

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

FORM 20-F

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, 2017

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

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

Title of each class  
**Ordinary shares, par value \$0.001 per share\***  
**American Depositary Shares, each representing  
two ordinary shares**

Name of each exchange on which registered  
**The Nasdaq Stock Market LLC  
(The Nasdaq Global Select Market)**

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

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

**None**

*(Title of Class)*

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

**None**

*(Title of Class)*

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2017, 125,629,779 ordinary shares, par value \$0.001 per share, were outstanding.

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

Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically 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 such files).

Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Emerging growth company

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

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

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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

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

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AIRMEDIA GROUP INC.

Annual Report on Form 20-F

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## INTRODUCTION

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

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

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

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain Renminbi figures in this annual report are translated into U.S. dollars solely for the reader’s convenience. Unless otherwise noted, all convenience translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB6.5063 to \$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 29, 2017. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rate stated above, or at all.

## FORWARD-LOOKING INFORMATION

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

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

- our growth strategies;
- our future business development, results of operations and financial condition, including the prospect of our new Wi-Fi business;
- competition in the advertising industry and in particular, the travel advertising industry in China;
- the expected growth in consumer spending, average income levels and advertising spending levels;
- the growth of the air, train and long-haul bus travel sectors in China; and

- PRC governmental policies relating to the advertising industry.

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

**PART I**

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

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

*Selected Consolidated Financial Data*

The following table represents our selected consolidated financial information. The selected consolidated statements of operations data for the years ended December 31, 2015, 2016 and 2017 and the consolidated balance sheet data as of December 31, 2016 and 2017 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, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015, except for the impact of retrospective adjustments for the deconsolidation of our media business in airports (excluding digital TV screens in airports and TV-attached digital frames) and all billboard and LED media business outside of airports (excluding gas station media network and digital TV screens on airplanes), all of which have been classified as discontinued operations, have been derived from our financial statements for the relevant periods, which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

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

	<b>Years Ended December 31,</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>(In thousands of U.S. Dollars, except share, per share and per ADS data)</b>					
<b>Consolidated Statements of Operations Data:</b>					
<b>Revenues:</b>					
<i>Air Travel Media Network</i>	\$ 80,002	\$ 59,200	\$ 38,917	\$ 12,178	\$ 18,702
<i>Gas Station Media Network</i>	12,726	11,164	9,840	4,009	4,093
<i>Other Media</i>	36	5,583	2,109	410	1,533
<b>Total revenues</b>	<b>92,764</b>	<b>75,947</b>	<b>50,866</b>	<b>16,597</b>	<b>24,328</b>
Business tax and other sales tax	(1,511)	(1,254)	(633)	(84)	(569)
<b>Net revenues</b>	<b>91,253</b>	<b>74,693</b>	<b>50,233</b>	<b>16,513</b>	<b>23,759</b>
Cost of revenues	(97,741)	(96,608)	(89,577)	(49,042)	(58,967)
<b>Gross loss</b>	<b>(6,488)</b>	<b>(21,915)</b>	<b>(39,344)</b>	<b>(32,529)</b>	<b>(35,208)</b>
Operating expenses:					
Selling and marketing	(9,202)	(12,916)	(9,611)	(12,056)	(12,747)
General and administrative	(15,104)	(20,620)	(27,102)	(44,401)	(63,507)
Impairment of fixed assets, prepaid equipment cost and intangible assets	—	—	—	(826)	(67,342)
Total operating expenses	(24,306)	(33,536)	(36,713)	(57,283)	(143,596)
<b>Loss from operations</b>	<b>(30,794)</b>	<b>(55,451)</b>	<b>(76,057)</b>	<b>(89,812)</b>	<b>(178,804)</b>
Interest (expense) income	(224)	1,058	472	843	2,645
Other income, net	695	979	1,383	4,243	214
<b>Loss before income taxes</b>	<b>(30,323)</b>	<b>(53,414)</b>	<b>(74,202)</b>	<b>(84,726)</b>	<b>(175,945)</b>
Income tax (benefits) / expenses	(537)	(1,512)	6,421	4,483	633
Loss from continuing operations before (loss) income on equity method investments	(29,786)	(51,902)	(80,623)	(89,209)	(176,578)
(loss) income on equity method investments	(69)	(212)	2,352	(33)	(2,603)
<b>Net loss from continuing operations</b>	<b>(29,855)</b>	<b>(52,114)</b>	<b>(78,271)</b>	<b>(89,242)</b>	<b>(179,181)</b>
Net income from discontinued operations, net of tax	18,335	20,288	221,183	—	—
<b>Net (loss) income</b>	<b>(11,520)</b>	<b>(31,826)</b>	<b>142,912</b>	<b>(89,242)</b>	<b>(179,181)</b>
Less: Net (loss)/ income attributable to noncontrolling interests	(894)	(6,131)	(6,735)	23,617	(22,705)
-Continuing operations	(894)	(6,808)	(7,620)	23,617	(22,705)
-Discontinued operations	—	677	885	—	—
<b>Net (loss) income attributable to AirMedia Group Inc.'s shareholders</b>	<b>(10,626)</b>	<b>(25,695)</b>	<b>149,647</b>	<b>(65,625)</b>	<b>(156,476)</b>
-Continuing operations	(28,961)	(45,306)	(70,651)	(65,625)	(156,476)
-Discontinued operations	18,335	19,611	220,298	—	—
<b>Weighted average shares outstanding used in computing net (loss) income per ordinary share</b>					
-basic					
Continuing operations	120,386,635	119,304,773	121,740,194	125,277,056	125,629,779
Discontinued operations	120,386,635	119,304,773	121,740,194	—	—
-diluted					

Continuing operations	120,386,635	119,304,773	121,740,194	125,277,056	125,629,779
Discontinued operations	120,391,294	119,924,927	129,372,158	—	—
<b>Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ordinary share—basic</b>					
Continuing operations	\$ (0.24)	\$ (0.38)	\$ (0.58)	\$ (0.52)	\$ (1.25)
Discontinued operations	0.15	0.16	1.81	—	—
<b>Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ordinary share—diluted</b>					
Continuing operations	\$ (0.24)	\$ (0.38)	\$ (0.58)	\$ (0.52)	\$ (1.25)
Discontinued operations	0.15	0.16	1.70	—	—
<b>Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ADS—basic<sup>(1)</sup></b>					
Continuing operations	\$ (0.48)	\$ (0.76)	\$ (1.16)	\$ (1.04)	\$ (2.50)
Discontinued operations	0.30	0.33	3.62	—	—
<b>Net (loss) income attributable to AirMedia Group Inc.'s shareholders per ADS—diluted<sup>(1)</sup></b>					
Continuing operations	\$ (0.48)	\$ (0.76)	\$ (1.16)	\$ (1.04)	\$ (2.50)
Discontinued operations	0.30	0.33	3.41	—	—

(1) Each ADS represents two ordinary shares.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2013, 2014, 2015, 2016 and 2017:

	As of December 31,				
	2013	2014	2015	2016	2017
	(In thousands of U.S. Dollars)				
<b>Balance Sheet Data:</b>					
Cash	\$ 38,846	\$ 60,117	\$ 86,960	\$ 117,547	\$ 15,355
Total assets	402,791	395,597	531,601	381,190	225,002
Total liabilities	111,448	126,725	133,968	114,593	101,323
Total AirMedia Group Inc.'s shareholders' equity	270,966	248,736	386,568	268,737	147,649
Noncontrolling interests	20,377	20,136	11,065	(2,140)	(23,970)
Total equity	\$ 291,343	\$ 268,872	\$ 397,633	\$ 266,597	\$ 123,679

**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**D. Risk Factors**

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

**RISKS RELATED TO OUR BUSINESS**

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

A 76.9% of our revenues from continuing operations in 2017 were generated from the provision of air travel advertising services through the display of advertisements on digital TV screens on airplanes. We expect digital TV screens on airplanes to contribute substantially all of our air travel network revenue and a majority of all our revenue in the foreseeable future. If we cannot substantially increase our revenues from our gas station advertising business and cannot successfully generate revenues from our Wi-Fi business, this situation will continue into the foreseeable future. A contraction in air travel advertising industry in China could therefore have a material adverse effect on our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A limited number of advertisers historically accounted for a significant portion of our revenues, but for the years ended December 31, 2015, 2016 and 2017, no individual customer accounted for over 10% of total revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our management has concluded that we had not maintained effective internal control over financial reporting and disclosure controls and procedures as of December 31, 2017 due to the material weakness identified by our independent registered public accounting firm during the audit of our internal control over financial reporting as of December 31, 2016. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses relate to a) the weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in our financial reporting team, internal control team, administration team and human resource team, b) lack of internal controls over related party borrowings resulting in interest free loans lent to director for personal purpose, and c) lack of internal controls over risk assessments related to third party borrowings resulting in material losses from loans to third parties. See "Item 15. Controls and Procedures." Any failure to achieve and maintain effective internal control over financial reporting could negatively affect the reliability of our financial information and reduce investors' confidence in our reported financial information, which in turn could result in lawsuits being filed against us by our shareholders, otherwise harm our reputation or negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements of the Sarbanes-Oxley Act.

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

## **RISKS RELATED TO OUR CORPORATE STRUCTURE**

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

Substantially all of our operations are conducted through contractual arrangements with our consolidated VIEs in China: AirMedia Online Network Technology Group Co., Ltd. (previously known as AirMedia Online Network Technology Co., Ltd.) or AM Online, Beijing Linghang Shengshi Advertising Co., Ltd. (Formerly Beijing AirMedia Shengshi Advertising Co., Ltd.), or Linghang Shengshi (Formerly "AirMedia Shengshi"), Beijing Wangfan Jiaming Advertising Co., Ltd. (Formerly Beijing AirMedia Jiaming Advertising Co., Ltd.), or Jiaming Advertising, Beijing Yuehang Digital Media Advertising Co., Ltd., or Beijing Yuehang (Formerly "AM Yuehang") and Guangzhou Meizheng Online Network Technology Co., Ltd. (formerly known as Guangzhou Meizheng Advertising Co., Ltd.), or Guangzhou Meizheng. As the Foreign-invested Advertising Enterprise Management Regulations, or the Foreign-invested Advertising Regulations, which became effective on October 1, 2008 and has been abolished on June 29, 2015, it currently permit 100% foreign ownership of companies that provide advertising services, subject to approval by relevant PRC government authorities. In addition, the Foreign Investment Industrial Guidance Catalogue (revised in 2017), which became effective on July 28, 2017, stated that television program production and operation companies fall into the category of a prohibited foreign investment industry. We believe that these regulations apply to our business and are therefore carrying out the portions of our business that involve the production of non-advertising content through our VIEs. Our wholly owned Hong Kong subsidiary Air Net (China) Limited (Formerly AirMedia (China) Limited), or AN China (Formerly "AM China"), the 100% shareholder of our three wholly foreign owned subsidiaries in China, has been operating an advertising business in Hong Kong since 2008, and thus it is allowed to directly invest in advertising business in China. In December 2014, we transferred 100% equity interest in Shenzhen Yuehang Information Technology Co., Ltd. (Formerly Shenzhen AirMedia Information Technology Co., Ltd.), or Shenzhen Yuehang (Formerly "Shenzhen AM"), to AN China to provide advertising services in China directly. In July 2015, Shenzhen Yuehang obtained the approval to include advertising in its scope of business. We therefore intent to gradually shift our advertising business to Shenzhen Yuehang to gradually reduce our reliance on the current VIE structure in terms of our advertising business. Our advertising business is currently primarily provided through our contractual arrangements with certain of our consolidated VIEs in China. These entities directly operate our air advertising network, enter into concession rights contracts related to our air advertising network and sell advertising time slots and locations to our advertisers. In addition, under current PRC regulations, a foreign entity is prohibited from owning more than 50% of any PRC entity that provides value-added telecommunication services, and Wi-Fi services might be regarded as value-added telecommunication business. As a result, we enter into concession rights contracts related to our Wi-Fi business via AM Online, which is expected to directly operate this business. We have contractual arrangements with these VIEs pursuant to which we, through Yuehang Chuangyi Technology (Beijing) Co., Ltd. (Formerly AirMedia Technology (Beijing) Co., Ltd.), or Chuangyi Technology ("Formerly "AM Technology"), provide technical support and consulting services and other services to these entities. We also have agreements with our VIEs and each of their individual shareholders (except Yi Zhang) that provide us with the substantial ability to control these entities. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure" and "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Contractual Arrangements."

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

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

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

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

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

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

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

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

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

Certain of our directors and officers are shareholders in the VIEs, AM Online, Linghang Shengshi, Jiaming Advertising, and Beijing Yuehang. Mr. Herman Man Guo, our chairman and chief executive officer, in addition to holding 15.3% in our company, also directly and indirectly holds approximately 77.2% of AM Online, 83.6% of Linghang Shengshi and 1.00% of Jiaming Advertising. Mr. Qing Xu, our director and executive president, in addition to holding 1.3% of our company, also directly and indirectly holds approximately 14.5% of AM Online, 12.50% of Linghang Shengshi and 0.21% of Jiaming Advertising. In addition, Mr. Guo and Mr. Xu are each a director of Jiaming Advertising, Linghang Shengshi and AM Advertising, Mr. Guo is the legal representative of each of Linghang Shengshi and Jiaming Advertising. For these directors and officers, their fiduciary duties toward our company under Cayman Islands 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 Chuangyi Technology and our VIEs do impose limits on the rights of the shareholders of the VIEs. For example, each of the individual shareholders of the VIEs (except Yi Zhang) has signed an irrevocable power of attorney authorizing the person designated by Chuangyi 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 Chuangyi Technology. In any such event, we would have to rely on legal remedies under PRC law, which may not be effective. See “—We rely on contractual arrangements with our consolidated variable interest entities and their shareholders for a substantial portion of our China operations, which may not be as effective as direct ownership in providing operational control” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Contractual Arrangements.”

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

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

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

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

Except for Yi Zhang, who acquired 3.5% minority equity interest in each of AM Online, Linghang Shengshi and Jiaming Advertising in January 2016, the individual shareholders of our VIEs, each a consolidated affiliated entity of ours, have pledged all of their equity interests, including the right to receive declared dividends, in the relevant VIEs to Chuangyi Technology, our wholly-owned subsidiary. An equity pledge agreement becomes effective among the parties upon execution, but according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. We have not yet registered the share pledges by shareholders of AM Online, Linghang Shengshi and Jiaming Advertising. As the registration of these pledges has not yet been completed so far, the pledges, as property rights, have not yet become effective under the PRC Property Rights Law. Before the registration procedures are completed, we cannot assure you that the effectiveness of these pledges will be recognized by PRC courts if disputes arise with respect to certain pledged equity interests or that Chuangyi Technology’s interests as pledgee will prevail over those of third parties. Chuangyi Technology may not be able to successfully enforce these pledges against any third parties who have acquired property right interests in good faith in the equity interests in AM Online, Linghang Shengshi and Jiaming Advertising. As a result, if AM Online, Linghang Shengshi or Jiaming Advertising breaches their respective obligations under the various agreements described above, and there are third parties who have acquired equity interests in good faith, Chuangyi 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 Chuangyi 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 Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi (formerly "Xi'an AM") for our cash requirements, including the funds necessary to service any debt we may incur. If Chuangyi Technology, Shenzhen Yuehang or Xi'an Shengshi 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 Chuangyi Technology currently has in place with our VIEs in a manner that would materially and adversely affect Chuangyi Technology's ability to pay dividends and other distributions to us.

Furthermore, relevant PRC laws and regulations permit payments of dividends by Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi Dinghong Information Technology Co., Ltd. (Formerly Xi'an AirMedia Chuangyi Technology Co., Ltd.), or Xi'an Shengshi, 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 Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi is \$45.0 million, \$96.4 million (approximately RMB700 million) and \$50.0 million, respectively. Xi'an Shengshi has made the applicable annual appropriations required under PRC law. Chuangyi Technology and Shenzhen Yuehang are not currently required to fund any statutory surplus reserve because Chuangyi Technology incurred loss this year and Shenzhen Yuehang 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 Chuangyi Technology, Shenzhen Yuehang or Xi'an Shengshi has any present plan to pay any cash dividends to us in the foreseeable future, any limitation on the ability of Chuangyi Technology, Shenzhen Yuehang or Xi'an Shengshi to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, or otherwise fund and conduct our business.

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

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

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

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

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

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

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

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

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

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

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

Substantially all of our revenues and expenses are denominated in Renminbi. We may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payments of dividends declared, if any, in respect of our ordinary shares or ADSs. Under China's existing foreign exchange regulations, Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi 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 Chuangyi Technology, from converting registered capital in foreign exchange into RMB for the purpose of equity investment, granting certain loans, repayment of inter-company loans, and repayment of bank loans which have been transferred to a third party. Further, Circular 45 generally prohibits a foreign invested entity from converting registered capital in foreign exchange into RMB for the payment of various types of cash deposits. If our VIEs require financial support from us or our wholly foreign-owned enterprises in the future and we find it necessary to use foreign currency-denominated capital to provide such financial support, our ability to fund the VIEs' operations will be subject to statutory limits and restrictions, including those described above.

Circular 45 was abolished by SAFE on March 19, 2015 according to a Circular on Promulgating the Abolishment and Invalidation of 50 Foreign Exchange-related Regulatory Documents. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or SAFE Circular 19, which will take effect on June 1, 2015 and will replace SAFE Circular 142. On June 9, 2016, the SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which revised some provisions of SAFE Circular 19. SAFE Circular 19 and SAFE Circular 16 allow foreign-invested enterprises to settle 100% of their foreign exchange capitals on a discretionary basis and allows ordinary foreign-invested enterprises to make domestic equity investments by capital transfer in the original currencies, or with the amount obtained from foreign exchange settlement, subject to complying with certain requirements. According to SAFE Circular 19 and SAFE Circular 16, the RMB funds obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capitals shall be managed under the accounts pending for foreign exchange settlement payment, and foreign-invested enterprise shall not use its capital and the RMB funds obtained from foreign exchange settlement for the purposes within the following negative list: for expenditure beyond its business scope or expenditure prohibited by laws and regulations, for investments in securities or other investments than banks' principal-secured products, for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license, or for construction or expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise. Nevertheless, it is still not clear whether foreign-invested enterprises like our PRC subsidiaries are allowed to extend intercompany loans to our VIEs.

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

The EIT Law (revised in 2017), which became effective on February 24, 2017, imposes a uniform income tax rate of 25% on most domestic enterprises and foreign investment enterprises. Under this law, entities that qualify as “high and new technology enterprises strongly supported by the state,” or HNTE, are entitled to the preferential EIT rate of 15%. A company’s status as a HNTE is valid for three years, after which the company must re-apply for such qualification in order to continue to enjoy the preferential EIT rate. In addition, according to relevant guidelines, “new software enterprises” can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

One of our PRC subsidiaries, Chuangyi 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, Chuangyi Technology was subject to an EIT rate of 7.5% in 2009 and 2010. In September 2011, Chuangyi Technology received the HNTE certificate, and, Chuangyi Technology successfully renewed its HNTE status and obtained the renewed certificate issued by the competent governmental authority successively in October 2014 and December 2017. As a result, Chuangyi Technology is expected to be subject to an EIT rate of 15% until 2019 as long as it maintains its HNTE status.

Xi’an AirMedia Chuangyi Technology Co., Ltd., one of our PRC subsidiaries, or Xi’an Shengshi, qualified as a “software enterprise” in August 2008 by the Technology Information Bureau of Shaanxi Province and has received a written approval from Xi’an local tax bureau that it is granted a two-year exemption from EIT commencing on its first profitable year and a 50% reduction of the 25% EIT rate for the succeeding three years. As Xi’an Shengshi first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoyed the preferential income tax rate of 12.5% from 2011 to 2013. Xi’an Shengshi received the HNTE certificate jointly issued by the competent governmental authorities in Shanxi Province in September 2014. As such, Xi’an Shengshi enjoyed a preferential income tax rate of 15% from 2014 to 2016. Xi’an Shengshi is subject to EIT at a rate of 25% from 2017 afterwards.

Shenzhen AirMedia Information Technology Co., Ltd., one of our PRC subsidiaries, or Shenzhen Yuehang, 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 Yuehang 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 Yuehang is subject to EIT at a rate of 25% from 2013 afterwards.

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

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

Under the EIT Law and related regulations, dividends payable by a foreign-invested enterprise in China to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, or BVI, where Broad Cosmos Enterprises Ltd., or Broad Cosmos, our wholly-owned subsidiary, is incorporated, does not have such a tax treaty with AN China, the 100% shareholder of Chuangyi Technology, Shenzhen Yuehang and Xi’an Shengshi, 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. On February 3, 2018, SAT issued Announcement of the State Administration of Taxation on Issues concerning “Beneficial Owners” in Tax Treaties, or Circular 9, which became effective on April 1, 2018 and superseded Notice No. 601. In comparison with Notice No. 601, Circular 9 enlarging and further explaining the scope of beneficial owner, supplementing the applicants deemed as beneficial owners who obtain proceeds from China as direct or indirect 100% shareholder, increasing the certainty of identifying beneficial owner.

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.

***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. However, SAT issued Announcement of the State Administration of Taxation on Matters concerning Withholding of Income Tax of Non-resident Enterprises at Source, or Circular 37, which became effective on December 1, 2017 and superseded Circular 698. In comparison with Circular 698, Circular 37 releases the obligations of withholding agent, taxpayer by adopting straightforward procedures and simple calculation concerning withholding income tax of non-resident enterprises at source.

On February 3, 2015, the SAT issued the Announcement on Several Issues concerning the Enterprise Income Tax on Indirect Transfers of Properties by Non-Resident Enterprises, or Public Notice 7, to supersede tax rules in relation to the Indirect Transfer of Shares under the original SAT Circular 698, while the other provisions of SAT Circular 698 remain in force. Public Notice 7 covers transactions involving not only Indirect Transfer of Shares as set forth under SAT Circular 698 but also transactions involving an overseas company's indirect transfer of other property or assets (such as real properties) located in China (collectively, "PRC Taxable Properties") through transfer of shares of an offshore intermediary company. Pursuant to Public Notice 7, in the event that non-residential enterprises indirectly transfer PRC Taxable Properties without reasonable commercial purposes in order to evade PRC enterprise income tax, such indirect transfer will be deemed as direct transfer of PRC Taxable Properties and, therefore, be subject to PRC enterprise income tax. In addition, Public Notice 7 provides clearer criteria on how to assess reasonable commercial purposes and allows for safe harbor scenarios applicable to internal group restructurings. Under Public Notice 7, subject to certain exceptions such as internal group restructurings and purchase and sale of shares of the same publicly-listed overseas enterprise in a public securities market, an indirect transfer of PRC Taxable Properties shall be directly deemed as having no reasonable commercial purposes if the following circumstances are satisfied: (i) more than 75% of the value of overseas enterprises' shares directly or indirectly comes from PRC Taxable Properties; (ii) at any time within one year before the indirect transfer of PRC Taxable Properties, more than 90% the total amount of overseas enterprises' assets (excluding cash) are directly or indirectly constituted by their investment within the PRC, or within one year before the indirect transfer of PRC Taxable Properties, more than 90% of the overseas enterprises' income directly or indirectly derive from the PRC; (iii) the overseas enterprises and their controlling enterprises, which directly or indirectly hold PRC Taxable Properties, cannot justify the economic substance of the corporate structure; and (iv) overseas tax payment regarding indirect transfer of PRC Taxable Properties is lower than PRC tax payment regarding direct transfer of PRC Taxable Properties. Public Notice 7 also brings uncertainties to the offshore transferor and transferee of the indirect transfer of PRC Taxable Properties as they have to make self-assessment on whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. As a result, where non-resident investors were involved in our private equity financing or share transfer of our company between two or more offshore parties, if such transactions were determined by the tax authorities to lack reasonable commercial purpose, we and our non-resident investors may become at risk of being taxed under SAT Circular 698, Circular 37 and Public Notice 7 and may be required to expend valuable resources to comply with SAT Circular 698, Circular 37 and Public Notice 7 or to establish that we should not be taxed under SAT Circular 698, Circular 37 and Public Notice 7, which may have an adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. We may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under SAT Circular 59, SAT Circular 698, Circular 37 or Public Notice 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations. Although Circular 37 requires less scrutiny on withholding income tax of non-resident enterprises at source, we cannot assure you that the PRC government will not take harsh measures in the future with respect to tax related regulations over acquisition transactions.

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

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

***Our prior and current audit reports are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Deloitte Touche Tohmatsu Certified Public Accountants LLP (Deloitte), which acted as our independent registered public accounting firm until March 3, 2017, issued audit reports included in our prior annual reports filed with the United States Securities and Exchange Commission. Auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because Deloitte is located in the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, they are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating Deloitte'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 Deloitte's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements issued by Deloitte.

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

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

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

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

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

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

In June 2015, we entered into an equity interest transfer agreement with Beijing Longde Wenchuang Investment Fund Management Co., Ltd. to sell 75% equity interest of AM Advertising for RMB2.1 billion in cash. In November 2015, Beijing Longde Wenchuang Investment Fund Management Co., Ltd. assigned and transferred its rights and obligations under the equity interest transfer agreement relating to 46.43% equity interest of AM Advertising to Beijing Cultural Center Construction and Development Fund (Limited Partnership). We have completed the equity interest transfer and have received the payments for the transfer. However, under that equity interest transfer agreement, the buyers may require us to repurchase the 75% equity interest upon the occurrence of certain events. In addition, the agreement's earnout provisions will continue to apply until all profit targets have been achieved. See "Item 4. Information on the Company—A. History and Development of the Company." On March 29, 2018 and August 23, 2018, we entered into a memorandum of understanding (MoU) and its supplemental agreement respectively, with, among others, Beijing Longde Wenchuang Investment Fund Management Co., Ltd and Beijing Cultural Center Construction and Development Fund (Limited Partnership), under which, among other things, Linghang Shengshi and Mr. Guo have agreed to pay or make available to AM Advertising on or prior to May 30, 2018 and further extended to September 30, 2018 an aggregate of RMB304,553,900 which was to be discounted by the following amounts (i) the RMB152,000,000 profits attributable to Linghang Shengshi, Mr. Guo and Mr. Xu for the first nine months of 2015, based on a third-party pro forma audit report on the Target Business; (ii) the shareholder loan of RMB88,000,000 in principal balance and RMB7,840,000 in interests; and (iii) the payment of RMB56,713,900 in cash after the sale of the 20.32% equity interests in AM Advertising, which consisted of 20% equity interests hold by the Group and 0.32% equity interests hold by Mr. Man Guo, and following the completion of the foregoing arrangements, our obligations with respect to the profit target for 2015, the earnout provision for the first nine months of 2015 and the shareholder loans between AM Advertising and Linghang Shengshi shall be deem completed. According to the aforesaid MoU, after Linghang Shengshi, Mr. Guo and Mr. Xu transfer all the equity interest of AM Advertising, they will cease to be shareholders of AM Advertising and will not be able to continuously assume the obligations in connection with the profit commitment and earnout provision as a matter of fact. The Group is negotiating for further extension of MoU. However, we cannot assure you that the buyers will not bring up any claim with respect to the above arrangements and if there is any dispute or legal proceedings initiated, our business and financial position may be adversely affected.

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

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. From January 1, 2017 to September 30, 2018, the trading prices of our ADSs on the Nasdaq Global Select Market ranged from \$0.38 to \$3.3 per ADS, and the last reported trading price on October 16, 2018 was \$0.39 per ADS. The price of our ADSs may fluctuate in response to a number of events and factors including, changes in the economic performance or market valuations of other advertising companies, conditions in the air travel advertising industry and the sales or perceived potential sales of additional ordinary shares or ADSs.

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

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

***We have been named as a defendant or respondent in legal proceedings that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.***

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

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

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

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

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



The 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 amended and restated memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2018 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary duties of our directors are to a large extent governed by the common law of the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

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

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

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

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

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

Certain principal shareholders hold a substantial percentage of the outstanding shares of our company. For example, as of August 31, 2018, our principal shareholder, Mr. Herman Man Guo, along with his wife, Ms. Dan Shao, beneficially owned approximately 31.9% of our outstanding ordinary shares. Mr. Guo and other principal shareholders of our company could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

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

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

***We believe we were a passive foreign investment company for our taxable year ended December 31, 2017, which could subject United States investors in the ADSs or ordinary shares to significant adverse United States income tax consequences.***

Based on the market price of our ADSs and composition of our assets (in particular the retention of a substantial amount of cash), we believe that we were a “passive foreign investment company,” or “PFIC,” for U.S. federal income tax purposes for our taxable year ended December 31, 2017, and we will likely be a PFIC for our current taxable year ending December 31, 2018 unless the market price of our ADSs increases and/or we invest a substantial amount of cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) 75% or more of its gross income for such year consists of certain types of “passive” income or (2) 50% or more of the average quarterly value of its assets (as generally determined on the basis of fair market value) during such year produce or are held for the production of passive income.

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

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

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

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

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

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

In June 2015, we entered into a definitive agreement with Beijing Longde Wenchuang Investment Fund Management Co., Ltd. to sell 75% equity interest of AirMedia Group Co., Ltd., or AM Advertising, for a consideration of RMB2.1 billion in cash. In November 2015, Beijing Longde Wenchuang Investment Fund Management Co., Ltd. assigned and transferred its rights and obligations under the equity interest transfer agreement relating to 46.43% equity interest of AM Advertising to Beijing Cultural Center Construction and Development Fund (Limited Partnership). As part of the transaction, we effected an internal business reorganization and transferred all our media business in airports (excluding digital TV screens in airports and TV-attached digital frames) and all billboard and LED media business outside of airports (excluding gas station media network and digital TV screens on airplanes) to AM Advertising to form the target business to be sold (the “Disposed Business”) and transferred our other business out of AM Advertising. To effectuate the sale, we removed the VIE structure with respect to AM Advertising. The change in the equity ownership of AM Advertising was registered with the local branch of the State Administration for Industry and Commerce, or the SAIC (which has merged into the State Administration for Market Regulation, or the SAMR, in March 2018), in December 2015. We now hold 20.2% equity interest in AM Advertising and has ceased to consolidate the results of AM Advertising. The buyers may require the Company to repurchase the equity interest of AM Advertising upon the occurrence of any of the following events:

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

the internal restructuring as required under the equity interest transfer agreement has not been fully completed by June 30, 2016.

In addition, the agreement's earnout provisions will continue to apply until all profit targets are achieved. In the event the adjusted net profit of AM Advertising after the provided restructuring in 2015, 2016 and 2017 is less than the profit target provided for in the agreement, we, as a shareholder of AM Advertising, will be obligated to compensate the buyers for the deficiency by nil-consideration equity interest transfers or other means of compensation. On March 29, 2018 and August 23, 2018, we entered into a memorandum of understanding (MoU) and its supplemental agreement respectively, with, among others, Beijing Longde Wenchuang Investment Fund Management Co., Ltd and Beijing Cultural Center Construction and Development Fund (Limited Partnership), under which, among other things, Linghang Shengshi and Mr. Guo have agreed to pay or make available to AM Advertising on or prior to May 30, 2018 and further extended to September 30, 2018 an aggregate of RMB304,553,900 which was to be discounted by the following amounts (i) the RMB152,000,000 profits attributable to Linghang Shengshi, Mr. Guo and Mr. Xu for the first nine months of 2015, based on a third-party pro forma audit report on the Target Business; (ii) the shareholder loan of RMB88,000,000 in principal balance and RMB7,840,000 in interests; and (iii) the payment of RMB56,713,900 in cash after the sale of the 20.32% equity interests in AM Advertising, which consisted of 20% equity interests hold by the Group and 0.32% equity interests hold by Mr. Man Guo, and following the completion of the foregoing arrangements, our obligations with respect to the profit target for 2015, the earnout provision for the first nine months of 2015 and the shareholder loans between AM Advertising and Linghang Shengshi shall be deemed completed. According to the aforesaid MoU, after Linghang Shengshi, Mr. Guo and Mr. Xu transfer all the equity interest of AM Advertising, they will cease to be shareholders of AM Advertising and will not be able to continuously assume the obligations in connection with the profit commitment and earnout provision as a matter of fact. However, we cannot assure you that the buyers will not bring up any claim with respect to the above arrangements and if there is any dispute or legal proceedings initiated, our business and financial position may be adversely affected. The Group is negotiating for further extension of MoU.

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

In June 2015, Mr. Herman Man Guo submitted to the board of directors of the Company a preliminary nonbinding proposal letter (the "Proposal Letter") to acquire the Company in a going private transaction for \$3.00 in cash per Share (or \$6.00 in cash per ADS) other than any ordinary shares or ADSs beneficially held by Mr. Guo, his affiliates or other management shareholders who may choose to roll over their Shares in connection with the proposed acquisition (the "Proposal"). The board of directors of the Company formed a special committee comprised of three independent and disinterested directors, Messrs. Conor Chia-hung Yang, Shichong Shan and Songzuo Xiang, to negotiate the Proposal with the buyer group. On September 28, 2015, the Company entered into a definitive agreement and plan of merger (the "Merger Agreement") with AirMedia Holdings Ltd. ("Parent") and AirMedia Merger Company Limited, a wholly owned subsidiary of Parent, pursuant to which Parent will acquire the Company for \$3.00 per Share (or \$6.00 per ADS). Under the terms of the Merger Agreement, either the Company or Parent could terminate the Merger Agreement if the merger contemplated by the Merger Agreement has not been completed by the date of June 28, 2016. In 2016 and 2017, the parties entered into various amendments to the Merger Agreement to extend this termination date and amend other terms of the Merger Agreement. The Merger Agreement was terminated on December 27, 2017 in view that the going private transaction would not be completed by December 31, 2017.

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

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

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

## **B. Business Overview**

### ***General***

As a media platform operator, we focus on providing mid-to-high-end consumers with wireless connectivity and contents of both entertainment and advertisement nature en route of their travel. We purchase from producers and owners copyrighted entertainment contents covering a variety of interests such as sports, comedies, local attractions, reality shows, commentaries, documentaries, and offer these purchased copyrighted entertainment contents to transportation providers. Furthermore, we pay concession fees to or share profits with transportation providers to equip their passenger carriers with Wi-Fi capabilities. Moreover, we pay concession fees to owners of gas stations throughout China to display advertisements. After our divestitures in 2015, we generate revenues by offering purchased copy rights of entertainment contents to transportation providers, advertising time slots to advertisers and advertising agencies, and Wi-Fi connections to passengers.

Our purchased copyrights of entertainment contents include a variety of aspects of life styles attracting traveling consumers. These contents mostly show as individual programs lasting from approximately 45 minutes to 60 minutes of which approximately 3 minutes to 15 minutes are divided into slots sold to advertisers to show advertising contents of their choice. Other than individual programs, we play popular films as well. Our contents are usually showed on digital TV screens that are highly visible to passengers or on mobile devices brought by passengers.

We usually offer advertising time slots to the advertisers at a fix duration, time and frequency of displaying advertisements. Payments of certain offering are subject to the receipt of monitoring reports verified by the advertisers. We generally require a screening of the advertising contents at least 10 working days for digital media or 14 working days for conventional media before the contents are to be aired. We reserve the right to refuse providing the service shall the advertising content fail to meet the requirements under PRC laws and regulations.

As of August 31, 2018, we have established business relationships with more than 100 media content producers both domestically and overseas. Since the divesture in 2015, we no longer operated CIBN-Airmedia channel to broadcast network TV programs to air travelers in China. CIBN-Airmedia channel was a strategic partnership established between AirMedia and China Radio International Oriental Network (Beijing) Co., Ltd. in January 2014.

As of December 31, 2017, we have established business relationships with seven airlines to play our programs and films on their fleet of planes, with nine railway administrative authorities to provide Wi-Fi connections and with SINOPEC to operate all of the outdoor advertising media at its gas stations throughout China. In early 2018, we have decided to further extend our collaborations with the airlines to provide Wi-Fi connections inflight in addition to offering advertisement and copyrighted entertainment contents. To enhance our inflight connectivity component, we are committed to take full advantage of our partnership with China Unicom to improve travelers' experience when they connect to the Internet en route of their travel. With respect to our copyrighted entertainment component, we plan to strengthen our efforts in copyright resales and to develop a mobile theater to travelers in the millions. With respect to our copyrighted entertainment component, we plan to strengthen our efforts in copyright resales and to present travelers in millions a theatric viewing experience of a comprehensive collection of entertainment contents

While focus on the inflight component of our business, the management attempted business alignments to address unexpected operational underperformance from our Wi-Fi services on trains, long-halt buses and our gas station media service. An immediate assessment indicated that the underperformance could be ascribed to i) the wide spread of 4G technology and affordable data plans; and ii) a depleting marketing budget from some of our advertisers. In order to prevent further losses while broadening our comprehension of the impacts of the technologies and market situation imposed on our business components, the management ceased operation in Wi-Fi service on long-halt buses and gas station media services, scaled down operations in Wi-Fi service on trains, and commissioned a comprehensive review to determine the sustainability of these business components.

To effectively allocate resources, we have negotiated an early termination of Wi-Fi services on trains managed by five local railroad administrative authorities as of August 31, 2018.

## *Advertisers, Sales and Marketing*

### *Our Advertisers*

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

We have a broad base of international and domestic advertisers in various industries. In each of 2015, 2016 and 2017, advisors from one industry, which is automobiles, accounted for more than 10% of our total revenues from continuing operations. None of our customers accounted for more than 10% of our total revenues for 2015, 2016 and 2017.

### *Sales and Marketing*

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

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

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

### ***Pricing***

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

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

### ***Programming***

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

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

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

### ***Display Equipment Supplies and Maintenance***

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

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

For our gas stations media network, the primary hardware consists of basic display equipment that we install and maintain. In 2015, 2016 and 2017, 57, 45 and 66 suppliers, respectively, together supplied a majority of our gas station display equipment. We employed a team of approximately 66 members as of December 31, 2017 to maintain the conditions of our gas station display equipment.

For our trains and buses media network, the primary hardware consists of LCD display equipment that we install and maintain. We employed a team of approximately 157 members as of December 31, 2017 to maintain the conditions of our display equipment in the trains and buses.

### ***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, gas stations, as well as trains and buses are also actively involved in the monitoring process.






### ***Competition***

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

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

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

### ***Intellectual Property***

To protect our brand and other intellectual property, we rely on a combination of trademark and trade secret laws as well as confidentiality agreements with our employees, sales agents, contractors and others. We have registered 29 major trademarks and one patent in China, including “”, “”, “”, “” and “”. We cannot be certain that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights.



## **Regulation**

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

China's Advertising Law was promulgated in 1994, and was revised in 2015. In addition, the State Council, SAIC (which has merged into the SAMR in March 2018) and other ministries and agencies have issued regulations that regulate our business, all of which are discussed below.

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

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

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

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

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

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

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

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

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

### *Regulation of Advertising Services*

#### Business License for Advertising Companies

Under applicable regulations governing advertising businesses in China, companies that engage in advertising activities must obtain from the SAMR 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 SAMR as required by existing PRC regulations.

Each of Shenzhen Yuehang, Chuangyi Technology and Xi’an Shengshi 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 SAMR or its local branches may revoke violators’ licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe the legal rights and interests of third parties in the course of their advertising business.

## Outdoor Advertising

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

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

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

## *Regulations on Foreign Exchange*

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

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or SAFE Circular 19, which will take effect on June 1, 2015. On June 9, 2016, the SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which revised some provisions of SAFE Circular 19. SAFE Circular 19 and SAFE Circular 16 allows foreign-invested enterprises to settle 100% of their foreign exchange capitals on a discretionary basis and allows ordinary foreign-invested enterprises to make domestic equity investments by capital transfer in the original currencies, or with the amount obtained from foreign exchange settlement, subject to complying with certain requirements. According to SAFE Circular 19 and SAFE Circular 16, the RMB funds obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capitals shall be managed under the accounts pending for foreign exchange settlement payment, and foreign-invested enterprise shall not use its capital and the RMB funds obtained from foreign exchange settlement for the purposes within the following negative list: for expenditure beyond its business scope or expenditure prohibited by laws and regulations, for investments in securities or other investments than banks' principal-secured products, for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license, or for construction or expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise. Moreover, on January 26, 2017, SAFE promulgated Circular of the State Administration of Foreign Exchange on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance, or Circular 3. The Circular 3 states several control measures with respect to the outbound remittance of any profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks should review board resolutions, the original version of tax filing records and audited financial statements before wiring the foreign exchange profit distribution of a foreign-invested enterprise exceeding \$50,000; and (ii) domestic entities should hold income to make up previous years' losses before remitting the profits to offshore entities. Meanwhile, verification on the genuineness and compliance of foreign direct investments in domestic entities has also been tightened in accordance with Circular 3,

Pursuant to SAFE Circular 19, SAFE Circular 16 and SAFE Circular 3, foreign invested enterprises in China may convert part or all of the amount of the foreign currency in its capital account, special account for foreign debt or special account for overseas listing into RMB at any time after going through capitals review process with bank and supplement necessary supporting documents upon bank's request for verification on genuineness and compliance. Nevertheless, it is still not clear whether foreign-invested enterprises like our PRC subsidiaries are allowed to extend intercompany loans to our VIEs.

## *Regulations on Dividend Distribution*

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

In addition, under the EIT Law, dividends generated after January 1, 2008 and payable by a FIE in China to its foreign investors who are non-resident enterprises will be subject to a 10% withholding tax unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. BVI, where Broad Cosmos, our wholly owned subsidiary, is incorporated, does not have such a tax treaty with China. AN China, the 100% shareholder of Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). In August 2015, the State Administration of Taxation released the Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (Trial Implementation), which took effect on November 1, 2015. Under these measures, our Hong Kong subsidiary needs to obtain approval from the competent local branch of the State Administration of Taxation in order to enjoy the preferential withholding tax rate of 5% in accordance with the Double Taxation Arrangement. In February 2009, the State Administration of Taxation issued Notice No. 81. According to Notice No. 81, in order to enjoy the preferential treatment on dividend withholding tax rates, an enterprise must be the "beneficial owner" of the relevant dividend income, and no enterprise is entitled to enjoy preferential treatment pursuant to any tax treaties if such enterprise qualifies for such preferential tax rates through any transaction or arrangement, the major purpose of which is to obtain such preferential tax treatment. The tax authority in charge has the right to make adjustments to the applicable tax rates, if it determines that any taxpayer has enjoyed preferential treatment under tax treaties as a result of such transaction or arrangement. In October 2009, the State Administration of Taxation issued another notice on this matter, or Notice No. 601, to provide guidance on the criteria to determine whether an enterprise qualifies as the "beneficial owner" of the PRC sourced income for the purpose of obtaining preferential treatment under tax treaties. Pursuant to Notice No. 601, the PRC tax authorities will review and grant tax preferential treatment on a case-by-case basis and adopt the "substance over form" principle in the review. Notice 601 specifies that a beneficial owner should generally carry out substantial business activities and own and have control over the income, the assets or other rights generating the income. Therefore, an agent or a conduit company will not be regarded as a beneficial owner of such income. On February 3, 2018, SAT issued Announcement of the State Administration of Taxation on Issues concerning "Beneficial Owners" in Tax Treaties, or Circular 9, which became effective on April 1, 2018 and superseded Notice No. 601. In comparison with Notice No. 601, Circular 9 enlarging and further explaining the scope of beneficial owner, supplementing the applicants deemed as beneficial owners who obtain proceeds from China as direct or indirect 100% shareholder, increasing the certainty of identifying beneficial owner. 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 Chuangyi Technology, Shenzhen Yuehang and Xi'an Shengshi to their direct shareholders would be regarded as dividends distributed between qualified resident enterprises and be exempted from the withholding tax.

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

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

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

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

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

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

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

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

***Seasonality***

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

**C. Organizational Structure**

The following diagram illustrates our principal subsidiaries, VIEs and VIEs’ subsidiaries as of September 30, 2018:



**Notes:**

(1) Several of our principal subsidiaries, VIEs and VIEs’ subsidiaries as of September 30, 2018 has been changed their names while compare to as of December 31, 2017. Following is for the details.

- Air Net International Limited (Formerly AirMedia International Limited ("Air Net International"))
- Air Net (China) Limited (Formerly AirMedia (China) Limited) ("AN China")
- Yuehang Chuangyi Technology (Beijing) Co., Ltd. (Formerly AirMedia Technology (Beijing) Co., Ltd.)
- Shenzhen Yuehang Information Technology Co., Ltd. (Formerly Shenzhen AirMedia Information Technology Co., Ltd.)
- Xi'an Shengshi Dinghong Information Technology Co., Ltd. (Formerly Xi'an AirMedia Chuangyi Technology Co., Ltd.)
- Beijing Linghang Shengshi Advertising Co., Ltd. (Formerly Beijing AirMedia Shengshi Advertising Co., Ltd.)
- Beijing Wangfan Jiaming Advertising Co.,Ltd. (Formerly Beijing AirMedia Jiaming Advertising Co., Ltd.)
- AirMedia Online Network Technology Group Co., Ltd. (Formerly AirMedia Online Network Technology Co., Ltd.)
- Beijing Aimet Pictures Co., Ltd. (Formerly Beijing AirMedia Film & TV Culture Co., Ltd.)
- Beijing Zhihe Xianglong Advertising Co., Ltd. (Formerly Flying Dragon Media Advertising Co., Ltd.)
- Wenzhou Yuehang Advertising Co., Ltd. (Wenzhou AirMedia Advertising Co., Ltd.)
- Beijing Yuehang Tianyi Electronic Information Technology Co., Ltd.(Formerly Beijing AirMedia Tianyi Information Technology Co., Ltd.)
- Wangfan Linghang Mobile Network Technology Co., Ltd. (Formerly AirMedia Mobile Network Technology Co., Ltd.)
- Beijing Wangfan Jaming Pictures Co., Ltd. (Formerly Beijing AirMedia Jiaming Film & TV Culture Co., Ltd.)

(2) AirMedia Online Network Group Technology Co., Ltd. is 77.2%, 14.5%, 4.8% and 3.5% owned by Herman Man Guo, Qing Xu, Tao Hong and Yi Zhang, respectively.

- (3) On December 15, 2016, AM Online and an individual signed concurrently an equity transfer agreement and an entrusted equity holding agreement, pursuant to which AM Online transferred 100% equity interests in Beijing Yuehang Digital Media Advertising Co., Ltd., or Beijing Yuehang, to the individual and entrusted the individual to act as the nominee shareholder of the foregoing equity interests. The entrusted equity holding agreement terminates upon the earlier of (i) two years from the date of the entrusted equity holding agreement or (ii) the transfer of all entrusted equity by AM Online to AM Online itself or a third party designated by AM Online. AM Online as the actual investor in Beijing Yuehang continues to hold actual shareholder rights and receive benefits from the investment in Beijing Yuehang.
- (4) Beijing AirMedia Jiaming Advertising Co., Ltd. is 1.0%, 0.2%, 3.5 % and 95.3% owned by Herman Man Guo, Qing Xu, Yi Zhang and Beijing Linghang Shengshi Advertising Co., Ltd., respectively.
- (5) Beijing Linghang Shengshi Advertising Co., Ltd. is 83.6%, 12.5%, 3.8% and 0.1% owned by Herman Man Guo, Qing Xu , Yi Zhang and Xiao Ya Zhang, respectively.

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

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

Our headquarters are located in Beijing, China, where we lease approximately 4,123 square meters of office space. Our branch offices lease approximately 3,558 square meters of office space in twelve other locations.

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

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

None.

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

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

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

###### ***Important Factors Affecting the Results of Operations of Our Air Travel Advertising, Gas Station Media Business and Trains, Buses and Airline Wi-Fi Business***

The operating results of our air travel advertising, gas station advertising business and trains, buses and airline Wi-Fi business are substantially affected by the following factors and trends.

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

The demand for our advertising time slots and locations for each of the last three fiscal years was directly related to our customers’ available advertising budgets and the attractiveness of our network to our customers. Our network’s attractiveness is largely affected by the coverage of our network, which in turn depends on the number of intended audience that our network has the ability to reach. In terms of our air travel advertising network, the number of intended audience we can reach is largely affected by the number of air travelers in China in generally and the scale of our network. The demand for air travel is in turn affected by general economic conditions, the affordability of air travel in China and certain special events that may attract air travelers into and within China. Our customers’ advertising spending was also particularly sensitive to changes in general economic conditions. In terms of our gas station media, in addition to the general economic conditions in China, its scope of coverage is also affected by the number of Sinopec gas stations covered by our network and the number of automobile passengers who access those gas stations. The demand for our time slots and locations on our trains, buses Wi-Fi and airline Wi-Fi systems is related to the amount of our customers’ advertising spending budget and the attractiveness of our Wi-Fi system as a platform for their advertisements. The amount of available advertising budget is largely affected by the general economic conditions in China. The attractiveness of our Wi-Fi system as an advertising platform depends on whether our Wi-Fi system has the ability to reach the advertisers’ intended audience, which will in turn be affected by factors including the number and types of travelers who will use our Wi-Fi systems and whether advertisements on our Wi-Fi systems can effectively attract the attention of such travelers.



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

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

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

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

### *Pricing*

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

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

The results of our Wi-Fi business is also affected by the level of pricing for our services.

### Utilization Rate

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

### Network Coverage and Concession Fees

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

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

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

	Fiscal Years Ended December 31,					
	2015		2016		2017	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues
Air Travel Media Network	\$ 38,917	76.5%	\$ 12,178	73.4%	\$ 18,702	76.9%
Gas station Media Network	9,840	19.4%	4,009	24.2%	4,093	16.8%
Other Media	2,109	4.1%	410	2.5%	1,533	6.3%
Total revenues	50,866	100.0%	16,597	100.0%	24,328	100.0%
Business tax and other sales tax	(633)	(1.2)%	(84)	(0.5)%	(569)	(2.3)%
Net revenues	\$ 50,233	98.8%	\$ 16,513	99.5%	\$ 23,759	97.7%

### Revenues from Air Travel Media Network

Our air travel media network revenues from continuing operations in 2015, 2016 and 2017 consisted of revenues from digital frames in airports in the form of TV-attached digital frames, digital TV screens in airports, digital TV screens on airplanes, traditional media in airports and other revenues in air travel. As we have completed in 2015 the divestiture of our business lines of digital frames in airports, digital TV screens in airports and traditional media in airports, we do not expect to have significant increase of our revenues from those businesses in the foreseeable future.

Revenues from our air travel media network accounted for 76.5%, 73.4% and 76.9% of our total revenues for the years ended December 31, 2015, 2016 and 2017, respectively. Our network consisted of six, six and seven airlines as of December 31, 2015, 2016 and 2017.

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

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

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

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

We started our gas station media network in 2009, when we gained concession rights to develop and operate an outdoor advertising network in Sinopec gas stations throughout China. Revenues from our gas station media network, consisting of outdoor advertising platforms such as LED screens, billboards and light boxes at Sinopec gas stations in China, accounted for 19.4%, 24.2% and 16.8% of our total revenues for the years ended December 31, 2015, 2016 and 2017, respectively.

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

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

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

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

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

### Cost of Revenues

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

	Fiscal Years Ended December 31,					
	(All amounts are in thousands of U.S. Dollars, except percentages)					
	2015		2016		2017	
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 50,233	100.0%	\$ 16,513	100.0%	\$ 23,759	100.0%
Cost of revenues						
Concession fees	(64,752)	(128.9)%	(23,470)	(142.1)%	(28,559)	(120.2)%
Agency fees	(4,938)	(9.8)%	(4,388)	(26.6)%	(4,675)	(19.7)%
Others	(19,887)	(39.6)%	(21,184)	(128.3)%	(25,733)	(108.3)%
Total cost of revenues	\$ (89,577)	(178.3)%	\$ (49,042)	(297.0)%	\$ (58,967)	(248.2)%

### Concession Fees

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

We began to incur concession fees related to our Wi-Fi business from 2013. We recorded these concession fees amounting to \$7.5 million, \$5.3 million and \$9.5 million in 2015, 2016 and 2017, respectively. The rest of our concession fees consisted of those related to our non-Wi-Fi business and decreased from \$57.3 million in 2015 to \$18.2 million in 2016 and to \$19.1 million in 2017 as we ceased some of our related operations during those periods.

### Agency Fees

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

## Others

Our other cost of revenues include the following:

- *Display Equipment Depreciation.* Generally, we capitalized the cost of our digital TV screens, light boxes, LED screens and billboards and related equipment in the gas station media network and PAD on high-speed trains and recognized depreciation costs on a straight-line basis over the term of their useful lives, which we estimate to be five years. The primary factors affecting our depreciation costs were the number of digital TV screens and LED screens in gas stations and the unit cost for those displays, as well as the remaining useful life of the displays.
- *Display Equipment Maintenance Cost.* Our display maintenance cost consisted of salaries for our network maintenance staff, travel expenses in relation to on-site visits and monitoring and costs for materials and maintenance in connection with the upkeep of our advertising network. The primary factor affecting our display equipment maintenance cost was the size of our network maintenance staff.
- *Non-advertising Content Cost.* The programs on the majority of our digital TV screens combine advertising content with non-advertising content, such as weather, sports and comedy clips. Our standard programs in airports currently include 40 minutes of non-advertising content during each hour of programming and are shown for approximately 16 hours per day. The length of our in-flight programs typically ranges from approximately 45 to 60 minutes per flight, approximately 40 to 45 minutes of which consist of non- advertising content. We believe that the non-advertising program content makes air travelers more receptive to the advertisements included in our programs and ultimately make our program more effective for our advertisers. This in turn allows us to charge a higher price for each advertising time slot. We also promoted the brand names of our advertisers through our program content by naming our programs after their brand names or displaying their logos on the corner of the digital TV screens during the programs. We produced some of the non-advertising content shown on our network through our VIEs. The majority of the non-advertising content broadcast on our network was provided by third-party content providers such as Shanghai Media Group and various local television stations and television production companies. In January 2014, we entered into a strategic partnership with China Radio International Oriental Network (Beijing) Co., Ltd, which manages the internet TV business of China International Broadcasting Network, to operate the CIBN-AirMedia channel to broadcast network TV programs to air travelers in China. We pay a fixed price for some content. Other content is provided free to us and the provider of the content benefits by having its logo shown on the content in addition to experiencing greater exposure to a wider audience. These providers of free content receive no benefit from us and do not place advertising with us. We do not directly generate revenues from these non-exchange transactions. Some of the third-party content providers that currently do not charge us for their content may do so in the future and other third-party content providers may increase the prices for their programs over time. This may increase our cost of revenues in the future.

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

## Operating Expenses

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

	Fiscal Years Ended December 31,					
	2015		2016		2017	
	Amount	%	Amount	%	Amount	%
Net revenues	\$ 50,233	100.0%	\$ 16,513	100.0%	\$ 23,759	100.0%
Operating expenses						
General and administrative expenses	(27,102)	(54.0)%	(44,401)	(268.9)%	(63,507)	(267.3)%
Selling and marketing expenses	(9,611)	(19.1)%	(12,056)	(73.0)%	(12,747)	(53.7)%
Impairment of fixed assets, prepaid equipment cost and intangible assets	-	-	(826)	(5.0)%	(67,342)	(283.4)%
Total operating expenses	\$ (36,713)	(73.1)%	\$ (57,283)	(346.9)%	\$ (143,596)	(604.4)%

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

## General and Administrative Expenses

Our general and administrative expenses included share-based compensation expenses of \$0.6 million, \$0.8 million and \$0.3 million in the fiscal years ended December 31, 2015, 2016 and 2017, respectively. General and administrative expenses consisted primarily of office and utility expenses, salaries and benefits for general management, finance and administrative personnel, allowance for doubtful accounts, depreciation of office equipment, public relations related expenses and other administration related expenses.

## Selling and Marketing Expenses

Our selling and marketing expenses consisted primarily of salaries and benefits for our sales and marketing personnel, office and utility expenses related to our selling and marketing activities, travel expenses incurred by our sales personnel, expenses for the promotion, advertisement and sponsorship of media events, and other sales and marketing related expenses.

## Impairment of fixed assets, prepaid equipment cost and intangible assets

In the second half of 2017, the management was altered that the trend of recording operational losses continued in providing Wi-Fi services on trains and long halt buses. Meanwhile the management noticed that the willingness to spend on marketing expenses targeting travelers by trains and buses was projected strong and growing. Given the projected potential with exclusivity to provide such services, the management concluded that operations in both business components should continue and be reviewed in the first quarter of 2018. Upon the scheduled review in the first quarter of 2018, a flag was risen when the operational loss was widened and the willingness to spend on marketing was depleting and diminishing. Immediately, the management halted operations in providing Wi-Fi services on long-halt buses, scaled down operations in providing Wi-Fi services on trains, and commissioned a comprehensive review on the sustainability of both business components. While the results from the review are still pending, the management exercised prudently to record impairments in both business components.

## Taxation

**Cayman Islands.** We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on Islands or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty.

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

**Hong Kong.** Our Hong Kong subsidiary, Air Media (China) Ltd, did not record any Hong Kong profits tax for the year ended December 31, 2015, 2016 and 2017, on the basis that our Hong Kong subsidiaries did not have any assessable profits arising in or derived from Hong Kong for 2015, 2016 and 2017. 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, 2015, 2016 and 2017.

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

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

Chuangyi 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, Chuangyi Technology was subject to an EIT rate of 7.5% in 2009 and 2010. In September 2011, Chuangyi Technology received the HNTE certificate, and in October 2014, Chuangyi Technology successfully renewed its HNTE Status and obtained the certificate issued by the competent governmental authority. As a result, Chuangyi Technology is expected to be subject to an EIT rate of 15% until 2016 as long as it maintains its HNTE status.

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

Shenzhen Yuehang 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 Yuehang 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 Yuehang is subject to EIT at a rate of 25% from 2013 afterwards.

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

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

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

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

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

### ***Discontinued Operation***

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

### ***Revenue Recognition***

Our revenues are derived from selling advertising time slots on our advertising networks. For the years ended December 31, 2015, 2016 and 2017, the advertising revenues were generated from TV-attached digital frames in airports, digital TV screens in airports, digital TV screens on airlines, trains and buses WIFI network and gas station media network.

We typically sign standard contracts with its advertising customers, who require us to run the advertiser's advertisements on our network in airports, airlines, and through WIFI network 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, with the exception of 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.

We also provides programs like movie to each airline company, which are broadcasted in digital TV screens on airlines. We typically sign standard contracts with its airline companies, who require us to provide the programs which would play on the digital TV screens on airlines 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.

#### *Concession Fees*

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

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

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

#### *Agency Fees*

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

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

#### *Allowance for Doubtful Accounts*

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

### *Impairment of long-lived assets*

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

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

### *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, the Group classifies the interest and penalties, if any, as a component of the income tax expense. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, where the underpayment of taxes is more than RMB 100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. According to Hong Kong Inland Revenue Department, the statute of limitation is six years if any company chargeable with tax has not been assessed or has been assessed at less than the proper amount, the statute of limitation is extended to 10 years if the underpayment of taxes is due to fraud or willful evasion. For years ended December 31, 2015, 2016 and 2017, the Group did not have any material interest or penalties associated with tax positions nor did the Group have any significant unrecognized uncertain tax positions. The Company does not expect that its assessment regarding unrecognized tax positions will materially change over the next 12 months. The Company is not currently under examination by an income tax authority, nor has been notified that an examination is contemplated.

### *Value-added Tax ("VAT")*

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

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

## Share-based Compensation

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

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

### Our Results of Operations

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(In thousands of U.S. Dollars, except share, per share and per ADS data)</b>		
<b>Consolidated Statements of Operations Data:</b>			
Revenues:			
<i>Air Travel Media Network</i>	38,917	12,178	18,702
<i>Gas Station Media Network</i>	9,840	4,009	4,093
<i>Other Media</i>	2,109	410	1,533
<b>Total revenues</b>	<b>50,866</b>	<b>16,597</b>	<b>24,328</b>
Business tax and other sales tax	(633)	(84)	(569)
<b>Net revenues</b>	<b>50,233</b>	<b>16,513</b>	<b>23,759</b>
Cost of revenues	(89,577)	(49,042)	(58,967)
Gross loss	(39,344)	(32,529)	(35,208)
<b>Operating expenses:</b>			
Selling and marketing	(9,611)	(12,056)	(12,747)
General and administrative	(27,102)	(44,401)	(63,507)
Impairment of fixed assets, prepaid equipment cost and intangible assets	-	(826)	(67,342)
Total operating expenses	(36,713)	(57,283)	(143,596)
<b>Loss from operations</b>	<b>(76,057)</b>	<b>(89,812)</b>	<b>(178,804)</b>
Interest income, net	472	843	2,645
Other income, net	1,383	4,243	214
Loss from continuing operations before income taxes and (loss) on equity method investments	(74,202)	(84,726)	(175,945)
Income tax expenses from continuing operations	6,421	4,483	633
Net loss before (income) loss on equity method investments	(80,623)	(89,209)	(176,578)
Income (loss) on equity method investments	2,352	(33)	(2,603)
<b>Net loss from continuing operations</b>	<b>(78,271)</b>	<b>(89,242)</b>	<b>(179,181)</b>
Less: Net (income) loss attributable to noncontrolling interests	(7,620)	23,617	22,705
Net loss from continuing operations attributable to AirMedia Group Inc.'s shareholders	(70,651)	(65,625)	(156,476)
<b>Discontinued operation:</b>			
Net income from discontinued operations	272,879	—	—
Income tax benefits (expenses) from discontinued operations	(51,696)	—	—
<b>Net income from discontinued operations, net of tax</b>	<b>221,183</b>	<b>—</b>	<b>—</b>
Less: Net income from discontinued operations attributable to non-controlling interests	885	—	—
<b>Net income from discontinued operations attributable to AirMedia Group Inc.'s shareholders</b>	<b>220,298</b>	<b>—</b>	<b>—</b>
<b>Net (loss)/income</b>	<b>142,912</b>	<b>—</b>	<b>—</b>
<b>Net (loss)/income attributable to AirMedia Group Inc.'s shareholders</b>	<b>\$ 149,647</b>	<b>\$ (65,625)</b>	<b>\$ (156,476)</b>

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

**Net Revenues.** Our net revenues increased by 43.9% to \$23.8 million in 2017 from \$16.5 million in 2016. The increase was primarily due to the increase in revenues from air travel media network.

**Revenues from air travel media network:** Revenues from air travel media network increased by 53.6% from \$12.2 million in 2016 to \$18.7 million in 2017. Among our revenues from air travel media network, revenues from digital TV screens on airplanes were \$10.3 million and \$15.3 million in 2016 and 2017, respectively. The increase in revenues from digital TV screens on airplanes mainly resulted from a strong advertising market and an increase in advertisers' demand for digital TV screens.

**Revenues from the gas station media network:** Revenues from the gas station media network increased by 2.1% from \$4.0 million in 2016 to \$4.1 million in 2017 due to a stable advertising market.

**Revenues from other media:** Revenues from other media were primarily revenues from our trains and buses WIFI network and film distribution business. Revenues from other media increased by 273.9% year-over-year to \$1.5 million in 2017 from \$0.4 million in 2016, primarily due to an increase of \$0.6 million and \$0.4 million in advertising market through trains and buses WIFI network, respectively.

**Cost of Revenues.** Our cost of revenues increased by 20.2% to \$59.0 million in 2017 from \$49.0 million in 2016. Our cost of revenues as a percentage of our net revenues decreased to 248.2% in 2017 from 297% in 2016. This increase was mainly due to the significant increase in our revenues. Concession fees, as one of the major component in our cost of revenue, increased by 21.7% to \$28.6 million in 2017 from \$23.5 million in 2016. Concession fees as a percentage of net revenues decreased to 120.4% in 2017 from 142.1% in 2016. We continued to pay much of the related concession fees in 2017 due to our obligations under the concession rights. As of the date of this annual report, concession rights contracts in connection with the business that we no longer operate have either expired or been transferred to third parties. We expect to incur concession fee costs associated only with the business lines of digital TV screens on airplanes, gas station media and our Wi-Fi business.

**Operating Expenses.** Our operating expenses increased by 150.7% to \$143.6 million in 2017 from \$57.3 million in 2016. Our total operating expenses in 2016 included share-based compensation expenses of \$0.8 million while our total operating expenses in 2017 included share-based compensation expenses of \$0.3 million.

- **Selling and Marketing Expenses.** Our selling and marketing expenses increased by 5.7% to \$12.7 million in 2017 from \$12.1 million in 2016. For 2017, our selling and marketing expenses mainly consisted of \$8.4 million staff expenses.
- **General and Administrative Expenses.** Our general and administrative expenses increased by 43.0% to \$63.5 million (including \$0.3 million of share-based compensation expenses) in 2017 from \$44.4 million (including \$0.8 million of share-based compensation expenses) in 2016, primarily due to approximately \$37.2 million in bad debt expenses incurred in 2017. During 2016, we incurred bad debt expenses of \$12.7 million.
- **Impairment of fixed assets, prepaid equipment cost and intangible assets.** Our impairment of fixed assets, prepaid equipment cost and intangible assets increased by 8,052.8% to \$67.3 million in 2017 from \$0.8 million in 2016, primarily due to the unexpected operational underperformance from Wi-Fi services on trains, long-halt buses and gas station media service in 2017.

**Loss from Continuing Operations.** We recorded a loss from continuing operations of \$178.8 million in 2017, as compared to a loss from continuing operations of \$89.8 million in 2016 as a cumulative result of the above factors.

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

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

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

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

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

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

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

- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 25.4% to \$12.1 million in 2016 from \$9.6 million in 2015. For 2016, our selling and marketing expenses mainly consisted of \$8.6 million staff expenses. We restructured our selling and marketing team and incurred higher expenses compared to last year.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 63.8% to \$44.4 million (including \$0.8 million of share-based compensation expenses) in 2016 from \$27.1 million (including \$0.6 million of share-based compensation expenses) in 2015, primarily due to approximately \$12.7 million in bad debt expenses incurred in 2016. During 2015, we incurred a recovery of bad debt expenses of \$2.7 million and nil impairment charge.
- *Impairment of fixed assets, prepaid equipment cost and intangible assets.* Our impairment of fixed assets, prepaid equipment cost and intangible assets increased by 0.8 million in 2016 from nil in 2015, primarily due to impairment charge to the gas station equipment in 2016.

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

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

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

### *2007 Share incentive plan*

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

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

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

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

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

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

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

### *2011 Share incentive plan*

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

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

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

In September 2012, the former CFO of the Group resigned. Of the 600,000 options granted to her on March 22, 2011, 300,000 were vested through her date of resignation. In conjunction with her resignation, she signed a supplementary agreement with the Group that granted her 100,000 immediately exercisable options and 200,000 options that would vest through September 22, 2013. During the vesting period, she would provide consulting service as a consultant. For the 100,000 immediately exercisable options, a measurement date was reached upon grant and the Group immediately recognized \$35,000 share-based compensation expenses. For the 200,000 options that vested through September 22, 2013, the Group recognized expense based on the fair value of the options as of each reporting date through the measurement date. For the years ended December 31, 2015, 2016 and 2017, the Group recognized nil share-based compensation expense for these options, respectively.

#### *2012 Share incentive plan*

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

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

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

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

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

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

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

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

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

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

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

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

We recorded share-based compensation of \$0.6 million, \$0.8 million and \$0.3 million for the years ended December 31, 2015, 2016 and 2017, respectively.

### ***Inflation***

Historically inflation has not had a significant effect on our business. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2015, 2016 and 2017 was increase of 1.6%, 2.1% and 1.6%, respectively.

Although it has not materially impacted our results of operations in 2017, we can provide no assurance that we will not be affected in the future by potentially higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

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

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

The Group incurred losses from operations of \$89.8 million and \$178.8 million for the years ended December 31, 2016 and 2017. As of December 31, 2017, the Group had shareholders' deficit of \$172.3 million. The Group had negative cash flows from operating activities for the years ended December 31, 2016 and 2017, the net cash used in operating activities was \$103.6 million and \$58.6 million for the years ended December 31, 2016 and 2017. These conditions raise substantial doubt about the Group's ability to continue as a going concern.

The Group intends to meet the cash requirements for the next 12 months from the issuance date of this report through a combination of debt, equity financing by way of private placements, friends, family and business associates and management financial support. The Group will focus on the following activities:

1. The Group plans to pledge the residual 20.18% shares of equity interest of AM Advertising in bank of Beijing to acquire the long-term borrowing amounted to \$30.7 million (RMB 200 million), the pledge plan is in process of bank of Beijing's approval.
2. The Group is in the process of selling the residual 20.18% shares of AM Advertising to third parties.
3. The Group plans to issue one of its subsidiary's shares to finance \$23.1 million (RMB 150 million) from potential investor.
4. The Group is focusing on improving operation efficiency and cost reduction to standardize operations, enhance internal controls, and create synergy of the Company's resources.

The Group has also acquired the financial support letter from Mr. Man Guo and Mr. Qing Xu, Mr. Man Guo and Mr. Qing Xu express their willingness and intent to provide the necessary financial support to the Group, so as to enable the Group to meet its liabilities as and when it falls due and to carry on its business without a significant curtailment of operations for the next 12 months from the issuance date of this report.

As a result, management prepared the consolidated financial statements assuming the Group will continue as a going concern. However, there is no assurance that the measures above can be achieved as planned. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.



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, 2015, 2016 and 2017:

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Net cash used in operating activities	(69,062)	(103,610)	(58,570)
Net cash provided by (used in) investing activities	88,142	130,582	(47,166)
Net cash provided by financing activities	2,141	11,130	874
Effect of exchange rate changes	(1,698)	(7,515)	5,787
Net increase/(decrease) in cash	19,523	30,587	(99,075)
Cash, cash equivalents and restricted cash at the beginning of the year	67,437	86,960	117,547
Cash, cash equivalents and restricted cash at the end of the year	86,960	117,547	18,472

#### *Operating Activities*

Net cash used in operating activities was \$58.6 million for the year ended December 31, 2017. Net cash used in continuing operating activities was primarily attributable to (1) a net loss of \$179.2 million, and (2) a decrease of other non-current assets of \$1.3 million, partially offset by (1) certain non-cash expenses that did not result in cash outflow (principally bad debt expenses of \$37.3 million and impairment of property and equipment, prepaid equipment cost and intangible assets of \$67.3 million) and (2) depreciation and amortization of \$12.0 million.

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

Net cash used in operating activities was \$69.1 million for the year ended December 31, 2015, consisting of net cash used in continuing operating activities of \$32.3 million and net cash used in discontinued operating activities of \$36.8 million. Net cash used in continuing operating activities was primarily attributable to (1) certain non-cash expenses that did not result in cash outflow, principally the depreciation and amortization of \$5.8 million, (2) an increase of other current assets of \$16.1 million, (3) a decrease of \$8.6 million in accounts payable and (4) a decrease of \$6.8 million in accrued expenses and other current liabilities.

#### *Investing Activities*

Net cash used in investing activities for the year ended December 31, 2017 amounted to \$47.2 million. The amount of net cash provided by continuing investing activities was principally attributable to (1) loan to third parties of \$22.6 million, (2) purchase of long term investment of \$17.4 million and (3) purchase of property and equipment of \$7.2 million.

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

Net cash provided by investing activities for the year ended December 31, 2015 amounted to \$88.1 million, consisting of net cash used in continuing investing activities of \$0.8 million, offset by net cash provided by discontinued investing activities of \$88.9 million. The amount of net cash used in continuing investing activities was principally attributable to (1) purchase of property and equipment of \$6.1 million, (2) purchase of long term investments of \$3.0 million, (3) acquisition of Guangzhou Xinyu of \$4.8 million, offset by (4) net amount received upon settlement of short-term investment of \$14.2 million.

#### *Prepaid Equipment Costs*

On May 12, 2013, we entered into an agreement with Elec-Tech International Co., Ltd., or Elec-Tech, to exchange the equity interests of GreatView Media, one of our VIE subsidiaries, with LED screens from Elec-Tech, pursuant to which Elec-Tech would invest \$104.0 million in total (equivalent to RMB640 million) to purchase approximately 21.27% of the equity interest of GreatView Media. In exchange, GreatView Media undertook to exclusively use the equal amounts of such injections to purchase LED screens from Elec-Tech or its subsidiaries. We considered this transaction a nonmonetary transaction. We measured the fair value of equity interests surrendered based on the fair value of LED screens received, which is more clearly determinable. We would not recognize any gain or loss from this transaction. As of December 31, 2016, the prepaid equipment cost amounting to \$16.2 million, all of which are prepayment for LED screens. For the year ended December 31, 2017, the Group recognized an impairment loss of \$16.6 million from this transaction as the ordered equipment was out of dated, of which the increase was due to the exchange rate fluctuation, and the prepaid equipment cost amounting to \$290 million represented the prepayment made for the leasehold improvement.

#### *Capital Expenditures*

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

Our capital expenditures were \$5.1 million in 2015, \$21.6 million in 2016 and \$7.2 million in 2017, respectively.

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

#### *Financing Activities*

Net cash provided by financing activities amounted to \$0.9 million for the year ended December 31, 2017, consisting of capital contribution from non-controlling interest holders of \$0.9 million.

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

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

### *Intra-Company Transfers*

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

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

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services.

To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Management has adopted this standard effective January 1, 2018 using the modified-retrospective approach, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company also estimates there were no material impact to the beginning balance of retained earnings.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" This guidance revises the accounting related to the classification and measurement of investments in equity securities as well as the presentation for certain fair value changes in financial liabilities measured at fair value, and amends certain disclosure requirements. The guidance requires that all equity investments, except those accounted for under the equity method of accounting or those resulting in the consolidation of the investee, be accounted for at fair value with all fair value changes recognized in income. For financial liabilities measured using the fair value option, the guidance requires that any change in fair value caused by a change in instrument-specific credit risk be presented separately in other comprehensive income until the liability is settled or reaches maturity. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted for certain provisions. A reporting entity would generally record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Group estimated that the adoption of ASU No. 2016-01 will not have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU No. 2018-10 and No. 2018-11, Leases (ASC 842). ASU 2018-10 provides narrow amendments that clarify how to apply certain aspects of the guidance in ASU 2016-02. ASU 2018-11 provides entities with an option of an additional transition method, by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors an option to not separate lease and non-lease components when certain criteria are met. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

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

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Group's consolidated financial condition, results of operations or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Group elected to early adopt this guidance on a retrospective basis and have applied the changes to the consolidated statements of cash flows for the years ended December 31, 2015, 2016 and 2017.

In May 2017, the FASB issued ASU No. 2017-09 (“ASU 2017-09”) to provide guidance to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted and application is prospective. The Group estimated that the adoption of this guidance will not have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220). The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. Public business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the impact of adopting ASU 2018-02 on its consolidated financial statements.

In February 2018, the FASB issued guidance to address the income tax accounting treatment of the tax effects within other comprehensive income due to the enactment of the Tax Cuts and Jobs Act (the “Tax Act”). This guidance allows entities to elect to reclassify the tax effects of the change in the income tax rates from other comprehensive income to retained earnings. The guidance is effective for periods beginning after December 15, 2018 although early adoption is permitted. In March 2018, the FASB issued ASU No. 2018-05, Income Tax (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This update adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the staff regarding application of Topic 740, Income Taxes, in the reporting period that includes December 22, 2017 - the date on which the Tax Act was signed into law. The Company has completed the assessment of the adoption of this guidance on its consolidated financial statements, and the Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In June, 2018, the FASB issued ASU No. 2018-07 to provide guidance to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees (for example, service providers, external legal counsel, suppliers, etc.). The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

Recently issued ASUs by the FASB, except for the ones mentioned above, and are not expected to have a significant impact on the Company’s consolidated results of operations or financial position.

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

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

### D. Trend Information

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

### E. Off-Balance Sheet Arrangements

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

### F. Tabular Disclosure of Contractual Obligations

We have entered into operating lease agreements primarily for our office spaces in China. These leases expire through 2018 and are renewable upon negotiation. In addition, the contract terms of our concession rights contracts are usually three to five years. Most of these concession rights expire through 2018 and are renewable upon negotiation. The following table sets forth our contractual obligations and commercial commitments as of December 31, 2017:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(in thousands of U.S. Dollars)			
Operating lease agreements	\$ 3,068	\$ 2,494	\$ 539	\$ 35	\$ -
Concession rights contracts	74,297	25,935	43,977	4,385	-
Total	<u>\$ 77,365</u>	<u>\$ 28,429</u>	<u>\$ 44,516</u>	<u>\$ 4,420</u>	<u>\$ -</u>

### G. Safe Harbor

See the section headed "Forward-Looking Information".

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The following table sets forth certain information regarding our directors and executive officers as of October 17, 2018. Masseur. Song Ye and Bo Yang each resigned as a member of our Vice president effective as of June 2017 and October 2017 for personal reasons. The resignations of Masseur. Song Ye and Bo Yang were not due to any disagreement with us regarding our business, finance, accounting and/or any other affairs.

NAME	AGE	POSITION
Herman Man Guo	54	Chairman, Chief Executive Officer and Director
Richard Peidong Wu	53	Chief Financial Officer
Qing Xu	57	Director and Executive President
Conor Chiahung Yang	55	Independent Director
Shichong Shan	87	Independent Director
Dong Wen	52	Independent Director
Songzuo Xiang	53	Independent Director
Hua Zhuo	48	Independent Director
Peng Zhou	38	Vice President
Hong Li	47	Vice President
Rong Guo	49	Vice President
Juntao Zhen	43	Vice President

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

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

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

*Mr. Conor Chiahung Yang* has served as our independent director since March 2013. Mr. Yang is the president and cofounder of Black Fish Group. Previously, Mr. Yang was the chief financial officer of Tuniu Corporation from January 2013 to November 2017. Mr. Yang was the chief financial officer of E-Commerce China Dangdang Inc. from March 2010 to July 2012 and the chief financial officer of our company, from March 2007 to March 2010. Mr. Yang was the chief executive officer of Rock Mobile Corporation from 2004 to February 2007. From 1999 to 2004, Mr. Yang served as the chief financial officer of the Asia Pacific region for CellStar Asia Corporation. Mr. Yang was an executive director of Goldman Sachs (Asia) L.L.C. from 1997 to 1999. Prior to that, Mr. Yang was a vice president of Lehman Brothers Asia Limited from 1994 to 1996 and an associate at Morgan Stanley Asia Limited from 1992 to 1994. Mr. Yang currently serves as an independent director of China Online Education Group. Mr. Yang received his MBA degree from University of California, Los Angeles in 1992 and his bachelor's degree from Fu Jen University in Taiwan in 1985. .

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

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

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

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

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

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

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

*Mr. Juntao Zhen* has served as our vice president and the general manager of WIFI business since 2017. Prior joining us, Mr. Zhen served as the as the chief architect and chief architect team leader of NOKIA Beijing research and development center, he was responsible for the system architecture of mobile communication equipment, software and hardware technology development and team management in NOKIA Beijing research and development center.

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

#### ***Employment Agreements***

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



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

## B. Compensation

In 2017, the aggregate cash compensation to our executive officers was approximately \$0.8 million and the aggregate cash compensation to our non-executive directors was approximately \$0.2 million. Our PRC subsidiaries and consolidated VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned pension insurance mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company except as required under applicable PRC law.

### Share Options

In July 2007, we adopted the 2007 Option Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. In December 2009, we amended the 2007 Option Plan by increasing the maximum aggregate number of shares issuable under the plan from 12,000,000 to 17,000,000. In March 2011, our board of directors authorized the issuance of 2,000,000 ordinary shares under the 2011 Option Plan with the same aim as the 2007 Option Plan. In 2012, our board of directors adopted the 2012 Option Plan, under which we are authorized to grant restricted shares or options and other awards for a total issuance of up to 6,000,000 ordinary shares. As of December 31, 2017, options to purchase 7,719,210 of our ordinary shares were outstanding. The majority of these options will vest on a straight-line basis over a three-year period, with one-twelfth of the options vesting each quarter from the date of grant.

The following table summarizes, as of December 31, 2017, 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 (\$/Share) <sup>(1)</sup>	Date of Grant	Expiration Date
Herman Man Guo	2,000,000	1.15	July 2, 2007	July 2, 2017
Richard Peidong Wu	1,276,620	1.025	June 1, 2014	June 1, 2019
Qing Xu	*	1.15	March 22, 2011	March 22, 2021
Conor Chia-hung Yang	*	1.15	July 2, 2007	July 2, 2017
	*	1.15	November 29, 2007	November 29, 2015
	*	1.15	July 10, 2009	July 10, 2016
Shichong Shan	*	1.15	July 20, 2007	July 20, 2017
Dong Wen	—	N/A	N/A	N/A
Songzuo Xiang	*	1.15	July 10, 2009	July 10, 2016
Hua Zhuo	—	N/A	N/A	N/A
Song Ye	—	N/A	N/A	N/A
Bo Yang	—	N/A	N/A	N/A
Peng Zhou	—	N/A	N/A	N/A
Hong Li	—	N/A	N/A	N/A
Rong Guo	—	N/A	N/A	N/A
Other individuals as a group	200,000	1.57	July 20, 2007	July 20, 2017
Other individuals as a group	389,534	1.15	July 20, 2007	July 20, 2017
Other individuals as a group	—	1.57	November 29, 2007	November 29, 2015
Other individuals as a group	385,000	1.15	November 29, 2007	November 29, 2015
Other individuals as a group	706,000	1.15	July 10, 2009	July 10, 2016
Other individuals as a group	—	1.57	July 10, 2009	July 10, 2016
Other individuals as a group	—	1.15	July 10, 2009	July 10, 2016
Other individuals as a group	—	1.15	March 22, 2011	September 1, 2017
Other individuals as a group	200,000	1.15	March 22, 2011	March 22, 2016
Other individuals as a group	600,000	1.15	March 22, 2011	March 22, 2021
Other individuals as a group	—	0.72	September 4, 2012	May 31, 2016
Other individuals as a group	—	1.025	June 1, 2014	April 1, 2016
Other individuals as a group	200,000	1.025	June 1, 2014	June 1, 2019
Other individuals as a group	—	1.045	August 1, 2014	January 31, 2016
Other individuals as a group	—	1.675	May 12, 2015	January 1, 2016
Other individuals as a group	—	1.675	May 12, 2015	April 1, 2016
Other individuals as a group	180,000	1.675	May 12, 2015	May 12, 2020
Other individuals as a group	40,000	1.045	August 1, 2014	August 1, 2019

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

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

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

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

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

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

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

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

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

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

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

### **C. Board Practices**

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

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

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

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

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;

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

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

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

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

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

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

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to act with skills they actually possess and exercise such care and diligence that a reasonably prudent person would exercise in comparable circumstances. 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 our company, our directors must ensure compliance with our amended and restated memorandum and articles of association, as amended and restated from time to time, and the rights vested thereunder in the holders of the shares. Our directors owe their fiduciary duties to our company and not to our company’s individual shareholders, and it is our company which has the right to seek damages if a duty owed by our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

### **Terms of Directors and Officers**

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

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

### **D. Employees**

We had 415, 1,052 and 845 employees as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the number of our employees by area of business as of December 31, 2015, 2016 and 2017, respectively:

	As of December 31,					
	2015		2016		2017	
	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
Sales and Marketing Department	57	13.7	387	36.8	242	28.6
Quality Control and Technology Department	175	42.2	317	30.1	253	29.9
Programming Department	19	4.6	124	11.8	129	15.4
Resources Development Department	15	3.6	15	1.4	13	1.5
General Administrative and Accounting	149	35.9	209	19.9	208	24.6
Total	415	100.0	1,052	100.0	845	100.0

The following table sets forth the breakdown of employees by geographic location as of December 31, 2017:

City	Number of Employees	% of Total
Beijing	412	48.8
Guangzhou	100	11.8
Shenyang	38	4.5
Others	295	34.9
Total	845	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 August 31, 2018, by:

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

The calculations in the shareholder table below are based on 125,629,779 ordinary shares outstanding as of October 17, 2018 (excluding 2,032,278 ordinary shares and ordinary shares represented by ADSs reserved for settlement upon exercise of our incentive share awards). Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after October 17, 2018, the most recent practicable date, including through the exercise of any option, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Shares Beneficially Owned	
	Number	%
<b>Directors and Executive Officers:</b>		
Herman Man Guo <sup>(1)</sup>	19,505,980	15.5%
Richard Peidong Wu	*	*
Qing Xu <sup>(2)</sup>	1,600,000	1.3%
Conor Chiahung Yang	*	*
Shichong Shan	*	*
Dong Wen	—	—
Songzuo Xiang	*	*
Hua Zhuo	—	—
Song Ye	—	—
Bo Yang	—	—
Peng Zhou	—	—
Hong Li	—	—
Rong Guo	—	—
All directors and executive officers	34,916,661	27.8%
<b>Principal Shareholders:</b>		
Dan Shao <sup>(3)</sup>	20,584,214	16.4%
Wealthy Environment Limited <sup>(4)</sup>	17,505,980	13.9%
Bison Capital Media Limited <sup>(5)</sup>	12,000,000	9.6%
First Manhattan Co., First Beijing Investment (Cayman) Limited, First Beijing Investment Limited <sup>(6)</sup>	937,992	2.77%

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

- (1) Includes (i) 16,105,980 ordinary shares held by Wealthy Environment Limited, a BVI company wholly owned by Mr. Herman Man Guo, (ii) 1,400,000 ordinary shares represented by American Depositary Shares held by Wealthy Environment Limited and (iii) 2,000,000 ordinary shares issuable upon exercise of options held by Mr. Guo that are exercisable within 60 days.
- (2) Includes (i) 1,000,000 ordinary shares held by Mambo Fiesta Limited, a BVI company wholly owned by Mr. Qing Xu, and (ii) 600,000 ordinary shares issuable upon exercise of options held by Mr. Xu that are exercisable within 60 days.
- (3) Includes (i) 20,000,000 ordinary shares held by Global Earning Pacific Limited and (ii) 584,214 ordinary shares represented by ADSs that Ms. Dan Shao purchased in one or more open-market transactions. Global Earning Pacific Limited, a company incorporated in BVI, is wholly owned and controlled by Ms. Dan Shao, Mr. Herman Man Guo's wife. The registered address of Global Earning Pacific Limited is OMC Chambers, Wickham Cay 1, Road Town Tortola, BVI.
- (4) Includes (i) 16,105,980 ordinary shares held by Wealthy Environment Limited, and (ii) 1,400,000 ordinary shares represented by American Depositary Shares held by Wealthy Environment Limited. Wealthy Environment Limited, a company incorporated in BVI, is wholly owned and controlled by Herman Man Guo. The registered address of Wealthy Environment Limited is P.O. Box 173, Kingston Chambers, Road Town Tortola, BVI.
- (5) The address of Bison Capital Media Limited is c/o Bison Capital Holding Company Limited, 609-610, 21st Century Tower, 40 Liangmaqiao Road, Chaoyang District, Beijing, People's Republic of China, 100016. Bison Capital Media Limited, a Cayman Islands company, is wholly-owned by Bison Capital Holding Company Limited, a Cayman Islands company, which is in turn wholly owned by Ms. Fengyun Jiang, a citizen of Hong Kong Special Administrative Region. Ms. Jiang is the sole director of both Bison Capital Media Limited and Bison Capital Holding Company Limited. Ms. Jiang possesses the power to direct the voting and disposition of the shares owned by Bison Capital Media Limited and may be deemed to have beneficial ownership of such shares.
- (6) Based on Schedule 13G filed with the SEC on February 9, 2018 jointly by First Manhattan Co., a New York limited partnership, First Beijing Investment (Cayman) Limited, a Cayman Islands company, and First Beijing Investment Limited, a Hong Kong company. According to the Schedule 13G, as of December 31, 2017, First Manhattan Co. had sole voting power and sole investment power with respect to 800,000 ordinary shares of the Company and shared voting power and shared investment power with respect to 312,664 ordinary shares of the Company, or 1.77% of the 125,629,779 shares that the Company reported as outstanding as of May 31, 2017. First Beijing Investment (Cayman) Limited and First Beijing Investment Limited each had shared voting power and shared investment power with respect to 312,664 ordinary shares, or 0.50% of the 125,629,779 shares that the Company reported as outstanding as of May 31, 2017.
- (7) The business address of First Manhattan Co. is 399 Park Avenue, New York, NY 10022. The business address of First Beijing Investment (Cayman) Limited is Scotia Centre, 4<sup>th</sup> Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands. The business address of First Beijing Investment Limited is Level 15, Yardley Commercial Building, 1-6 Connaught Road, West Sheung Wan, Hong Kong.

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

As of October 17, 2018, 125,629,779 of our ordinary shares were issued and outstanding, of which 2,032,278 ordinary shares are issued to our depository bank reserved for future exercise of vested options. To our knowledge, we had only one record shareholder in the United States, JPMorgan Chase Bank, N. A., which is the depository of our ADS program and held approximately 71% of our total outstanding ordinary shares as of October 17, 2018. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.



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

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

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

### B. Related Party Transactions

#### *Contractual Arrangements*

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

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

- **Technology development agreements:** Our VIEs exclusively engage Chuangyi Technology to provide technology development services. Chuangyi Technology owns the intellectual property rights developed in the performance of these agreements. Except for AM Online, the VIEs pay to Chuangyi Technology annual service fees in the amount that guarantee that the VIEs can achieve, after deducting such service fees payable to Chuangyi Technology, a net cost-plus rate of no less than 0.5% in the case of Linghang Shengshi and Jiaming Advertising, which final rate should be determined by Chuangyi Technology. It is at Chuangyi Technology's sole discretion the rate and amount of fees ultimately charged the VIEs under these agreements are determined. The "net cost-plus rate" refers to the operating profit as a percentage of total costs and expenses of a certain entity. The technology development fees for each given year payable by AM Online to Chuangyi Technology under AM Online's technology development agreement shall be determined by AM Online and Chuangyi Technology at the first month of such year taking into account several factors. Those factors include the credential of the team of Chuangyi Technology that provides services to AM Online, the number of service hours, the nature and value of the services provided by Chuangyi Technology, the extent to which Chuangyi Technology provides patent or other license to AM Online in its provision of technology development service and the correlation between AM Online's results of operations and the technology development service provided by Chuangyi Technology. In the event Chuangyi Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with Chuangyi Technology to determine the new fee. The technology development agreements are effective for ten years and such term is automatically renewed upon their expiration unless either party informs the other party of its intention not to extend at least twenty days prior to the expiration of these agreements.
- **Exclusive Technology Consultation and Service Agreement:** AM online exclusively engages Chuangyi Technology to provide consultation services in relation to management, training, marketing and promotion. AM Online agrees to pay to Chuangyi Technology the amount of annual service fees as determined by Chuangyi Technology. In the event Chuangyi Technology finds it necessary to make subsequent adjustment to the amount of fees, AM Online shall negotiate in good faith with Chuangyi Technology to determine the new fees. The exclusive technology consultation and service agreement remains effective for ten years and such term may be reviewed by Chuangyi Technology's written confirmation prior to the expiration of the agreement term.
- **Call option agreements:** Under the call option agreements between Chuangyi Technology and the individual shareholders (except Yi Zhang) of Linghang Shengshi, Beijing Yuehang and Jiaming Advertising, the shareholders of those VIEs irrevocably granted Chuangyi Technology or its designated third party an exclusive option to purchase from the VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. Under the call option agreements between Chuangyi Technology and the shareholders of AM Online, the shareholders of AM Online (except Yi Zhang) irrevocably granted Chuangyi Technology or its designated third party an exclusive option to purchase from the shareholders of AM Online, to the extent permitted under PRC law, all the equity interests in AM Online, as the case may be. To the extent the applicable PRC law does not require the valuation of the subject equity interests and does not otherwise restrict the purchase price for such equity interests, such purchase price shall equal the amount of actual payment made by the respective shareholders of AM Online with respect to the equity interests whether in the form or share capital injection or secondary purchase price. If and where the applicable PRC law requires the valuation of the subject equity interests or otherwise has restrictions on the purchase price for such equity interests, such purchase price shall equal the minimum amount of consideration permitted by the applicable law. In addition, under these agreements (except for the call option agreements between Chuangyi Technology and the shareholders of AM Online), Chuangyi 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 Chuangyi 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 Chuangyi 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 Chuangyi Technology's sole discretion. In January 2016, shareholders of AM Online, Linghang Shengshi and Jiaming Advertising (except Yi Zhang) entered into a supplement agreement to provide that, without respect to the changes in equity interest percentages of those shareholders in the respective VIEs, the relevant provisions of the respective call option agreements shall continue to apply.

- **Equity pledge agreements:** Under the equity pledge agreements between Chuangyi Technology and the individual shareholders of our VIEs other than AM Online, the individual shareholders of those VIEs (except Yi Zhang) pledged all of their equity interests, including the right to receive declared dividends, in those VIEs to Chuangyi Technology to guarantee those VIEs' performance of their obligations under the technology support and service agreement and the technology development agreement. Under the equity pledge agreements between Chuangyi Technology and the shareholders of AM Online, the shareholders of AM Online (except Yi Zhang) pledged all of their equity interests, including the right to receive declared dividends, in AM Online to Chuangyi Technology to guarantee the performance by AM Online of its obligations under its call option agreement and its exclusive technology consultation and service agreement. If the VIEs fail to perform its obligations set forth in the applicable agreements, Chuangyi Technology shall be entitled to exercise all the remedies and powers set forth in the provisions of the applicable equity pledge agreements. Those agreements remain effective for as long as the technology support and service agreements and technology development agreement are effective, or, in the case of AM Online, until two years after the term of the obligations under the call option agreement and exclusive technology consultation and service agreement. Pursuant to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the competent local administration for industry and commerce. We have not yet registered the share pledges by shareholders of AM Online, Linghang Shengshi and Jiaming Advertising. In January 2016, shareholders of AM Online, Linghang Shengshi and Jiaming Advertising (except Yi Zhang) entered into a supplement agreement to provide that, without respect to the changes in equity interest percentages of those shareholders in the respective VIEs, the relevant provisions of the respective equity pledge agreements shall continue to apply.
- **Authorization letters:** Each individual shareholder of the VIEs (except Yi Zhang) has executed an authorization letter to authorize persons appointed by Chuangyi Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. The authorization letters by the shareholders of our VIEs will remain effective during the operating periods of the respective VIEs and for so long as the respective parties remain shareholders of the VIEs unless terminated earlier by Chuangyi Technology or unless the call option agreement with respect to VIEs is terminated prior to its expiration.

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

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

#### ***Amounts due from related parties***

As of December 31, 2017, we had \$1.0 million due from Mr. Qing Xu, representing an advances to him on a short term basis for personal purpose needs, we also have \$0.5 million and \$0.7 million due from AirMedia Holding Ltd. and AirMedia Merger Company Ltd., representing an advances to them on a short term basis for operation purpose. All the balance has been collected in May 2018, there was no gain or loss upon settlement.

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

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

### ***“Going-Private” Transaction***

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

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

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

Under the terms of the Merger Agreement, either the Company or Parent could terminate the Merger Agreement if the merger contemplated by the Merger Agreement has not been completed by the date of June 28, 2016. In 2016 and 2017, the parties entered into various amendments to the Merger Agreement to extend this termination date and amend other terms of the Merger Agreement. The Merger Agreement was terminated on December 27, 2017 in view that the going private transaction would not be completed by December 31, 2017.

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

Not applicable.

### **ITEM 8. FINANCIAL INFORMATION**

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

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

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

### ***Legal Proceedings***

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

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

The Company received notice from the China International Economic and Trade Arbitration Commission (the “CIETAC”) that the Company, AirMedia Technology (Beijing) Co., Ltd., AM Shengshi and Mr. Herman Man Guo (collectively, the “Respondents”) were named as respondents by Culture Center in an arbitration proceeding submitted by the Culture Center to the CIETAC in connection with the sale by the Company of 75% equity interests in AM Advertising to Culture Center and Longde Wenchuang in June 2015. Culture Center seeks specific performance by the Respondents of certain obligations under the transaction documents, which include, among other things, (i) the pledge by AM Shengshi and Mr. Guo of their respective equity interests in AM Advertising to Culture Center as security for their obligations under the transaction documents, (ii) the use of best efforts by the Respondents to cooperate with the Culture Center and Longde Wenchuang to procure the listing of AM Advertising in China and (iii) the performance by the Company and Mr. Guo of their respective non-compete obligations to refrain from holding, operating, or otherwise participating in any business that is the same or substantially the same as that of AM Advertising. The Company believes the arbitration request is without merit and intends to defend the actions vigorously. In response to the September 2, 2016 Notice, the Group filed a notice against Culture Center to CIETAC for their breach of contract.

As a result of the above disputes, the Group is no longer able to exercise significant influence in operating and strategic decision of AM Advertising and cannot access to AM Advertising's financial information. Accordingly, the Group accounted its investment in AM Advertising using cost method for the year ended December 31, 2017. AM Advertising and its subsidiaries are no longer related parties to the Group. As of December 31, 2017, the Group treated the provision for earn out commitment of \$23,549 as contingent liability and did not record any additional provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. On March 29, 2018, a MoU regarding the continuing performance of the parties' respective obligations under the Equity Interest Transfer Agreement and Supplemental Agreement was entered into, all parties to the MoU agree that all current disputes including litigation and arbitration among the parties shall be withdrawn or deemed settled, hence the earn out commitment is nil as of December 31, 2017.

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

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

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

#### ***Dividend Policy***

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

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

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

## B. Significant Changes

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

## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details

See “—C. Markets.”

### B. Plan of Distribution

Not applicable.

### C. Markets

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

	High	Low
<b>Annual Market Prices</b>		
Year 2013	3.20	1.50
Year 2014	3.24	1.65
Year 2015	7.70	1.83
Year 2016	5.71	2.38
Year 2017	3.30	1.04
<b>Quarterly Market Prices</b>		
First Quarter 2016	5.71	5.05
Second Quarter 2016	5.66	3.18
Third Quarter 2016	3.78	2.57
Fourth Quarter 2016	3.47	2.38
First Quarter 2017	2.75	2.35
Second Quarter 2017	3.30	1.35
Third Quarter 2017	2.87	2.00
Fourth Quarter 2017	2.80	1.04
First Quarter 2018	1.50	0.76
Second Quarter 2018	0.87	0.60
<b>Monthly Market Prices</b>		
October 2017	2.80	2.10
November 2017	2.38	1.83
December 2017	2.12	1.04
January 2018	1.50	1.06
February 2018	1.19	1.01
March 2018	1.17	0.76
April 2018	0.87	0.61
May 2018	0.77	0.62
June 2018	0.80	0.60
July 2018	0.64	0.50
August 2018	0.53	0.38
September 2018	0.43	0.40

### 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 (2018 Revision) of the Cayman Islands, or the Companies Law, insofar as they relate to the material terms of our ordinary shares. This summary is not complete, and you should read our amended and restated memorandum and articles of association, which has been filed as Exhibit 99.3 to our Form 6-K (File No. 001-33765) filed with the SEC on December 10, 2009, and the amendment thereto, which has been filed as Exhibit 99.2 to our Form 6-K (File No. 001-33765) filed with the SEC on June 27, 2013. We subsequently amended our memorandum and articles of association by shareholders' resolutions passed on July 18, 2013, the results of which have been filed as Exhibit 99.1 to our Form 6-K (File No. 001-33765) filed with the SEC on July 23, 2013.

**Registered Office and Objects**

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

**Board of Directors**

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

**Ordinary Shares**

*General*

Our authorized share capital is US\$1,000,000 consisting of 900,000,000 ordinary shares with a nominal or par value of US\$0.001 each, and 100,000,000 preferred shares with a nominal or par value of US\$0.001 each. All of our issued and outstanding ordinary shares are fully paid and non-assessable. Our ordinary shares are issued in registered form, and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares. Under our amended and restated memorandum and articles of association, our company may not issue bearer shares.

*Dividend Rights*

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, our company may declare and pay a dividend only out of funds legally available therefor, namely out of either profit or our share premium account, provided that in no circumstances may we pay a dividend if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

*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. Both an ordinary resolution and a special resolution may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our amended and restated memorandum and articles of association.

### ***Appointment and Removal of Directors***

Our board of directors may, by the affirmative vote of a simple majority of the directors present and voting at a board meeting, appoint any person as a director, to fill a casual vacancy on the board or as an addition to the existing board. Directors may be removed by special resolution of our shareholders.

### ***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.

### ***Redemption, Repurchase and Surrender of Shares***

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by our board of directors. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by ordinary resolution of our shareholders, or are otherwise authorized by our amended and restated memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

### ***Liquidation***

On a winding up of our company, the liquidator may, with the sanction of an ordinary resolution of our shareholders, divide amongst the shareholders in species or in kind the whole or any part of the assets of our company, and may for that purpose value any assets and determine how the division shall be carried out as between our shareholders or different classes of shareholders.

### ***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***

If at any time, our share capital is divided into different classes of shares, all or any of the special rights attached to any class of shares may 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 separate general meeting of the holders of shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights will not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

### ***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.

### ***Changes in Capital***

Our shareholders may from time to time by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or
- cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

Our shareholders may, by special resolution and subject to confirmation by the Grand Court of the Cayman Islands on an application by our company for an order confirming such reduction, reduce our share capital and any capital redemption reserve in any manner authorized by law.

### ***Issuance of Additional Shares***

Our amended and restated memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent there are available authorized but unissued shares.

Our amended and restated memorandum and articles of association authorizes our board of directors to establish from time to time one or more series of convertible redeemable preferred shares and to determine, with respect to any series of convertible redeemable preferred shares, the terms and rights of that series, including:

- designation of the series;
- the number of shares of the series;
- the dividend rights, conversion rights and voting rights; and
- the rights and terms of redemption and liquidation preferences.

The issuance of convertible redeemable preferred shares may be used as an anti-takeover device without further action on the part of the shareholders. Issuance of these shares may dilute the voting power of holders of ordinary shares.

### ***Anti-Takeover Provisions***

Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

See “— H. Documents on Display.”

### **C. Material Contracts**

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

### **D. Exchange Controls**

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

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

### **E. Taxation**

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

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

The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands. Payments of dividends and capital in respect of the ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the ordinary shares, nor will gains derived from the disposal of the ordinary shares be subject to Cayman Islands income or corporation tax.

#### ***PRC Taxation***

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

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

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

## **General**

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

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

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

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

Based on the market price of our ADSs and the composition of our assets (in particular, the retention of a large amount of cash), we believe that we were a PFIC, for United States federal income tax purposes, for the taxable year ended December 31, 2017, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2018 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. In general, we will be classified as a PFIC for any taxable year if either (i) 75 percent or more of our gross income for such year is passive income or (ii) 50 percent or more of the average quarterly value of our assets (as generally determined on the basis of fair market value) produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are generally classified as passive and goodwill and other unbooked intangibles associated with active business activities may generally be classified as non-passive. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25 percent (by value) of the stock. Although the law in this regard is unclear, we treat the VIEs (and their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operations of such entities but also because we are entitled to substantially all of the economic benefits associated with such entities, and, as a result, we consolidate such entity’s operating results in our consolidated financial statements. Because there are uncertainties in the application of the relevant rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given with respect to our PFIC status for any taxable year.

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

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

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2017, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2018. If we are classified as a PFIC for any taxable year during which a U.S. Holder holds ADSs or ordinary shares, and unless a mark-to-market election (as described below) is made, a U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make (which generally means any distribution received in a taxable year that is greater than 125 percent of the average annual distributions received in the three preceding taxable years or such U.S. Holder's holding period for the ADSs or ordinary shares, if shorter), and (ii) any gain realized on the sale or other disposition, including a pledge, of our ADSs or ordinary shares. Under the PFIC rules:

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

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

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

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

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

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

### ***Dividends***

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

A non-United States corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States or, in the event that the company is deemed to be a PRC resident under the PRC Enterprise Income Tax Law, the company is eligible for the benefits of the United States-PRC treaty.

Dividends received on the ADSs or ordinary shares are not expected to be eligible for the dividends received deduction allowed to corporations.

Although the ADSs are currently tradable on the Nasdaq Global Select Market, which is an established securities market in the United States, and thus we anticipate they will be considered readily tradable on an established securities market in the United States for purposes of the reduced tax rate, no assurance may be given in this regard. Furthermore, as mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2017, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2018. 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.

**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 \$0.2 million in our interest income for the year ended December 31, 2017.

### **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 \$2.2 million in the value of our U.S. dollar-denominated financial assets at December 31, 2017. 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.

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

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

The depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. We recognize the reimbursable amounts in other income on our consolidated statements of operations on a straight-line basis over the contract term with the depositary. For the year ended December 31, 2017, we received nil from the depositary as reimbursement for our expenses incurred.

## PART II

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

None.

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

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

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

As of December 31, 2017, the net proceeds from our initial public offering have been used up as follows:

- approximately \$140.9 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 \$29.0 million for the purchase of long-term investments.
- approximately \$30.3 million for business acquisition and the purchase of intangible assets.

### ITEM 15. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, due to the material weakness described below, as of December 31, 2017, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Management’s Annual Report on Internal Control over Financial Reporting

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

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

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management, including our chief executive officer and chief financial officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2017 using the criteria set forth in the report "Internal Control — Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weakness in internal control over financial reporting has been identified as of December 31, 2017. The material weakness was related to a) the weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in our financial reporting team, internal control team, administration team and human resource team, b) lack of internal controls over related party borrowings resulting in interest free loans lent to director for personal purpose, and c) lack of internal controls over risk assessments related to third party borrowings resulting in material losses from loans to third parties.

Because of the material weakness described above, our management has concluded that we had not maintain effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

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

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

**Adverse Opinion on Internal Control over Financial Reporting**

We have audited AirMedia Group Inc.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in "Management's Annual Report on Internal Control Over Financial Reporting":

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

Lack of internal controls over related party borrowings resulting in interest free loans lent to director for personal purpose.

Lack of internal controls over risk assessments related to third party borrowings resulting in material losses from loans to third parties.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the fiscal December 31, 2017 consolidated financial statements and financial statement schedule, and this report does not affect our report dated October 17, 2018 on those financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows and the related financial statement schedule for the year then ended of the Company and our report dated October 17, 2018 expressed an unqualified opinion with a going concern explanatory paragraph on those financial statements and financial statement schedule.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### **Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ Marcum Bernstein & Pinchuk LLP  
New York, New York  
October 17, 2018

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

In preparing our consolidated financial statements, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting as of December 31, 2017. As defined in standards established by the PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified was related to a) the weak operating effectiveness and lack of monitoring of controls over financial reporting due to inadequate resources or resources with insufficient experience or training in our financial reporting team, internal control team, administration team and human resource team, b) lack of internal controls over related party borrowings resulting in interest free loans lent to director for personal purpose, and c) lack of internal controls over risk assessments related to third party borrowings resulting in material losses from loans to third parties.

To remediate our identified material weakness, significant deficiency and other control deficiencies in connection with preparation of our consolidated financial statements, we plan to adopt several measures to improve our internal control over financial reporting. For example, during the reporting period, we obtained support from an external consultant firm with experienced staff to assist us in the preparation of the financial statements for the year ended December 31, 2017. The consultant firm is well-known in China and many staff hold the AICPA qualification with a solid understanding of U.S. GAAP. In order to meet the requirements of internal audit, we outsourced this function department to a professional consulting company with related industry experience and it delivered the work on time.

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

## **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

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

**ITEM 16B. CODE OF ETHICS**

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

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”), our previous principal external auditors and Marcum Bernstein & Pinchuk LLP, our current 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>2016</b>	<b>2017</b>
Audit Fees	\$ 445,000	\$ 670,153
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
<b>TOTAL</b>	<b>\$ 445,000</b>	<b>\$ 670,153</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 our external auditors, including audit services, audit-related services, tax services and other services as described above, other than those for de minimus services which are approved by the audit committee prior to the completion of the audit.

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

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

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

None.

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

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

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

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

We provided Deloitte with a copy of the disclosures under this Item 16F and requested from Deloitte a letter addressed to the Securities and Exchange Commission indicating whether it agrees with such disclosures. A copy of Deloitte's letter dated October 17, 2018 is attached as Exhibit 16.1.

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

#### **ITEM 16G. CORPORATE GOVERNANCE**

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

Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings. We held annual meetings in 2013. No annual meeting was held in 2014, 2015, 2016 and 2017. We may hold additional annual shareholder meetings in the future if there are significant issues that require shareholder approval.

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

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

#### **ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

### **PART III**

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

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

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

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

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

<b>Exhibit No.</b>	<b>Description</b>
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<a href="#"><u>1.1</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>1.2</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>2.1</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>2.2</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>2.3</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Amended and Restated 2007 Share Incentive Plan (incorporated by reference to Exhibit 99.2 to Form 6-K filed on December 10, 2009)</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>2011 Share Incentive Plan (incorporated by reference to Exhibit 4.49 to Annual Report on Form 20-F filed on April 30, 2012)</u></a>
<a href="#"><u>4.3</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>4.4</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>4.5</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>4.6</u></a>	<a href="#"><u>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)</u></a>



Exhibit No.	Description
4.7	<a href="#"><u>English Translation of Business Cooperation Agreement dated June 14, 2007 between Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) and AirTV United Media &amp; 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)</u></a>
4.8	<a href="#"><u>English Translation of Amended Power of Attorneys dated November 28, 2008 from each of the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.11 to Annual Report on Form 20-F filed on April 28, 2009)</u></a>
4.9	<a href="#"><u>English Translation of Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.12 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)</u></a>
4.10	<a href="#"><u>English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.1 to Annual Report on Form 20-F filed on April 30, 2008)</u></a>
4.11	<a href="#"><u>English Translation of Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.13 to Registration Statement on Form F-1 (File No. 333- 146825), as amended, initially filed on October 19, 2007)</u></a>
4.12	<a href="#"><u>English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.2 to Annual Report on Form 20-F filed on April 30, 2008)</u></a>
4.13	<a href="#"><u>English Translation of Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.14 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)</u></a>
4.14	<a href="#"><u>English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.17 to Annual Report on Form 20-F filed on April 28, 2009)</u></a>
4.15	<a href="#"><u>English Translation of Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 10.15 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)</u></a>

Exhibit No.	Description
4.16	<a href="#"><u>English Translation of Supplementary Agreement dated November 28, 2008 to the Amended and Restated Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.) and the shareholders of Beijing Shengshi Lianhe Advertising Co., Ltd. (incorporated by reference to Exhibit 4.19 to Annual Report on Form 20-F filed on April 28, 2009).</u></a>
4.17	<a href="#"><u>English Translation of Amended Power of Attorneys dated November 28, 2008 from the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.32 to Annual Report on Form 20-F filed on April 28, 2009).</u></a>
4.18	<a href="#"><u>English Translation of Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.22 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007).</u></a>
4.19	<a href="#"><u>English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Development Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.5 to Annual Report on Form 20-F filed on April 30, 2008).</u></a>
4.20	<a href="#"><u>English Translation of Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.23 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007).</u></a>
4.21	<a href="#"><u>English Translation of Supplementary Agreement dated November 30, 2007 to the Amended and Restated Technology Support and Service Agreement dated June 14, 2007 between AirMedia Technology (Beijing) Co., Ltd. and Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.6 to Annual Report on Form 20-F filed on April 30, 2008).</u></a>
4.22	<a href="#"><u>English Translation of Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.24 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007).</u></a>
4.23	<a href="#"><u>English Translation of Supplementary Agreement dated November 28, 2008 to the Equity Pledge Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.38 to Annual Report on Form 20-F filed on April 28, 2009).</u></a>
4.24	<a href="#"><u>English Translation of Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 10.25 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007).</u></a>

Exhibit No.	Description
4.25	<a href="#">English Translation of Supplementary Agreement dated November 28, 2008 to the Call Option Agreement dated June 14, 2007 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on April 28, 2009)</a>
4.26	<a href="#">English Translation of Supplementary Agreement No. 2 to Call Option Agreement dated May 27, 2010 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on May 28, 2010)</a>
4.27	<a href="#">English Translation of Supplementary Agreement dated October 31, 2008 among AirMedia Technology (Beijing) Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.), supplementing the original Loan Agreement dated January 1, 2007 (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on April 28, 2009)</a>
4.28	<a href="#">English Translation of Supplementary Agreement No. 2 to the Equity Pledge Agreement dated May 27, 2010 among AirMedia Technology (Beijing) Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. and the shareholders of Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) (incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on May 28, 2010)</a>
4.29	<a href="#">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)</a>
4.30	<a href="#">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)</a>
4.31	<a href="#">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)</a>
4.32	<a href="#">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)</a>
4.33	<a href="#">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)</a>
4.34	<a href="#">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)</a>
4.35	<a href="#">English summary of Investment Agreement, dated May 12, 2013, by and among Elec-Tech International Co., Ltd., Beijing AirMedia UC Advertising Co., Ltd. (now known as Beijing AirMedia Jiaming Advertising Co., Ltd.) and Beijing Zhongshi Aoyou Advertising Co., Ltd. (incorporated by reference to Exhibit 4.50 to Annual Report on Form 20-F filed on April 25, 2014)</a>

Exhibit No.	Description
4.36	<a href="#"><u>English summary of Cooperation Agreement for the Establishment of Advertising Company, dated May 2013, by and between Beijing Shengshi Lianhe Advertising Co., Ltd. (now known as Beijing Linghang Shengshi Advertising Co., Ltd.), and Guangzhou Daozheng Advertising Co., Ltd. (incorporated by reference to Exhibit 4.51 to Annual Report on Form 20-F filed on April 25, 2014)</u></a>
4.37	<a href="#"><u>English summary of Equity Swap Agreement, dated September 29, 2013, by and between Beijing N-S Digital TV Co., Ltd. and AirMedia Group Co., Ltd. (incorporated by reference to Exhibit 4.52 to Annual Report on Form 20-F filed on April 25, 2014)</u></a>
4.38	<a href="#"><u>Agreement and Plan of Merger, dated as of September 29, 2015, by and among the Registrant, AirMedia Holdings Ltd. and AirMedia Merger Company Limited (incorporated herein by reference to Exhibit 99.2 of our current report on Form 6-K filed with the Commission on September 30, 2015).</u></a>
4.39	<a href="#"><u>English translation of Equity Interest Transfer Agreement in respect of AirMedia Group Co., Ltd., dated June 15, 2015, by and among AirMedia Group Inc., AirMedia Technology (Beijing) Co., Ltd, Beijing Linghang Shengshi Advertising Co., Ltd., Man Guo and Beijing Longde Wenchuang Investment Fund Management Company. (incorporated by reference to Exhibit 4.39 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.40	<a href="#"><u>English translation of Supplement Agreement of Equity Transfer, dated November 30, 2015, by and among AirMedia Group Inc., AirMedia Technology (Beijing) Co., Ltd, Beijing Linghang Shengshi Advertising Co., Ltd., Man Guo and Beijing Longde Wenchuang Investment Fund Management Company. (incorporated by reference to Exhibit 4.40 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.41	<a href="#"><u>English translation of Exclusive Technology Consulting and Service Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and AirMedia Online Network Technology Co., Ltd. (incorporated by reference to Exhibit 4.41 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.42	<a href="#"><u>English translation of Technology Development Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and AirMedia Online Network Technology Co., Ltd. (incorporated by reference to Exhibit 4.42 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.43	<a href="#"><u>English translation of Technology Support and Service Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and AirMedia Online Network Technology Co., Ltd. (incorporated by reference to Exhibit 4.43 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.44	<a href="#"><u>English translation of Loan Agreements, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd. and each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang).(incorporated by reference to Exhibit 4.44 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.45	<a href="#"><u>English translation of Exclusive Call Option Agreement, dated June 5, 2015, by and between AirMedia Technology (Beijing) Co., Ltd., AirMedia Online Network Technology Co., Ltd. and each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang) (incorporated by reference to Exhibit 4.45 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>
4.46	<a href="#"><u>English translation of Power of Attorney, dated June 5, 2015, by each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang).(incorporated by reference to Exhibit 4.46 to Annual Report on Form 20-F filed on May 16, 2016)</u></a>

Exhibit No.	Description
<a href="#">4.47</a>	<a href="#">English translation of Equity Pledge Agreements, dated June 5, 2015, by and among AirMedia Technology (Beijing) Co., Ltd., AirMedia Online Network Technology Co., Ltd. and each shareholder of AirMedia Online Network Technology Co., Ltd. (except Yi Zhang) (incorporated by reference to Exhibit 4.47 to Annual Report on Form 20-F filed on May 16, 2016).</a>
<a href="#">4.48</a>	<a href="#">English translation of Supplement Agreement in respect of the Related Agreement Arrangement of Beijing Linghang Shengshi Advertising Co., Ltd., dated January 21, 2016, by and among AirMedia Technology (Beijing) Co., Ltd., Man Guo and Qing Xu (incorporated by reference to Exhibit 4.48 to Annual Report on Form 20-F filed on May 16, 2016)</a>
<a href="#">4.49</a>	<a href="#">English translation of Supplement Agreement in respect of the Related Agreement Arrangement of Beijing AirMedia Jiaming Advertising Co., Ltd., dated January 21, 2016, by and among AirMedia Technology (Beijing) Co., Ltd., Man Guo and Qing Xu (incorporated by reference to Exhibit 4.49 to Annual Report on Form 20-F filed on May 16, 2016)</a>
<a href="#">4.50</a>	<a href="#">English translation of Supplement Agreement in respect of the Related Agreement Arrangement of AirMedia Online Network Technology Co., Ltd., dated March 15, 2016, by and among AirMedia Technology (Beijing) Co., Ltd., Man Guo, Qing Xu and Tao Hong (incorporated by reference to Exhibit 4.50 to Annual Report on Form 20-F filed on May 16, 2016)</a>
<a href="#">4.51</a>	<a href="#">English translation of Capital Contribution Agreement for the Establishment of Unicom AirMedia (Beijing) Network Co. Ltd. by and among AirMedia Online Network Technology Co., Ltd., Unicom Boardband Online Co., Ltd. and Chengdu Haite Kairong Aeronautical Technology Co., Ltd. (incorporated by reference to Exhibit 4.51 to Annual Report on Form 20-F filed on June 28, 2017)</a>
<a href="#">4.52</a>	<a href="#">English translation of Memorandum on Subsequent Performance of AirMedia Group Co., Ltd. Equity Transfer Agreement and Supplementary Agreement, dated March 28, 2018, by and among AirMedia Group Inc., AirMedia Technology (Beijing) Co., Ltd., Beijing Linghang Shengshi Advertising Co., Ltd., Mr. Herman Man Guo, Mr. Qing Xu, Beijing Longde Wenchuang Investment Fund Management Co., Ltd., Beijing Cultural Center Construction and Development Fund (Limited Partnership) and AirMedia Group Co., Ltd. (incorporated by reference to Exhibit 99.1 to Form 6-K (File No. 001-33765) filed on March 29, 2018)</a>
<a href="#">4.53*</a>	<a href="#">English translation of Memorandum on Subsequent Performance of AirMedia Group Co., Ltd. Equity Transfer Agreement and Supplementary Agreement, dated August 23, 2018, by and among AirMedia Group Inc., AirMedia Technology (Beijing) Co., Ltd., Beijing Linghang Shengshi Advertising Co., Ltd., Mr. Herman Man Guo, Mr. Qing Xu, Beijing Longde Wenchuang Investment Fund Management Co., Ltd., Beijing Cultural Center Construction and Development Fund (Limited Partnership) and AirMedia Group Co., Ltd.</a>
<a href="#">8.1*</a>	<a href="#">List of the Registrant's subsidiaries</a>
<a href="#">11.1</a>	<a href="#">Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 to Registration Statement on Form F-1 (File No. 333-146825), as amended, initially filed on October 19, 2007)</a>
<a href="#">12.1*</a>	<a href="#">Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">12.2*</a>	<a href="#">Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">13.1**</a>	<a href="#">Certifications by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">13.2**</a>	<a href="#">Certifications by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">15.1*</a>	<a href="#">Consent of Marcum Bernstein &amp; Pinchuk LLP</a>
<a href="#">15.2*</a>	<a href="#">Consent of Commerce &amp; Finance Law Offices</a>
<a href="#">15.3*</a>	<a href="#">Consent of Maples and Calder (Hong Kong) LLP</a>

Exhibit No.	Description
<a href="#">15.4*</a>	<a href="#">Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP</a>
<a href="#">16.1*</a>	<a href="#">Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP to the Securities and Exchange Commission</a>
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: October 17, 2018

**AIRMEDIA GROUP INC.**

/s/ Herman Man Guo

Herman Man Guo  
Chairman and Chief Executive Officer

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.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of AirMedia Group Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes and schedule (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated October 17, 2018, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of the existence of material weaknesses.

**Explanatory Paragraph – Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum Bernstein & Pinchuk LLP

Marcum Bernstein & Pinchuk LLP

We have served as the Company's auditor since 2017.

New York, New York

**October 17, 2018**

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

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

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

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

As discussed in Note 2 (dd) to the consolidated financial statements, the accompanying consolidated cash flows for the year ended December 31, 2015 has been adjusted for the retrospective application of the authoritative guidance on the classification and presentation of changes in restricted cash which was adopted by the Group in the year ended December 31, 2017.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2015, based on the criteria established *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 16, 2016 expressed an adverse opinion on the Group’s internal control over financial reporting because of a material weakness.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People’s Republic of China

May 16, 2016 (October 17, 2018 as to Notes 2(dd))

AIRMEDIA GROUP INC.

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

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 117,547	\$ 15,355
Restricted cash	-	3,117
Accounts receivable, net	9,781	10,980
Prepaid concession fees	8,231	7,064
Other current assets, net	68,850	59,825
Amount due from related parties	835	2,251
<b>Total current assets</b>	<b>205,244</b>	<b>98,592</b>
Property and equipment, net	61,005	15,442
Prepaid equipment costs	16,200	290
Long-term investments	83,861	102,434
Long-term deposits	6,427	6,039
Acquired intangible assets, net	1,682	-
Other non-current assets	6,771	2,205
<b>TOTAL ASSETS</b>	<b>381,190</b>	<b>225,002</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	40,366	48,545
Accrued expenses and other current liabilities	33,596	12,236
Deferred revenue	1,764	1,337
Income tax payable	14,483	13,677
<b>Total current liabilities</b>	<b>90,209</b>	<b>75,795</b>
<b>Non-current liabilities:</b>		
Other non-current liabilities	835	398
Provision for earn out commitment	23,549	25,130
<b>Total liabilities</b>	<b>114,593</b>	<b>101,323</b>

Commitments and contingencies (Note 22 and 23)

AIRMEDIA GROUP INC.

**CONSOLIDATED BALANCE SHEETS - CONTINUED**  
(In U.S. dollars in thousands, except share and per share data)

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Equity</b>		
Ordinary shares (\$0.001 par value; 900,000,000 shares authorized in 2016 and 2017; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2016 and 2017, respectively; 125,629,779 shares and 125,629,779 shares outstanding as of December 31, 2016 and 2017, respectively)	128	128
Additional paid-in capital	287,094	286,739
Treasury stock (2,032,278 and 2,032,278 shares as of December 31, 2016 and 2017, respectively)	(2,351)	(2,351)
Accumulated deficits	(15,842)	(172,318)
Accumulated other comprehensive (loss) income	(292)	35,451
<b>Total AirMedia Group Inc.'s shareholders' equity</b>	<b>268,737</b>	<b>147,649</b>
Non-controlling interests	(2,140)	(23,970)
<b>Total equity</b>	<b>266,597</b>	<b>123,679</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 381,190</b>	<b>\$ 225,002</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 and per share data)

	For the years ended December 31,		
	2015	2016	2017
Revenues	\$ 50,866	\$ 16,597	\$ 24,328
Business tax and other sales tax	(633)	(84)	(569)
Net revenues	50,233	16,513	23,759
Less: Cost of revenues	89,577	49,042	58,967
Gross loss	(39,344)	(32,529)	(35,208)
Operating expenses:			
Selling and marketing	9,611	12,056	12,747
General and administrative	27,102	44,401	63,507
Impairment of fixed assets, prepaid equipment cost and intangible assets	-	826	67,342
Total operating expenses	36,713	57,283	143,596
Loss from operations	(76,057)	(89,812)	(178,804)
Interest income, net	472	843	2,645
Other income, net	1,383	4,243	214
Loss from continuing operations before income taxes and share of loss on equity method investments	(74,202)	(84,726)	(175,945)
Income tax expenses from continuing operations	6,421	4,483	633
Net loss before income (loss) on equity method investments	(80,623)	(89,209)	(176,578)
Income (loss) and impairment on equity method investments	2,352	(33)	(2,603)
Net loss from continuing operations	(78,271)	(89,242)	(179,181)
Less: Net loss from continuing operations attributable to non-controlling interests	7,620	23,617	22,705
<b>Net loss from continuing operations attributable to AirMedia Group Inc.'s shareholders</b>	<b>(70,651)</b>	<b>(65,625)</b>	<b>(156,476)</b>
<b>Discontinued operation:</b>			
Net income from discontinued operations (including gain of \$244,164 upon the disposal in the year ended December 31, 2015)	272,879	-	-
Income tax expenses from discontinued operations	(51,696)	-	-
Net income from discontinued operations, net of tax	221,183	-	-
Less: Net income from discontinued operations attributable to non-controlling interests	(885)	-	-
<b>Net income from discontinued operations attributable to AirMedia Group Inc.'s shareholders</b>	<b>220,298</b>	<b>-</b>	<b>-</b>
<b>Net income (loss)</b>	<b>142,912</b>	<b>(89,242)</b>	<b>(179,181)</b>
<b>Net income (loss) attributable to AirMedia Group Inc.'s shareholders</b>	<b>\$ 149,647</b>	<b>\$ (65,625)</b>	<b>\$ (156,476)</b>
Net income (loss) per ordinary share			
- basic	\$ 1.23	\$ (0.52)	\$ (1.25)
- diluted	\$ 1.16	\$ (0.52)	\$ (1.25)
Net (loss) per ordinary shares from continuing operations			
- basic	\$ (0.58)	\$ (0.52)	\$ (1.25)
- diluted	\$ (0.58)	\$ (0.52)	\$ (1.25)
Net income per ordinary shares from discontinued operations			
- basic	\$ 1.81	\$ -	\$ -
- diluted	\$ 1.70	\$ -	\$ -
Weighted average shares used in calculating net income (loss) per ordinary share			
Basic			
Continuing operations	121,740,194	125,277,056	125,629,779
Discontinued operations	121,740,194	-	-
Diluted			
Continuing operations	121,740,194	125,277,056	125,629,779
Discontinued operations	129,372,158	-	-

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,		
	2015	2016	2017
Net income (loss)	\$ 142,912	\$ (89,242)	\$ (179,181)
Other comprehensive (loss) income, net of tax of nil:			
Change in cumulative foreign currency translation adjustment	(11,478)	(24,140)	35,716
Comprehensive income (loss)	131,434	(113,382)	(143,465)
Less: comprehensive loss attributable to non-controlling interest	(7,326)	(24,537)	(22,732)
Comprehensive income (loss) attributable to AirMedia Group Inc.'s shareholders	\$ 138,760	\$ (88,845)	\$ (120,733)

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 and per share data)

	Ordinary shares		Additional paid-in capital	Treasury stock	Accumulated deficits	Accumulated other comprehensive income (loss)	Total AirMedia Group Inc.'s shareholders' equity	Non-controlling interests	Total Equity
	Shares	Amount							
Balance as of January 1, 2015	119,942,413	\$ 128	\$ 323,167	\$ (9,236)	\$ (99,138)	\$ 33,815	\$ 248,736	\$ 20,136	\$ 268,872
Ordinary shares issued for share based compensation	4,453,232	-	-	5,458	(633)	-	4,825	-	4,825
Share-based compensation	-	-	598	-	-	-	598	-	598
Foreign currency translation adjustment	-	-	-	-	-	(10,887)	(10,887)	(591)	(11,478)
Net income	-	-	-	-	149,647	-	149,647	(6,735)	142,912
Profit distribution to non-controlling interest	-	-	-	-	-	-	-	(891)	(891)
Capital contribution from non-controlling interests	-	-	271	-	-	-	271	1,042	1,313
Capital contribution to Guangzhou Meizheng	-	-	(459)	-	-	-	(459)	459	-
Acquisition of non-controlling interests	-	-	(6,163)	-	-	-	(6,163)	(2,355)	(8,518)
<b>Balance as of December 31, 2015</b>	<b>124,395,645</b>	<b>128</b>	<b>317,414</b>	<b>(3,778)</b>	<b>49,876</b>	<b>22,928</b>	<b>386,568</b>	<b>11,065</b>	<b>397,633</b>
Stock option exercised	1,234,134	-	-	1,427	(93)	-	1,334	-	1,334
Share-based compensation	-	-	773	-	-	-	773	-	773
Foreign currency translation adjustment	-	-	-	-	-	(23,220)	(23,220)	(920)	(24,140)
Net loss	-	-	-	-	(65,625)	-	(65,625)	(23,617)	(89,242)
Acquisition of equity interests from non-controlling shareholders	-	-	(34,570)	-	-	-	(34,570)	3,614	(30,956)
Capital contribution from non-controlling interests	-	-	3,477	-	-	-	3,477	7,718	11,195
<b>Balance as of December 31, 2016</b>	<b>125,629,779</b>	<b>128</b>	<b>287,094</b>	<b>(2,351)</b>	<b>(15,842)</b>	<b>(292)</b>	<b>268,737</b>	<b>(2,140)</b>	<b>266,597</b>
Share-based compensation	-	-	343	-	-	-	343	-	343
Capital contribution from non-controlling interests	-	-	716	-	-	-	716	1,147	1,863
Acquisition of equity interests from non-controlling shareholders	-	-	(1,414)	-	-	-	(1,414)	-	(1,414)
Disposal of Hainan Jinhui	-	-	-	-	-	-	-	(245)	(245)
Foreign currency translation adjustment	-	-	-	-	-	35,743	35,743	(27)	35,716
Net loss	-	-	-	-	(156,476)	-	(156,476)	(22,705)	(179,181)
<b>Balance as of December 31, 2017</b>	<b>125,629,779</b>	<b>\$ 128</b>	<b>\$ 286,739</b>	<b>\$ (2,351)</b>	<b>\$ (172,318)</b>	<b>\$ 35,451</b>	<b>\$ 147,649</b>	<b>\$ (23,970)</b>	<b>\$ 123,679</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,		
	2015	2016	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 142,912	\$ (89,242)	\$ (179,181)
Less: Net income from discontinued operations	221,183	-	-
Net loss from continuing operations	(78,271)	(89,242)	(179,181)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad debt provisions	(2,661)	12,697	37,255
Depreciation and amortization	5,771	12,971	12,048
Deferred tax provision	4,681	4,328	-
Impairment of fixed assets, prepaid equipment cost and intangible assets	-	826	67,342
Share-based compensation	567	773	343
(Income) loss and impairment on equity method investments	(2,352)	33	2,603
(Gain) loss on disposal of property and equipment	(129)	22	417
Gain on sale/maturity of short-term investments	(347)	-	-
<b>Changes in assets and liabilities</b>			
Accounts receivable	13,742	(3,250)	(1,874)
Notes receivable	762	-	-
Prepaid concession fees	7,302	(3,043)	1,656
Other current assets	(16,045)	(5,369)	(821)
Long-term deposits	3,632	(1,962)	789
Other non-current assets	2,778	(781)	1,304
Amount due from related parties	(4,873)	1,813	(1,310)
Accounts payable	(8,591)	6,730	4,491
Accrued expenses and other current liabilities	(6,762)	2,030	(920)
Deferred revenue	(2,643)	517	(525)
Amount due to related parties	12,803	(15,023)	-
Income tax payable	42,600	(27,377)	(1,712)
Other noncurrent liabilities	-	(303)	(475)
Net cash used in continuing operations	(28,036)	(103,610)	(58,570)
Net cash used in discontinued operations	(41,026)	-	-
Net cash used in operating activities	(69,062)	(103,610)	(58,570)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Consideration receivable	-	195,915	-
Purchase of property and equipment	(10,389)	(21,558)	(7,170)
Proceeds from disposal of property and equipment	978	-	-
Net amount received upon settlement of short-term investment	14,206	3,617	-
Acquisition of Guangzhou Xinyu	(4,808)	-	-
Acquisition of AM Jiaming	325	-	-
Acquisition of equity interests from non-controlling shareholders	-	(32,838)	(1,414)
Proceeds from disposal of equity investment	-	3,014	1,502
Disposal of controlling interest in a former subsidiary	(14)	-	-
Loan to third parties	(5,572)	(17,093)	(22,635)
Purchase of long term investment	(3,033)	(475)	(17,449)
Net cash (used in) provided by continuing operations	(8,307)	130,582	(47,166)
Net cash provided by discontinued operations	93,226	-	-
Net cash provided by (used in) investing activities	84,919	130,582	(47,166)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash payment for a short-term loan	(3,000)	-	-
Capital contribution from non-controlling interest	-	9,796	874
Distribution of dividends to non-controlling interests	(221)	-	-
Proceeds from disposal of equity interests of AirMedia Lianhe	536	-	-
Proceeds from options exercised	4,826	1,334	-
Net cash provided by continuing operations	2,141	11,130	874
Net cash used in discontinued operations	-	-	-
Net cash provided by financing activities	2,141	11,130	874



Effect of exchange rate changes	(1,698)	(7,515)	5,787
Net increase (decrease) in cash, cash equivalents and restricted cash	16,300	30,587	(99,075)
Cash, cash equivalents and restricted cash, at beginning of year	70,660	86,960	117,547
Cash, cash equivalents and restricted cash, at end of year	\$ 86,960	\$ 117,547	\$ 18,472

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Income tax paid	\$ 957	\$ 27,712	\$ 1,601
Interests paid for short-term loan	\$ 10	\$ -	\$ -
Fair value of property, equipment and other assets acquired in exchange of advertising services rendered and subsidiary's equity transferred	\$ 304	\$ 541	\$ 169

**SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:**

Payable for purchase of property and equipment	\$ 15,925	\$ -	\$ 3,569
Acquisition of non-controlling interests	\$ -	\$ 1,882	\$ -
Receivable of capital contribution from non-controlling interest	\$ -	\$ 1,399	\$ 989
Receivable for disposal of equity interests of AM Film and AM Lianhe	\$ 233	\$ -	\$ -
Consideration receivable	\$ 200,685	\$ -	\$ -

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	<b>As of December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Cash and cash equivalents	\$ 86,960	\$ 117,547	\$ 15,355
Restricted cash	-	-	3,117
Total cash, cash equivalents and restricted cash	<u>\$ 86,960</u>	<u>\$ 117,547</u>	<u>\$ 18,472</u>

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

## AIRMEDIA GROUP INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017 (In U.S. dollars in thousands, except share and per share data)

#### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

##### *Introduction of the Group*

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

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

In June 2015, the Company, Yuehang Chuangyi Technology (Beijing) Co., Ltd. (formerly AirMedia Technology (Beijing) Co., Ltd. ("Chuangyi Technology"), Beijing Linghang Shengshi Advertising Co., Ltd. (formerly Beijing Linghang Shengshi Advertising Co., Ltd.) ("Linghang Shengshi"), which is the Company's VIE in China as well as the controlling shareholder of AirMedia Group Co., Ltd. ("AM Advertising,"), and Mr. Herman Guo, who is registered shareholder of AM Advertising under PRC law entered into a definitive agreement with Beijing Longde Wenchuang Fund Management Co., Ltd. ("Longde Wenchuang" or the "Buyer") to sell 75% equity interest of AM Advertising for a consideration of RMB2.1 billion (equivalent to \$302,400) in cash. As part of the transaction, the Company effected an internal business reorganization and transferred all its media business in airports (excluding digital TV screens in airports and TV-attached digital frames) and all billboard and LED media business outside of airports (excluding gas station media network and digital TV screens on airplanes) to AM Advertising to form the target business to be sold (the "Target Business") and transferred its other business out of AM Advertising. To effectuate the sale, the Company removed the VIE structure with respect to AM Advertising. The change in the equity ownership of AM Advertising was registered with the local branch of the State Administration for Industry and Commerce, or the SAIC, in December 2015. Since then, there have been other investors invested in AM Advertising, the Company now holds approximately 20.18% equity interest in AM Advertising and has ceased to consolidate the results of AM Advertising since December 2015.

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

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

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

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

On July 31, 2017, the special committee received a proposed amendment to the Merger Agreement from the buyer group, comprised of Mr. Guo, Ms. Dan Shao and Mr. Qing Xu to (a) acquire all of the outstanding shares not already owned by the buyer group for \$4.10 per ADS or \$2.05 per ordinary share in cash, (b) the parent termination fee has been increased from \$5,320 to \$10,640, (c) Parent and Merger Sub have both agreed to, on or prior to October 31, 2017, deposit an amount equal to the parent termination fee into an escrow account or cause the issuance of a letter of credit in the same amount for the benefit of the Company as security for the payment of the parent termination fee; d) the Company and its relevant subsidiaries have agreed to facilitate the satisfaction of funding conditions under the Debt Commitment Letter; and e) extend the Termination Date to December 31, 2017. The parties entered into Amendment No.4 to the Merger Agreement to further extend the termination date to December 31, 2017 so as to give the special committee sufficient time to consider the proposed amendment.

On October 31, 2017, the parties entered into Amendment No. 5 and announced that Parent and Merger Sub could not arrange such cash escrow or letter of credit on or prior to October 31, 2017 due to regulatory and policy reasons. As Mr. Herman Guo Man, Ms. Dan Shao and Mr. Qing Xu (collectively, the "Buyer Group") are committed to proceeding with the going-private transaction, the Buyer Group proposed to provide real properties owned by one member of the Buyer Group as an alternative collateral and security to the above arrangement, and the parties entered into the Merger Agreement Amendment No. 5 to reflect such alternative collateral and security.

On December 27, 2017, the Company announced that it entered into a termination agreement with AirMedia Holdings Ltd. and AirMedia Merger Company Limited to terminate the previously announced merger agreement in view that the going private transaction would not be completed by December 31, 2017, the termination date of the merger agreement. The parties have released each other from all liabilities and obligations with respect to the proposed transaction, and no termination fees will be payable by either party.

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**  
**(In U.S. dollars in thousands, except share and per share data)**

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

*Introduction of the Group - continued*

As of issuance date of this report, details of the Company's subsidiaries, VIEs and VIEs' subsidiaries are as follows:

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

AIRMEDIA GROUP INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**  
(In U.S. dollars in thousands, except share and per share data)

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

*Introduction of the Group - continued*

Name	Date of incorporation/ acquisition	Place of incorporation	Percentage of legal ownership
<b>VIEs' subsidiaries:</b>			
Beijing Airtel Pictures Co., Ltd. (Formerly Beijing AirMedia Film & TV Culture Co., Ltd.) ("Airtel Pictures")	September 13, 2007	the PRC	N/A
Beijing Zhihe Xianglong Advertising Co., Ltd. (Formerly Flying Dragon Media Advertising Co., Ltd.) ("Flying Dragon")	August 1, 2008	the PRC	N/A
Wenzhou Yuehang Advertising Co., Ltd. (Formerly Wenzhou AirMedia Advertising Co., Ltd.) ("Wenzhou Yuehang")	October 17, 2008	the PRC	N/A
Beijing Dongding Gongyi Advertising Co., Ltd. ("Dongding")	February 1, 2010	the PRC	N/A
Beijing GreatView Media Advertising Co., Ltd. (Formerly Beijing Weimei Shengjing Media Advertising Co., Ltd.) ("GreatView Media")	April 28, 2011	the PRC	N/A
Guangzhou Meizheng Online Network Technology Co., Ltd. (Formerly Guangzhou Meizheng Advertising Co., Ltd.) ("Guangzhou Meizheng")	May 17, 2013	the PRC	N/A
Beijing Yuehang Tianyi Electronic Information Technology Co., Ltd. (Formerly Beijing AirMedia Tianyi Information Technology Co., Ltd.) ("Yuehang Tianyi")	September 25, 2013	the PRC	N/A
Wangfan Linghang Mobile Network Technology Co., Ltd. (Formerly AirMedia Mobile Network Technology Co., Ltd. ("Linghang"))	April 23, 2015	the PRC	N/A
Guangzhou Meizheng Information Technology Co., Ltd. ("Guangzhou Tech")	June 18, 2015	the PRC	N/A
AirMedia Henglong Mobile Network Technology Co., Ltd. ("AMHL Mobile")	April 27, 2015	the PRC	N/A
Beijing Wangfan Jiaming Pictures Co., Ltd. (Formerly Beijing AirMedia Jiaming Film & TV Culture Co., Ltd.) ("Wangfan Jiaming")	December 31, 2015	the PRC	N/A
Meizheng Network Information Technology Co., Ltd. ("Meizheng Network")	August 8, 2016	the PRC	N/A
Wangfan Network Technology Co., Ltd. ("Iwanfan")	May 6, 2016	the PRC	N/A
Shandong Airmedia Cheweishi Network Technology Co., Ltd. (Formerly Shandong Airmedia Car Safety Technology Co., Ltd.) ("Shandong Cheweishi")	July 21, 2016	the PRC	N/A
Dingsheng Ruizhi (Beijing) Investment Consulting Co., Ltd. ("Dingsheng Ruizhi")	May 25, 2016	the PRC	N/A
Wangfan Tongda Culture Development (Beijing) Co., Ltd. ("Tongda Culture")	May 11, 2018	the PRC	N/A
Yuehang Zhongying E-commerce Co., Ltd. ("Zhongying")	May 17, 2018	the PRC	N/A
Beijing Airport United Culture Media Co., Ltd. ("Airport United")	June 19, 2018	the PRC	N/A



AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017  
(In U.S. dollars in thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

*The VIE arrangements*

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

One of the Company's subsidiary, AN China, the 100% shareholder of Chuangyi Technology, Shenzhen Yuehang, and Xi'an Shengshi, has been engaged in the advertising business in Hong Kong since September 2008.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017  
(In U.S. dollars in thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

*The VIE arrangements - continued*

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017  
(In U.S. dollars in thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

*The VIE arrangements - continued*

**Call option agreement:** Under the call option agreements between Chuangyi Technology and the shareholders of Linghang Shengshi, Beijing Yuehang and Jiaming Advertising, the shareholders of those VIEs irrevocably granted Chuangyi Technology or its designated third party an exclusive option to purchase from the VIEs' shareholders, to the extent permitted under PRC law, all the equity interests in the VIEs, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions. Under the call option agreements between Chuangyi Technology and the shareholders of AM Online, the shareholders of AM Online irrevocably granted Chuangyi Technology or its designated third party an exclusive option to purchase from the shareholders of AM Online, to the extent permitted under PRC law, all the equity interests in AM Online, as the case may be. To the extent the applicable PRC law does not require the valuation of the subject equity interests and does not otherwise restrict the purchase price for such equity interests, such purchase price shall equal the amount of actual payment made by the respective shareholders of AM Online with respect to the equity interests whether in the form or share capital injection or secondary purchase price. If and where the applicable PRC law requires the valuation of the subject equity interests or otherwise has restrictions on the purchase price for such equity interests, such purchase price shall equal the minimum amount of consideration permitted by the applicable law. In addition, under these agreements (except for the call option agreements between Chuangyi Technology and the shareholders of AM Online), Chuangyi 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 Chuangyi 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 Chuangyi 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 Chuangyi Technology's sole discretion.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

*The VIE arrangements - continued*

- **Equity pledge agreement:** Under the equity pledge agreements between Chuangyi Technology and the shareholders of our VIEs other than AM Online, the shareholders of those VIEs pledged all of their equity interests, including the right to receive declared dividends, in those VIEs to Chuangyi Technology to guarantee those VIEs' performance of their obligations under the technology support and service agreement and the technology development agreement. Under the equity pledge agreements between Chuangyi Technology and the shareholders of AM Online, the shareholders of AM Online pledged all of their equity interests, including the right to receive declared dividends, in AM Online to Chuangyi Technology to guarantee the performance by AM Online of its obligations under its call option agreement and its exclusive technology consultation and service agreement. If the VIEs fail to perform their obligations set forth in the applicable agreements, Chuangyi Technology shall be entitled to exercise all the remedies and powers set forth in the provisions of the applicable equity pledge agreements. Those agreements remain effective for as long as the technology support and service agreements and technology development agreement are effective, or, in the case of AM Online, until two years after the term of the obligations under the call option agreement and exclusive technology consultation and service agreement.
- **Authorization letter:** Each shareholder of the VIEs has executed an authorization letter to authorize Chuangyi Technology to exercise certain of its rights, including voting rights, the rights to enter into legal documents and the rights to transfer any or all of its equity interest in the VIEs. The authorization letters by the shareholders of our VIEs other than AM Online will remain effective during the operating periods of the respective VIEs. Such authorization is effective for ten years and such term is renewed upon its expiry at Chuangyi Technology's sole discretion. The authorization letters by the shareholders of AM Online will remain effective for as long as the respective parties remain shareholders of AM Online unless terminated earlier by Chuangyi Technology or the call option agreement with respect to AM Online is terminated prior to its expiration.

Through the above contractual arrangements, Chuangyi 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 Chuangyi Technology at its sole discretion. Accordingly, we have consolidated the VIEs because we believe, through the contractual arrangements, (1) Chuangyi Technology could direct the activities of the VIEs that most significantly affect its economic performance and (2) Chuangyi 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 Chuangyi Technology also serve in the VIEs as management or employees, certain operating costs paid by Chuangyi Technology, such as payroll costs and office rental, were re-charged to the VIEs.

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

*The VIE arrangements - continued*

Chuangyi Technology also entered into loan agreements with each shareholder of AM Online, pursuant to which Chuangyi Technology permits to make loans in an aggregate amount of RMB 40,000 to the shareholders of AM Online solely for the incorporation and capitalization of AM Online. The loan is interest free and the term of the loan is ten years and shall be automatically renewed on an annual basis unless Chuangyi Technology objects. Chuangyi Technology can require the shareholders to repay all or a portion of the loan before the maturity date with a 15 days prior written notice. Under such circumstances, Chuangyi Technology is entitled to, or designate a third party to, buy all or a portion of the shareholders' equity interests in AM Online on a pro rata basis based on the amount of the repaid principal of the loan.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES – continued

*Risks in relation to the VIE structure*

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

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

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

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

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

**AIRMEDIA GROUP INC.**

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

*Risks in relation to the VIE structure - continued*

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

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

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
Total current assets	\$ 177,425	\$ 73,362
Total non-current assets	127,486	122,489
Total assets	304,911	195,851
Total current liabilities	71,535	63,302
Total non-current liabilities	24,384	25,528
Total liabilities	\$ 95,919	\$ 89,294

	<b>For the years ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Net revenues	\$ 46,237	\$ 16,311	\$ 23,759
Net loss	(60,117)	(81,659)	(173,516)

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 VIEs contributed an aggregate of 98.0%, 98.8% and 100.0% of the consolidated net revenues for the years ended December 31, 2015, 2016 and 2017, respectively. As of December 31, 2016 and 2017, the VIEs accounted for an aggregate of 80.0% and 85.6%, respectively, of the consolidated total assets, and 83.7% and 85.6%, respectively, of the consolidated total liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

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

(b) *Going concern*

The Group incurred operating losses and had negative operating cash flows and may continue to generate negative cash flows as the Group implements its business plan for 2018. There can be no assurance that the continuing efforts to execute the business plan will be successful and that the Group will be able to continue as a going concern.

The Group incurred losses from operations of \$89,812 and \$178,804 for the years ended December 31, 2016 and 2017. As of December 31, 2017, the Group had accumulated deficit of \$172,318. The Group had negative cash flows from operating activities for the years ended December 31, 2016 and 2017, the net cash used in operating activities was \$103,610 and \$58,570 for the years ended December 31, 2016 and 2017. These conditions raise substantial doubt about the Group's ability to continue as a going concern.

The Group intends to meet the cash requirements for the next 12 months from the issuance date of this report through a combination of debt, equity financing by way of private placements, friends, family and business associates and management financial support. The Group will focus on the following activities:

1. The Group plans to pledge the residual 20.18% shares of equity interest of AM Advertising in Bank of Beijing to acquire the long-term borrowing amounted to \$30,739 (RMB 200,000), the pledge plan is in process of Bank of Beijing's approval.
2. The Group is in the process of selling the residual 20.18% shares of AM Advertising to third parties.
3. The Group plans to issue one of its subsidiary's shares to finance \$23,055 (RMB 150,000) from potential investor.
4. The Group is focusing on improving operation efficiency and cost reduction to standardize operations, enhance internal controls, and create synergy of the Company's resources.

The Group has also acquired the financial support letter from Mr. Man Guo and Mr. Qing Xu, Mr. Man Guo and Mr. Qing Xu express their willingness and intent to provide the necessary financial support to the Group, so as to enable the Group to meet its liabilities as and when it falls due and to carry on its business without a significant curtailment of operations for the next 12 months from the issuance date of this report.

As a result, management prepared the consolidated financial statements assuming the Group will continue as a going concern. However, there is no assurance that the measures above can be achieved as planned. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(c) *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.

(d) *Discontinued operations*

A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Where an operation is classified as

discontinued, a single amount is presented on the face of the consolidated statements of operations. The amount of total current assets, total non-current assets, total current liabilities and total non-current liabilities are presented separately on the consolidated balance sheets.

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

(e) *Use of estimates*

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

(f) *Significant risks and uncertainties*

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



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

(g) *Fair value*

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

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

Level 1

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

Level 2

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

Level 3

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(h) *Fair value of financial instruments*

The Group's financial instruments include cash, accounts receivable, amount due from related parties and accounts payable. 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, 2016 and 2017.

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

(i) *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.

(j) *Restricted cash*

Restricted cash relates to amount required by the bank as the deposits for the purpose of commercial notes issuance.

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

(k) *Property and equipment, net*

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

Network equipment	5 years
Office property	40 years
Furniture and fixture	5 years
Computer and office equipment	3-5 years
Vehicle	5 years
Software	5 years
Leasehold improvement	Shorter of the term of the lease or the estimated useful lives of the assets

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

(l) *Impairment of long-lived assets*

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(m) *Long-term investments*

*Equity method investments*

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

*Cost method investments*

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

*Impairment for long-term investments*

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

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

(n) *Acquired intangible assets*

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

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

Due to the continuing losses and significant reduced revenue from operations, the Group recognized a fully impairment loss of \$1,228 for the year ended December 31, 2017.

(o) *Revenue recognition*

The Group's revenues are derived from selling advertising time slots on the Group's advertising networks. For the years ended December 31, 2015, 2016 and 2017, the advertising revenues were generated from TV-attached digital frames in airports, digital TV screens in airports, digital TV screens on airlines, trains and buses WIFI network and gas station media network.

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 airports, airlines, and through WIFI network for a period of time. The Group recognizes advertising revenues ratably over the performance period for which the advertisements are displayed, so long as collection of the fees remains probable.

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

The Group also provides programs like movie to each airline company, which are broadcasted in digital TV screens on airlines. The Group typically signs standard contracts with its airline companies, who require the Group to provide the programs which would play on the Group's digital TV screens on airlines for a specified period. The revenue is recognized on a straight-line basis over the specified period.

Deferred revenue

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

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

(p) *Revenue recognition* - continued

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 \$473, nil and nil for the years ended December 31, 2015, 2016 and 2017, respectively. No direct costs are attributable to the revenues.

(q) *Value Added Tax ("VAT")*

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

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

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

*(r) Concession fees*

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

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

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

*(s) Agency fees*

The Group pays fees to advertising agencies based on a certain percentage of revenues made through the advertising agencies upon receipt of payment from advertisers. The agency fees are charged to cost of revenues in the consolidated statements of operations ratably over the period in which the advertising is displayed. Prepaid and accrued agency fees are recorded as current assets and current liabilities according to relative timing of payments made and advertising service provided. From time to time, the Group and certain advertising agencies may renegotiate and mutually agree, as permitted by applicable laws, to reduce existing agency fee liabilities as calculated under the terms of existing contracts. Such reductions in the accrued agency fees are recorded as a reduction in cost of sales in the period the renegotiations are finalized.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(t) *Operating leases*

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

(u) *Advertising costs*

The Group expenses advertising costs as incurred. Total advertising expenses were \$350, \$720 and \$1,209 for the years ended December 31, 2015, 2016 and 2017, respectively, and have been included as part of selling and marketing expenses.

(v) *Foreign currency translation*

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

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

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



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

(w) *Income taxes*

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

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the Group classifies the interest and penalties, if any, as a component of the income tax expense. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, where the underpayment of taxes is more than RMB 100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. According to Hong Kong Inland Revenue Department, the statute of limitation is six years if any company chargeable with tax has not been assessed or has been assessed at less than the proper amount, the statute of limitation is extend to 10 years if the underpayment of taxes is due to fraud or willful evasion. For years ended December 31, 2015, 2016 and 2017, the Group did not have any material interest or penalties associated with tax positions nor did the Group have any significant unrecognized uncertain tax positions. The Company does not expect that its assessment regarding unrecognized tax positions will materially change over the next 12 months. The Company is not currently under examination by an income tax authority, nor has been notified that an examination is contemplated.

(x) *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.

(y) *Comprehensive income (loss)*

Comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments and is presented net of tax. The tax effect is nil for the three years ended December 31, 2015, 2016 and 2017 in the consolidated statements of comprehensive income (loss).

(z) *Allowance of doubtful accounts*

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

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

*(aa) Concentration of credit risk*

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and accounts receivable. The Group places their cash with financial institutions with high-credit rating and quality in China. For the years ended December 31, 2015, 2016 and 2017, no individual customer accounted for over 10% of total revenue. There is no customer accounting for 10% or more of total accounts receivables as of December 31, 2016, and there is a customer accounting for 10% of total accounts receivables as of December 31, 2017.

*(bb) Net income (loss) per share*

Basic net income (loss) per share are computed by dividing net income (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted net income (loss) reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Potential common shares in the diluted net loss per share computation are excluded in periods of losses from continuing operations, as their effect would be anti-dilutive.

*(cc) Government subsidies*

The Group primarily receives tax refund and development supporting bonus from tax bureau and local government without any condition or restriction. The government subsidies are recorded in other income on the consolidated statements of operations in the period in which the amounts of such subsidies are received without future performance requirement. The recognized government subsidies as other income are \$513, \$86 and nil for the years ended December 31, 2015, 2016 and 2017, respectively.

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

*(dd) Recent issued accounting standards*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services.

To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Management has adopted this standard effective January 1, 2018 using the modified-retrospective approach, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company also estimates there were no material impact to the beginning balance of retained earnings.

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

*(dd) Recent issued accounting standards - continued*

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" This guidance revises the accounting related to the classification and measurement of investments in equity securities as well as the presentation for certain fair value changes in financial liabilities measured at fair value, and amends certain disclosure requirements. The guidance requires that all equity investments, except those accounted for under the equity method of accounting or those resulting in the consolidation of the investee, be accounted for at fair value with all fair value changes recognized in income. For financial liabilities measured using the fair value option, the guidance requires that any change in fair value caused by a change in instrument-specific credit risk be presented separately in other comprehensive income until the liability is settled or reaches maturity. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted for certain provisions. A reporting entity would generally record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Group estimated that the adoption of ASU No. 2016-01 will not have a significant impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU No. 2018-10 and No. 2018-11, Leases (ASC 842). ASU 2018-10 provides narrow amendments that clarify how to apply certain aspects of the guidance in ASU 2016-02. ASU 2018-11 provides entities with an option of an additional transition method, by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors an option to not separate lease and non-lease components when certain criteria are met. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

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

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Group's consolidated financial condition, results of operations or cash flows.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(dd) Recent issued accounting standards - continued

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Group elected to early adopt this guidance on a retrospective basis and have applied the changes to the consolidated statements of cash flows for the years ended December 31, 2015, 2016 and 2017.

In May 2017, the FASB issued ASU No. 2017-09 ("ASU 2017-09") to provide guidance to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted and application is prospective. The Group estimated that the adoption of this guidance will not have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220). The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. Public business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the impact of adopting ASU 2018-02 on its consolidated financial statements.

In February 2018, the FASB issued guidance to address the income tax accounting treatment of the tax effects within other comprehensive income due to the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). This guidance allows entities to elect to reclassify the tax effects of the change in the income tax rates from other comprehensive income to retained earnings. The guidance is effective for periods beginning after December 15, 2018 although early adoption is permitted. In March 2018, the FASB issued ASU No. 2018-05, Income Tax (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This update adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the staff regarding application of Topic 740, Income Taxes, in the reporting period that includes December 22, 2017 - the date on which the Tax Act was signed into law. The Company has completed the assessment of the adoption of this guidance on its consolidated financial statements, and the Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In June, 2018, the FASB issued ASU No. 2018-07 to provide guidance to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees (for example, service providers, external legal counsel, suppliers, etc.). The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Group does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

Recently issued ASUs by the FASB, except for the ones mentioned above, and are not expected to have a significant impact on the Company's consolidated results of operations or financial position.

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**3. DISCONTINUED OPERATION**

The disposal of Target Business described in Note 1 was completed in December 2015.

According to the Equity Interest Transfer Agreement, the Buyers may require the Company to repurchase the equity interest of AM Advertising upon the occurrence of certain events. As these events are considered improbable, no fair value was allocated to the associated put option.

The Equity Interest Transfer Agreement also contains an earn out structure, in the event that the net profit (before or after adjustment for non-recurring gains and losses, whichever is less) of restructured AM Advertising in each of the fiscal years of 2015, 2016, 2017, and 2018 (collectively, the "Covered Period") is less than the profit target of RMB1,059,200 (the "Profit Target") (being RMB200,000, RMB240,000, RMB288,000 and RMB331,200, equivalent to \$30,875, \$37,050, \$44,459 and \$51,128, for the fiscal years of 2015, 2016, 2017, and 2018 respectively), other shareholders of AM Advertising, excluding the Buyers, will be obligated to compensate the Buyers for the deficiency by transferring their equity interest in AM Advertising to the Buyers for nil consideration and/or by cash, based on a pre-determined formula with such compensations in aggregate being subject to a cap equal to the amount of the consideration. As of December 31, 2016, the Group treated the provision for earn out commitment of \$23,549 as contingent liability (Note 23-c). On March 29, 2018 and August 31, 2018, a memorandum of understanding ("MoU") and its supplemental agreement respectively, with, among others, Beijing Longde Wenchuang Investment Fund Management Co., Ltd and Beijing Cultural Center Construction and Development Fund (Limited Partnership), under which, among other things, Linghang Shengshi and Mr. Guo have agreed to pay or make available to AM Advertising on or prior to May 30, 2018 and further extended to September 30, 2018 an aggregate of RMB304,554 which was to be discounted by the following amounts (i) the RMB152,000 profits attributable to Linghang Shengshi, Mr. Guo and Mr. Xu for the first nine months of 2015, based on a third-party pro forma audit report on the Target Business; (ii) the shareholder loan of RMB88,000 in principal balance and RMB7,840 in interests; and (iii) the payment of RMB56,714 in cash after the sale of the 20.32% equity interests in AM Advertising, which consisted of 20% equity interests hold by the Group and 0.32% equity interests hold by Mr. Man Guo, and following the completion of the foregoing arrangements, our obligations with respect to the profit target for 2015, the earnout provision for the first nine months of 2015 and the shareholder loans between AM Advertising and AirMeia Shengshi shall be deemed completed. According to the aforesaid MoU, after Linghang Shengshi, Mr. Guo and Mr. Xu transfer all the equity interest of AM Advertising, they will cease to be shareholders of AM Advertising and will not be able to continuously assume the obligations in connection with the profit commitment and earn out provision as a matter of fact. The Group is negotiating for further extension of MoU.

The disposal represents a strategic shift and has a major effect on the Group's results of operations. The disposed entities are accounted as discontinued operations in the consolidated financial statements for the years ended December 31, 2015. A gain of \$244,164 was recognized on the disposal, which is determined based on the total consideration of \$324,183, the fair value of the remaining 25% equity interest in AM Advertising of \$79,718 that continues to be held by the Group, the net book value of the Target Business of \$134,497 and the fair value of the earnout commitment of \$25,240. Upon the Group's disposal of its 75% interest in AM Advertising, the Group continues to hold 25% of the equity of AM Advertising, which is accounted for as an equity method investment. The Group's share of earnings for the fiscal year ended December 31, 2015 amounted to \$2,491 and was recorded within the (loss) income on equity method investments within the Consolidated Statements of Operations.

The financial results of the disposed business lines are set out below.

	<u>For the year ended December 31, 2015</u>
Net revenues	\$ 166,843
Cost of revenues	(126,745)
Gross profit	<u>40,098</u>
Operating expenses	(13,239)
Income from operations	<u>26,859</u>
Gain from disposal of 75% equity interest in AM Advertising	244,164
Interest income	298
Other income, net	1,293
Income on equity method investments	<u>265</u>
Net income before income tax	272,879
Income taxes benefit/(expense)	<u>(51,696)</u>
Income from discontinued operations attributable to owners of the Company	<u>\$ 221,183</u>

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**3. DISCONTINUED OPERATION - continued**

Details of related party transactions for the years ended December 31, 2015 were as follows:

*Concession cost purchased from:*

Name of related parties	Relationship	For the year ended December 31, 2015
Guangxi Dingyuan (1)	Equity method investee	\$ 1,107
Qingdao AM (2)	Equity method investee	1,230
		<u>\$ 2,337</u>

*Equity transaction with a related party:*

Name of related parties	Relationship	For the year ended December 31, 2015
Beijing Dayun Culture Communication Co., Ltd. ("Dayun Culture") (3)	Invested by management of the Group	\$ 8,605
		<u>\$ 8,605</u>

- (1) The Group purchased stand-alone digital frames, LED and lightbox concession in Nanning airport from Guangxi Dingyuan amounting to \$1,107 for the years ended December 31, 2015.
- (2) The Group purchased stand-alone digital frames concession in Qingdao airport from Qingdao AM amounting to \$1,230 for the year ended December 31, 2015.
- (3) In November 2015, AM Advertising purchased 20% equity interest in Beijing AirMedia Lianhe Advertising Co., Ltd. ("AirMedia Lianhe") from Dayun Culture with consideration of \$8,605. After the transaction, AM Advertising held 100% equity interest in AirMedia Lianhe.

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**4. SEGMENT INFORMATION AND REVENUE ANALYSIS**

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

The Group chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group; hence, the Group has only one operating segment.

Geographic information

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

Revenue by service categories

	For the years ended December 31,		
	2015	2016	2017
Revenues from continuing operations:			
Air Travel Media Network	\$ 38,917	\$ 12,178	\$ 18,702
Gas Station Media Network	9,840	4,009	4,093
Other Media	2,109	410	1,533
	\$ 50,866	\$ 16,597	\$ 24,328



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5. **ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, consists of the following:

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
Accounts receivable, gross	\$ 13,596	\$ 15,571
Less: Allowance for doubtful accounts	(3,815)	(4,591)
Accounts receivable, net	\$ 9,781	\$ 10,980

Movement of allowance for doubtful accounts is as follows:

	<b>Balance at beginning of the year</b>	<b>Charge to expenses</b>	<b>Write off</b>	<b>Exchange adjustment</b>	<b>Balance at end of the year</b>
2015	\$ 4,458	(2,661)	-	(70)	1,727
2016	1,727	2,248	-	(160)	3,815
2017	3,815	1,403	(883)	256	4,591

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**6. OTHER CURRENT ASSETS, NET**

Other current assets, net, consist of the following:

	As of December 31,	
	2016	2017
Input VAT receivable	\$ 16,249	\$ 20,670
Prepaid selling and marketing fees	368	1,708
Short-term deposits	74	129
Prepaid income tax	417	273
Prepaid individual income tax and other employee advances	290	435
Loans to third parties (i)	17,080	41,733
Receivable from third party (ii)	7,106	4,317
Receivable from a non-controlling interest holders	6,377	3,170
Receivable from AM Advertising and its subsidiaries (iii)	23,550	26,160
Receivables from ADS depository	468	-
Other prepaid expenses (iv)	2,732	7,346
Others	-	1,166
	74,711	107,107
Allowance for doubtful amounts	(5,861)	(47,282)
	\$ 68,850	\$ 59,825

(i) These third parties provide outdoor advertising services to their customers. Loans to third parties are in order to secure them to provide advertising services at prime locations to the Group. For the years ended December 31, 2016 and 2017, the Group entered into various loan agreements with third parties amounting with aggregated amount of \$17,080 and \$41,733, respectively with the terms of one year. The interest rates were from 4.35% to 8% without any assets pledged for the years ended December 31, 2016 and 2017, respectively. As of December 31, 2017, the management conducted a review on the outstanding loans, and the review discovered that market conditions under which the third parties competed deteriorated unexpectedly in 2017, which imposed adverse constraints on their ability to repay the loans. As of December 31, 2016 and 2017, the bad debt allowance for loan to third parties amounted to \$864 and \$40,748 respectively.

(ii) Receivable from third party mainly represented the receivable from the disposal of investment and property. As of December 31, 2016 and 2017, the bad debt allowance was \$1,031 and \$257, respectively.

(iii) On March 29, 2018 and August 23, 2018, we entered into a MoU and its supplemental agreement respectively, with, among others, Longde Wenchuang and Beijing Cultural Center Construction and Development Fund (Limited Partnership), under which, among other things, Linghang Shengshi and Mr. Guo have agreed to pay or make available to AM Advertising on or prior to May 30, 2018 and further extended to September 30, 2018 an aggregate of RMB304,553,900 which was to be discounted by the following amounts (i) the RMB152,000,000 profits attributable to Linghang Shengshi, Mr. Guo and Mr. Xu for the first nine months of 2015, based on a third-party pro forma audit report on the Target Business; (ii) the shareholder loan of RMB88,000,000 in principal balance and RMB7,840,000 in interests; and (iii) the payment of RMB56,713,900 in cash after the sale of the 20.32% equity interests in AM Advertising, which consisted of 20% equity interests hold by the Group and 0.32% equity interests hold by Mr. Man Guo, and following the completion of the foregoing arrangements, our obligations with respect to the profit target for 2015, the earnout provision for the first nine months of 2015 and the shareholder loans between AM Advertising and AirMeia Shengshi shall be deem completed. According to the aforesaid MoU, after Linghang Shengshi, Mr. Guo and Mr. Xu transfer all the equity interest of AM Advertising, they will cease to be shareholders of AM Advertising and will not be able to continuously assume the obligations in connection with the profit commitment and earnout provision as a matter of fact. However, we cannot assure you that the Buyers will not bring up any claim with respect to the above arrangements and if there is any dispute or legal proceedings initiated, our business and financial position may be adversely affected. The Group is negotiating for further extension of MoU.

Receivable from AM Advertising and its subsidiaries balance amounted to \$19,021 and \$26,160 as of December 31, 2016 and 2017. As of December 31, 2016 and 2017, \$3,499 and \$3,734 of bad debt allowance was made for the receivable balance, respectively. The balance \$26,160 as of December 31, 2017 will be deem settled if the MoU is effective.

(iv) As of December 31, 2016 and 2017, the bad debt allowance was \$467 and \$2,543, respectively.

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7. ACQUIRED INTANGIBLE ASSETS, NET

Acquired intangible assets, net, consist of the following:

	As of December 31,							
	2016				2017			
	Gross carrying amount	Accumulated amortization	Accumulated impairment	Net carrying amount	Gross carrying amount	Accumulated amortization	Accumulated impairment	Net carrying amount
Audio-vision programming and broadcasting qualification	\$ 200	\$ (35)	\$ (165)	\$ -	\$ 213	\$ (37)	\$ (176)	\$ -
Customer relationships	689	(689)	-	-	735	(735)	-	-
Contract backlog	1,441	(1,441)	-	-	1,536	(1,536)	-	-
Concession agreements	9,758	(7,513)	(563)	1,682	10,404	(8,529)	(1,875)	-
Non-compete agreements	170	(161)	(9)	-	182	(172)	(10)	-
	\$ 12,258	\$ (9,839)	\$ (737)	\$ 1,682	\$ 13,070	\$ (11,009)	\$ (2,061)	\$ -

The amortization expense for the years ended December 31, 2015, 2016 and 2017 were \$505, \$510 and \$501, respectively. Due to the continuing losses and significant reduced revenue from operations, the Group recognized an impairment loss of \$1,228 for the year ended December 31, 2017.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	As of December 31,	
	2016	2017
Digital display network equipment	\$ 6,314	\$ 6,548
WIFI and network equipment	27,719	36,431
Gas station display network equipment	38,615	43,079
Software	9,174	9,764
Office property	5,805	11,506
Computer and office equipment	2,828	3,264
Vehicle	938	817
Leasehold improvement	607	2,262
Construction in progress	1,422	514
Furniture and fixture	1,123	994
Total original costs	94,545	115,179
Less: impairment	(826)	(52,216)
Less: accumulated depreciation	(32,714)	(47,521)
Total property and equipment, net	\$ 61,005	\$ 15,442

Depreciation expense recorded for the years ended December 31, 2015, 2016 and 2017 were \$5,266, \$12,461 and \$11,547 respectively. Due to the continuing losses and significant reduced revenue from operations, the Group recognized an impairment loss of nil, \$826 and \$22,741 on gas station related equipment for the years ended December 31, 2015, 2016 and 2017, and recognized an impairment loss of nil, nil and \$26,727 for the year ended December 31, 2015, 2016 and 2017 for the Wi-Fi equipment.

9. PREPAID EQUIPMENT COST

On May 12, 2013, the Group entered into an agreement with Elec-Tech International Co., Ltd. ("Elec-Tech") to exchange the equity interests of GreatView Media, one of the VIE's subsidiary, with LED screens from Elec-Tech, pursuant to which Elec-Tech would invest \$104,000 in total (equivalent to RMB640,000) 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. As of December 31, 2016, the prepaid equipment cost amounting to \$16,200, all of which are prepayment for LED screens. For the year ended December 31, 2017, the Group recognized an impairment loss of \$16,646 from this transaction as the ordered equipment was out of dated, of which the increase was due to the exchange rate fluctuation, and the prepaid equipment cost amounting to \$290 mainly represented the prepayment made for the leasehold improvement.

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**10. LONG-TERM INVESTMENTS**

**(a) Equity method investments**

The Group had the following equity method investments, other-than-temporary impairment loss of nil and \$1,919 was recognized for the years ended December 31, 2016 and 2017:

<u>Name of company</u>	<u>As of December 31,</u>			
	<u>2016</u>		<u>2017</u>	
	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>
	%		%	
<b>Equity method investments</b>				
Beijing Eastern Media Corporation Ltd. ("BEMC") (1)	49	\$ 1,461	49	\$ 1,618
Beijing Hezhong Chuangjin Investment Co., Ltd. ("Hezhong Chuangjin") (2)	15	1,944	15	1,993
Lanmeihangbiao Tiandi Internet Investment Management (Beijing) Co., Ltd. ("LMHB") (3)	40	256	40	223
Beijing Yuyue Film Culture Co., Ltd ("Yuyue Film") (4)	25	432	25	362
Beijing Yunxing Chuangrong Investment Fund Management Co., Ltd ("Yunxing") (5)	50	2,083	-	-
Unicom AirMedia (Beijing) Network Co., Ltd. ("Unicom AirMedia") (6)	-	-	39	17,422
Less: impairment loss on equity method investments (2)		-		(1,993)
		<u>\$ 6,176</u>		<u>\$ 19,625</u>

(1) In March 2008, the Group entered into a definitive agreement with China Eastern Media Corporation, Ltd., a subsidiary of China Eastern Group and China Eastern Airlines Corporation Limited operating the media resources of China Eastern Group, to establish a joint venture, BEMC. BEMC was incorporated on March 18, 2008 in the PRC with China Eastern Media Corporation and the Group holding 51% and 49% equity interest, respectively. BEMC obtained concession rights of certain media resources from China Eastern Group, including the digital TV screens on airplanes of China Eastern Airlines, and paid concession fees to its shareholders as consideration. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of BEMC. \$198 and \$57 gain on investment were picked up for the year ended December 31, 2016 and 2017, respectively.

(2) In May 2015, AM Advertising, Beijing Financial Technology Investment Management Center (limited partnership), Beijing Hongdeshengzheng Investment Co., Ltd., and Beijing Hongyuan Zhixin Enterprise Management Consulting Co. Ltd. established Hezhong Chuangjin, which mainly focuses on internet financing. In July 2015, AM Advertising transferred its investment in Hezhong Chuangjin to AM Online, a subsidiary of the Group at carrying value. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Hezhong Chuangjin. \$59 and \$78 loss on investment were picked up for the year ended December 31, 2016 and 2017, respectively. The operation has been ceased from December 2017, the investment has been provided fully impairment of \$1,919 for the year ended December 31, 2016 and 2017, respectively.

(3) In September 2015, AM Online entered into an agreement with BlueFocus wireless Internet (Beijing) Investment Management Co., Ltd. and two individual investors to establish a joint venture, LMHB. LMHB was incorporated on September 25, 2015. LMHB is mainly engaged in investment management of Wi-Fi platform marketing and other mobile internet industries. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of LMHB. \$175 and \$48 loss on investment were picked up for the year ended December 31, 2016 and 2017, respectively.

(4) In June 2016, AM Film entered into an agreement with two individual investors to establish a joint venture, Yuyue Film. Yuyue Film is mainly engaged in investment management of film investment and marketing. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Yuyue Film. Nil and \$95 loss on investment were pick up for the year ended December 31, 2016 and 2017, respectively.

(5) In February 2016, AM Online entered into an agreement with Haihang Wenhua Holding Group to invest in Yunxing. Yunxing was incorporated on December 17, 2013. Yunxing is mainly engaged in information technology investments in the Hainan Airline. The

investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Yunxing. In November 2016, AM Online transferred all the equity interest of Yunxing to Haihang Wenhua Holding Group with the consideration of \$2,305, the equity interest registration was completed in March 2017. Proceed of \$1,480 has been collected, nil and gain of \$58 on investment were picked up for the year ended December 31, 2016 and 2017, respectively.

- (6) On February 22, 2017, AM Online established Unicom AirMedia, jointly with Unicom Broadband Online Co., Ltd., a wholly owned subsidiary of China Unicom, and Chengdu Haite Kairong Aeronautical Technology Co., Ltd., a wholly owned subsidiary of a listed company providing aeronautical technical services. Pursuant to a capital contribution agreement entered into by the relevant parties, AM Online invested approximately RMB117,900 in Unicom AirMedia. After this transaction, AM Online currently holds 39% of equity interests in Unicom AirMedia. The investment was accounted for using the equity method of accounting as the Group has the ability to exercise significant influence to the operation of Unicom AirMedia. \$661 loss on investment was picked up for the years ended December 31, 2017.

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**10. LONG-TERM INVESTMENTS - continued**

**(b) Cost method investments**

The Group had the following cost method investments, other-than-temporary impairment loss of nil and nil was recognized for the year ended December 31, 2016 and 2017, respectively:

Name of company	As of December 31,			
	2016		2017	
	Percentage %	Amount	Percentage %	Amount
Zhangshangtong Air Service (Beijing) Co., Ltd. ("Zhangshangtong") (1)	20	\$ 388	20	\$ 415
Qingdao Jinshi Zhixing Investment Centre LLP ("Qingdao Jinshi") (2)	3	22	-	-
Beijing Zhongjiao Huineng Information Technology Co., Ltd ("Zhongjiao Huineng") (3)	13	541	13	577
AM Advertising ( Refer to Note 23-c)	20	76,734	20	81,817
		<u>\$ 77,685</u>		<u>\$ 82,809</u>

(1) In June 2010, the Group acquired 20% 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.

(2) In January 2016, the Group acquired 3.35% equity interest in Qingdao Jinshi Zhixing Investment Centre LLP. ("Qingdao Jinshi "), a limited partnership established in the PRC that is mainly engaged in fund management and investment. The investment is disposed in year 2017. Proceed of \$22 has been collected and gain/loss of nil has been incurred from the disposal for the year ended December 31, 2017.

(3) In January 2016, the Group acquired 13.3% equity interest in Zhongjiao Huineng, a company established in the PRC that is mainly engaged in providing WIFI and GPS service to logistic industry.

The investment in AM Advertising was accounted for using the cost method of accounting, as the Group does not have the ability to exercise significant influence to the operation.

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**11. OTHER NON-CURRENT ASSETS**

Other non-current assets consist of the following:

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
Investment in film and TV series (i)	\$ 1,854	\$ 1,407
Prepaid office space and leasehold improvement fees (ii)	4,917	798
	\$ 6,771	\$ 2,205

- (i) The Group enters into agreements with other investors to invest together on certain film and TV series, which are produced by other third parties, and shares profit of the invested films and TV series based on its investment as a percentage of the total investment for a film or TV series.
- (ii) As the office spaces legal title had not been transferred to the Group, the prepaid amounts were recognized as other non-current assets as of December 31, 2016. All the prepaid office space fees as of December 31, 2016 have been transferred to property in 2017. The prepaid amounts mainly represented the prepaid platform service fee as of December 31, 2017.

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**12. LONG-TERM DEPOSITS**

Long-term deposits consist of the following:

	<b>As of December 31,</b>	
	<b>2016</b>	<b>2017</b>
Concession fee deposits	\$ 5,547	\$ 5,516
Office rental deposits	880	523
	\$ 6,427	\$ 6,039

Concession fee deposits normally have terms of three to five years and are refundable at the end of the concession terms. Office rental deposits normally have terms of one to three years and are refundable at the end of the lease term.

The long term deposits are not within the scope of the accounting guidance regarding interests on receivables and payables, because they are intended to provide security for the counterparty to the concession rights or office rental agreements. Therefore, the deposits are recorded at cost.



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

Accrued expenses and other current liabilities consist of the follows:

	As of December 31,	
	2016	2017
Accrued payroll and welfare	\$ 2,848	\$ 2,249
Other tax payable	1,366	1,314
Accrued staff disbursement	1,447	1,460
Deposit payable	266	613
Accrued professional fees	290	166
Other current liabilities	1,288	868
Payable to non-controlling interest holders	135	-
Payable to AM Advertising and its subsidiaries (i)	25,956	5,566
	\$ 33,596	\$ 12,236

- (i) The amounts due to AM Advertising and its subsidiaries mainly represent the concession fee payables for using concessions owned by AM Advertising and its subsidiaries, which will be settled while the MoU is effective.

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**14. INCOME TAXES**

AirMedia is a tax-exempted company incorporated in the Cayman Islands.

Broad Cosmos is tax-exempted company incorporated in the British Virgin Islands.

AN China did not have any assessable profits arising in or derived from Hong Kong for the years ended December 31, 2015, 2016 and 2017, 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.

Chuangyi 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. Chuangyi Technology was subject to an EIT rate of 15% in 2015, 2016 and 2017, and is expected to be subject to an EIT rate of 15% as long as it maintains its status as a HNTE.

Xi'an Shengshi qualified as a "Software Enterprise" in August 2008 by Technology Information Bureau of Shaanxi province, and therefore is entitled to a two-year exemption from the EIT commencing from its first profitable year and a 50% deduction of 25% EIT rate for the succeeding three years, with approval by the relevant tax authorities. As Xi'an Shengshi first made profit in 2009, it was exempted from EIT in 2009 and 2010, and enjoyed the preferential income tax rate of 12.5% from 2011 to 2013. In 2014, Xi'an Shengshi qualified as HNTE and entitled to an EIT rate of 15% for the years 2014, 2015 and 2016, and Xi'an AM is subject to EIT at a rate of 25% from 2017 afterwards.

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**14. INCOME TAXES - continued**

Income tax expenses are as follows:

	For the years ended December 31,		
	2015	2016	2017
Income tax expenses:			
Current	\$ 480	\$ 50	\$ 633
Deferred	5,941	4,433	-
	6,421	4,483	633

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

	As of December 31,	
	2016	2017
Deferred tax assets:		
Allowance for doubtful accounts	\$ 4,083	\$ 12,270
Amortization of intangible assets and concession fees	1,606	1,163
Net operating loss carry forwards	30,697	51,769
Valuation allowance	(36,386)	(65,202)
Total deferred tax assets	-	-
Deferred tax liabilities:	-	-
Total deferred tax assets, net	\$ -	\$ -

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**14. INCOME TAXES - continued**

The valuation allowance provided as of December 31, 2015, 2016 and 2017 relates to the deferred tax assets generated by the Group's VIE. The Group periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes that either it is more likely than not that the deferred tax assets for these entities will not be realized as it does not expect to generate sufficient taxable income in future, or the amount involved is not significant. The Group's subsidiaries in the PRC had total net operating loss carry forwards approximately of \$220,456 as of December 31, 2017. The net operating loss carry forwards for the PRC subsidiaries will expire on various dates through year 2022.

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:

	<b>For the years ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Net loss before provision for income taxes	\$ (74,202)	\$ (84,726)	\$ (175,945)
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	<u>(18,551)</u>	<u>(21,182)</u>	<u>(43,986)</u>
<b>Expenses not deductible for tax purpose</b>			
Entertainment expenses exceeded the tax limit	300	158	91
Tax effect of impairment loss on property and equipment and intangible assets	-	-	12,539
Tax effect of other permanent differences	330	1,681	1,831
Changes in valuation allowance	9,276	22,200	28,815
Effect of preferential tax rates granted to PRC entities	14,404	642	670
Effect of income tax rate difference in other jurisdictions	<u>662</u>	<u>984</u>	<u>673</u>
Income tax expenses	<u>\$ 6,421</u>	<u>\$ 4,483</u>	<u>\$ 633</u>
Effective tax rates	<u>(8.7)%</u>	<u>(5.3)%</u>	<u>(0.4)%</u>

A valuation allowance was provided against deferred tax assets in entities where it was determined, it was more likely than not that the benefits of the deferred tax assets will not be realized. The Company had deferred tax assets which consisted of tax loss carry-forwards, accruals and reserves which can be carried forward to offset future taxable income. Management determined it is more likely than not that part of deferred tax assets could not be utilized, so a valuation allowance was provided as of December 31, 2016 and 2017. The net valuation allowance increased by \$9,276, \$22,200 and \$28,815 during the years ended December 31, 2015, 2016 and 2017, respectively.

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**14. INCOME TAXES - continued**

The Group did not identify significant unrecognized tax benefits for the years ended December 31, 2015, 2016 and 2017. The Group did not incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2015, 2016 and 2017.

Since the commencement of operations in August 2005, only Chuangyi Technology and Shenzhen Yuehang 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. The Company is not currently under examination by any income taxing authority, nor has it been notified of an impending examination.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. New EIT Law includes a provision specifying that legal entities organized outside of China will be considered residents for Chinese income tax purposes if the place of effective management or control is within China. The Implementation Rules to the new EIT Law provide that non-resident legal entities will be considered China residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within China. Additional guidance is expected to be released by the Chinese government in the near future that may clarify how to apply this standard to tax payers. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that its legal entities organized outside of China should be treated as residents for new EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

However, the Company's subsidiaries located in the PRC were in a loss position and had accumulated deficit as of December 2017, and the tax basis for the investment was greater than the carrying value of this investment. A deferred tax asset should be recognized for this temporary difference only if it is apparent that the temporary difference will reverse in the foreseeable future. Absent of evidence of a reversal in the foreseeable future, no deferred tax asset for such temporary difference was recorded. The Company did not record any tax on any of the undistributed earnings because the relevant subsidiaries do not intend to declare dividends and the Company intends to permanently reinvest it within the PRC. Additionally, no deferred tax liability was recorded for taxable temporary differences attributable to the undistributed earnings of VIEs because the Company believes the undistributed earnings can be distributed in a manner that would not be subject to income tax.

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

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**15. NET INCOME (LOSS) PER SHARE**

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

	For the years ended December 31,		
	2015	2016	2017
<b>Numerator:</b>			
Net income (loss) attributable to AirMedia Group Inc.'s ordinary shareholders	\$ 149,647	\$ (65,625)	\$ (156,476)
- Continuing operations	(70,651)	(65,625)	(156,476)
- Discontinued operations	220,298	-	-
<b>Denominator:</b>			
Weighted average ordinary shares outstanding used in computing net income (loss) per ordinary share			
- basic	121,740,194	125,277,056	125,629,779
- diluted	129,372,158	125,277,056	125,629,779
Weighted average shares used in calculating income (loss) per ordinary shares			
Basic			
Continuing operations	121,740,194	125,277,056	125,629,779
Discontinued operations	121,740,194	-	-
Diluted			
Continuing operations (i)	121,740,194	125,277,056	125,629,779
Discontinued operations (ii)	129,372,158	-	-
Net (loss) income per ordinary share			
-basic	\$ 1.23	\$ (0.52)	\$ (1.25)
-diluted	1.16	(0.52)	(1.25)
Net (loss) income per ordinary share from continuing operations			
-basic	\$ (0.58)	\$ (0.52)	\$ (1.25)
-diluted	(0.58)	(0.52)	(1.25)
Net income per ordinary share from discontinued operations			
-basic	\$ 1.81	\$ -	\$ -
-diluted	1.70	-	-

- (i) The effect of options was excluded from the computation of diluted loss per share from continuing operations for the years ended December 31, 2015, 2016 and 2017, respectively, as the effect would be anti-dilutive.
- (ii) An incremental weighted average number of 7,631,964, nil and nil ordinary shares from assumed exercise of share option were included in computing the diluted income per share for the discontinued operations for the years ended December 31, 2015, 2016 and 2017, respectively.

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**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.

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16. **SHARE BASED PAYMENTS- continued**

*2007 Share incentive plan - continued*

On June 9, 2014, the Board of Directors approved to extend the expiration date of the options granted on July 10, 2009 from July 11, 2014 to July 11, 2016. Modified awards are viewed as an exchange of the original award for a new award. The fair value were \$0.22 and \$0.12 per share for the stock options whose exercise price were \$1.15 and \$1.57 per share, respectively, as of the modification date, was estimated using the Black-Scholes model. The incremental compensation costs of the modified award were \$686 and \$5, respectively, which were recognized as share-based compensation expense for the year ended December 31, 2014.

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



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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 to be recognized over the remaining service period through March 22, 2014.

On August 23, 2011, the Board of Directors approved the adjustment of the exercise price of certain stock options that were granted on July 2, 2007, July 20, 2007, November 29, 2007, July 10, 2009 and March 22, 2011, which were subsequently modified from \$1.57 per share to \$1.15 per share. The fair value of the options on the modification date was \$0.21, \$0.22, \$0.26, \$0.39 and \$0.53 per share, respectively, calculated using the Black-Scholes model. The incremental compensation cost of the re-priced options was \$1,259, of which \$950 was recognized on the modification date, and the remainder to be recognized over the remaining service period.

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

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

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16. SHARE BASED PAYMENTS - continued

*2012 Share incentive plan - continued*

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

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

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

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

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

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

For the year ended December 31, 2016, four employees terminated their employments with the Group, but continued to provide service as nonemployee consultant. The options were not modified in connection with the change in status, but future service is still necessary to earn the award. The compensation cost was measured as if the options were newly granted at the date of the change of status. The incremental share-based compensation expense of \$179 was recognized for the year ended December 31, 2016.

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**16. SHARE BASED PAYMENTS - continued**

The following summary of stock option activities under the 2007, 2011 and 2012 Share incentive plans as of December 31, 2017, reflective of all modifications is presented below:

	Outstanding Options				Aggregate intrinsic value
	Number of options	Weighted average exercise price per option	Weighted average grant-date fair value	Weighted average remaining contractual terms	
Outstanding as of January 1, 2017	7,710,176	\$ 1.15	\$ 1.05	1.57	\$ 1,552
Exercised	-	-	-	-	-
Forfeited or expired	(1,841,648)	-	-	-	-
Outstanding as of December 31, 2017	<u>5,868,528</u>	<u>\$ 1.15</u>	<u>\$ 1.05</u>	<u>0.75</u>	<u>\$ -</u>
Options vested and expected to vest as of December 31, 2017	<u>5,860,255</u>	<u>1.15</u>	<u>1.05</u>	<u>0.75</u>	<u>-</u>
Options exercisable as of December 31, 2017	<u>5,839,190</u>	<u>\$ 1.15</u>	<u>\$ 1.12</u>	<u>0.75</u>	<u>\$ -</u>

The total intrinsic value of options exercised during the years ended December 31, 2015, 2016 and 2017 were \$7,039, \$1,928 and nil, respectively. The total fair value of options vested during the years ended December 31, 2015, 2016 and 2017 were \$649, \$694 and nil, respectively. The Group recorded share-based compensation of \$567, \$773 and \$343 for the years ended December 31, 2015, 2016 and 2017, respectively. There was \$390 and nil of total unrecognized compensation expense related to unvested share options granted as of December 31, 2016 and 2017, respectively. The expense is expected to be recognized over a weighted-average period of 0.5 and 0 years on a straight-line basis as of December 31, 2016 and 2017, respectively.

AIRMEDIA GROUP INC.

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16. SHARE BASED PAYMENTS – continued

(1) Volatility

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

(2) Risk-free rate

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

(3) Expected term

The expected term is estimated based on a consideration of factors including the original contractual term and the vesting term.

(4) Dividend yield

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

(5) Exercise price

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

(6) Fair value of underlying ordinary shares

The closing market price of the ordinary shares of the Company as of the grant/modification date was used as the fair value of the ordinary shares on that date.

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**17. FAIR VALUE MEASUREMENT**

*Measured on recurring basis*

The Group measured its financial assets and liabilities, including cash and cash equivalents, accounts receivable, amounts due from related parties, prepaid equipment costs and accounts payable on a recurring basis as of December 31, 2016 and 2017.

Cash and cash equivalents and restricted cash 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, prepaid equipment cost and accounts payable approximate their fair values due to their short-term maturity.

*Measured on non-recurring basis*

The Group measured intangible assets and property and equipment at fair value on a nonrecurring basis. The fair value was determined using models with significant unobservable inputs (Level 3 inputs). This was based on a number of key assumptions, including, but not limited to, undiscounted future cash flows and the annual net revenue projections based on the projected levels of advertising activities during the forecast periods, all of which were classified as Level 3 in the fair value hierarchy. As a result, the Group recorded nil, \$826 and \$50,695 impairment charge for the years ended December 31, 2015, 2016 and 2017, respectively.

The Group measured its long-term investment in AM Advertising at fair value on a nonrecurring basis as result of the disposal transaction of Target Business as set forth in Note 1. The fair value was determined using the market approach (AM Advertising's recent capital transaction announced to the public) with quoted price for the assets in active markets (Level 1 inputs). No impairment was recorded for the years ended December 31, 2015, 2016 and 2017.

As of December 31, 2016 and 2017, due to disputes, the Company considered the provision for earn out commitment as contingent liability and disclosed in Note 23. On March 29, 2018, an MoU regarding the continuing performance of the parties' respective obligations under the Equity Interest Transfer Agreement and Supplemental Agreement was entered into, all parties to the MoU agree that all current disputes including litigation and arbitration among the parties shall be withdrew or deem completed.

**AIRMEDIA GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**18. SHARE REPURCHASE PLAN**

On March 21, 2011, the Board of Directors authorized the Company to repurchase up to \$20,000 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 \$40,000 of its own outstanding ADS and to extend the termination date of the share repurchase program to March 20, 2014.

Up to December 31, 2017, the Company had repurchased an aggregate of 6,532,429 ADSs from the open market for a total consideration of \$17,400, of which 2,190,685 ADSs had been cancelled and 4,341,744 ADSs were recorded as treasury stock. As of December 31, 2016 and 2017, accumulated 3,325,605 and 3,325,605 ADS of treasury stock have been reissued.

**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 labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' income. The total contribution for such employee benefits were \$2,202, \$4,029 and \$3,256 for the years ended December 31, 2015, 2016 and 2017, 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 \$17,542, nil and nil to statutory reserves during the years ended December 31, 2015, 2016 and 2017, respectively. The statutory reserves cannot be transferred to the Company in the form of loans or advances and are not distributable as cash dividends except in the event of liquidation.

AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
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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, 2016, the balance of restricted net assets was \$342,860, of which \$138,496 was attributed to the paid-in-capital and statutory reserves of the VIEs and VIEs' subsidiaries, and \$204,364 was attributed to the paid in capital and statutory reserves of WFOE. As of December 31, 2017, the balance of restricted net assets was \$376,835, of which \$159,565 was attributed to the paid-in-capital and statutory reserves of the VIEs and VIEs' subsidiaries, and \$217,270 was attributed to the paid in capital and statutory reserves of WFOE. Under applicable PRC laws, loans from PRC companies to their offshore affiliated entities require governmental approval, and advances by PRC companies to their offshore affiliated entities must be supported by bona fide business transactions.

22. COMMITMENTS

(a) Operating leases

The Group has entered into operating lease agreements principally for its office spaces in the PRC. These leases expire through 2021 and are renewable upon negotiation. Rental expenses under operating leases for the years ended December 31, 2015, 2016 and 2017 were \$1,507, \$1,988 and \$2,854, respectively.

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

<u>Year</u>	
2018	\$ 2,494
2019	401
2020	138
2021	35
	<u>\$ 3,068</u>



AIRMEDIA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
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(b) Concession fees

The Group has entered into concession right agreements with vendors, such as airports, airlines, trains and a petroleum company. The contract terms of such concession rights are usually three to five years. The concession rights expire through 2022 and are renewable upon negotiation. Concession fees charged into statements of operations for the years ended December 31, 2015, 2016 and 2017 were \$64,752, \$17,264 and \$18,156 respectively.

Future minimum concession fee payments under non-cancellable concession right agreements were as follows, which is not included the early termination of concession right agreements in fiscal year 2018:

<b>Year</b>	
2018	\$ 25,935
2019	22,529
2020	21,448
2021	2,160
2022	2,225
	<u>\$ 74,297</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**23. CONTINGENT LIABILITIES**

(a) Approval for non-advertising content

A majority of the digital frames and digital TV screens in the Group's network include programs that consist of both advertising content and non-advertising content. On December 6, 2007, the State Administration of Radio, Film or Television, or the SARFT, a governmental authority in the PRC, issued the Circular regarding Strengthening the Management of Public Audio-Video in Automobiles, Buildings and Other Public Areas, or the SARFT Circular. According to the SARFT Circular, displaying audio-video programs such as television news, films and television shows, sports, technology and entertainment through public audio-video systems located in automobiles, buildings, airports, bus or train stations, shops, banks and hospitals and other outdoor public systems must be approved by the SARFT. The Group intends to obtain the requisite approval of the SARFT for the Group's non-advertising content, but the Group cannot assure that the Group will obtain such approval in compliance with this new SARFT Circular, or at all. In January 2014, the Group entered into a strategic alliance with China Radio International Oriental Network (Beijing) Co., Ltd ("CRION"), which manages the internet TV business of China International Broadcasting Network, to operate the CIBN-AirMedia channel for broadcast network TV programs to air travellers in China. According to the terms of the cooperation arrangement with CRION, during the cooperation period from March 28, 2014 to March 27, 2024, CRION shall obtain and, from time to time, be responsible for obtaining any approval, license and consent regarding the regulation of broadcasting and television from relevant authorities.

There is no assurance that CRION will be able to obtain or maintain the requisite approval or the Group will be able to renew the contract with CRION when they expire. If the requisite approval is not obtained, the Group will be required to eliminate non-advertising content from the programs included in the Group's digital frames and digital TV screens and advertisers may find the Group's network less attractive and be unwilling to purchase advertising time slots on the Group's network. As of December 31, 2017, the Group did not record a provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. However, it is not possible for the Group to predict the ultimate outcome and the possible range of the potential impact of failure to obtain such disclosed registrations and approvals primarily due to the lack of relevant data and information in the market in this industry in the past.

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**23. CONTINGENT LIABILITIES - continued**

(b) Class action

The Company and two of its officers were named as defendants in a putative securities class action filed on June 25, 2015 in the U.S. District Court for the Southern District of New York: Huang v. AirMedia Group Inc. et al., Civil Action No. 1:15-CV-04966-ALC (S.D.N.Y.). The complaint in this putative class action alleges that certain of the defendants' financial statements and other public statements and disclosures contained misstatements or omissions, including with respect to the alleged sale of an equity interest in the Company's advertising subsidiary, in violation the U.S. securities laws. The complaint states that plaintiffs seek to represent a class of persons who allegedly suffered damages as a result of their trading activities related to the Company's ADRs between April 15 and June 15, 2015, and alleges violations of Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. On November 10, 2015, the Court appointed China Xiayuan Transportation Co. Ltd. as the lead plaintiff and appointed a lead counsel. On January 15, 2016, the lead plaintiff filed an amended complaint, advancing similar allegations and claims as the previously filed complaint and seeking to represent a class of persons who allegedly suffered damages as a result of their trading activities related to the Company's ADRs between April 7 and June 15, 2015. On March 10, 2016, the Company and one of its officers filed a motion to dismiss the Amended Complaint. On March 27, 2017, the Court granted the motion to dismiss and entered a judgment dismissing the Amended Complaint with prejudice. As of December 31, 2017, 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**23. CONTINGENT LIABILITIES - continued**

(c) AM Advertising Dispute

Linghang Shengshi had served a legal letter, dated June 29, 2016 (the “Legal Letter”), on Longde Wenchuang to challenge the proposed transfers by Longde Wenchuang of their equity interests in AM Advertising to Shanghai Golden Bridge InfoTech Co., Ltd. (stock code: 603918), a PRC company with its shares listed on the Shanghai Stock Exchange (“Golden Bridge”). As of the date of the Legal Letter, Linghang Shengshi held 24.84% of the equity interests in AM Advertising. Longde Wenchuang and Culture Center held 28.57% and 46.43%, respectively, of the equity interests in AM Advertising. On June 14, 2016, Longde Wenchuang entered into an equity interest transfer agreement with Golden Bridge to transfer 75% equity interests in AM Advertising to Golden Bridge in consideration for shares in Golden Bridge (the “Transfer”). Neither of Longde Wenchuang sought consent from Linghang Shengshi with respect to the Transfer in accordance with the provisions of the Company Law of the People’s Republic of China (the “Company Law”). In the Legal Letter, Linghang Shengshi challenges the validity of the Transfer on the ground that it violated the statutory right of first refusal of Linghang Shengshi under the Company Law. Subsequent to the Company’s legal letter, Golden Bridge ceased acquisition of 75% equity interest of AM Advertising from Longde Wenchuang and Culture Center. Longde Wenchuang and Culture Center further dismissed the Group’s representative from Co-CEO position of AM Advertising.

On September 2, 2016, the Group received notice (the “September 2, 2016 Notice”) from the China International Economic and Trade Arbitration Commission (the “CIETAC”) that the Company, Chuangyi Technology, Linghang Shengshi and Mr. Herman Man Guo (collectively, the “Respondents”) were named as respondents by the Culture Center in an arbitration proceeding submitted by the Culture Center to the CIETAC in connection with the sale by the Company of 75% equity interests in AM Advertising to Culture Center and Longde Wenchuang in June 2015. Culture Center seeks specific performance by the Respondents of certain obligations under the transaction documents, which include, among other things, (i) the pledge by Linghang Shengshi and Mr. Guo of their respective equity interests in AM Advertising to Culture Center as security for their obligations under the transaction documents, (ii) the use of best efforts by the Respondents to cooperate with the Culture Center and Longde Wenchuang to procure the listing of AM Advertising in China and (iii) the performance by the Company and Mr. Guo of their respective non-compete obligations to refrain from holding, operating, or otherwise participating in any business that is the same or substantially the same as that of AM Advertising. The Company believes the arbitration request is without merit and intends to defend the actions vigorously. However, no assurances can be provided that the Company will prevail in this arbitration proceeding. In response to the September 2, 2016 Notice, the Group filed a notice against Culture Center to CIETAC for their breach of contract.

As a result of the above disputes, the Group is no longer able to exercise significant influence in operating and strategic decision of AM Advertising and cannot access to AM Advertising’s financial information. Accordingly, the Group accounted its investment in AM Advertising using cost method (see Note 5) as of December 31, 2016 and 2017. AM Advertising and its subsidiaries are no longer related parties to the Group. As of December 31, 2016, the Group treated the provision for earnout commitment of \$23,549 as contingent liability and did not record any additional provision for this matter as management believes the possibility of adverse outcome of the matter is remote and any liability it may incur would not have a material adverse effect on its consolidated financial statements. On March 29, 2018 and August 31, 2018, a MoU and its supplemental agreement respectively, with, among others, Longde Wenchuang and Beijing Cultural Center Construction and Development Fund (Limited Partnership), under which, among other things, Linghang Shengshi and Mr. Guo have agreed to pay or make available to AM Advertising on or prior to May 30, 2018 and further extended to September 30, 2018 an aggregate of RMB304,554 which was to be discounted by the following amounts (i) the RMB152,000 profits attributable to Linghang Shengshi, Mr. Guo and Mr. Xu for the first nine months of 2015, based on a third-party pro forma audit report on the Target Business; (ii) the shareholder loan of RMB88,000 in principal balance and RMB7,840 in interests; and (iii) the payment of RMB56,714 in cash after the sale of the 20.32% equity interests in AM Advertising, which consisted of 20% equity interests hold by the Group and 0.32% equity interests hold by Mr. Man Guo, and following the completion of the foregoing arrangements, our obligations with respect to the profit target for 2015, the earnout provision for the first nine months of 2015 and the shareholder loans between AM Advertising and AirMeia Shengshi shall be deemed completed. According to the aforesaid MoU, after Linghang Shengshi, Mr. Guo and Mr. Xu transfer all the equity interest of AM Advertising, they will cease to be shareholders of AM Advertising and will not be able to continuously assume the obligations in connection with the profit commitment and earn out provision as a matter of fact.

(d) Linghang Shengshi Equity Transfer

Mr. Xiaoya Zhang, a former shareholder of Linghang Shengshi, had initiated legal proceedings against Mr. Qing Xu, a director and the executive president of the Company, with respect to the transfers by Mr. Zhang of his equity interests in the company to Mr. Xu. In December 2015, Linghang Shengshi received an equity interest transfer agreement (the “Linghang Shengshi SPA”), dated December 4, 2015, by and between Mr. Xiaoya Zhang and Mr. Qing Xu, pursuant to which Mr. Zhang agrees to transfer 8.2% equity interests in Linghang Shengshi to Mr. Xu for RMB82,000 (the “Linghang Shengshi Equity Transfer”). The Linghang Shengshi Equity Transfer was completed in December 2015. In February 2016, Mr. Zhang initiated legal proceedings in a court in China against Mr. Xu, challenging the authenticity of his signatures to the Linghang Shengshi SPA and consequently the validity of Linghang Shengshi Equity Transfer. On February 14, 2017, the court’s final decision supported Mr. Xiaoya Zhang’s claim. However, none of the Company or Linghang Shengshi is a party to the Linghang Shengshi SPA. As of the date of this Report, none of the Company or Linghang Shengshi is named as a party in those legal proceedings. As of December 31, 2017, 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
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**24. RELATED PARTY TRANSACTIONS**

(a) Details of outstanding balances with the Group's related parties as of December 31, 2016 and 2017 were as follows:

*Amount due from related parties:*

<u>Name of related parties</u>	<u>Relationship</u>	<u>As of December 31,</u>	
		<u>2016</u>	<u>2017</u>
Mr. Qing Xu (1)	Shareholder of the Company	\$ 835	\$ 968
Mrs. Guo Rong (2)	Vice president of the Company	-	14
Mrs. Li Hong (2)	Vice president of the Company	-	5
Wealthy Environment Limited (2)	Shareholder of the Company	-	22
Global Earning Pacific Ltd. (2)	Shareholder of the Company	-	37
AirMedia Holding Ltd. (2)	Entity controlled by Mr. Guo	-	540
AirMedia Merger Company Ltd. (2)	Entity controlled by Mr. Guo	-	665
		<u>\$ 835</u>	<u>\$ 2,251</u>

- (1) The amounts due from Mr. Qing Xu represents interest free advances to the related party for personal purpose, which violated Sarbanes-Oxley Act section 402 due to the lack of internal control in term of related party borrowings, however, all the balance has been collected in May 2018, there was no gain or loss upon settlement.
- (2) The amounts represent interest free advances to the related parties in a short term basis for operation purpose.

AIRMEDIA GROUP INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**  
(In U.S. dollars in thousands, except share and per share data)

**24. RELATED PARTY TRANSACTIONS - continued**

(b) Details of related party transactions occurred, for the years ended December 31, 2015, 2016 and 2017 were as follows

*Revenues earned from:*

<b>Name of related parties</b>	<b>Relationship</b>	<b>For the years ended December 31</b>		
		<b>2015</b>	<b>2016</b>	<b>2017</b>
AM Jinshi (1)	Wholly-owned subsidiary of AM Advertising	278	-	-
AM Advertising (1)	Long term investment	2	-	-
		<u>\$ 280</u>	<u>\$ -</u>	<u>\$ -</u>

*Concession cost purchased from:*

<b>Name of related parties</b>	<b>Relationship</b>	<b>For the years ended December 31</b>		
		<b>2015</b>	<b>2016</b>	<b>2017</b>
AM Jinshi (1)	Wholly-owned subsidiary of AM Advertising	2	-	-
AM Advertising (1)	Long term investment	142	-	-
		<u>\$ 144</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Entities in continuing operations sold some concession in certain airports to discontinued operation. Also continuing operations purchased some concession in certain airports from discontinued operation after the disposal.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**  
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**25. SUBSEQUENT EVENTS**

The Group has evaluated subsequent events through the date of issuance of the consolidated financial statements, and except for the following events with material financial impact on the Group's consolidated financial statements, no other subsequent event is identified that would have required adjustment or disclosure in the consolidated financial statements.

On March 28, 2018, the Group announced that Mr. Herman Man Guo, the chairman of the Company's board of directors and chief executive officer, intends to purchase the Company's ordinary shares in the form of American depositary shares ("ADS") with an aggregate value of up to \$5,000 during the next six months. Mr. Guo expects to fund the purchase with his own resources. On September 28, 2018, the Group announced that Mr. Herman Man Guo would proceed with purchase announced on March 28, 2018 once the Company regains its disclosure compliance.

On May 24, 2018, Wangfan Tianxia Network Technology Co.,Ltd., together with two third parties companies, set up Beijing Dahangfeng Culture Advertising Co., Ltd. ("Dahangfeng") with registered capital of RMB1,000 (\$154) the Company holds 40% of the equity interests in Dahangfeng. The capital contribution has not been paid by the Company up to the issuance of the consolidated financial statements.

Early 2018, the management noticed unexpected operational underperformance from Wi-Fi services on trains, long-halt buses and gas station media service. An immediate assessment indicated that the underperformance could be ascribed to i) the wide spread of 4G technology and affordable data plans; and ii) a depleting marketing budget from some of our advertisers. In order to prevent further losses while broadening our comprehension of the impacts of the technologies and market situation imposed on our business components, the management ceased operations in Wi-Fi service on long-halt buses and gas station media services, scaled down operations in Wi-Fi service on trains, and commissioned a comprehensive review to determine the sustainability of these business components. As of August 31, 2018, the management has negotiated an early termination of Wi-Fi services on trains managed by five local railroad administrative authorities without incurring any penalty.

On March 29, 2018 and August 23, 2018, the Group entered into a MoU and its supplemental agreement respectively, with, among others, Beijing Longde Wenchuang Investment Fund Management Co., Ltd and Beijing Cultural Center Construction and Development Fund (Limited Partnership), under which, among other things, Linghang Shengshi and Mr. Guo have agreed to pay or make available to AM Advertising on or prior to May 30, 2018 and further extended to September 30, 2018 an aggregate of RMB304,553,900 which was to be discounted by the following amounts (i) the RMB152,000,000 profits attributable to Linghang Shengshi, Mr. Guo and Mr. Xu for the first nine months of 2015, based on a third-party pro forma audit report on the Target Business; (ii) the shareholder loan of RMB88,000,000 in principal balance and RMB7,840,000 in interests; and (iii) the payment of RMB56,713,900 in cash after the sale of the 20.32% equity interests in AM Advertising, which consisted of 20% equity interests hold by the Group and 0.32% equity interests hold by Mr. Man Guo, and following the completion of the foregoing arrangements, our obligations with respect to the profit target for 2015, the earnout provision for the first nine months of 2015 and the shareholder loans between AM Advertising and AirMeia Shengshi shall be deem completed. According to the aforesaid MoU, after Linghang Shengshi, Mr. Guo and Mr. Xu transfer all the equity interest of AM Advertising, they will cease to be shareholders of AM Advertising and will not be able to continuously assume the obligations in connection with the profit commitment and earn out provision as a matter of fact. The Group is negotiating for further extension of MoU.

On July 9, 2018, the Company entered a framework agreement with SenseGain Asset Management Co. Ltd. ("SenseGain"), which SenseGain promised to inject AM Online with an amount no more than RMB 150,000. The amount hasn't been paid as of the report insurance date.

AIRMEDIA GROUP INC.

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

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

	As of December 31,	
	2016	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 139	\$ 89
Amount due from subsidiaries	178,083	145,850
Other current assets	3,825	1,919
<b>Total current assets</b>	<u>182,047</u>	<u>147,858</u>
<b>Non-current assets</b>		
Investment in subsidiaries	86,896	-
<b>TOTAL ASSETS</b>	<u>268,943</u>	<u>147,858</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accrued expenses and other current liabilities	206	209
<b>Total liabilities</b>	<u>206</u>	<u>209</u>
<b>Equity</b>		
Ordinary Shares (\$0.001 par value; 900,000,000 shares authorized in 2016 and 2017; 127,662,057 shares and 127,662,057 shares issued as of December 31, 2016 and 2017; 125,629,779 shares and 125,629,779 shares outstanding as of December 31, 2016 and 2017, respectively)	128	128
Additional paid-in capital	287,094	286,739
Treasury stock (2,032,278 and 2,032,278 shares as of December 31, 2016 and 2017, respectively)	(2,351)	(2,351)
Accumulated deficits	(15,842)	(172,318)
Accumulated other comprehensive (loss) income	(292)	35,451
<b>Total equity</b>	<u>268,737</u>	<u>147,649</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 268,943</u>	<u>\$ 147,858</u>



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,		
	2015	2016	2017
Operating expenses			
Selling and marketing	\$ -	\$ (8)	\$ -
General and administrative	(2,070)	(2,356)	(468)
<b>Total operating expenses</b>	<b>(2,070)</b>	<b>(2,364)</b>	<b>(468)</b>
Other income (loss), net	-	548	(5)
Investment income (loss) in subsidiaries	151,717	(63,809)	(156,003)
<b>Net income (loss) attributable to holders of ordinary shares</b>	<b>\$ 149,647</b>	<b>\$ (65,625)</b>	<b>\$ (156,476)</b>

AIRMEDIA GROUP INC.

**ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
(In U.S. dollars in thousands)

	For the years ended December 31,		
	2015	2016	2017
Net income (loss)	\$ 149,647	\$ (65,625)	\$ (156,476)
Other comprehensive (loss) income, net of tax:			
Change in cumulative foreign currency translation adjustment	(10,887)	(23,220)	35,743
Comprehensive income (loss) attributable to Parent Company	\$ 138,760	\$ (88,845)	\$ (120,733)

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 and per share data)

	Ordinary shares		Additional paid-in capital	Treasury stock	(Accumulated deficits) retained earnings	Accumulated other comprehensive Income (loss)	Total equity
	Shares	Amount					
Balance as of January 1, 2015	119,942,413	\$ 128	\$ 323,167	\$ (9,236)	\$ (99,138)	\$ 33,815	\$ 248,736
Ordinary shares issued for share based compensation	4,453,232	-	-	5,458	(663)	-	4,825
Share-based compensation	-	-	598	-	-	-	598
Foreign currency translation adjustment	-	-	-	-	-	(10,887)	(10,887)
Net income	-	-	-	-	149,647	-	149,647
Capital contribution from non-controlling interests	-	-	271	-	-	-	271
Capital contribution to Guangzhou Meizheng	-	-	(459)	-	-	-	(459)
Acquisition of non-controlling interests	-	-	(6,163)	-	-	-	(6,163)
Balance as of December 31, 2015	124,395,645	\$ 128	317,414	(3,778)	49,876	22,928	386,568
Stock option exercised	1,234,134	-	-	1,427	(93)	-	1,334
Share-based compensation	-	-	773	-	-	-	773
Foreign currency translation adjustment	-	-	-	-	-	(23,220)	(23,220)
Net (loss)	-	-	-	-	(65,625)	-	(65,625)
Acquisition of equity interests from non- controlling shareholders	-	-	(34,570)	-	-	-	(34,570)
Capital contribution from non-controlling interests	-	-	3,477	-	-	-	3,477
Balance as of December 31, 2016	125,629,779	\$ 128	\$ 287,094	\$ (2,351)	\$ (15,842)	\$ (292)	\$ 268,737
Share-based compensation	-	-	343	-	-	-	343
Foreign currency translation adjustment	-	-	-	-	-	35,743	35,743
Net loss	-	-	-	-	(156,476)	-	(156,476)
Acquisition of equity interests from non- controlling interests	-	-	(1,414)	-	-	-	(1,414)
Capital contribution from non-controlling interests	-	-	716	-	-	-	716
Balance as of December 31, 2017	125,629,779	\$ 128	\$ 286,739	\$ (2,351)	\$ (172,318)	\$ 35,451	\$ 147,649

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,		
	2015	2016	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 149,647	\$ (65,625)	\$ (156,476)
Investment loss (income) in subsidiaries	(151,717)	63,809	156,003
Share-based compensation	598	773	343
<b>CHANGES IN WORKING CAPITAL ACCOUNTS</b>			
Other current assets	(813)	(2,456)	1,907
Accrued expenses and other current liabilities	169	(47)	3
Amount due to subsidiaries	(3,135)	483	(2,024)
Amount due from subsidiaries	(1,272)	1,536	194
Net cash (used in) operating activities	(6,523)	(1,527)	(50)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from exercises of stock options	4,826	1,334	-
Net cash provided by financing activities	4,826	1,334	-
Net increase (decrease) in cash	(1,697)	(193)	(50)
Cash, at beginning of year	2,029	332	139
Cash, at end of year	\$ 332	\$ 139	\$ 89

**AIRMEDIA GROUP INC.**

**NOTES TO ADDITIONAL INFORMATION-FINANCIAL STATEMENT SCHEDULE I  
FINANCIAL INFORMATION OF PARENT COMPANY  
(In U.S. dollars in thousands)**

**Notes:**

**1. BASIS FOR PREPARATION**

The condensed financial information of the parent company, AirMedia Group Inc., only has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the parent company has used equity method to account for its investment in its subsidiaries.

**2. INVESTMENTS IN SUBSIDIARIES AND VARIABLE INTEREST ENTITIES**

The Company, its subsidiaries, its VIEs and VIEs' subsidiaries are included in the consolidated financial statements where the inter-company balances and transactions are eliminated upon consolidation. For the purpose of the Company's stand-alone financial statements, its investments in subsidiaries, VIEs and VIEs' subsidiaries are reported using the equity method of accounting. The Company's share of income and losses from its subsidiaries, VIEs and VIEs' subsidiaries is reported as earnings from subsidiaries, VIEs and VIEs' subsidiaries in the accompanying condensed financial information of parent company.

**3. INCOME TAXES**

The Company is a tax exempted company incorporated in the Cayman Islands.

**Supplementary Agreement for the Memorandum Regarding Continued Implementation of the Agreement on Equity Transfer of AirMedia Group Co., Ltd. and Its Supplementary Agreement**

The Supplementary Agreement was signed by the following parties in Beijing, China on August 23, 2018.

1. AirMedia Group Inc. (hereinafter referred to as “AirMedia”), a company duly incorporated and validly existing under the laws of Cayman and listed at NASDAQ, the United States, with the Nasdaq code of AMCN.
  2. Hangmei United Media Technology (Beijing) Co., Ltd. (hereinafter referred to as “Hangmei Technology” and now renamed as Yuehang Chuangyi Media Technology (Beijing) Co., Ltd.), a limited liability company duly incorporated and validly existing under the laws of China with the unified social credit code of 911100007795059762, address of Room 3088, Building 1, Yard 2, Hengfu Middle Street, Science City, Fengtai District, Beijing, and legal representative of Guo Man.
  3. Beijing Hangmei Shengshi Advertising Co., Ltd. (hereinafter referred to as “Hangmei Shengshi” and now renamed as Beijing Linghang Shengshi Advertising Co., Ltd.), a limited liability company duly incorporated and validly existing under the laws of China with the unified social credit code of 91110102801743998D, address of Room 1-0363, 1F, Building 22, Xuanwumen East Street, Xuanwu District, Beijing, and legal representative of Guo Man.
  4. Guo Man, a Chinese citizen with the ID number of 11010219630504 1171 and address of Room 1-3, 5F, Door 2, Building 3, Beipingli, Capital International Airport Area, Chaoyang District, Beijing, post code: 100621.
  5. Xu Qing, a Chinese citizen with the ID number of 11010119610220531 and address of Room 204, Building 5, Xibahe Xili, Chaoyang District, Beijing.
  6. Beijing Longde Wenchuang Investment Fund Management Co., Ltd. (hereinafter referred to as “Longde Wenchuang”), a limited liability company duly incorporated and validly existing under the laws of China with the unified social credit code of 91110101098266260N, address of Room 11116, Building 37, No. 11 Hepingli East Street, Dongcheng District, Beijing, and legal representative of Xing Hongwang.
-

7. Beijing Cultural Center Development Fund (limited partnership) (hereinafter referred to as “Cultural Center Fund”), a limited partnership company duly incorporated and validly existing under the laws of China with the unified social credit code of 91110000355272910P and registered address of Room 801-19, Building 52, No. 2 Jingyuan North Street, Beijing Economic-Technological Development Area, Beijing, and executive partner of Beijing Cultural Center Development Fund Management Co., Ltd.

8. AirMedia Group Co., Ltd. (hereinafter referred to as “AirMedia Group”), a limited liability company duly incorporated and validly existing under the laws of China with the unified social credit code of 91110000783246583E, address of Room 1901, Yanxiang Hotel, 2A Jiangtai Road, Chaoyang District, Beijing, and legal representative of Ji Lianqiang.

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WHEREAS, the above-mentioned parties signed the *Memorandum Regarding Continued Implementation of the Agreement on Equity Transfer of AirMedia Group Co., Ltd. and Its Supplementary Agreement* (hereinafter referred to as the “Memorandum”) in Beijing, China, on March 29, 2018. After friendly negotiation, the parties have supplemented the following provisions for the specific implementation of the Memorandum:

1. Clause 3 under Article 1 of the Memorandum stating that “Hangmei Shengshi, Guo Man and Xu Qing shall make up the remaining balance of RMB56.7139 million after receiving the first equity transfer payment for the sale of 20.32% of the equity no later than May 30, 2018, and AirMedia, Hangmei Technology, Guo Man and Xu Qing shall bear unlimited joint liability” is modified into “Hangmei Shengshi, Guo Man and Xu Qing shall make up the remaining balance of RMB56.7139 million after receiving the first equity transfer payment for the sale of 20.32% of the equity no later than September 30, 2018, and AirMedia, Hangmei Technology, Guo Man and Xu Qing shall bear unlimited joint liability”.
2. Except for the above clause, other matters stipulated in the Memorandum shall still be implemented in accordance with the original clauses.
3. This Supplemental Agreement is made in eight copies, with each party holding one copy. It has legal effect together with the Memorandum. It shall take effect after it is signed and sealed by each party.

(There is no text below, but signature signed.)

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(This page is only for the signature of the *Supplementary Agreement for the Memorandum Regarding Continued Implementation of the Agreement on Equity Transfer of AirMedia Group Co., Ltd. and Its Supplementary Agreement*)




AirMedia Group Inc. /seal/AirMedia Group Inc.

Authorizer:  /s/ Guo Man





Yuehang Chuangyi Media Technology (Beijing) Co., Ltd. /seal/Yuehang Chuangyi Media


Legal representative or authorized representative (signature):  /s/ Guo Man



Beijing Linghang Shengshi Advertising Co., Ltd. (seal): /seal/Beijing Linghang Shengshi Advertising Co., Ltd.

Legal representative or authorized representative (signature):  /s/ Guo Man

Guo Man (signature):  /s/ Guo Man

Xu Qing (signature):  /s/ Xu Qing

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(This page is only for the signature of the *Supplementary Agreement for the Memorandum Regarding Continued Implementation of the Agreement on Equity Transfer of AirMedia Group Co., Ltd. and Its Supplementary Agreement*)



Beijing Longde Wenchuang Investment Fund Management Co., Ltd. (seal):

/seal/Beijing Longde Wenchuang Investment Fund Management Co., Ltd.



Legal representative or authorized representative (signature):

/s/ authorized representative



Beijing Cultural Center Development Fund (limited partnership) (seal):

/seal/ Beijing Cultural Center Development Fund (limited partnership)



Legal representative or authorized representative (signature):

/s/ authorized representative

AirMedia Group Co., Ltd. (seal) /seal/ AirMedia Group Co., Ltd.

Legal representative or authorized representative (signature): /s/ authorized representative



## List of the Registrant's Significant Subsidiaries

Wholly-Owned Subsidiaries

	<b>Place of Incorporation</b>
1. Broad Cosmos Enterprises Ltd.	British Virgin Islands
2. Air Net International Limited (formerly known as AirMedia International Limited)	British Virgin Islands
3. Air Net (China) Limited (formerly known as AirMedia (China) Limited)	Hong Kong
4. Yuehang Chuanyi Technology (Beijing) Co., Ltd. (formerly known as AirMedia Technology (Beijing) Co., Ltd.)	PRC
5. Beijing Yuehang Information Technology Co., Ltd. (formerly known as Shenzhen AirMedia Information Technology Co., Ltd.)	PRC
6. Xi'an Shengshi Dinghong Information Technology Co., Ltd. (formerly known as Xi'an AirMedia Chuangyi Technology Co., Ltd.)	PRC

Affiliated Entities Consolidated in the Registrant's Financial Statements

	<b>Place of Incorporation</b>
7. Beijing Linghang Shengshi Advertising Co., Ltd. (formerly known as Beijing Linghang Shengshi Advertising Co., Ltd.)	PRC
8. Beijing Wangfan Jiaming Advertising Co., Ltd. (formerly known as Beijing AirMedia Jiaming Advertising Co., Ltd.)	PRC
9. Beijing Yuehang Digital Media Advertising Co., Ltd.	PRC
10. AirMedia Online Network Technology Group Co., Ltd.	PRC
11. Beijing Airnet Pictures Co., Ltd. (formerly known as Beijing AirMedia Film & TV Culture Co., Ltd.)	PRC
12. Beijing Zhihe Xianglong Advertising Co., Ltd. (formerly known as Flying Dragon Media Advertising Co., Ltd.)	PRC
13. Wenzhou Yuehang Advertising Co., Ltd. (formerly known as Wenzhou AirMedia Advertising Co., Ltd.)	PRC
14. Beijing Dongding Gongyi Advertising Co., Ltd.	PRC
15. Beijing GreatView Media Advertising Co., Ltd. (formerly known as Beijing Weimei Shengjing Advertising Co., Ltd.)	PRC
16. Guangzhou Meizheng Online Network Technology Co., Ltd.	PRC
17. Beijing Yuehang Tianyi Electronic Information Technology Co., Ltd. (formerly known as Beijing AirMedia Tianyi Information Technology Co., Ltd.)	PRC
18. Wangfan Linghang Mobile Network Technology Co., Ltd. (formerly known as AirMedia Mobile Network Technology Co., Ltd.)	PRC
19. Guangzhou Meizheng Information Technology Co., Ltd.	PRC
20. AirMedia Henglong Mobile Network Technology Co., Ltd.	PRC
21. Beijing Wangfan Jiaming Pictures Co., Ltd. (formerly known as Beijing AirMedia Jiaming Film & TV Culture Co., Ltd.)	PRC
22. Meizheng Network Information Technology Co., Ltd. (formerly known as Airmedia Network Technology Co., Ltd.)	PRC
23. Wangfan Tianxia Network Technology Co., Ltd. (formerly known as Wangfan Network Technology Co., Ltd.)	PRC
24. Shandong Airmedia Cheweshi Network Technology Co., Ltd. (formerly known as Shandong Airmedia Car Safety Technology Co., Ltd.)	PRC
25. Dingsheng Ruizhi (Beijing) Investment Consulting Co., Ltd.	PRC
26. Beijing Airport United Culture Media Co., Ltd.	PRC
27. Wangfan Tongda Culture Development (Beijing) Co., Ltd.	PRC
28. Yuehang Zhongying E-commerce 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: October 17, 2018

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, Richard Peidong Wu, certify that:

1. I have reviewed this annual report on Form 20-F of AirMedia Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 17, 2018

By: /s/ Richard Peidong Wu

Name: Richard Peidong Wu

Title: Chief Financial Officer

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of AirMedia Group Inc. on Form S-8 No.333-148352, No.333-164219, No.333-183448 and No.333-187442 and on Form F-3 No.333-161067 of our report dated October 17, 2018, with respect to our audits of the consolidated financial statements and related financial schedule of AirMedia Group Inc. as of December 31, 2017 and 2016, for the years ended December 31, 2017 and 2016 and our report dated October 17, 2018 with respect to our audit of the effectiveness of internal control over financial reporting of AirMedia Group Inc. as of December 31, 2017 appearing in the Annual Report on Form 20-F of AirMedia Group Inc. for the year ended December 31, 2017.

Our report on the effectiveness of internal control over financial reporting expressed an adverse opinion because of the existence of material weaknesses.

/s/ Marcum Bernstein & Pinchuk LLP

Marcum Bernstein & Pinchuk LLP

New York, New York

October 17, 2018



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Phone 646.442.4845 • Fax 646.349.5200 • [www.marcumbp.com](http://www.marcumbp.com)

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Commerce & Finance Law Offices

北京市朝阳区东直门内大街12号12层 邮编: 100022

☎: 8610-65693399 ☎: 8610-65693838, 65693836, 65693837, 65693839

✉: beijing@tongshang.com 🌐: www.tongshang.com.cn

October 17, 2018

AirMedia Group Inc.  
17/F, Sky Plaza, No. 46 Dongzhimenwai Street  
Dongcheng District  
Beijing, 100027  
People's Republic of China

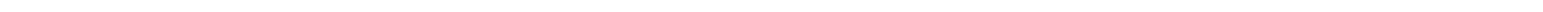
Dear Sirs,

We hereby consent to the reference to our firm under the headings “Item 3. Key Information—D. Risk Factor” and “Item 4. Information on the Company—B. Business Overview,” insofar as they purport to describe the provisions of PRC laws and regulations, in AirMedia Group Inc.’s Annual Report on Form 20-F for the year ended December 31, 2017 (the “Annual Report”) filed with the Securities and Exchange Commission (the “SEC”), and further consent to the incorporation by reference into the Registration Statements No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 of AirMedia Group Inc. of the summary of our opinions under the headings of “Item 3. Key Information—D. Risk Factor” and “Item 4. Information on the Company—B. Business Overview.” We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Sincerely Yours,

/s/ Commerce & Finance Law Offices

Commerce & Finance Law Offices



**Our ref** MPT/629535-000001/13595511v1

AirMedia Group Inc.  
17/F, Sky Plaza  
No. 46 Dongzhimenwai Street  
Dongcheng District  
Beijing, 100027  
People's Republic of China

October 17, 2018

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 2017 (the "**Annual Report**").

We hereby consent to the reference of our name under the heading "Item 16G Corporate Governance" in the Annual Report, and further consent to the incorporation by reference into the Registration Statements No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 of the Company of the summary of our opinion under the heading of "Item 16G Corporate Governance" in the Annual Report. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours faithfully

*Maples and Calder (Hong Kong) LLP*

/s/ Maples and Calder (Hong Kong) LLP  
Maples and Calder (Hong Kong) LLP

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-148352, 333-164219, 333-183448 and 333-187442 on Form S-8 and No. 333-161067 on Form F-3 of our report dated May 16, 2016, relating to the consolidated financial statements and financial statement schedule of AirMedia Group Inc. (the “Company”), its subsidiaries, its variable interest entities (the “VIEs”) and the VIEs' subsidiaries (collectively, the “Group”) as of December 31, 2015 and the year ended December 31, 2015, and the effectiveness of the Group's internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Group's internal control over financial reporting because of a material weakness), appearing in this Annual Report on Form 20-F of AirMedia Group Inc. for the year ended December 31, 2017.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People’s Republic of China

October 17, 2018

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October 17, 2018  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC20549

Dear Commissioners:

We have read Item 16F of Form 20-F of AirMedia Group Inc. (the "Company") for the year ended December 31, 2017, which the Company expects to file on or about October 17, 2018, and have the following comments:

1. We agree with the statements made in the second and third sentences of paragraph 1, paragraphs 2 and 3, and the first sentence of paragraph 4 of Item 16F for which we have a basis on which to comment on, and we agree with, the disclosures.
2. We have no basis on which to agree or disagree with the statements made in the first and fourth sentences of paragraph 1, the second sentence in paragraph 4 and entire paragraph 5 of Item 16F.

Very truly yours,

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

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