Searchmedia Holdings Ltd
Form 10-K
November 01, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2009

OR

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

For the transition period from __________ to __________

Commission file number: 0001-33800

SEARCHMEDIA HOLDINGS LIMITED

(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands	**77-0688094**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
15A Zhao Feng, Universe Building, 1800 Zhong Shan Xi Lu, Shanghai, China	**200235**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code **86-2164403190**

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

Title of Each Class	Name of Each Exchange On Which Registered
ORDINARY SHARES $0.0001 PAR VALUE	NYSE Amex
WARRANTS	NYSE Amex

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting common stock held by non-affiliates of the registrant on June 30, 2009 was approximately $63,589,119.

Number of shares outstanding of each of the registrant s classes of Ordinary Shares at October 5, 2010: 20,858,661 shares of Ordinary Shares, $0.0001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

None

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EXPLANATORY NOTE

In this Annual Report on Form 10-K, for the year ended December 31, 2009, SearchMedia Holdings Limited is restating the consolidated financial statements of SearchMedia International Limited, its wholly-owned subsidiary, as of and for the year ended December 31, 2008, which financial statements were previously included in our Current Report on Form 8-K, which was filed with the Securities and Exchange Commission (the SEC) on November 11, 2009. This Annual Report on Form 10-K also includes SearchMedia Holding s consolidated financial statements as of and for the year ended December 31, 2009.

We have not amended the Current Report on Form 8-K filed November 11, 2009 and you should not rely on the financial statements and related financial information of SearchMedia International and its subsidiaries incorporated by reference into that report from the Registration Statement on Form S-4 of ID Arizona Corp., Registration No. 333-158336, which was declared effective by the SEC on September 30, 2009.

Unless otherwise indicated or required by the context, all references in this Annual Report on Form 10-K to we, us, our, SearchMedia Holdings, or the Company refer to SearchMedia Holdings Limited and its consolidated subsidiaries and all references to SearchMedia International refer to SearchMedia International Limited and its consolidated subsidiaries before completion of the Business Combination on October 30, 2009 (as defined below).

Restatement of Consolidated Financial Statements

On August 20, 2010, we announced that as a result of the continued internal analysis of our financial statements for the year ended December 31, 2009, the audit committee of our board of directors (the Audit Committee), based on management s recommendation, determined that the historical financial statements of SearchMedia International for the years ended December 31, 2007 and December 31, 2008 should be restated. In reaching its decision to restate the 2007 and 2008 financial statements, the audit committee, among other matters, reviewed management s analysis of SearchMedia International s practices relating to the following:

- Revenue recognition and accounts receivable issues;
- Disclosure, approval, and documentation of transactions among entities related to prior owners of acquired subsidiaries (which we refer to as related entity transactions);
- Proper documentation of transactions;
- Recording of various erroneous transactions by certain employees;
- Recording of certain assets and other accounting irregularities related to acquisitions;
- Procedures related to diligence and approval of transactions; and
- Confirmation of payments related to acquisitions.

As a result of this analysis, we identified an overstatement of approximately $45.7 million in SearchMedia International s previously reported revenue for the year ended December 31, 2008. On a restated basis, our net loss was $39.8 million in 2008. Restated total assets were $49.7 million in 2008. .

Unless otherwise indicated, all financial information in this Annual Report on Form 10-K gives effect to the restatement. Information regarding the effect of the restatement on our financial position and results of operations is provided in Note 3 of the Notes to Consolidated Financial Statements. Our consolidated financial statements and the related notes thereto are included in Part II, Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

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Background of the Restatement

On October 30, 2009, we completed a business combination (the Business Combination), which is more fully described in this Annual Report on Form 10-K, pursuant to which we: (1) redomiciled from Delaware to the Cayman Islands, as a Cayman Islands exempt company, and (2) completed the acquisition of SearchMedia International, resulting in SearchMedia International becoming a wholly-owned subsidiary of SearchMedia Holdings.

Following completion of the Business Combination, SearchMedia Holdings new Board hired new senior management, including its current Chief Executive Officer and Chief Financial Officer. Shortly thereafter, senior management began its review of our 2009 financial records in connection with the 2009 audit and preparation of the Company s 2009 financial statements. As a result of this review, SearchMedia Holdings new management identified accounting irregularities and financial and operational improprieties, primarily relating to the Shanghai Jingli Advertising Company Limited (Jingli) in-elevator advertising division of the company and other subsidiaries. These issues were promptly communicated to the Audit Committee and the Audit Committee directed the Company s Chief Financial Officer, with its oversight and the oversight of counsel and advisors, to continue the review and investigation of the issues. These issues made the timely filing of the Company s Annual Report on Form 10-K impracticable and on April 16, 2010, SearchMedia Holdings issued a press release announcing 2009 preliminary unaudited financial results and providing an operational update, including information regarding the identified operational issues.

On May 7, 2010, SearchMedia Holdings received a letter of resignation from KPMG, the Company s independent registered public accountant and on May 12, 2010, the Audit Committee engaged Bernstein & Pinchuk LLP (B&P) as the Company s independent registered public accountant to complete the 2009 audit and, if necessary, a reaudit of the 2008 financial statements of SearchMedia International. KPMG s resignation was not due to any dispute between KPMG and the Company. In addition, KPMG s report on the consolidated financial statements of SearchMedia International for the fiscal year ended December 31, 2008 did not contain an adverse opinion nor a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

Management s identification and attention to the issues underlying the 2009 financial statements and audit also made the timely filing of the Company s first quarter 2010 Quarterly Report on Form 10-Q impracticable, and on May 24, 2010, SearchMedia Holdings issued a press release announcing first quarter 2010 preliminary unaudited financial results.

The Company s continued internal analysis in preparation of the 2009 financial statements resulted in management identifying additional financial and operational issues and accounting irregularities of other subsidiaries impacting the financial statements of SearchMedia International for the years ended December 31, 2007 and 2008. These issues included revenue recognition, related entity transactions, deficient documentation of transactions, diligence and approval of questionable transactions, and allocation and confirmation of payments related to acquisitions.

On August 6, 2010, the Company s management concluded that these matters would require the restatement of SearchMedia International s financial statements for the years ended December 31, 2007 and 2008 and promptly advised the Audit Committee of their recommendation. The Audit Committee reviewed management s recommendation to restate the 2007 and 2008 financial statements in light of the identified accounting irregularities and financial and operational issues and asked management to provide further information regarding these matters, including the timing and impact of these matters on SearchMedia International s financial statements for those periods.

On August 20, 2010, the Audit Committee, upon completion of its review and analysis of the information, documentation and recommendations provided by management, determined that a restatement of SearchMedia International s 2007 and 2008 financial statements was appropriate and that the previously filed financial statements of SearchMedia International for these periods should not be relied upon. The Company issued a press release on August 20, 2010 announcing, among other matters, its intention to restate SearchMedia International s financial statements for the years ended December 31, 2007 and 2008 and also announcing second quarter 2010 preliminary unaudited financial results.

Management and Audit Committee Findings

Management and the Audit Committee identified several key areas of a material weakness in our internal control over financial reporting that are primarily responsible for the restatement of our 2007 and 2008 financial statements. These areas are:

- Revenue recognition and accounts receivable issues;
- Disclosure, approval, and documentation of related entity transactions;
- Proper documentation of transactions;
- Recording of various erroneous transactions by certain employees;
- Recording of certain assets and other accounting irregularities related to acquisitions;
- Diligence and approval of questionable transactions; and
- Confirmation of payments related to acquisitions.

The material weakness in control over revenue recognition primarily relates to a number of fictitious or questionable sales contracts in our in-elevator business, primarily originated from Jingli and related accounts receivable collections and various payments.

The material weakness in control of related entity transactions resulted from a failure to properly disclose, approve and document such transactions. These transactions include: (1) multiple undisclosed payments to and from these companies; (2) certain sales and costs of these companies which were included in the operations of our subsidiaries (3) recognition of accounts receivable collected, allegedly on behalf of SearchMedia International by related entities, which cash was never ultimately collected or received by SearchMedia International.

The material weakness in control over proper documentation related to deficient documentation regarding the delivery of services, and the lack of business substance with regard to certain transactions.

The material weakness in control over transaction approval by our subsidiaries related to apparent fictitious business transactions and the payment of erroneous or falsified expenses.

The material weakness in control over allocation of acquisition payments related to the misallocation of acquisition payments and indications of inflated and artificial revenue or understatement of operating expenses for purposes of increasing profit and subsequent earn-out payments.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

Our management and audit committee have developed a list of identified goals and directives to enhance our internal control over financial reporting, with the goal of remediating the material weaknesses identified above. These recommendations are described in greater detail in the discussion under Part II, Item 9A, section (b) relating to changes in internal controls. Our full board of directors has adopted these recommendations, and we are in the process of implementing them. The Audit Committee has also recommended that the Board and senior management consider possible remedial actions against those

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who may have been aware of or involved in the subject transactions. Pursuant to this recommendation, the Company is preparing indemnification claims against the former shareholders and directors of SearchMedia International and Linden Ventures II (BVI), LTD (Linden) for losses and damages it has incurred or will incur as a result of these financial and operational improprieties and for breaches of various covenants, representations, and warranties contained in the share exchange agreement governing the Business Combination. On October 28, 2010, we entered into a tolling agreement with the representatives of SearchMedia International shareholders and Linden extending the deadline by which claims for indemnification by the Company must be made to November 12, 2010.

Summary of the Restatement Adjustments

The impact of the restatement on our financial statements for the year ended December 31, 2008 is presented and discussed in Note 3 of the Notes to our Consolidated Financial Statements in Part II, Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

SEARCHMEDIA HOLDINGS LIMITED
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2009
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GENERAL

Unless otherwise indicated or the context otherwise requires, all references in this Annual Report on Form 10-K to we, us, our, SearchMedia Holdings or the Company refer to SearchMedia Holdings Limited and its consolidated subsidiaries, and all references to SearchMedia International refer to SearchMedia International Limited before completion of the Business Combination (as defined below). All references to a Fiscal year refer to our fiscal year which ends on December 31.

PART I

ITEM 1. BUSINESS

The following business description should be read in conjunction with the consolidated financial statements and notes thereto in Part II, Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

Business Overview

We are a multi-platform media company operating primarily in the out-of-home advertising industry. Out-of-home advertising typically refers to advertising media in public places, such as billboards, in-elevator displays, street furniture and transit area displays. Our core outdoor billboard and in-elevator platforms are complemented by our transit advertising platform, which together enables us to provide multi-platform, one-stop shop services for our local, national and international clients.

Targeting the rapidly growing number of urban and increasingly affluent consumers in China, we deploy our advertising network across the following select media platforms:

Outdoor billboard platform. As of March 31, 2010, we operate a network of over 1,500 high-impact billboards with over 500,000 square feet of surface display area in 15 cities, including Beijing, Hong Kong, Qingdao, Shanghai, Shenyang, Shenzhen, Guangzhou, Chongqing and Chengdu. Our billboards are mostly large format billboards deployed in commercial centers and other desirable areas with heavy vehicle or foot traffic.

In-elevator platform. As of March 31, 2010, our network of over 125,000 printed and digital poster frames delivered targeted advertising messages inside elevators to captive audiences in high-rise residential and office buildings in 50 major cities in China. The in-elevator platform is characterized by its low cost structure and minimal capital requirements and targets the affluent urban population that is highly desired by advertisers.

Transit advertising platform. As of March 31, 2010, we operate a network of light boxes in concourses of 11 major subway lines in Shanghai. According to the Metro Authority of Shanghai, in March 2010, these subway lines carried an aggregate average daily traffic of approximately 5.65 million commuters. In addition, we also operate a bus advertising network of 5,000 buses in Beijing.

Our multi-platform offerings are cross-marketed by a sales force located in 23 offices across China. Our advertising clients are from industries ranging from telecommunications, insurance and banking, to automobile, real estate, electronics and fast moving consumer goods.

Since 2005, we have achieved significant growth through acquisitions and organic expansion. We expect to continue expanding our billboard holdings through acquisitions and organic expansion while utilizing organic growth to grow our elevator and transit holdings, and capitalize on the growth opportunities in China s out-of-home advertising and other emerging media markets. For the years ended December 31, 2009 and 2008, we had revenue of $37.7 million and $41.7 million and operating loss of $22.6 million and $35.1 million, respectively. At the years ended December 31, 2009 and 2008, we had total assets of $99.8 million and $49.7 million, respectively. For more financial information, see the consolidated financial statements and notes thereto in Part II, Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

We are a Cayman Islands exempted company. In October 2009, we acquired SearchMedia International pursuant to a share exchange agreement by and among our predecessor, Ideation Acquisition Corp., a Delaware corporation (Ideation), ID Arizona Corp., an Arizona corporation and wholly owned subsidiary of Ideation (ID Arizona), SearchMedia International, the subsidiaries of SearchMedia International, and Shanghai Jingli Advertising Co. Ltd., and certain shareholders and warrantholders of SearchMedia International. The share exchange agreement provided for two primary transactions: (1) the redomestication of our predecessor, Ideation, a Delaware corporation, to a Cayman Islands exempted company and (2) the acquisition of SearchMedia International.

On October 30, 2009, we completed the redomestication, which resulted in holders of securities of Ideation holding securities in SearchMedia Holdings. Immediately after the redomestication, we completed the acquisition of SearchMedia International. We refer to the redomestication and acquisition of SearchMedia International together as the Business Combination. As a result of the Business Combination, SearchMedia International became a wholly owned subsidiary of SearchMedia Holdings, and SearchMedia International security holders became security holders of SearchMedia Holdings. We are headquartered in Shanghai, with 23 offices in 19 cities across China (including Hong Kong, as of December 31, 2009).

Industry Background

China s advertising market has experienced tremendous growth in recent years and is one of the world s largest and fastest growing advertising markets. The growth of China s advertising market is supported by the fast growing Chinese economy and its growing and increasingly affluent urban population.

China s Economy

Large, Fast Growing Chinese Economy. China is the world s most populous country, with a population of 1.3 billion as of the end of 2009 according to the National Bureau of Statistics of China. China s gross domestic product, or GDP, grew from $2.6 trillion in 2005 to $4.7 trillion in 2009, representing a compound annual growth rate, or CAGR, of 15.5% and is expected to reach $6.4 trillion in 2012, representing a CAGR of 10.9% from 2009 to 2012, according to ZenithOptimedia.

Urbanization Trend. China has witnessed a growing trend toward urbanization in the past decade. According to the China Statistical Yearbook, the urban population represented approximately 47% of the overall population in China as of December 31, 2009 compared to approximately 29% as of December 31, 1995. Furthermore, according to an article by Xinhua News, the official press agency of China, the urban population will represent approximately 50% of China s total population by the end of 2010 and reach 70% of China s total population by the end of 2030.

Increasingly Affluent Urban Population. The National Bureau of Statistics of China reported that the annual disposable income per capita in urban households increased from RMB8,472 in 2003 to RMB17,175 in 2009, representing a CAGR of 12.5%.

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China s Advertising Market

Large Size and High Growth. China has the largest advertising market in Asia, excluding Japan, and the fifth largest advertising market in the world, as measured by total advertising expenditure. According to ZenithOptimedia, advertising spending in China in 2007 was approximately $16.6 billion, accounting for 28.6% of the total advertising spending in Asia, excluding Japan. While the total advertising expenditure in Asia, excluding Japan, grew only 7% from $58.2 billion in 2007 to $62.3 billion in 2009, China advertising expenditure grew 22% from $16.6 billion in 2007 to $20.3 billion in 2009. ZenithOptimedia also projected that the advertising market in China will be one of the fastest growing advertising markets in the world in the next three years, growing at a CAGR of 12.9% from 2008 to 2012. By 2011, China is projected to account for 34.5%, and 36.6% in 2012, of the total advertising spending in Asia, excluding Japan.

Advertising expenditures (in billions of U.S. dollars)

	2005	2006	2007	2008	2009	2010 (E)	2011 (E)	2012 (E)	CAGR 2008-2012 (E)
China	$ 12.1	$ 14.6	$ 16.6	$ 18.9	$ 20.3	$ 22.7	$ 26.1	$ 30.7	12.9%
India	2.8	3.4	4.1	4.9	5.0	5.4	5.9	6.6	7.7%
Singapore	1.3	1.4	1.4	1.5	1.4	1.5	1.5	1.6	(1.7)%
Indonesia	1.7	2.0	2.4	2.9	3.4	3.9	4.6	5.3	16.2%
Japan	45.0	46.4	46.8	44.9	39.3	39.0	39.2	39.8	(4.5)%
South Korea	7.3	7.8	8.4	8.0	7.1	7.9	8.5	8.9	3.1%
United Kingdom	21.8	22.1	23.5	22.8	19.8	20.1	20.3	20.7	(2.2)%
Germany	24.8	26.4	27.6	27.5	25.6	25.2	25.7	26.5	(0.8)%
United States	166.2	173.4	177.6	170.2	148.1	145.3	147.6	151.9	(2.6)%
Worldwide	426.9	456.6	485.3	490.1	441.4	450.9	469.0	493.3	0.3%

E estimated.

Source : ZenithOptimedia (March 2010)

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Room for sustained growth. We believe the advertising market in China has the potential for considerable and sustained growth due to the relatively low levels of advertising expenditure per capita and advertising expenditure as a percentage of GDP in China compared to other countries. The following table sets forth the advertising expenditure per capita and as a percentage of GDP in the countries listed below for 2008.

	Advertising Expenditure in 2008	
	Per capita ($)	**% of GDP**
China	14.1	0.44
India	4.2	0.40
Singapore	298.9	0.82
Indonesia	12.6	0.56
Japan	324.0	0.92
South Korea	166.2	0.86
United Kingdom	372.3	0.85
Germany	334.8	0.76
United States	546.1	1.18
Worldwide	92.5	0.84

Source :
ZenithOptimedia
(March 2010)

Urban Concentration. Historically, advertising expenditure in China has been highly concentrated in more economically developed urban areas where income per capita is much higher than in rural areas. This trend is supported by the fact that the annual per capita disposable income in urban households in 2009 was RMB17,175 triple of the average net income per capita for rural households of RMB5,153, according to China s National Bureau of Statistics. Additionally, as of 2008, China had 31 of the 100 largest cities in the world, based on city proper data from the United Nations Statistics Division.

Out-of-home Advertising in China

Out-of-home advertising, which typically refers to advertising media in public places, such as billboards, in-elevator displays, street furniture and transit area displays, has emerged as an important form of advertising in China, and serves as a key marketing tool for both domestic and international advertisers. In particular, we believe out-of-home advertising presents a number of advantages over other forms of advertising, including:

Effective and broad reach. We believe out-of-home advertising media is typically difficult for target audiences to interrupt or selectively avoid. When appropriately positioned, out-of-home advertising offers sustained and repetitive reach to a broad audience.

Selective targeting. Out-of-home advertising can effectively target specific demographics and locations. For example, advertisers can choose to target young middle income individuals near bars and restaurants, high income individuals at golf clubs, and pedestrians in close proximity to their work places.

Captures an increasingly mobile audience. In China, factors such as increasing urbanization, increasing disposable income, longer travel time and greater travel frequency are leading to the general population s spending a larger amount of time away from home. As a result, out-of-home advertising enjoys advantages over other popular traditional advertising, such as television or radio, which are predominantly delivered to homes.

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Cost effective advertising. Out-of-home advertising is a lower cost advertising platform compared to many other forms, in particular television, radio and print media. In addition, local businesses that cannot afford more costly traditional media favor out-of-home advertising since it offers greater customization on a local and segment basis.

Market size and growth

We believe the advantages of out-of-home advertising outlined above have made it one of the fastest growing advertising markets in China. The following table sets forth the estimated advertising expenditure by media for the years indicated. The outdoor advertising market is expected to grow by a CAGR of 9.5% from $2.5 billion in 2008 to $3.6 billion in 2012.

Advertising expenditures in China (in millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010 (E)	2011 (E)	2012 (E)	CAGR 2008-2012 (E)
Television	$ 5,113	$ 5,814	$ 6,115	$ 7,217	$ 7,939	$ 9,209	$10,314	$11,448	12.2%
Radio	559	823	904	983	1,062	1,136	1,205	1,289	6.9%
Newspapers	3,685	4,498	4,637	4,931	4,833	4,688	4,453	4,186	(3.9)%
Magazines	358	347	381	446	437	446	464	487	2.2%
Outdoor	1,812	2,069	2,818	2,557	2,711	2,982	3,310	3,674	9.5%
Internet	586	1,015	1,759	2,726	3,271	4,252	6,328	9,544	37.4%
Cinema	22	25	28	34	38	42	47	54	12.2%
Total	12,134	14,590	16,642	18,895	20,291	22,755	26,120	30,682	12.9%

E estimated.

Source :
ZenithOptimedia
(March 2010*)*

Moreover, outdoor advertising represents a significantly larger portion of overall advertising expenditures in China than in other major markets. In 2009, outdoor advertising represented 13.4% of overall advertising expenditures in China, compared to 4.5% in the United States, 6.2% in the United Kingdom and 5.8% in India, according to ZenithOptimedia.

Market fragmentation

The out-of-home advertising market is highly fragmented and, based on our management estimates, there are more than 50,000 out-of-home advertising service providers operating in the PRC as of December 31, 2009. Most of these companies are small and there are few regional or national players. Due to limited scale and coverage, services from most out-of-home advertising providers are not differentiated. Moreover, large advertisers tend to have sophisticated advertising requirements, such as nationwide coverage, targeted timing, and location and demographics, which most local and small out-of-home advertising service providers find hard to fulfill.

Outdoor Billboard Advertising in China

Outdoor billboards can reach a large number of motorists and pedestrians. Unlike other advertising media, such as television, audiences cannot easily interrupt or selectively avoid advertisements displayed on outdoor structures. We believe the sustained, repetitive viewing of large-format, high-impact outdoor advertising facilitates the delivery of advertising messages and results in higher recall rates. Additionally, outdoor billboard advertising enables advertisers, such as restaurants, entertainment facilities, hotels and other roadside operations, to target motorists or pedestrians in close proximity to their work places.

Outdoor billboard advertising is a relatively low-cost medium, as compared to other forms of advertising media. As a result, outdoor billboard advertising is often used as a complementary marketing platform for companies implementing a multifaceted advertising plan across various media. Also, outdoor billboard advertising is often used by local businesses that cannot afford more expensive alternatives.

The outdoor billboard advertising market in China is highly fragmented. We believe the fragmented market presents opportunities for consolidation by companies with adequate resources and market standing.

In-Elevator Advertising in China

In-elevator advertising is another fast-growing out-of-home advertising medium. In-elevator advertising involves advertising primarily inside elevators of modern high-rise office and residential buildings. In-elevator advertising is generally in the form of TV broadcasts from LCD screens or commercial images displayed from printed or digital poster frames. In-elevator advertising has gained market acceptance and popularity in recent years.

The growth of in-elevator advertising has been driven by urban development and construction in China. As high-rise buildings replace older low-rise buildings, the number of elevators has increased. The growing trend of urbanization and the increasingly affluent urban population have provided the in-elevator advertising market with a growing base of diverse audiences that is highly desired by advertisers.

The appeal of in-elevator advertising stems in part from the site-specific nature of elevators, which provides advertisers opportunities to engage in targeted advertising to select audiences of desired demographics. The 24 hour, seven day-a-week, high-frequency contact characterizing the in-elevator medium increases effectiveness of advertising through repeated deliveries of advertising messages to captive audiences of targeted demographics without competing distractions.

Transit Advertising in China

Subway Advertising

Subway systems, including underground systems and above-ground light rails, are being built at a rapid pace in major cities in China, and many new residential and commercial developments are being built on the outskirts of these cities. These factors, combined with low private vehicle ownership in China and high traffic congestion on Chinese streets and expressways, contribute to the large number of urban Chinese that rely on the dependable and affordable mass subway transportation systems for daily commutes and travels. According to the Metro Authority of Shanghai, in March 2010, these subway lines carried an aggregate average daily traffic of approximately 5.6 million commuters. As a result, we believe advertising at subway stations or on subway transportation systems will continue to gain acceptance and popularity. Advertising placed in subway stations, where a large number of people congregate, can reach a large group of consumers in a more cost-effective manner than most mass media advertising. We believe advertising in subway stations also allows advertisers to reach their targeted demographics, including younger and upwardly mobile audiences.

Bus Advertising

Similar to subway advertising, the rapid growth in major cities has increased the use of bus travel within and between cities in China. These factors, combined with low private vehicle ownership in China and high traffic

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congestion on streets and expressways, contribute to the large number of urban residents that rely on the dependable and affordable mass transit for daily commutes and other traveling needs. As a result, advertising placed in buses reaches a large group of consumers in a more cost-effective manner than most mass media advertising and will, we believe, continue to gain acceptance and popularity.

Corporate Organization and Operating History

In order to facilitate fundraising outside of China, SearchMedia International was incorporated in the Cayman Islands on February 9, 2007 and became the holding company of SearchMedia International s business. On June 1, 2007, SearchMedia International established Jieli Investment Management Consulting (Shanghai) Co., Ltd., (Jieli Consulting), a wholly-owned subsidiary of SearchMedia International in China. Because the operation of an advertising network in China was restricted to PRC domestic entities at the time, SearchMedia International through Jieli Consulting, entered into contractual arrangements with Jingli Shanghai on September 10, 2007. On October 30, 2009, we completed the Business Combination, pursuant to which SearchMedia International became a wholly-owned subsidiary of SearchMedia Holdings.

Corporate Ownership Structure

The following diagram illustrates our corporate structure and the place of formation and affiliation of each of our subsidiaries as of the date of this Annual Report on Form 10-K.

(1) Jieli Investment Management Consulting (Shanghai) Co., Ltd., or Jieli Consulting, a Chinese limited liability company, 100% owned by SearchMedia International.

(2) Jieli Network Technology Development (Shanghai) Co., Ltd, or Jieli Network, a Chinese limited liability company, 100% owned by SearchMedia International.

(3) Shanghai Jingli Advertising Co., Ltd, or Jingli Shanghai, a Chinese limited liability company, 60% owned by Ms. Qinying Liu, a Chinese citizen, and 40% owned by Ms. Le Yang, a Chinese citizen.

(4) Shanghai Botang Advertising Co., Ltd, or Shanghai Botang, a Chinese limited liability company, 100% owned by Ad-Icon Shanghai.

(5) Shanghai Haiya Advertising Co., Ltd, or Shanghai Haiya, a Chinese limited liability company, 100% owned by Ad-Icon Shanghai.

(6) Beijing Wanshuizhiyuan Advertising Co., Ltd, or Beijing Wanshuizhiyuan , a Chinese limited liability company, 100% owned by Ad-Icon Shanghai.

(7) Wuxi Ruizhong Advertising Co., Ltd., or Wuxi Ruizhong, a Chinese limited liability company, 100% owned by Ad-Icon Shanghai.

(8) Shenyang Jingli Advertising Co., Ltd., or Shenyang Jingli, a Chinese limited liability company, 100% owned by Ad-Icon Shanghai.

(9) Zhejiang Continental Advertising Co, Ltd., or Zhejiang Continental, a Chinese limited liability company, 100% owned by Ad-Icon Shanghai.

(10) Qingdao Kaixiang Advertising Co., Ltd., or Qingdao Kaixiang, a Chinese limited liability company, 100% owned by Jingli Shanghai.

(11) Wenzhou Rigao Advertising Co., Ltd., or Wenzhou Rigao, a Chinese limited liability company, 100% owned by Jingli Shanghai.

(12) Tianjin Shengshitongda Advertising Creativity Co., Ltd, or Tianjin Shengshitongda, a Chinese limited liability company, 100% owned by Jingli Shanghai.

(13) Shanghai Jincheng Advertising Co., Ltd, or Shanghai Jincheng, a Chinese limited liability company, 100% owned by Jingli Shanghai.

(14) Shaanxi Xinshichuang Advertising Planning Co., Ltd., or Shaan Xi Xinshichuang, a Chinese limited liability company, 100% owned by Jingli Shanghai.

(15) Changsha Jingli Advertising Co., Ltd., or Changsha Jingli, a Chinese limited liability company, 100% owned by Jingli Shanghai.

(16) Great Talent Holdings Limited, or Great Talent, a company incorporated under the laws of Hong Kong, 100% owned by SearchMedia International.

(17)

Ad-Icon Company Limited, or Ad-Icon, a company incorporated under the laws of Hong Kong, 100% owned by SearchMedia International.

(18) Ad-Icon Shanghai Advertising Co., Ltd., or Ad-Icon Shanghai, a Chinese limited liability company, 100% owned by Ad-Icon.

Contractual Arrangements with Jingli Shanghai and its Shareholders

Jieli Consulting s relationships with Jingli Shanghai and its shareholders are governed by a series of contractual arrangements. Under PRC laws, each of Jingli Shanghai and Jieli Consulting is an independent legal person and neither of them is exposed to liabilities incurred by the other party. Other than pursuant to the contractual arrangements between Jingli Shanghai and Jieli Consulting, Jingli Shanghai is not required to transfer any other funds generated from its operations to Jieli Consulting. On September 10, 2007, Jieli Consulting entered into contractual arrangements, and in April 2009, the contracts were restated by relevant parties as follows:

Agreements That Provide Effective Control over Our Affiliated Entities

Loan Agreement. Pursuant to the loan agreement between Jieli Consulting and the shareholders of Jingli Shanghai, namely Ms. Qinying Liu and Ms. Le Yang, Jieli Consulting granted an interest-free loan to each shareholder. The

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principal amounts of the loans to Ms. Qinying Liu and Ms. Le Yang were $6.7 million and $4.5 million, respectively, in proportion with their respective original capital contributions to Jingli Shanghai. The term of the loan agreement is 10 years and may be extended for another ten years automatically unless Jieli Consulting terminates the agreement in a written form three months before the expiration date of the agreement. The loan can be repaid only with the proceeds from the transfer of the shareholder s equity interest in Jingli Shanghai to Jieli Consulting or another person designated by Jieli Consulting at the minimum price permitted by then applicable PRC law. Jieli Consulting may accelerate the loan repayment upon certain events, including if a shareholder dies, loses action capacity, no longer works for Jingli Shanghai or any affiliate of Jingli Shanghai, or commits a crime, or if Jieli Consulting so informs a shareholder as permitted by then applicable PRC law.

Equity Pledge Agreement. Pursuant to the equity pledge agreement among Jieli Consulting, Jingli Shanghai and the shareholders of Jingli Shanghai, namely Ms. Qinying Liu and Ms. Le Yang, each shareholder has pledged all of her equity interest in Jingli Shanghai to Jieli Consulting to guarantee the performance of the shareholders and Jingli Shanghai s obligations under the loan agreement, the exclusive call option agreement and the exclusive technical consulting and service agreement. If Jingli Shanghai or any of its shareholders breaches its respective contractual obligations under these agreements, Jieli Consulting, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their equity interest in Jingli Shanghai without the prior written consent of Jieli Consulting. The equity pledge agreement will expire after Jingli Shanghai and its shareholders fully perform their respective obligations under the loan agreement, the exclusive call option agreement and the exclusive technical consulting and service agreement.

Exclusive Call Option Agreement. Under the exclusive call option agreement among Jingli Shanghai, the shareholders of Jingli Shanghai and Jieli Consulting, Jingli Shanghai and its shareholders irrevocably granted Jieli Consulting or its designated person an exclusive option to purchase, when and to the extent permitted under then applicable PRC law, all or part of the equity interests in Jingli Shanghai. The exercise price for all of the equity interests of Jingli Shanghai is the minimum price permitted by then applicable PRC law or a higher price determined by Jieli Consulting. Unless this exclusive call option agreement is terminated on an earlier date as agreed upon by the parties to the agreement, the term of the agreement is ten years and may be extended for another ten years automatically unless Jieli Consulting terminates the agreement in writing three months before the expiration date of the agreement. Pursuant to this call option agreement,

- The shareholders of Jingli Shanghai may not change the articles of association, bylaws, registered capital or shareholding structure of Jingli Shanghai, without the prior written consent of Jieli Consulting;
- Jingli Shanghai may not acquire or merge with any third parties, or invest in any third parties, without the prior written consent of Jieli Consulting;
- Jingli Shanghai may not generate, delegate, guarantee for, or allow existing any indebtedness without the prior consent or confirmation of Jieli Consulting, except in the ordinary courses of business;
- Jingli Shanghai may not enter into any material contracts with the contractual price exceeding RMB1.0 million without the prior written consent of Jieli Consulting, except in the ordinary courses of business;
- Jingli Shanghai may not grant loans or guaranties to any third parties, without the prior written consent of Jieli Consulting;

Jingli Shanghai may not transfer, pledge, have caused any encumbrances, or otherwise dispose of any shares of Jingli Shanghai, without the prior written consent of Jieli Consulting;

Jingli Shanghai may not declare or pay any dividends without the prior written consent of Jieli Consulting; upon the request of Jieli Consulting, Jingli Shanghai shall declare and pay all distributable dividends to its shareholders; and

The shareholders of Jingli Shanghai may only appoint the persons nominated by Jieli Consulting as directors of Jingli Shanghai, upon request of Jieli Consulting.

Power of Attorney. The shareholders of Jingli Shanghai have executed a power of attorney to Mr. Guojun Liang, which irrevocably authorizes Mr. Liang (who is the husband of Ms. Qinying Liu) to vote as such shareholders attorney-in-fact on all of the matters of Jingli Shanghai requiring shareholder approval.

Agreements That Transfer Economic Benefits to Jieli Consulting

Exclusive Technical Consulting and Service Agreement. Pursuant to the exclusive technical consulting and service agreement between Jingli Shanghai and Jieli Consulting, Jieli Consulting has the exclusive and irrevocable right to provide to Jingli Shanghai technical consulting services related to the business operations of Jingli Shanghai. Jingli Shanghai agrees to pay annual technical service fees to Jieli Consulting based on the actual services provided by Jieli Consulting. If Jingli Shanghai does not generate net profits in a fiscal year, Jieli Shanghai agrees not to charge services for that year. The term of this agreement is 10 years commencing on September 10, 2007 and may be extended automatically for another 10 years unless Jieli Consulting terminates the agreement by a written notice three months before the expiration date.

We believe that there are uncertainties regarding the interpretation and application of current and future PRC laws and regulations. If the PRC government determines that the agreements that establish the structure for operating our PRC advertising network businesses do not comply with applicable restrictions on foreign investment in the advertising industry, we could be subject to severe penalties including being prohibited from continuing our operation. See Risk Factors Risks Relating to Doing Business in the People s Republic of China If the PRC government determines that the contractual arrangements that establish the structure for operating our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties.

Since 2008, SearchMedia International has rapidly expanded its advertising network through the acquisition of the following advertising companies in China and Hong Kong:

In January 2008, Jingli Shanghai acquired 100% of the equity interest in Shaanxi Xinshichuang Advertising Planning Co., Ltd., a Chinese company primarily engaged in elevator advertising business;

In January 2008, Jingli Shanghai acquired 100% of the equity interest in Qingdao Kaixiang Advertising Co., Ltd., a Chinese company primarily engaged in outdoor billboard advertising business;

In January 2008, Jingli Shanghai acquired 100% of the equity interest in Shanghai Jincheng Advertising Co., Ltd., a Chinese company operating advertisings in cafeterias of office buildings;

In January 2008, Jingli Shanghai acquired 100% of the equity interest in Beijing Wanshuizhiyuan Advertising Co., Ltd., a Chinese company primarily engaged in outdoor billboard advertising business;

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In January 2008, Jingli Shanghai acquired 100% of the advertising business of Shenyang Xicheng Advertising Co., Ltd., a Chinese company primarily engaged in outdoor billboard advertising business. Jingli Shanghai subsequently transferred such business and related assets into Shenyang Jingli Advertising Co., Ltd., a newly incorporated Chinese company;

In February 2008, Jingli Shanghai acquired 100% of the equity interest in Shanghai Haiya Advertising Co., Ltd., a Chinese company operating rapid transit advertising business;

In April 2008, Jingli Shanghai acquired 100% of the advertising business of Beijing Youluo Advertising Co., Ltd., a Chinese company primarily engaged in outdoor billboard advertising business. Jingli Shanghai subsequently transferred such business and related assets into Shanghai Botang Advertising Co., Ltd., a newly incorporated Chinese company;

In April 2008, Jingli Shanghai acquired 100% of the equity interest in Tianjin Shengshitongda Advertising Creativity Co., Ltd., a Chinese company operating elevator advertising business;

In April 2008, SearchMedia International acquired 100% of the equity interest in Ad-Icon Company Limited, a Hong Kong company operating outdoor billboard advertising business;

In July 2008, Jingli Shanghai acquired 100% of the equity interest in Changsha Jingli Advertising Co., Ltd., a Chinese company operating elevator advertising business;

In July 2008, Jingli Shanghai acquired 100% of the equity interest in Wenzhou Rigao Advertising Co., Ltd., a Chinese company operating elevator advertising business; and

In July 2008, J