| Beijing Weimei Lianhe Advertising Co., Ltd. ("Weimei Lianhe")  | March 10, 2009                           | the PRC                   | N/A                                 |
| Hainan Jinhui Guangming Media Advertising Co., Ltd. ("Hainan Jinhui")  | June 23, 2009                            | the PRC                   | N/A                                 |
| Beijing AirMedia Jiaming Film & TV Culture Co., Ltd. (Formerly Beijing Youtong Hezhong Advertising Media Co., Ltd.) ("AM Jiaming") | July 1, 2009                             | the PRC                   | N/A                                 |
| Beijing AirMedia Advertising Co., Ltd. (Formerly Beijing AirMedia Jinshi Advertising Co., Ltd.) ("AM Jinshi")                      | July 7, 2009                             | the PRC                   | N/A                                 |
| Tianjin AirMedia Jinshi Advertising Co., Ltd. ("TJ Jinshi")  | September 8, 2009                        | the PRC                   | N/A                                 |
| Tianjin AirMedia Advertising Co., Ltd. ("TJ AM")   | September 21, 2009                       | the PRC                   | N/A                                 |
| AirMedia City (Beijing) Outdoor Advertising Co., Ltd. ("AM Outdoor")   | January 1, 2010                          | the PRC                   | N/A                                 |
| Beijing Dongding Gongyi Advertising Co., Ltd. ("Dongding")   | February 1, 2010                         | the PRC                   | N/A                                 |
| Beijing GreatView Media Advertising Co., Ltd. (Formerly Beijing Weimei Shengjing Media Advertising Co., Ltd.) ("GreatView Media")  | April 28, 2011                           | the PRC                   | N/A                                 |
| Beijing AirMedia Jinsheng Advertising Co., Ltd. ("AM Jinsheng")  | April 28, 2011                           | the PRC                   | N/A                                 |
| Guangzhou Meizheng Advertising Co., Ltd. ("Guangzhou Meizheng")  | May 17, 2013                             | the PRC                   | N/A                                 |
| Beijing AirMedia Tianyi Advertising Co., Ltd. ("AM Tianyi")  | September 25, 2013                       | the PRC                   | N/A                                 |

AIRMEDIA GROUP INC.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

*The VIE arrangements*

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

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

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

- **Technology support and service agreement:** AM Technology provides exclusive technology support and consulting services to the VIEs and in return, the VIEs are required to pay AM Technology service fees. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, or 1.0% in the case of AM Yuehang, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology support and service agreements are effective for ten years and such term is automatically renewed upon its expiry unless either party informs the other party of its intention of no extension at least twenty days prior to the expiration of the agreements.
- **Technology development agreement:** VIEs exclusively engaged AM Technology to provide technology development services. AM Technology owns the intellectual property rights developed in the performance of these agreements. The VIEs pay to AM Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to AM Technology, a net cost-plus rate of no less than 0.5% in the case of AM Advertising, Shengshi Lianhe and AirMedia UC, which final rate should be determined by AM Technology. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology development agreements are effective for ten years and such terms is automatically renewed upon its expiry unless either party informs the other party of its intention of no extension at least twenty days prior to the expiration of the agreements.

AIRMEDIA GROUP INC.

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

*The VIE arrangements - continued*

- **Call option agreement:** Under the call option agreements, the shareholders of VIEs irrevocably grant AM Technology, or its designated third party, an exclusive option to purchase from the VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. In addition, AM Technology will act as guarantor of VIEs in all operation related contracts, agreements and transactions and commit to provide loans to support the business development needs of VIEs or when the VIEs are suffering operating difficulties provided that the relevant VIEs' shareholders satisfy the terms and conditions in the call option agreements. Based on PRC law to provide an effective guarantee, a guarantor needs to execute a specific written agreement with the beneficiary of the guarantee. As AM Technology has not entered into any written guarantee agreements with any third party beneficiaries to guarantee the VIEs' performance obligations to these third parties, none of these third parties can demand performance from AM Technology as a guarantor of the VIEs' performance obligations. The absence of the written guarantee agreement did not obviate the Group's conclusion that it is the primary beneficiary of the VIEs and in turn should consolidate the VIEs. The term of call option agreement shall be terminated after AM Technology exercises the call option over all VIEs' equity pursuant to the provisions of the agreements.
- **Equity pledge agreement:** Under the equity pledge agreements, the shareholders of the VIEs pledged all of their equity interests, including the right to receive declared dividends, in the VIEs to AM Technology to guarantee VIEs' performance of its obligations under the technology support and service agreement and the technology development agreement. The agreement is effective for as long as the technology support and service agreements and technology development agreement are effective.
- **Authorization letter:** Each shareholder of the VIEs has executed an authorization letter to authorize AM Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. Such authorization letters will remain effective during the operating periods of the VIEs. The authorization is effective unless the relevant call option agreements which the VIEs entered into terminated.

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



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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*

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

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

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

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

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

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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*

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 interest 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, |                   |
|-------------------------------|--------------------|-------------------|
|                               | 2012               | 2013              |
| Total current assets          | \$ 201,088         | \$ 208,255        |
| Total non-current assets      | 27,499             | 108,677           |
| <b>Total assets</b>           | <b>228,587</b>     | <b>316,932</b>    |
| Total current liabilities     | 98,973             | 101,027           |
| Total non-current liabilities | 380                | 361               |
| <b>Total liabilities</b>      | <b>\$ 99,353</b>   | <b>\$ 101,388</b> |

|   | For the years ended December 31, |            |            |
|---|----------------------------------|------------|------------|
|   | 2011                             | 2012       | 2013       |
| Net revenues  | \$ 268,866                       | \$ 286,641 | \$ 271,536 |
| Net loss  | (2,543)                          | (31,771)   | (13,552)   |
| Net cash provided by (used in) operating activities | 5,251                            | (8,587)    | 8,132      |
| Net cash used in investing activities               | (538)                            | (7,700)    | (70,653)   |
| Net cash provided by financing activities           | -                                | -          | 58,763     |

**AIRMEDIA GROUP INC.**

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

|                           | As of December 31, |           |  |
|---------------------------|--------------------|-----------|--|
|                           | 2012               | 2013      |  |
| Total current assets      | \$ 60,337          | \$ 66,849 |  |
| Total non-current assets  | 54,943             | 19,010    |  |
| Total assets              | 115,280            | 85,859    |  |
| Total current liabilities | 5,079              | 10,060    |  |
| Total liabilities         | \$ 5,079           | \$ 10,060 |  |

|   | For the years ended December 31, |          |          |
|---|----------------------------------|----------|----------|
|   | 2011                             | 2012     | 2013     |
| Net revenues  | \$ 1,758                         | \$ 101   | \$ 730   |
| Net (loss)/income                                   | (10,137)                         | (470)    | 2,032    |
| Net cash provided by (used in) operating activities | 12,681                           | 28,817   | (15,877) |
| Net cash (used in) provided by investing activities | (4,654)                          | (49,306) | 6,842    |
| Net cash used in financing activities               | (10,919)                         | (3,260)  | (2,825)  |

The VIEs contributed an aggregate of 99.4%, 100% and 99.7% of the consolidated net revenues for the years ended December 31, 2011, 2012 and 2013, respectively. As of December 31, 2012 and 2013, the VIEs accounted for an aggregate of 66.5% and 78.7%, respectively, of the consolidated total assets, and 95.1% and 91.0%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs primarily consist of cash and cash equivalent, short-term investments and property and equipment.

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

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

*(a) Basis of presentation*

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

*(b) Basis of consolidation*

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

*(c) Use of estimates*

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

*(d) Significant risks and uncertainties*

The Group participates in a dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations, or cash flows: the Group's limited operating history; advances and trends in new technologies and industry standards; competition from other competitors; regulatory or other PRC related factors; risks associated with the Group's ability to attract and retain employees necessary to support its growth; risks associated with the Group's growth strategies; and general risks associated with the advertising industry.

**AIRMEDIA GROUP INC.**

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

*(e) Fair value*

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

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

Level 1

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

Level 2

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

Level 3

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(f) *Fair value of financial instruments*

The Group's financial instruments include cash, restricted cash, accounts receivable, notes receivable, short-term investment, amounts due from related parties, accounts payable, and amounts due to related parties. 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, 2012 and 2013.

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

(g) *Cash and cash equivalents*

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

(h) *Restricted cash*

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

(i) *Short-term investment*

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

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

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

(j) *Property and equipment*

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

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

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

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

(l) *Impairment of goodwill*

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

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

AIRMEDIA GROUP INC.

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

(l) *Impairment of goodwill* - continued

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

(m) *Long-term investments*

*Equity method investments*

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

*Cost method investments*

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



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

(n) *Business combinations*

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any non-controlling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any non-controlling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired.

Where the consideration in an acquisition includes contingent consideration, the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings.

(o) *Acquired intangible assets*

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(p) *Revenue recognition*

The Group's revenues are derived from selling advertising time slots on the Group's advertising networks, primarily air travel advertising network. For the years ended December 31, 2011, 2012 and 2013, the advertising revenues were generated from digital frames in airports, digital TV screens in airports, digital TV screens on airlines, traditional media in airports, gas station media network and other media.

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

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

Deferred revenue

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

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 \$2,823, \$1,287 and \$656 for the years ended December 31, 2011, 2012 and 2013, respectively. No direct costs are attributable to the revenues.

(q) *Value Added Tax ("VAT")*

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

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

(q) *Value Added Tax ("VAT")-continued*

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program is to be phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. 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. For the years ended December 31, 2012 and 2013, gross revenue is presented net of \$8,785 and \$21,524 of VAT, respectively.

(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.

(s) *Concession fees*

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(t) *Agency fees*

The Group pays fees to advertising agencies based on certain percentage of revenues made through the advertising agencies upon receipt of payment from advertisers. The agency fees are charged to cost of revenues in the consolidated statements of operations ratably over the period in which the advertising is displayed. Prepaid and accrued agency fees are recorded as current assets and current liabilities according to relative timing of payments made and advertising service provided. From time to time, the Group and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to 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. During the years ended December 31, 2011, 2012 and 2013, reversals in cost of sales as a result of renegotiated agency fees amounted to nil, \$6,407, and \$3,329, respectively.

(u) *Operating leases*

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

(v) *Advertising costs*

The Group expenses advertising costs as incurred. Total advertising expenses were \$288, \$767 and \$1,039 for the years ended December 31, 2011, 2012 and 2013, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(w) *Foreign currency translation-continued*

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

(x) *Income taxes*

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

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

(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 income/(loss)*

Comprehensive income/(loss) includes net income/(loss) and foreign currency translation adjustments and is presented net of tax, the amount of which is nil for the three years ended December 31, 2013 in the consolidated statements of comprehensive income/(loss).

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

*(aa) Allowance of doubtful accounts*

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

*(bb) Concentration of credit risk*

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

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

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

| Customer | For the years ended December 31, |       |      |
|----------|----------------------------------|-------|------|
|          | 2011                             | 2012  | 2013 |
| A        | 6.9%                             | 11.2% | 6.7% |

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

| Customer | As of December 31, |       |
|----------|--------------------|-------|
|          | 2012               | 2013  |
| B        | 7.9%               | 10.4% |
| C        | 15.3%              | 5.4%  |

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

(cc) *Net loss per share*

Basic net loss per share are computed by dividing net loss attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted net loss reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares (common stock options and warrants and their equivalents using the treasury stock method) were exercised or converted into ordinary shares. Potential common shares in the diluted net loss per share computation are excluded in periods of losses from continuing operations, as their effect would be 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. The recognized government subsidies as other income are \$268, \$210 and \$1,395 for the years ended December 31, 2011, 2012 and 2013, respectively.

(ee) *Recent issued accounting standards adopted*

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under US GAAP.

The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period.
- Cross-reference to other disclosures currently required under US GAAP for other reclassification items (that are not required under US GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

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

(ee) *Recent issued accounting standards adopted-continued*

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Early adoption is permitted. The Group adopted this pronouncement on January 1, 2013 which did not have a significant impact on its consolidated financial statements.

(ff) *Recent issued accounting standards not yet adopted*

In March 2013, the FASB issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

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

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

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



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) *Recent issued accounting standards not yet adopted - continued*

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

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

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

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

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

The Group chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group; hence, the Group has only one operating segment. The Group has internal reporting that does not distinguish between markets or segments.

Geographic information

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

Revenue by service categories

|                                  | For the years ended December 31, |            |            |
|----------------------------------|----------------------------------|------------|------------|
|                                  | 2011                             | 2012       | 2013       |
| <b>Revenues:</b>                 |                                  |            |            |
| <b>Air Travel Media Network:</b> |                                  |            |            |
| Digital frames in airports       | \$ 126,539                       | \$ 137,342 | \$ 152,346 |
| Digital TV screens in airports   | 21,937                           | 13,731     | 14,110     |
| Digital TV screens on airplanes  | 26,734                           | 26,612     | 16,160     |
| Traditional media in airports    | 73,535                           | 83,478     | 64,845     |
| Other revenues in air travel     | 6,416                            | 7,346      | 9,183      |
| Gas Station Media Network        | 12,873                           | 14,217     | 12,726     |
| Other Media                      | 9,787                            | 10,239     | 7,146      |
|                                  | \$ 277,821                       | \$ 292,965 | \$ 276,516 |

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**4. 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 7 days to less than one year, with interest rates ranging from 2.0% to 6.0%. The held-to-maturity securities are not allowed to be redeemed early before its maturity. The repayment of these financial products is guaranteed by the issuing bank. The carrying amount of the held-to-maturity securities of \$ 42,949 approximated their fair values due to its credit ratings and its short-term nature, all of which have a maturity date within one-year.

**5. LONG-TERM INVESTMENTS**

**(a) Equity method investments**

The Group had the following equity method investments:

| Name of company  | As of December 31, |                   |                 |                   |
|--|--------------------|-------------------|-----------------|-------------------|
|  | 2012               |                   | 2013            |                   |
|  | Percentage<br>%    | Carrying<br>value | Percentage<br>% | Carrying<br>value |
| Beijing Eastern Media Corporation, Ltd. ("BEMC") (1)                                       | 49                 | \$ 2,063          | 49              | \$ 1,743          |
| Beijing Shibo Movie Technology Co., Ltd. ("Shibo Movie") (2)                               | 50                 | \$ 612            | 50              | 455               |
| Beijing Xinghe Union Media Co., Ltd. ("Xinghe Union") (2)                                  | 50                 | \$ 604            | 50              | 370               |
| Guangxi Dingyuan Meida Ltd. ("Guangxi Dingyuan") (3)                                       | 40                 | \$ 658            | 40              | 718               |
| Zhejiang AirMedia Guangying Film & TV Production Co., Ltd. ("AM Guangying") (4)            | -                  | -                 | 48              | 1,652             |
| Beijing Yunxing Chuangrong Investment Fund Management Co., Ltd. ("Yunxing Chuangrong") (5) | -                  | -                 | 50              | 2,478             |
|  |                    | <u>\$ 3,937</u>   |                 | <u>\$ 7,416</u>   |

- (1) In March 2008, the Group entered into a definitive agreement with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, to establish a joint venture, BEMC. BEMC was incorporated on March 18, 2008 in the PRC with China Eastern Media Corporation and the Group holding 51% and 49% equity interest, respectively. BEMC obtained concession rights of certain media resources from China Eastern Group, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. The total paid-in capital of BEMC was \$2,119, which was contributed by both parties proportionately. In September 2013, BEMC distributed dividend of \$1,401, in which \$686 was distributed and paid to the Group.

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5. LONG-TERM INVESTMENTS - continued

(a) *Equity method investments* - continued

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

- (2) On February 15, 2012 and March 13, 2012, the Group and Beijing N-S Digital TV Co., Ltd. ("N-S Digital TV") established two joint ventures, Shibo Movie and Xinghe Union, respectively. The registered capital of Shibo Movie and Xinghe Union was \$1,558 each. The Group and N-S Digital TV each contributed \$794, representing 50% of the equity interest in each Shibo Movie and Xinghe Union. Shibo Movie is engaged in movie technology development and consulting services, and Xinghe Union is engaged in movie and TV series investment and publishing, advertisement design and production. These joint ventures were established pursuant to a framework agreement entered into with Beijing Super TV Co., Ltd. ("Super TV") in June 2011 and the supplemental agreement entered into with Super TV and N-S Digital TV in January 2012.

The investment was accounted for using the equity method of accounting as the Group has the ability to exercise the significant influence to the operation of Shibo Movie and Xinghe Union.

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

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

- (4) In December 2013, the Group entered into an agreement with Zhejiang Tianguang Dying Production Co., Ltd. to establish a joint venture, AM Guangying. AM Guangying was incorporated on December 25, 2013 with total contributed capital of \$1,871, of which 52% and 48% of that amount was contributed by Zhejiang Tianguang Dying Production Co., Ltd. and the Group, respectively. AM Guangying is mainly engaged in film production.

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

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

**(a) Equity method investments - continued**

- (5) In December 2013, the Group entered into an agreement with Hainan Airlines Culture Co., Ltd. ("Hainan Airlines") to establish a joint venture, Yunxing Chuangrong. Yunxing Chuangrong was registered on December 17, 2013 with total contributed capital of \$4,956. The Group and Hainan Airlines each contributed \$2,478, representing 50% of the equity interest. Yunxing Chuangrong is established for fund raising as to in-flight internet business.

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

**(b) Cost method investment**

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

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**6. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, consists of the following:

|                                       | As of December 31, |            |
|---------------------------------------|--------------------|------------|
|                                       | 2012               | 2013       |
| Billed receivable                     | \$ 61,760          | \$ 64,031  |
| Unbilled receivable                   | 44,071             | 50,719     |
| Accounts receivable, gross            | 105,831            | 114,750    |
| Less: Allowance for doubtful accounts | (4,609)            | (7,221)    |
| Accounts receivable, net              | \$ 101,222         | \$ 107,529 |

Unbilled receivable represents amounts earned under the advertising contracts in progress but not billable at the respective balance sheet dates. These amounts become billable according to the contract term. The Group anticipates that the majority of such unbilled amounts will be billed and collected within twelve months of the balance sheet date.

Movement of allowance for doubtful accounts is as follows:

|      | Balance at<br>beginning<br>of the year | Charge to<br>expenses | Write off | Exchange<br>adjustment | Balance at<br>end of the<br>year |
|------|--|-----------------------|-----------|------------------------|----------------------------------|
| 2011 | \$ 17,646                              | 2,044                 | (17,279)  | 877                    | \$ 3,288                         |
| 2012 | \$ 3,288                               | 1,242                 | 34        | 45                     | \$ 4,609                         |
| 2013 | \$ 4,609                               | 2,439                 | -         | 173                    | \$ 7,221                         |

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**7. OTHER CURRENT ASSETS**

Other current assets consist of the following:

|  | As of December 31, |           |
|--|--------------------|-----------|
|  | 2012               | 2013      |
| Input VAT receivable                                       | \$ 1,955           | \$ 12,800 |
| Investment in films and TV Series <sup>(i)</sup>           | -                  | 3,634     |
| Prepaid income tax   | -                  | 684       |
| Prepaid agency fees  | 262                | 538       |
| Advances to employees                                      | 418                | 428       |
| Short-term deposits  | 1,588              | 449       |
| Other assets from nonmonetary transactions <sup>(ii)</sup> | 1,736              | 182       |
| Interest receivable  | 438                | 422       |
| Loan receivable from a third party <sup>(iii)</sup>        | 1,732              | -         |
| Other prepaid expenses                                     | 1,659              | 1,300     |
|  | \$ 9,788           | \$ 20,437 |

- (i) Investment in films and TV Series represents the amounts invested in films and TV Series produced by other companies. The Group 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. Amounts related to the films and TV Series that are expected to release within one year from December 31, 2013 are recorded as current assets. Amounts related to films and TV Series that are expected to release after one year from December 31, 2013 are recorded as other non-current assets.
- (ii) Other assets from nonmonetary transactions primarily consist of exchanged golf club membership cards and vehicles, etc. for the year 2012 and 2013, respectively.
- (iii) Loan receivable is related to amounts lent to a third party company for corporation on a TV series with stated term of one year and annual interest rate of 15%, which have been received with amounts of \$329 and impaired the remaining amounts by December 31, 2013.

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8. LONG-TERM DEPOSITS

Long term deposits consist of the following:

|                         | As of December 31, |                  |
|-------------------------|--------------------|------------------|
|                         | 2012               | 2013             |
| Concession fee deposits | \$ 21,633          | \$ 19,780        |
| Office rental deposits  | 674                | 717              |
|                         | <u>\$ 22,307</u>   | <u>\$ 20,497</u> |

Concession fee deposits normally have terms of three to five years and are refundable at the end of the concession terms. Office rental deposits normally have terms of two to three years and are refundable at the end of the lease term.

The long term deposits are not within the scope of the accounting guidance regarding interests on receivables and payables, because they are intended to provide security for the counterparty to the concession rights or office rental agreements. Therefore, the deposits are recorded at costs.



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**9. ACQUIRED INTANGIBLE ASSETS, NET**

Acquired intangible assets, net, consist of the following:

|   | As of December 31,    |                          |                           |                     |                       |                          |                           |                     |
|---|-----------------------|--------------------------|---------------------------|---------------------|-----------------------|--------------------------|---------------------------|---------------------|
|   | 2012                  |                          |                           |                     | 2013                  |                          |                           |                     |
|   | Gross carrying amount | Accumulated amortization | Accumulated Impairment(1) | Net carrying amount | Gross carrying amount | Accumulated amortization | Accumulated Impairment(1) | Net carrying amount |
| TV program license                                      | \$ 6,192              | \$ (1,850)               | \$ (4,342)                | \$ -                | \$ 6,372              | \$ (1,903)               | \$ (4,469)                | \$ -                |
| Audio-vision programming and broadcasting qualification | 223                   | (38)                     | (185)                     | -                   | 229                   | (39)                     | (190)                     | -                   |
| Customer relationships                                  | 1,509                 | (1,447)                  | (62)                      | -                   | 1,553                 | (1,490)                  | (63)                      | -                   |
| Contract backlog  | 1,977                 | (1,946)                  | (31)                      | -                   | 2,035                 | (2,003)                  | (32)                      | -                   |
| Concession agreements                                   | 16,138                | (9,508)                  | (5,109)                   | 1,521               | 17,337                | (10,633)                 | (5,258)                   | 1,446               |
| Non-compete agreements                                  | 189                   | (179)                    | (10)                      | -                   | 194                   | (184)                    | (10)                      | -                   |
|   | <u>\$ 26,228</u>      | <u>\$ (14,968)</u>       | <u>\$ (9,739)</u>         | <u>\$ 1,521</u>     | <u>\$ 27,720</u>      | <u>\$ (16,252)</u>       | <u>\$ (10,022)</u>        | <u>\$ 1,446</u>     |

- (1) The Group incurred impairment losses of \$656, \$9,583 and nil on finite-lived intangible assets the years ended December 31, 2011, 2012 and 2013, respectively. As the actual and expected sales and profits were below previously forecasted figures for fire station, air travel and outdoor advertising media, the carrying amounts of the finite-lived intangible assets exceeded the estimated future discounted cash flows associated with such assets. Accordingly, the amount of impairment expense recognized is equal to this excess.

The amortization expenses for the years ended December 31, 2011, 2012 and 2013 were \$3,791, \$2,635 and \$836, respectively. During fiscal years 2014, 2015, 2016, 2017 and 2018, the Group expects to record amortization expenses for finite-lived intangible assets of \$619, \$292, \$292, \$146 and \$97, respectively.

**10. GOODWILL**

The movement of the goodwill for the years ended December 31, 2012 and 2013 is as follows:

|   |             |
|---|-------------|
| Balance as of January 1, 2012                       | \$ 20,734   |
| Impairment of goodwill in relation to Flying Dragon | (8,131)     |
| Impairment of goodwill in relation to AM Outdoor    | (7,753)     |
| Impairment of goodwill in relation to AM Jiaming    | (4,727)     |
| Exchange differences                                | (123)       |
| Balance as of December 31, 2012                     | <u>\$ -</u> |
| Balance as of December 31, 2013                     | <u>\$ -</u> |

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**10. GOODWILL - continued**

The Group has four reporting units: the advertising media in air travel areas, the advertising media in gas station, the outdoor advertising media and the fire station advertising media. Applying discounted cash flows for its 2011 annual impairment test, the estimated fair value of the fire station reporting unit was below the carrying amount of its net assets. Accordingly, the Group impaired all goodwill related to the fire station reporting unit and incurred an impairment loss of \$1,003 for the year ended December 31, 2011. Similarly, the fair value of the air travel areas and outdoor advertising media reporting unit, as estimated using the income approach applying a discounted cash flows for its 2012 annual impairment test, was below the carrying amount of its net assets, and as such, the Group impaired all goodwill related to air travel areas reporting unit and outdoor media advertising media reporting unit and recorded an impairment loss of \$20,611 for the year ended December 31, 2012.

**11. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consist of the following:

|   | As of December 31, |           |
|---|--------------------|-----------|
|   | 2012               | 2013      |
| Digital display network equipment               | \$ 89,327          | \$ 90,053 |
| Gas station display network equipment           | 14,802             | 10,686    |
| Furniture and fixture                           | 847                | 882       |
| Computer and office equipment                   | 2,626              | 2,999     |
| Vehicle   | 1,219              | 1,406     |
| Software  | 10,355             | 10,656    |
| Property  | 4,244              | 4,368     |
| Leasehold improvement                           | 1,351              | 1,365     |
|   | 124,771            | 122,415   |
| Less: accumulated depreciation and amortization | (78,841)           | (86,331)  |
|   | \$ 45,930          | \$ 36,084 |

Depreciation and amortization expenses recorded for the years ended December 31, 2011, 2012 and 2013 were \$21,347, \$21,398 and \$21,026, respectively.

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**12. 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 subsidiaries, with LED screens from Elec-Tech, pursuant to which Elec-Tech would totally invest \$104,000 (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. Therefore, the Group considered this transaction as a nonmonetary transaction. The Group measured the fair value of equity interests surrendered based on the fair value of LED screens received, which is more clearly determinable. The details of fair value measurement are disclosed in Note 17. The Group would not recognize any gain or loss from this transaction.

As of December 31, 2013, Elec-Tech had injected total \$57,217 into GreatView Media, of which \$56,113 was recorded as additional paid-in capital, and the Group has purchased 1,000 sets of LED screens in total from Elec-Tech, amounting to \$49,415 for its gas station media business. As of December 31, 2013, all purchased equipment were still in the process of installment, therefore, were recognized as prepaid equipment costs. As of March 31, 2014, the Group has installed more than 300 LED screens.

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

Accrued expenses and other current liabilities consist of the follows:

|  | As of December 31, |           |
|--|--------------------|-----------|
|  | 2012               | 2013      |
| Accrued payroll and welfare  | \$ 4,766           | \$ 4,469  |
| Deposit payable  | 698                | 1,203     |
| Other tax payable  | 2,802              | 2,942     |
| Deferred income from ADS depository                                | 364                | 112       |
| Accrued staff disbursement   | 824                | 1,103     |
| Accrued professional fees  | 213                | 388       |
| Accrued dividends to non-controlling shareholders of Flying Dragon | 663                | -         |
| Other liabilities  | 669                | 666       |
|  | \$ 10,999          | \$ 10,883 |

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**14. INCOME TAXES**

AirMedia is a tax-exempted company incorporated in the Cayman Islands.

Broad Cosmos and Excel Lead are tax-exempted company incorporated in the British Virgin Islands.

AM China and Glorious Star did not have any assessable profits arising in or derived from Hong Kong for the years ended December 31, 2011, 2012 and 2013, 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 2011, 2012 and 2013, and is expected to be subject to an EIT rate of 15% as long as it maintains its status as a HNTE.

Shenzhen AM is subject to EIT on the taxable income at the gradual rate, which is 24% in 2011, and 25% in 2012 and thereafter, according to transitional rules of the New EIT Law. Since Shenzhen AM is also qualified as a "manufacturing foreign-invested enterprise" incorporated prior to the effectiveness of the New EIT Law, it is further entitled to the EIT rates of 12%, 12.5% and 25% for the year 2011, 2012 and 2013, respectively.

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

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

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**14. INCOME TAXES - continued**

Income tax benefits/(expenses) are as follows:

|  | For the years ended December 31, |                   |                 |
|--|----------------------------------|-------------------|-----------------|
|  | 2011                             | 2012              | 2013            |
| <b>Income tax (expenses)/benefits:</b> |                                  |                   |                 |
| Current                                | \$ (1,585)                       | \$ (4,324)        | \$ (2,250)      |
| Deferred                               | 1,319                            | 1,831             | 3,963           |
| <b>Total</b>                           | <b>\$ (266)</b>                  | <b>\$ (2,493)</b> | <b>\$ 1,713</b> |

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

|   | As of December 31, |               |
|---|--------------------|---------------|
|   | 2012               | 2013          |
| <b>Deferred tax assets:</b>   |                    |               |
| <b>Current</b>  |                    |               |
| Allowance for doubtful accounts                                     | \$ 1,338           | \$ 2,003      |
| Accrued payroll   | 1,107              | 1,046         |
| Employee education fee excess                                       | -                  | 24            |
| Valuation allowance   | (381)              | (297)         |
| <b>Deferred tax assets - current</b>                                | <b>2,064</b>       | <b>2,776</b>  |
| <b>Non-current</b>  |                    |               |
| Depreciation of property and equipment                              | 689                | 622           |
| Amortization of intangible assets and concession fees               | 4,440              | 5,476         |
| Taxable loss arising from a disposal of an equity method investment | 217                | -             |
| Net operating loss carry forwards                                   | 11,063             | 13,231        |
| Valuation allowance   | (8,062)            | (7,575)       |
| <b>Deferred tax assets - non-current</b>                            | <b>8,347</b>       | <b>11,754</b> |
| <b>Deferred tax liabilities:</b>                                    |                    |               |
| <b>Non-current</b>  |                    |               |
| Acquired intangible assets  | 380                | 361           |
| <b>Total deferred tax liabilities</b>                               | <b>\$ 380</b>      | <b>\$ 361</b> |

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**14. INCOME TAXES - continued**

The valuation allowance provided as of December 31, 2013 relates to the deferred tax assets generated by Shenzhen AM, AirTV United, AM Jinshi, AM Jiaming, AM Wenzhou, TJ Jinshi and Dongding, and was recognized based on the Group's estimates of the future taxable income of these entities, because the Group 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 of \$52,175 as of December 31, 2013. The net operating loss carry forwards for the PRC subsidiaries will expire on various dates through 2018.

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, |             |             |
|--|----------------------------------|-------------|-------------|
|  | 2011                             | 2012        | 2013        |
| Net loss before provision for income taxes                   | \$ (12,657)                      | \$ (29,770) | \$ (13,164) |
| PRC statutory tax rate                                       | 25%                              | 25%         | 25%         |
| Income tax at statutory tax rate                             | (3,164)                          | (7,443)     | (3,291)     |
| <b>Expenses not deductible for tax purposes:</b>             |                                  |             |             |
| Entertainment expenses exceeded the tax limit                | 180                              | 315         | 321         |
| Goodwill impairment  | -                                | 5,153       | -           |
| Tax effect of tax losses not recognized                      | -                                | 2,791       | 346         |
| Tax effect of deductible temporary difference not recognized | -                                | 1,425       | 1,972       |
| Changes in valuation allowance                               | 3,213                            | (471)       | (571)       |
| Effect of preferential tax rates granted to PRC entities     | (819)                            | (675)       | (1,079)     |
| Effect of income tax rate difference in other jurisdictions  | 856                              | 1,398       | 589         |
| Income tax expenses/(benefits)                               | \$ 266                           | \$ 2,493    | \$ (1,713)  |
| Effective tax rates  | (2.1)%                           | (8.4)%      | 13.0%       |

If the Group's subsidiaries, VIEs and VIEs' subsidiaries in the PRC were not in a tax holiday period in the years ended December 31, 2011, 2012 and 2013, the impact to net loss per share amounts would be as follows:

|   | For the years ended December 31, |        |          |
|---|----------------------------------|--------|----------|
|   | 2011                             | 2012   | 2013     |
| Increase in income tax expenses                 | \$ 819                           | \$ 675 | \$ 1,079 |
| Decrease in net loss per ordinary share-basic   | 0.01                             | 0.01   | 0.01     |
| Decrease in net loss per ordinary share-diluted | 0.01                             | 0.01   | 0.01     |

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**14. INCOME TAXES - continued**

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2011, 2012 and 2013. The Group did not incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2011, 2012 and 2013.

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%.

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial report over tax basis, including those differences attributable to a more than 50% interest in a subsidiary. However, the Company's subsidiaries located in the PRC had been in loss position and had accumulated deficit as of December 31, 2011, 2012 and 2013, and the tax basis for the investment was greater than the carrying value of this investment. A deferred tax asset should be recognized for this temporary difference only if it is apparent that the temporary difference will reverse in the foreseeable future. Absent of evidence of a reversal in the foreseeable future, no deferred tax asset for such temporary difference was recorded.

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

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**15. NET LOSS PER SHARE**

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

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2011                             | 2012        | 2013        |
| Net loss attributable to AirMedia Group Inc.'s ordinary shareholders (numerator)                                    | \$ (9,596)                       | \$ (32,728) | \$ (10,626) |
| Shares (denominator):   |                                  |             |             |
| Weighted average ordinary shares outstanding used in computing net loss per ordinary share - basic                  | 129,537,955                      | 124,269,245 | 120,386,635 |
| Weighted average ordinary shares outstanding used in computing net loss per ordinary share - diluted <sup>(i)</sup> | 129,537,955                      | 124,269,245 | 120,386,635 |
| Net loss per ordinary share-basic   | \$ (0.07)                        | \$ (0.26)   | \$ (0.09)   |
| Net loss per ordinary share-diluted   | (0.07)                           | (0.26)      | (0.09)      |

- (i) The Group had securities outstanding which could potentially dilute basic net loss per share, but which were excluded from the computation of diluted net loss per share for the years ended December 31, 2011, 2012 and 2013, as their effects would have been anti-dilutive. For the year 2011, 2012 and 2013, such outstanding securities consisted of weighted average share options of 15,269,198, 15,747,929 and 15,694,086, respectively.

**16. SHARE BASED PAYMENTS**

***2007 Share incentive plan***

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

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

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

On October 10, 2012, the Board of Directors approved the Company to extend the expiration date of the options granted on July 2, 2007, November 29, 2007 and July 10, 2009 to November 29, 2015. Modified awards are viewed as an exchange of the original award for a new award. The fair value of the stock options, which was \$0.33 per share as of the modification date, was estimated using the Black-Scholes model. The incremental compensation cost of the modified award was \$449, which was recognized as share-based compensation expenses for the year ended December 31, 2012.



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16. SHARE BASED PAYMENTS - continued

*2011 Share incentive plan*

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

On March 22, 2011, the Board of Directors granted options to Group's employees to purchase an aggregate of 2,180,000 ordinary shares of the Company under 2007 Option Plan and 2011 Option Plan, at an exercise price of \$2.3 per share. The contractual term of the options was 5 or 10 years. One twelfth of these options will vest each quarter through March 22, 2014. Subsequently on June 7, 2011, the Board of Directors approved to modify the exercise price of these stock options to \$1.57 per share. The fair value of these options at the modification date was estimated to be \$0.75 per option. The incremental share based compensation costs of the re-priced options was \$314, of which will be recognized over the remaining service period through March 22, 2014.

On August 23, 2011, the Board of Directors approved the adjustment of the exercise price of certain stock options that were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011, which were subsequently modified from \$1.57 per share to \$1.15 per share. The fair value of the options on the modification date was \$0.21, \$0.22, \$0.26, \$0.39 and \$0.53 per share, respectively, calculated using the Black-Scholes model. The incremental compensation cost of the re-priced options was \$1,259, of which \$950 was recognized on the modification date, and the remainder recognized over the remaining service period.

In September 2012, the former CFO of the Group resigned. Of the 600,000 options granted to her on March 22, 2011, 300,000 were vested through her date of resignation. In conjunction with her resignation, she signed a supplementary agreement with the Group that granted her 100,000 immediately exercisable options and 200,000 options that would vest through September 22, 2013. During the vesting period, she would provide consulting service as a consultant. For the 100,000 immediately exercisable options, a measurement date was reached upon grant and the Group immediately recognized \$35 share-based compensation expenses. For the 200,000 options that 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 year ended December 31, 2011, 2012 and 2013, the Group recognized \$1,046, \$19 and \$59 share-based compensation expense for these options, respectively.

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**16. SHARE BASED PAYMENTS - continued**

***2012 Share incentive plan***

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

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

The following summary of stock option activity under the 2007, 2011 and 2012 Share Incentive Plan as of December 31, 2012 and 2013, reflective of all modifications is presented below:

|   | Number of options | Weighted average exercise price per option | Outstanding Options                    |  |                           |
|---|-------------------|--|--|--|---------------------------|
|   |                   |  | Weighted average grant-date fair value | Weighted average remaining contractual terms | Aggregate intrinsic value |
| Outstanding at January 1, 2013                              | 16,721,266        | \$ 1.19                                    | \$ 1.27                                |  |                           |
| Exercised   | (18,400)          | 1.15                                       | 1.40                                   |  |                           |
| Forfeited   | (2,047,336)       | 1.55                                       | 1.19                                   |  |                           |
| Outstanding at December 31, 2013                            | 14,655,530        | 1.14                                       | 1.27                                   | 2.85   | 557                       |
| Options vested and expected to vest as of December 31, 2013 | 14,654,776        | \$ 1.14                                    | \$ 1.23                                | 2.79   | 557                       |
| Options exercisable as of December 31, 2013                 | 13,701,628        | \$ 1.17                                    | \$ 1.29                                | 2.85   | 279                       |

The total intrinsic value of options exercised during the years ended December 31, 2011, 2012 and 2013 was \$54, \$66 and \$3, respectively. The total fair value of options vested during the years ended December 31, 2011, 2012 and 2013 was \$3,664, \$3,503 and \$1,476, respectively.

The Group recorded share-based compensation of \$4,614, \$3,502 and \$1,251 for the years ended December 31, 2011, 2012 and 2013, respectively. There was \$427 of total unrecognized compensation expense related to unvested share options granted as of December 31, 2013. The expense is expected to be recognized over a weighted-average period of 1.39 years on a straight-line basis.

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**16. SHARE BASED PAYMENTS - continued**

*2012 Share incentive plan* - continued

The fair value of each option granted was estimated on the date of grant/modification using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable period.

|                                   | For the years ended December 31, |                 |                 |
|-----------------------------------|----------------------------------|-----------------|-----------------|
|                                   | 2011                             | 2012            | 2013            |
| Risk-free interest rate of return | 0.00%-0.79%                      | 0.12%-0.34%     | 0.12%-1.10%     |
| Expected term                     | 0.4-3.1 years                    | 0.07-3.19 years | 0.33-4.42 years |
| Volatility                        | 70.64%-70.74%                    | 67.57%-94.43%   | 64.75%-94.43%   |
| Dividend yield                    | -                                | -               | -               |

(1) Volatility

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

(2) Risk-free rate

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

(3) Expected term

The expected term is estimated based on a consideration of factors including the original contractual term and the vesting term.

(4) Dividend yield

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

(5) Exercise price

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

(6) Fair value of underlying ordinary shares

The closing market price of the ordinary shares of the Company as of the grant/modification date was used as the fair value of the ordinary shares on that date.

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
**(In U.S. dollars in thousands, except share data)**

**17. FAIR VALUE MEASUREMENT**

*Measured on recurring basis*

The Group measured its financial assets and liabilities, including cash, restricted cash, accounts receivable, short-term investment, amounts due from related parties, accounts payable, and amounts due to related parties on a recurring basis as of December 31, 2012 and 2013.

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

The Group measured the goodwill at fair value on a nonrecurring basis when it is annually evaluated or whenever events or changes in circumstances indicate that carrying amount of a reporting unit exceeds its fair value as a result of the impairment assessments (Note 10). The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection on the discounted future cash flow and the discount rate. The impairment loss of \$20,611 was recognized for the year ended December 31, 2012.

The Group measured the prepaid equipment cost exchanged with Elec-tech at fair value on a nonrecurring basis as result of the unit price of each LED screen of \$58 as set forth in Note 12. The Group engaged a third party appraiser to evaluate the fair value of the LED screens. The fair value was determined using market approach (sales comparison method) with quoted price for similar assets in active market (Level 2 inputs).

**18. SHARE REPURCHASE PLAN**

On March 21, 2011, the Board of Directors authorized the Group to repurchase up to \$20 million of its own outstanding ADSs within two years from March 21, 2011. On September 26, 2012, the Board of Directors approved to increase the amount of the share repurchase program to \$40 million of its own outstanding ADS and to extend the termination date of the share repurchase program to March 20, 2014.

As of December 31, 2013, the Group had repurchased an aggregate of 6,532,429 ADSs on the open market for a total consideration of \$17.4 million. As of December 31, 2013, 2,190,685 ADSs had been cancelled and 4,341,744 ADSs were recorded as treasury stock.

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
**(In U.S. dollars in thousands, except share data)**

**19. MAINLAND CHINA CONTRIBUTION PLAN**

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labour regulations require the Group to accrue for these benefits based on certain percentages of the employees' income. The total contribution for such employee benefits were \$2,955, \$3,425 and \$4,412 for the years ended December 31, 2011, 2012 and 2013, respectively.

**20. STATUTORY RESERVES**

As stipulated by the relevant law and regulations in the PRC, the Group's subsidiaries, VIEs and VIEs' subsidiaries in the PRC are required to maintain non-distributable statutory surplus reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in the subsidiaries' statutory financial statements prepared under the PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the general reserve is accumulated to 50% of the subsidiaries' registered capital, the subsidiaries can choose not to provide more reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and increase in registered capital of the subsidiaries. The Group allocated \$2,095 and \$824 to statutory reserves during the years ended December 31, 2012 and 2013, 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.

**21. RESTRICTED NET ASSETS**

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

As of December 31, 2013, the balance of restricted net assets was \$358,417, of which \$159,658 was attributed to the paid-in-capital and statutory reserves of the VIEs and VIEs' subsidiaries, and \$198,759 was attributed to the paid in capital and statutory reserves of WFOE, respectively. Under applicable PRC laws, loans from PRC companies to their offshore affiliated entities require governmental approval, and advances by PRC companies to their offshore affiliated entities must be supported by bona fide business transactions.

**AIRMEDIA GROUP INC.**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
**(In U.S. dollars in thousands, except share data)**

**22. COMMITMENTS**

(a) Rental leases

The Group has entered into operating lease agreements principally for its office spaces in the PRC. These leases expire through 2018 and are renewable upon negotiation. Rental expenses under operating leases for the years ended December 31, 2011, 2012 and 2013 were \$2,528, \$2,668 and \$3,312, respectively.

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

| Year |                 |
|------|-----------------|
| 2014 | \$ 3,522        |
| 2015 | 1,776           |
| 2016 | 49              |
| 2017 | 10              |
| 2018 | 6               |
|      | <u>\$ 5,363</u> |

(b) Concession fees

The Group has entered into concession right agreements with vendors, such as airports, airlines and a petroleum company. The contract terms of such concession rights are usually three to five years. The concession rights expire through 2019 and are renewable upon negotiation. Concession fees charged into statements of operations for the years ended December 31, 2011, 2012 and 2013 were \$160,199, \$177,996 and \$180,990, respectively.

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

| Year |                   |
|------|-------------------|
| 2014 | \$ 182,500        |
| 2015 | 120,557           |
| 2016 | 52,898            |
| 2017 | 30,007            |
| 2018 | 20,762            |
| 2019 | 42,273            |
|      | <u>\$ 448,997</u> |

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
**(In U.S. dollars in thousands, except share data)**

**22. COMMITMENTS - continued**

(c) Capital commitments

The Group has entered into purchase agreements with vendors for media equipment in airports and gas stations. The minimum purchase payments under non-cancellable purchase agreements were \$52,440 and \$296 for the year ending December 31, 2014 and 2015, respectively.

**23. CONTINGENT LIABILITIES**

(a) Outdoor advertisement registration certificate

On May 22, 2006, the State Administration for Industry and Commerce, or the SAIC, a governmental authority in the PRC, amended the Provisions on the Registration Administration of Outdoor Advertisements, or the new outdoor advertisement provisions. Pursuant to the amended outdoor advertisement provisions, advertisements placed inside or outside of the "departure halls" of airports are treated as outdoor advertisements and must be registered in accordance with the local SAIC by "advertising distributors". To ensure that the Group's airport operations comply with the applicable PRC laws and regulations, the Group is in the process of making inquiries with the local SAICs in the cities in which the Group has operations or intends to operate with respect to the application for an advertising registration certificate. However, the local SAICs with whom the Group consulted have expressed different views on whether the advertisements shown on the Group's digital TV screens should be regarded as outdoor advertisements and how to register those advertisements. As of the date of these consolidated financial statements, the Group has registered and received outdoor advertising licenses for advertisements in Beijing Capital International Airport, Shanghai Pudong International Airport, Shanghai Hongqiao Airport and Shenyang Taoxian International Airport, and registrations have been approved by the SAIC offices in six 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, 2013, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
**(In U.S. dollars in thousands, except share data)**

**23. CONTINGENT LIABILITIES - continued**

(b) Approval for non-advertising content

A majority of the digital frames and digital TV screens in the Group's network include programs that consist of both advertising content and non-advertising content. On December 6, 2007, the State Administration of Radio, Film or Television, or the SARFT, a governmental authority in the PRC, issued the Circular regarding Strengthening the Management of Public Audio-Video in Automobiles, Buildings and Other Public Areas, or the SARFT Circular. According to the SARFT Circular, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT. The Group intends to obtain the requisite approval of the SARFT for the Group's non-advertising content, but the Group cannot assure that the Group will obtain such approval in compliance with this new SARFT Circular, or at all. In January 2014, the Group entered into a strategic partnership 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 to 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, 2013, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.



**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
(In U.S. dollars in thousands, except share data)

**24. RELATED PARTY TRANSACTIONS**

(a) Details of outstanding balances with the Group's related parties as of December 31, 2012 and 2013 were as follows:

*Amount due from related parties-trading:*

| Name of related parties | Relationship                          | As of December 31, |               |
|-------------------------|---------------------------------------|--------------------|---------------|
|                         |                                       | 2012               | 2013          |
| BEMC                    | Equity method investment of the Group | \$ 1,310           | \$ 187        |
|                         |                                       | <u>\$ 1,310</u>    | <u>\$ 187</u> |

The amount due from BEMC represents the uncollected advertising revenues earned from BEMC as of December 31, 2012 and 2013, respectively.

*Amount due to related parties-trading:*

| Name of related parties | Relationship                          | As of December 31, |             |
|-------------------------|---------------------------------------|--------------------|-------------|
|                         |                                       | 2012               | 2013        |
| BEMC                    | Equity method investment of the Group | \$ 447             | \$ -        |
|                         |                                       | <u>\$ 447</u>      | <u>\$ -</u> |

The amount due to BEMC represents the deposits received for publishing advertisement, which has been paid back as of December 31, 2013.

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013**  
(In U.S. dollars in thousands, except share data)

**24. RELATED PARTY TRANSACTIONS - continued**

(b) Details of related party transactions occurred for the years ended December 31, 2011, 2012 and 2013 were as follows:

*Advertising revenues earned from:*

| Name of related parties | Relationship                          | For the years ended December 31 |                 |               |
|-------------------------|---------------------------------------|---------------------------------|-----------------|---------------|
|                         |                                       | 2011                            | 2012            | 2013          |
| BEMC                    | Equity method investment of the Group | \$ 179                          | \$ 1,852        | \$ 681        |
| Zhangshangtong          | Cost method investment of the Group   | 27                              | -               | -             |
|                         |                                       | <u>\$ 206</u>                   | <u>\$ 1,852</u> | <u>\$ 681</u> |

**AIRMEDIA GROUP INC.**

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

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

|  | As of December 31, |                   |
|--|--------------------|-------------------|
|  | 2012               | 2013              |
| <b>Assets</b>  |                    |                   |
| <b>Current assets</b>  |                    |                   |
| Cash and cash equivalents  | \$ 196             | \$ 14             |
| Investment in subsidiaries   | 60,514             | 93,416            |
| Amount due from subsidiaries   | 181,204            | 181,245           |
| Other current assets   | 778                | 335               |
| <b>TOTAL ASSETS</b>  | <b>242,692</b>     | <b>275,010</b>    |
| <b>Liabilities</b>   |                    |                   |
| <b>Current liabilities</b>   |                    |                   |
| Amount due to subsidiaries   | 421                | 3,652             |
| Accrued expenses and other current liabilities   | 395                | 392               |
| <b>Total liabilities</b>   | <b>816</b>         | <b>4,044</b>      |
| <b>Equity</b>  |                    |                   |
| Ordinary Shares (\$0.001 par value; 900,000,000 shares authorized in 2012 and 2013; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2012 and 2013, respectively; 122,112,485 shares and 119,134,135 shares outstanding as of December 31, 2012 and 2013, respectively) | 128                | 128               |
| Additional paid in capital   | 278,652            | 313,912           |
| Treasury stock (5,549,572 and 8,527,922 shares as of December 31, 2012 and 2013, respectively)   | (7,035)            | (9,860)           |
| Accumulated deficits   | (62,817)           | (73,443)          |
| Accumulated other comprehensive income   | 32,948             | 40,229            |
| <b>Total equity</b>  | <b>241,876</b>     | <b>270,966</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>  | <b>\$ 242,692</b>  | <b>\$ 275,010</b> |

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, |                    |                    |
|---|----------------------------------|--------------------|--------------------|
|   | 2011                             | 2012               | 2013               |
| Operating expenses                                  |                                  |                    |                    |
| Selling and marketing                               | \$ (1,421)                       | \$ (859)           | \$ -               |
| General and administrative                          | (3,471)                          | (3,282)            | (2,239)            |
| Total operating expenses                            | (4,892)                          | (4,141)            | (2,239)            |
| Investment loss in subsidiaries                     | (4,795)                          | (28,587)           | (8,387)            |
| Interest income                                     | 91                               | -                  | -                  |
| Net loss attributable to holders of ordinary shares | <u>\$ (9,596)</u>                | <u>\$ (32,728)</u> | <u>\$ (10,626)</u> |

AIRMEDIA GROUP INC.

ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I  
FINANCIAL INFORMATION OF PARENT COMPANY  
STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)  
(In U.S. dollars in thousands)

|  | For the years ended December 31, |                    |                   |
|--|----------------------------------|--------------------|-------------------|
|  | <u>2011</u>                      | <u>2012</u>        | <u>2013</u>       |
| Net loss   | \$ (9,596)                       | \$ (32,728)        | \$ (10,626)       |
| Other comprehensive income, net of tax:                      |                                  |                    |                   |
| Change in cumulative foreign currency translation adjustment | <u>12,381</u>                    | <u>2,214</u>       | <u>7,281</u>      |
| Comprehensive income/ (loss) attributable to Parent Company  | <u>\$ 2,785</u>                  | <u>\$ (30,514)</u> | <u>\$ (3,345)</u> |

**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)**

|   | Ordinary shares    |               | Additional<br>paid in capital | Treasury<br>stock | Accumulated<br>deficits | Accumulated<br>other<br>comprehensive<br>income | Total<br>equity   |
|---|--------------------|---------------|-------------------------------|-------------------|-------------------------|---|-------------------|
|   | Shares             | Amount        |                               |                   |                         |   |                   |
| Balance as of January 1, 2011                       | 131,905,011        | 132           | 277,676                       | -                 | (20,493)                | 18,353  | 275,668           |
| Ordinary shares issued for share based compensation | 138,416            | -             | 229                           | -                 | -                       | -   | 229               |
| Share repurchase                                    | (4,381,370)        | (4)           | (7,369)                       | -                 | -                       | -   | (7,373)           |
| Treasury stock                                      | (2,414,460)        | -             | -                             | (3,775)           | -                       | -   | (3,775)           |
| Share-based compensation                            | -                  | -             | 4,614                         | -                 | -                       | -   | 4,614             |
| Foreign currency translation adjustment             | -                  | -             | -                             | -                 | -                       | 12,381  | 12,381            |
| Net loss  | -                  | -             | -                             | -                 | (9,596)                 | -   | (9,596)           |
| <b>Balance as of December 31, 2011</b>              | <b>125,247,597</b> | <b>\$ 128</b> | <b>\$ 275,150</b>             | <b>\$ (3,775)</b> | <b>\$ (30,089)</b>      | <b>\$ 30,734</b>                                | <b>\$ 272,148</b> |
| Ordinary shares issued for share based compensation | 137,166            | -             | -                             | 161               | -                       | -   | 161               |
| Share repurchase as treasury stock                  | (3,272,278)        | -             | -                             | (3,421)           | -                       | -   | (3,421)           |
| Share-based compensation                            | -                  | -             | 3,502                         | -                 | -                       | -   | 3,502             |
| Foreign currency translation adjustment             | -                  | -             | -                             | -                 | -                       | 2,214   | 2,214             |
| Net loss  | -                  | -             | -                             | -                 | (32,728)                | -   | (32,728)          |
| <b>Balance as of December 31, 2012</b>              | <b>122,112,485</b> | <b>\$ 128</b> | <b>\$ 278,652</b>             | <b>\$ (7,035)</b> | <b>\$ (62,817)</b>      | <b>\$ 32,948</b>                                | <b>\$ 241,876</b> |
| Ordinary shares issued for share based compensation | 18,400             | -             | -                             | 21                | -                       | -   | 21                |
| Share repurchase as treasury stock                  | (2,996,750)        | -             | -                             | (2,846)           | -                       | -   | (2,846)           |
| Share-based compensation                            | -                  | -             | 1,251                         | -                 | -                       | -   | 1,251             |
| Foreign currency translation adjustment             | -                  | -             | -                             | -                 | -                       | 7,281   | 7,281             |
| Capital contribution from non-controlling interests | -                  | -             | 39,825                        | -                 | -                       | -   | 39,825            |
| Acquisition of non-controlling interests            | -                  | -             | (5,816)                       | -                 | -                       | -   | (5,816)           |
| Net loss  | -                  | -             | -                             | -                 | (10,626)                | -   | (10,626)          |
| <b>Balance as of December 31, 2013</b>              | <b>119,134,135</b> | <b>\$ 128</b> | <b>\$ 313,912</b>             | <b>\$ (9,860)</b> | <b>\$ (73,443)</b>      | <b>\$ 40,229</b>                                | <b>\$ 270,966</b> |

**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, |             |             |
|--|----------------------------------|-------------|-------------|
|  | 2011                             | 2012        | 2013        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                                  |             |             |
| Net loss   | \$ (9,596)                       | \$ (32,728) | \$ (10,626) |
| Investment loss in subsidiaries  | 4,795                            | 28,587      | 8,387       |
| Share-based compensation   | 4,614                            | 3,502       | 1,251       |
| <b>CHANGES IN WORKING CAPITAL ACCOUNTS</b>                                     |                                  |             |             |
| Other current assets   | 16                               | (597)       | 444         |
| Accounts payable   | 36                               | (40)        | -           |
| Accrued expenses and other current liabilities                                 | (697)                            | (421)       | (3)         |
| Amount due to subsidiaries   | 25                               | 265         | 3,231       |
| Amount due from subsidiaries   | 482                              | 2,497       | (41)        |
| Net cash (used in) provided by operating activities                            | (325)                            | 1,065       | 2,643       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                                  |             |             |
| Payment for contingent consideration in connection with a business combination | (2,966)                          | -           | -           |
| Net cash used in investing activities  | (2,966)                          | -           | -           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |                                  |             |             |
| Share repurchase   | (7,373)                          | -           | -           |
| Cash paid for treasury stock   | (3,775)                          | (3,421)     | (2,846)     |
| Proceeds from exercises of stock options                                       | 229                              | 161         | 21          |
| Net cash used in financing activities.   | (10,919)                         | (3,260)     | (2,825)     |
| Net decrease in cash   | (14,210)                         | (2,195)     | (182)       |
| Cash, at beginning of year   | 16,601                           | 2,391       | 196         |
| Cash, at end of year   | \$ 2,391                         | \$ 196      | \$ 14       |

**AIRMEDIA GROUP INC.**

**NOTES TO ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I  
FINANCIAL INFORMATION OF PARENT COMPANY  
(In U.S. dollars in thousands)**

**Notes:**

**1. BASIS FOR PREPARATION**

The condensed financial information of the parent company, AirMedia Group Inc., only has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the parent company has used equity method to account for its investment in its subsidiaries, AM Technology, Shenzhen AM, Xi'an AM and Glorious Star, and its VIEs, Shengshi Lianhe, AM Advertising, AirMedia UC and AM Yuehang, and VIEs' subsidiaries, AirTV United, AM Film, Flying Dragon, AM Wenzhou, Weimei Lianhe, Hainan Jinhui, AM Jiaming, AM Jinshi, TJ Jinshi, TJ AM, Dongding, AM Outdoor, GreatView Media, AM Jinsheng, GZ Meizheng and AM Tianyi.

**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.



**Investment Agreement**  
**among**  
**Elec-Tech International Co., Ltd.,**  
**Beijing AirMedia UC Advertising Co., Ltd.**  
**and**  
**Beijing Zhongshi Aoyou Advertising Co., Ltd.**

This Agreement is executed by the following parties in Zhuhai on May 12<sup>th</sup>, 2013:

Investor:

Party A: Elec-Tech International Co., Ltd.

Address: No.1, Jinfeng Road, Tangjiawan County, Xiang Zhou Qu, Zhuhai, Guangdong, 519085

Legal Representative: Wang Donglei

The Original Shareholders:

Party B: Beijing AirMedia UC Advertising Co., Ltd.

Address: Room 130, Heping Road No.16, Yangsong County, Huairou District, Beijing, China, 101499

Legal Representative: Guo Man

Party C: Beijing Zhongshi Aoyou Advertising Co., Ltd.

Address: Room 2509, West Wing, 25<sup>th</sup> Floor, Guangqumenwai Street No.8, Chaoyang District, Beijing, China, 100022

Legal Representative: Feng Zhonghua

The Target Company:

Party D: Beijing Great View Advertising Co., Ltd.

Address: No.10, Jiachuang Road, Opto-Mechatronics Industrial Base, Tongzhou Park, Zhongguancun Technology Park, Tongzhou District, Beijing, China, 101111

Legal Representative: Feng Zhonghua

Whereas, Beijing Great View Advertising Co., Ltd. (hereinafter referred to as the "Company" or the "Target Company") is a company incorporated, in April 2009, and existing under the law of the People's Republic of China with registered capital RMB50 million and currently the original shareholders are Party B, holding 78% of its registered capital, and Party C, holding 22% of its registered capital. Party B and Party C agree to introduce Party A as one of the investors of the Target Company and Party A agrees to invest RMB640 million into the Company and become a new shareholder.

## **I. Definition**

## **II. Investment Prerequisite**

2.1 The Parties hereby acknowledge that the investment obligation of the Investor shall be based on the following conditions:

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- 2.1.1 The original shareholders and the Company have disclosed, in writing, to the Investor true, complete and full information of the Company in all material respects, including but not limited to the information concerning the assets, liabilities, equity, external guarantees etc;
  - 2.1.2 During the transitional period, the Company does not go under any material adverse change; and without the written consent of the Investor, the Company or any of its holding subsidiaries shall not reach any joint venture, cooperation, partnership contract with the Company or its controlled subsidiaries as a party or directly set up wholly-owned sub-company, and there shall be no distribution of profits;
  - 2.1.3 During the transitional period, the original shareholders shall not transfer part or all of their equity interest in the Company to a third party other than the shareholders of the Company;
  - 2.1.4 During the transitional period, the Company, as an entity with continued operation, does not involve and shall not have any material illegal activities, and except the assets disposal or liabilities in the ordinary course of business, the company has not disposed of its material assets or set guarantees or assumed any significant debt (including contingent liabilities), otherwise, the Investor shall be promptly notified;
  - 2.1.5 The original shareholders and the Company warrant the actual existence of the relevant Chinese Sinopec gas station advertising screen contracts, and their contractual rights and interests belong to the Company.
- 2.2 If the original shareholders or the Company breach the investment prerequisite terms of this Agreement, Party A is entitled to unilaterally terminate this Agreement and recover the investment funds and requires the original shareholders to bear joint and several liability.

### **III. Investment Program**

- 3.1 The Parties agree that the Investor invests into the Company RMB640 million in total (the "Investment") by installments and the first contribution shall be not less than 20% of the Investment, and acquires 21.27% of the equity interest in the Company in total. The latest date to complete the Investment shall be March 31, 2014.
- 3.2 Prior to the investment, the shareholding structure of the Company was:
- 1) Beijing AirMedia UC Advertising Co., Ltd. invested RMB39 million, holding 78% equity interest of the Target Company;
  - 2) Beijing Zhongshi Aoyou Advertising Co., Ltd. invested RMB11 million, holding 22% equity interest of the Target Company.
- 3.3 After the Investment is completed, the shareholding structure of the Company will be:
- 1) Beijing AirMedia UC Advertising Co., Ltd. invested RMB39 million, holding 61.41% equity interest of the Target Company;
  - 2) Beijing Zhongshi Aoyou Advertising Co., Ltd. invested RMB11 million, holding 17.32% equity interest of the Target Company;
  - 3) Elec Co., Ltd. invested RMB13.51 million, holding 21.27% equity interest of the Target Company.
- 3.4 The Parties hereby agree, upon the satisfaction of the investment prerequisite under Section 2.1 of this Agreement, the Investor shall inject the Investment by installments to the bank account designated by the Company in accordance with Section 3.1 of this Agreement.
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- 3.5 The Parties hereby agree, the Investor's obligation of contribution under this Agreement shall be deemed completed should the Investor have paid the Investment in accordance with Section 3.4 of this Agreement.
- 3.6 The original shareholders hereby warrant that the Investor's entire Investment shall be utilized for the sole purpose of purchasing LED screens from the Investor or its subsidiaries, and the purchase contracts shall be executed together with this Agreement, with the purchase price and the time of payment corresponding to the Investment and time of payment under this Agreement. The purchase price shall be paid to the Investor/supplier in ten (10) business days as of the completion of the capital verification of the Investment or in other term otherwise agreed by the Investor/supplier.
- 3.7 In the event that on or before June 30, 2014, the Company incurs operating losses, such losses shall be borne by the original shareholders, instead of the Party and for any earnings incurred, it shall be distributed to the original shareholders and the Investor in proportion to their respective ownership in the Company. From July 1, 2014 onward, the operating results shall be proportionately shared by the shareholders in accordance with their respective ownership in the Company.
- 3.8 In the event that any bad debt incurred prior to the date of registration of the first round Investment with the State Administration of Industry and Commerce that has been injected by the Investor according to the term as agreed under this Agreement shall be borne by the original shareholders.

#### **IV. Handling of the Relevant Formalities**

##### **V. Corporate Governance**

- 5.1 The original shareholders agree and warrant that after the investment is completed, the company's board of directors shall consist of five members, including two directors delegated by Party B, two directors delegated by Party C (one of which shall be nominated by Party B, and the other director shall be nominated by the Investor), and one director delegated by Party A, and the chairman of the board shall be one of directors appointed by Party B.
  - 5.2 The original shareholders hereby agree that the following issues shall be approved by shareholders representing three-fourth or more of the voting rights: (1) to decide on the operational policy and investment plan of the company; (2) to elect or replace directors and supervisors who are not representatives of the staff and workers, and to decide on matters concerning the remuneration of the directors and supervisors; (3) to examine and approve reports of the board of directors; (4) to examine and approve reports of the board of supervisors or the supervisors; (5) to examine and approve the annual financial budget plan and final accounts plan of the company; (6) to examine and approve the company's plans for profit distribution and for making up losses; (7) to adopt resolutions on the increase or reduction of the registered capital of the company; (8) to adopt resolutions on the issue of corporate bonds; (9) to adopt resolutions on the merger, division, dissolution, liquidation or transformation of the company; (10) to amend the articles of association of the company.
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- 5.3 The following issues shall be approved by two-third or more of the directors, which shall include the director assumed by the representative of the Investor: (1) to purchase significant assets (excluding equipment procurement), to dispose significant assets, to incur bank loans and to provide external guarantees; (2) to draw up the budget plan and final accounts plan, plans for the increase or reduction of the registered capital, plans for profit distribution, plans for the merger, division, dissolution and transformation of the company and plans for dissolution and liquidation of the company; (4) to decide on the operational plans and investment plans of the company; (5) to decide on the appointment or dismissal of the senior management (deputy general manager or above); (6) to execute, amend or terminate material contracts in excess of RMB 10 million, excluding the contracts concluded during the course of daily operation (including contracts on equipment procurement, sales of advertising and resources contracts).
- 5.4 Party A shall be entitled to appoint a deputy general manager to be in charge of the equipment management and understanding of the company's entire operation; Party A shall be entitled to appoint a financial manager to be responsible for the overall understanding of the company's financial operations and significant expenditures (RMB1 million and above).

## **VI. Notice and Service**

## **VII. Breach of Contract and Liabilities**

## **VIII. Amendment and Termination of the Contract**

## **IX. Disputes Settlement**

- 9.1 The validity, interpretation and performance of this contract shall be governed by the laws of the People's Republic of China.
- 9.2 Any dispute arising from or related to this contract shall be first resolved through friendly consultation. In case the dispute cannot be resolved through the foregoing measure, the dispute shall be submitted to the courts with jurisdiction at where the defendant located.

## **X. Supplementary Provisions**

Party A: Elec-Tech International Co., Ltd.

Authorized representative: /s/ Elec-Tech International Co., Ltd.

Party B: Beijing AirMedia UC Advertising Co., Ltd.

Authorized representative: /s/ Beijing AirMedia UC Advertising Co., Ltd.

Party C Beijing Zhongshi Aoyou Advertising Co., Ltd.:

Authorized representative: /s/ Beijing Zhongshi Aoyou Advertising Co., Ltd.

Party D: Beijing GreatView Media Advertising Co., Ltd.

Authorized representative: /s/ Beijing GreatView Media Advertising Co., Ltd.

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**Cooperation Agreement for the Establishment of  
Advertising Company  
between  
Beijing Shengshi Lianhe Advertising Co., Ltd.,  
and  
Guangzhou Daozheng Advertising Co., Ltd.  
May 2012**

Party A: Beijing Shengshi Lianhe Advertising Co., Ltd.

Address: Room 1-0363, 1/F, Building 22, Xuanwumen East Street, Xuanwu District, Beijing, China, 100051

Legal Representative: Guo Man

Party B: Guangzhou Daozheng Advertising Co., Ltd.

Address: Room 2005, No.232, Zhongshan Sixth Road, Yuexiu District, Guangzhou, Guangdong, China, 510180

Legal Representative: Guo Rong

**I. General Provisions**

Cooperation Objectives: jointly establish Guangzhou Meizheng Advertising Co., Ltd. (hereinafter referred to as "Guangzhou Meizheng") to operate the PAD advertising in the carriages of Wuhan-Guangzhou high-speed rail lines under operation of Guangzhou Railway Group and strive to obtain the advertising concession for Wi-Fi entertainment platform.

**II. Cooperation Basis and Cooperation Model**

1. Basis and Conditions for the Establishment of Joint Venture:

- 1) Party B warrants that it has signed Advertising Contract with Guangzhou Railway Group Cultural Advertising Corporation (hereinafter referred to as " **GRG** ") on August 23, 2012, and GRG authorizes the PAD advertising concession in the trains of Wuhan-Guangzhou, Guangzhou-Shenzhen-Hong Kong high-speed rail lines (hereinafter referred to as the "Concession") to Party B, and Party B has lawfully obtained the exclusive operating right of platform advertising for the period from September 1, 2012 to August 31, 2018.
  - 2) Party A warrants that it has an extensive resources and experiences in advertising business, a wide range of customer resources and it is licensed as an agent to release advertisements for domestic and foreign clients.
  - 3) Party B warrants that after the establishment of Guangzhou Meizheng, it will transfer its overall concession rights under the Advertising Contract with GRG to Guangzhou Meizheng.
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2. Cooperation Model and Procedure

To achieve the ultimate objectives of cooperation, both parties agree to complete the project in four stages:

- 1) Party A agrees to pay RMB697, 550 in advance for the purchasing of tablet devices; Party A provides RMB2, 000,000 as start-up capital of the cooperation projects.
- 2) Party A solely contributes to set up Guangzhou Meizheng Advertising Co., Ltd. with registered capital RMB10,000,000.
- 3) Guangzhou Meizheng and Party B, GRG shall enter into an agreement to transfer all Party B's rights and obligations under the Advertising Contract to Guangzhou Meizheng. Meanwhile, Party A and Party B shall enter into an Equity Transfer Agreement which stipulates that Party A transfers 46% equity interest of Guangzhou Meizheng to Party B.
- 4) After Guangzhou Meizheng obtain all the exclusivity on operating advertising business on GRG trails, both parties, as shareholders of Guangzhou Meizheng, will increase the registered capital of Guangzhou Meizheng to RMB25 million with equity ratio unchanged. The RMB15 million of the increased capital (monetary, physical or property rights) will be provided by Party A.

**III. Operation Principals and Business Scope**

1. Name: Guangzhou Meizheng Advertising Co., Ltd.
2. Address: Guangzhou, Guangdong Province
3. Registered Capital: RMB10 million, then increase to RMB 25 million;
4. Type of Organization: Limited Liability Company

**IV. Rights and Obligations of both Parties**

1. Rights of Both Parties
  - a) Right to information during establishing of Guangzhou Meizheng;
  - b) Right to sign the relevant legal documentation;
  - c) Audit expense during establishment;
  - d) As shareholders, require Guangzhou Meizheng to provide investment certificates;
  - e) Enjoy rights and undertake obligations as shareholders.
2. Obligations of Both Parties
  - a) Apply to establish Guangzhou Meizheng;
  - b) Prepare relevant legal documentation;
  - c) Party A shall contribute capital, transfer ownership and increase capital as scheduled;
  - d) In case of one party fails to fulfill its obligation, then fail to remedy after 15 days of receiving written notice from its counterpart, the observant party has the right to terminate this agreement and all damage and loss incurred shall be paid by the default party.

**V. Term of Operation and Incorporation**

1. Operating Period: 30 years;
  2. After established, Guangzhou Meizheng bears the expense of establishing;
  3. Party A shall not terminate or dissolve Guangzhou Meizheng without legitimate reason before Party B is introduced as a shareholder;
-

4. 6 months before the operating period expires, shareholders will negotiate extension or liquidation.

#### **VI. Statement and Warranty**

1. Good Standing of Party A
2. Good Standing of Party B
3. Party B lawfully obtained the exclusive operating right;
4. All the document provided to the SAIC, SAT and each other are true, accurate and valid.

#### **VII. Rights and Obligations of Shareholders**

1. Rights of Shareholders
  - a) Dividend;
  - b) Vote;
  - c) Appoint director and supervisor;
  - d) Right to information and inquiry;
  - e) Annual audit
  - f) Increase capital;
  - g) Investment return after liquidation
  - h) Amend Article of Association
  - i) Other right stipulated by law, regulation and Article of Association.
2. Obligations of Shareholders
  - a) Capital contribution;
  - b) No surreptitious withdrawing the contributed capital
  - c) Assumption of debts
  - d) Undertake the liability of breaching in case of fail to contribute capital as scheduled;
  - e) Follow Article of Association
  - f) No abusing shareholder rights
  - g) Other obligations stipulated by law, regulation and Article of Association

#### **VIII. Constrained Activities**

1. That shareholder of Guangzhou Meizheng exercise its voting right shall not result a decision in harmful way towards neither the interest of the company nor the interest of other shareholders.
  2. Shareholder is obligated to perform its fiduciary duty and shall not utilize approaches such as Corporate Restructure to harm the interest of the company or the interest of other shareholders.
  3. The important decisions shall be made in accordance with the Article of Association and by Board of Directors or Shareholder Committee; Shareholder shall not interfere directly or indirectly to company's decision or its daily operation.
  4. Guangzhou Meizheng is an independent legal entity and assumes its own liabilities and risks.
  5. Shareholders shall respect the financial independence of Guangzhou Meizheng, and shall not interfere directly or indirectly to its accounting activities.
  6. Shareholder shall be held liable for the damage and loss actual incurred in case of violation of this clause is made.
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**IX. Corporate Governance Arrangement of Guangzhou Meizheng**

1. Shareholders' committee is the highest authority of Guangzhou Meizheng. Guangzhou Meizheng will have a board of directors as the policy-making body. The board consists of five members with three appointed by Party A, two appointed by Party B, and the chairman will be appointed by Party A.
2. Guangzhou Meizheng shall have a supervisor appointed by Party B.

**X. Finance, Accounting System of Guangzhou Meizheng**

**XI. Notice and Service**

**XII. Amendment and Termination of Agreement**

This agreement may be amended or terminated only by mutual consent in writing between both parties.

**XIII. Force Majeure and Confidentiality**

**XIV. Contract Breaching Liability**

**XV. Disputes Settlement**

During the performance of this Agreement, any dispute between the parties shall be resolved through negotiation; in case such negotiation fails, either party may bring a suit to the people's court at where this Agreement is signed.

This agreement is signed in Dongcheng district, Beijing, China.

**XVI. Validity of Agreement**

**XVII. Miscellaneous**

In case of conflict between content in this agreement and the Article of Association, the Article of Association prevails.

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# Equity Swap Agreement

Party A: Beijing N-S Digital TV Co., Ltd.

Address: 4/F, Building B, Jingmeng High-tech Tower, No. 5, Shangdi East Road, Haidian District, Beijing, People's Republic of China, 100085

Legal Representative: Zhu Jianhua

Party B: AirMedia Group Co., Ltd.

Address: 15/F, Sky Plaza, No.46 of Dongzhimenwai Street, Dongcheng District, Beijing 100027, China

Legal Representative: Guo Man

Whereas, Party A and Party B entered into a **Cooperation Framework Agreement** in June 2011, and then in December 2011, both parties signed a **Supplementary Agreement** attached the aforesaid **Cooperation Framework Agreement**. In accordance with the **Cooperation Framework Agreement** and its **Supplementary Agreement**, (hereinafter referred as "Original Agreement") Party A and Party B jointly established **Beijing Xinghe Union Film & TV Co., Ltd.** (hereinafter referred as "Beijing Xinghe") and **Beijing Shibo Movie Technology Co., Ltd.** (hereinafter referred as "Beijing Shibo"). Party A holds 50% equity interest in both of the aforementioned companies respectively; Party B also holds 50% equity interest in both of the aforementioned companies respectively.

Through the negotiation on equal footing, on the subjects of equity swap between Party A and Party B and the terminations of the Original Agreement, both parties agree as follows:

## I. Equity Swap

1. Party A transfers its 50% equity interest of Xinghe Union to Party B or a company designated by Party B; Party B transfers its 50% equity interest of Beijing Shibo to Party A or a company designated by Party A.
2. Both parties agree: the transfer of equity interest of both Beijing Xinghe and Beijing Shibo will be completed through equity swap, regardless of the values of the net asset and equity interest of the two companies swapped. The tax (such as Business Tax or Income Tax) and other expenses, if any, incurred by the aforesaid transactions are burdened to the receiving parties respectively.
3. Both parties agree to complete the deliveries of aforesaid equity interest before September 30<sup>th</sup>, 2013. To ensure the swap and delivery of shares before the aforesaid deadline, both parties shall provide Share Purchase Agreement, Board (or Shareholder) Resolutions affixed with signatures and seals in accordance with State Administration of Industry and Commerce (hereinafter referred as SAIC) requirements.

## II. Rights and Obligations of the Parties

1. Both parties shall cooperate actively and provide documentation SAIC required to assist its counterpart.
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2. Both parties warrant that other than this agreement, there is no any other agreement or any other form of statement that contains sale or transfer of equity interest of the aforesaid companies; Both parties warrant that there is no undisclosed collateral, guarantees, or other options on the equity interest under this Agreement that will lead to the failure of share transfer; Both parties warrant that there is no lawsuit or other form of disputes involving the aforesaid companies; Either party which makes false warranty will be held liable to the damage, loss and any other consequence incurred.
3. Both parties recognize the assets, operating status and financial statement data of the two companies. During the time period from the effective date of this agreement to the delivery date of the shares, other than continuous operating cost, both parties shall not inflate expenses nor conceal revenues. Either Party which conducts the above mentioned activities will be held liable to the damage, loss and any other consequence incurred.
4. Party A warranty that the documentation of Beijing Shibo provided to Party B will be complete and there will be no undisclosed debt, lawsuit or any other matter which might result in substantial change of Beijing Shibo' asset; Party B warranty that the documentation of Beijing Xinghe provided to Party A will be complete and there will be no undisclosed debt, lawsuit or any other matter which might result in substantial change of Beijing Xinghe's asset; Party which provides incomplete documentation will be held liable to the damage, loss and any other consequence incurred.

### **III. Termination of Original Agreement**

1. Both parties agree to terminate the Original Agreement , and set the September 1, 2013 as the termination date. After the termination, the equity swap will proceed accordingly.
2. For the purpose of subsequent affair arrangements and future collaboration, Party A entrust its affiliate "Beijing AirMedia Film and TV culture Co., Ltd." to negotiate and enter into new agreement with Party B's affiliate Beijing Shibo regards to the continuation of existing business, subsequent affair arrangements and new model of cooperation. The new agreement once entered will contain clauses which stipulate the termination of the Original Agreement and subsequent affair arrangements after; such clauses are binding on Party A and Party B.
3. Both parties agree that the termination of the Original Agreement is not a Breach of Contract, and there is no dispute of any form.

### **IV. Confidentiality**

Each party shall treat the existence and contents of this agreement as confidential, shall not disclose such information in any way unless is required to be disclosed in accordance with applicable laws, regulations or government orders.

### **V. Breach of Contract**

Both parties shall conduct themselves strictly in accordance with this agreement once entered; Party which fails to perform its responsibility will be held liable to the damage, loss and any other consequence incurred.

### **VI. Amendment and Termination**

Any amendment shall be done through negotiation and in writing; no amendment is valid unless both parties reach a mutual understanding or otherwise the agreement shall continue to be in full force and effect.

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**VII. Dispute Settlement**

Any dispute relating to this Agreement shall be resolved through consultation; and in case the negotiation fails, either party shall be entitled to submit the dispute to Beijing Arbitration Commission for arbitration.

**VIII. Miscellaneous**

1. This agreement may be supplemented only by mutual consent in writing between both parties. The supplement and this agreement are equally valid.
2. In case of the content of the documentation provided by both parties to the SAIC for the purpose of registration differs from this agreement, this agreement shall prevail.
3. This agreement is effective once signed and sealed by authorized representatives of both parties.
4. This agreement is signed and sealed in 2 originals, with each copy equally binding, and parties shall each keep 1 original.

PARTY A :

Authorized Representative:

Date:

PARTY B :

Authorized Representative:

Date:

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**Strategic Alliance Agreement  
between  
HNA Culture Holding Group Co., Ltd.  
and  
AirMedia Group Co., Ltd.**

September 2013

Party A: HNA Culture Holding Group Co., Ltd.

Party B: AirMedia Group Co., Ltd.

Whereas, Party A, HNA Culture Holding Group Co., Ltd. (hereinafter referred to as "HNA Culture"), is a key enterprise under HNA Group Co., Ltd., one of the top five hundred enterprises in China. It has been developing in the fields of airport and aviation media business, cultural and creative industrial park construction, film and television drama production and distribution, traditional culture extension, international cultural exchange, new media operation and gradually becomes an integrated cultural enterprise group.

Whereas, Party B, AirMedia Group Co., Ltd. (hereinafter referred to as "AirMedia"), is the most influential provider of middle to high end outdoor media service in China. The company has taken over 90% share of the digital air media market, and held up to the resources of traditional airport media market above all the others. The company's air media network has covered major airports in cities such as Beijing, Shanghai and Guangzhou, and more than 2,300 routes of airliners.

Both Parties agree as follows:

**I. Cooperation Objectives**

Both parties give play to their respective advantages in the field of aviation, airport, outdoor media platform, video production and development, new media development and operation, etc., and by complementary advantages, resource sharing, collaborative development, enable Party A to achieve a comprehensive and all-media culture enterprise group and deepening the aviation media service capability of Party B and achieve win-win situation for mutual benefits.

**II. Cooperation Content**

Whereas, two parties have been in productive cooperation in many fields previously, now the Parties agree on setting up a fund to develop aviation internet platform through cooperation and to achieve the following cooperation intentions:

1. The development of the in-flight internet platform is based on two kinds of resources, namely in-flight resources and funding.
-

2. Party A is responsible for obtaining in-flight advertising channels, coordinating HNA Group's airlines associated with these projects, obtaining the development and exclusive right to operate air internet platform and coordinating to complete the corresponding airplane hardware upgrade. Party A shall transfer the aforesaid exclusive in-flight internet platform operation rights to the project company invested by the proposed industry fund as agreed in this Agreement.
3. Party B is responsible for funding with the specific ways as follows:
  - 3.1 The two Parties contribute to jointly establish a fund management company, and each party holds 50% of the equity interests of the management company. Party A recommends three members and Party B recommends 2 members to constitute an investment management committee, which will act as the General Partner (or GP) to operate and manage the Industry Development Fund of In-flight Internet (hereinafter referred to as the "Fund"), which is made to target on the in-flight internet industry.
  - 3.2 The target fund size of the Fund is set to RMB 1 billion; the aforementioned objectives can be adjusted according to the amount of money actually needed for the development of HNA Airlines Group's internet platform project under this Agreement. Party B agrees to act as a Limited Partner (or LP), primarily in charge of fundraising and capital contribution for the Fund. Party B alone commits to invest no less than 40% of the total targeted fund size and to provide the remaining portion in case it unable to secure other limited partners.
  - 3.3 The amount of the first round of fund raising is RMB 400 million, and Party B commits to invest no less than 60% in the first round. The fund raised is limited to invest on equipment purchase and installment of HNA Airlines Group's in-flight internet platform project (hereinafter referred to as the "Project");
4. Party A shall contribute in-flight advertising channels to the Project and the Fund shall provide funds to the Project, and the specific implementation of the Project shall be conducted by the company designated by both parties. Party A and Party B hold the shares of the project company as agreed and collect earnings accordingly.
5. Both parties agreed to form a strategic alliance based on this Agreement, and enter project related business negotiation with any third parties as a union.

### III. Cooperation Progress

In order to ensure the smooth progress of cooperation, the two parties agreed to the following schedule, and cooperate actively to promote relevant work:

1. Before October 15, 2013, completing the establishment of the joint fund management company;
  2. Before November 30, 2013, completing the first round of fund raising and subscription;
  3. Before January 31, 2014, forming an operating company responsible for developing HNA Airlines Group's in-flight internet platform project and pursuant to the agreement stipulating the exclusive operating rights and the corresponding upgrade plan of the Project which Party A entered with the airline company affiliated to HNA Airlines Group, the Fund will invest the fund raised in the first round to the operating company for the purpose of equipment purchasing and upgrade works. The detailed purchase and implementation of the aforesaid equipment will be completed by the operating company;
  4. Before February 28, 2014, initiating HNA Airlines Group's in-flight internet platform upgrade and business operations in flights of the airline company affiliated to HNA Airlines Group;
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5. In case of Party B fails to accomplish its obligations on schedule as agreed above, and the delay lasts over 30 days; or other form of omission of Party B results in the failure of the cooperation objective, Party A has the right to terminate this agreement and Party B shall be liable to pay Party A 1% of the amount of the first round fund rising target.

#### **IV. Confidentiality and External Disclosure**

Each party shall treat the existence and contents of this agreement as confidential, shall not disclose such information in any way unless is required to be disclosed in accordance with applicable laws, regulations or government orders.

#### **V. Supplementary Provisions**

1. From the date of effectiveness, both parties shall actively promote all the items agreed in this agreement, and continuously explore new opportunities for cooperation.
2. For matters not mentioned herein, the parties hereto may revise or supplement through negotiation.
3. This agreement may be supplemented only by mutual consent in writing between both parties. The supplement and this agreement are equally valid.
4. This agreement shall become effective as of the date of signature and seal by the authorized representatives of both parties. This agreement is signed and sealed in four (4) original copies, and the parties shall each keep two (2) original copies, with each of equally binding force.

Party A: HNA Culture Holding Group Co., Ltd.

Authorized representative: /s/ HNA Culture Holding Group Co., Ltd.

Party B: AirMedia Group Co., Ltd.

Authorized representative: /s/ AirMedia Group Co., Ltd.

Date: October 28, 2013

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## List of Subsidiaries and Affiliated Entities

Wholly-Owned Subsidiaries

|   | <b>Place of Incorporation</b> |
|---|-------------------------------|
| 1. Broad Cosmos Enterprises Ltd.                      | British Virgin Islands        |
| 2. Air Media International Ltd.                       | British Virgin Islands        |
| 3. Excel Lead International Limited                   | British Virgin Islands        |
| 4. Dominant City Ltd.                                 | British Virgin Islands        |
| 5. Easy Shop Limited                                  | British Virgin Islands        |
| 6. Air Media (China) Limited                          | Hong Kong                     |
| 7. Glorious Star Investment Limited                   | Hong Kong                     |
| 8. AirMedia Technology (Beijing) Co., Ltd.            | PRC                           |
| 9. Shenzhen AirMedia Information Technology Co., Ltd. | PRC                           |
| 10. Xi'an AirMedia Chuangyi Technology Co., Ltd.      | PRC                           |

Affiliated Entities Consolidated in the Registrant's Financial Statements

|   | <b>Place of Incorporation</b> |
|---|-------------------------------|
| 11. Beijing AirMedia Jinsheng Advertising Co., Ltd.   | PRC                           |
| 12. Beijing Shengshi Lianhe Advertising Co., Ltd.   | PRC                           |
| 13. AirMedia Group Co., Ltd.  | PRC                           |
| 14. Beijing AirMedia UC Advertising Co., Ltd.   | PRC                           |
| 15. Beijing Yuehang Digital Media Advertising Co., Ltd.   | PRC                           |
| 16. Wenzhou AirMedia Advertising Co., Ltd.  | PRC                           |
| 17. AirTV United Media & Culture Co., Ltd.  | PRC                           |
| 18. Beijing AirMedia Film & TV Culture Co., Ltd.  | PRC                           |
| 19. Flying Dragon Media Advertising Co., Ltd.   | PRC                           |
| 20. Beijing GreatView Media Advertising Co., Ltd. (formerly known as Beijing Weimei Shengjing Advertising Co., Ltd.)            | PRC                           |
| 21. Beijing Weimei Lianhe Advertising Co., Ltd.   | PRC                           |
| 23. Hainan Jinhui Guangming Media Advertising Co., Ltd.   | PRC                           |
| 24. Beijing AirMedia Jiaming Film & TV Culture Co., Ltd. (formerly known as Beijing Yutong Hezhong Advertising Media Co., Ltd.) | PRC                           |
| 25. Beijing AirMedia Media Advertising Co., Ltd. (formerly known as Beijing AirMedia Jinshi Advertising Co., Ltd.)              | PRC                           |
| 26. Tianjin AirMedia Jinshi Advertising Co., Ltd.   | PRC                           |
| 27. Tianjin AirMedia Advertising Co., Ltd.  | PRC                           |
| 28. AirMedia City (Beijing) Outdoor Advertising Co., Ltd.   | PRC                           |
| 29. Beijing Dongding Gongyi Advertising Co., Ltd.   | PRC                           |
| 30. Guangzhou Meizheng Advertising Co., Ltd.  | PRC                           |
| 31. Beijing AirMedia Tianyi 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: April 25, 2014

By: /s/ Herman Man Guo

Name: Herman Man Guo

Title: Chief Executive Officer

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

I, Henry Hin-hung Ho, 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: April 25, 2014

By: /s/ Henry Hin-hung Ho

Name: Henry Hin-hung Ho

Title: Chief Financial Officer

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**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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Herman Man Guo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 25, 2014

By: /s/ Herman Man Guo

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Name: Herman Man Guo

Title: Chief Executive Officer

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**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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry Hin-hung Ho, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 25, 2014

By: /s/ Henry Hin-hung Ho

Name: Henry Hin-hung Ho

Title: Chief Financial Officer

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 and No. 333-161067 on Form F-3 of our reports dated April 25, 2014, relating to the consolidated financial statements and financial statement schedule of AirMedia Group Inc., its subsidiaries, its variable interest entities (the "VIEs") and its VIEs' subsidiaries (collectively, the "Group") as of December 31, 2012 and 2013, and for the years ended December 31, 2011, 2012 and 2013, and the effectiveness of the Group's internal control over financial reporting, appearing in this Annual Report on Form 20-F of AirMedia Group Inc. for the year ended December 31, 2013.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People's Republic of China  
April 25, 2014

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[Letterhead of Commerce & Finance Law Offices]

April 25, 2014

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

Dear Sirs,

We consent to the reference to our firm under “Item 3. Key Information—D. Risk Factor” and “Item 4. Information on the Company—B. Business Overview—Regulation” in AirMedia Group Inc.’s Annual Report on Form 20-F for the year ended December 31, 2013, which will be filed with the Securities and Exchange Commission (the “SEC”). We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report on Form 20-F for the year ended December 31, 2013.

Yours faithfully,  
/s/ Commerce & Finance Law Offices  
Commerce & Finance Law Offices

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

25 April 2014

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 2013 (the "Annual Report").

We hereby consent to the reference of our name under the heading "Item 16G. Corporate Governance" in the Form 20-F. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours faithfully

/s/ Maples and Calder  
Maples and Calder

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