Searchmedia Holdings Ltd
Form 20-F
June 30, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number: 0001-33800
SEARCHMEDIA HOLDINGS LIMITED
(Exact name of Registrant as specified in its charter)
Cayman Islands
(Jurisdiction of incorporation or organization)

Floor 13, Central Modern Building,
468 Xinhui Road, Shanghai, China, 200060

(Address of principal executive offices)

Wilfred Chow
Chief Financial Officer
Floor 13, Central Modern Building,
468 Xinhui Road, Shanghai, China, 200060
Tel: +86-21-6227-8018
Fax: 86-21-6227-8008
Email: smhl@searchmediaholdings.com

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, $0.0001 Par Value	NYSE Amex
Warrants	NYSE Amex

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)

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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.

20,889,897 Ordinary Shares

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

o Yes þ 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.

o Yes þ No

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

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

þ Yes o No

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

o Yes þ No

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

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

U.S. GAAP þ

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

Other o

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 o

Item 18 o

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).

o Yes þ No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 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.

o Yes o No

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA), Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about our expectations, beliefs, or intentions regarding our business, financial condition, results of operations, strategies, or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends, or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those contained in Part I, Item 3 Key Information D. Risk Factors of this Annual Report on Form 20-F. We do not undertake any obligation to update forward-looking statements. We intend that all forward-looking statements be subject to the safe harbor provisions of PSLRA. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance. The risks, uncertainties and other factors that our stockholders and prospective investors should consider include the following:

- There is substantial doubt as to our ability to continue as a going concern, which could adversely affect our ability to meet our ongoing financing needs as well as to obtain third party financing.
- We may not have sufficient liquidity to pay earn-out payments when they come due, which could materially and adversely affect our operations.
- We have a history of significant operating losses and our future revenue and operating profitability are uncertain.
- We have identified material weaknesses in our internal control over financial reporting and we have had to restate our historical financial statements.
- We are subject to ongoing securities litigation and a government inquiry in the United States.
- Deterioration of economic conditions and a resulting decrease in demand for advertising services would materially and adversely affect our financial condition and results of operations and limit our growth prospects.
- A business strategy of making acquisitions subjects us to all of the risks inherent in identifying, acquiring and operating newly acquired businesses.
- Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and growth potential.
- Future charges due to possible impairments of acquired assets may have a material adverse effect on our financial condition and results of operations.
- We face significant competition for advertising spending from operators of new and traditional advertising networks. If we cannot successfully compete, our results of operations would be materially and adversely affected.
- We have a limited operating history which may make it difficult for you to evaluate our business and prospects.

If we fail to develop and maintain relationships with site owners, managers and sublessors that provide us access to desirable locations and network platforms, our growth potential and our business could be harmed.

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Failures to obtain site owners consents or objections from site owners to the installations of our media products could lead to termination of our contracts or installations, which would harm our results of operations.

If we are unable to obtain or retain desirable placement locations for our advertising poster frames and outdoor billboards on commercially advantageous terms, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

The shareholders of Jingli Shanghai may have potential conflicts of interest with us.

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

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

Our growth could suffer if we fail to expand our media networks to include new media offerings, media platforms or enter into new markets.

If site managers or owners shut down our displays for site maintenance or other reasons, our business could be adversely affected.

Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

We rely on computer software and hardware systems in managing our operations; any failure in these systems could adversely affect our business, financial condition and results of operations.

We have no business liability, disruption or litigation insurance, and we could incur substantial costs if our business is disrupted due to natural disasters, litigation or other business interruptions.

Our operating results are difficult to predict and may fluctuate from period to period.

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.

We rely on contractual arrangements with Jingli Shanghai and its shareholders for our China operations, which may not be as effective in providing operational control as would be the case through ownership of a controlling equity interest in such operating entities.

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

If advertising registration certificates are not obtained for advertisements on our outdoor billboard or rapid transit networks, we may be subject to fines.

Our outdoor billboards, light boxes and neon signs are subject to municipal zoning requirements, governmental approvals and administrative controls. If we are required to tear down our billboards, light boxes or neon signs as a result of these requirements, approvals or controls, our operations could be materially and adversely affected.

If we were deemed a resident enterprise by PRC tax authorities, we could be subject to tax on our global income and our non-PRC shareholders could be subject to certain PRC taxes.

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Uncertainties with respect to the PRC legal system could adversely affect us.

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

Governmental control of currency conversion may materially and adversely affect the value of your investment. Substantial limitations may be imposed on the removal of funds from the PRC to the Company, or the infusion of funds by us to our subsidiaries and affiliates located in the PRC.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may prevent us from making loans or capital contributions to our PRC operating subsidiaries and affiliated entities.

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

Any health epidemics and other outbreaks, or war, acts of terrorism and other man -made or natural disasters could severely disrupt our business operations.

We are a Cayman Islands company and, because the rights of shareholders under Cayman Islands law differ from those under U.S. law, you may have fewer protections as a shareholder.

In the future, our Board of Directors may be subject to potential deadlock.

As a foreign private issuer, we will be exempt from certain SEC requirements that provide stockholders with protections and information that must be made available to stockholders of U.S. public companies.

Because we do not intend to pay dividends on our ordinary shares for the foreseeable future, stockholders will benefit from an investment in our ordinary shares only if those shares appreciate in value.

Voting control by executive officers, directors and other affiliates of the company may limit your ability to influence the outcome of director elections and other matters requiring shareholder approval.

The NYSE Amex may delist our securities from quotation on its exchange, which could limit investors ability to make transactions in our securities and subject us to additional trading restrictions.

A significant number of shares are eligible for future sale by our stockholders and the sale of those shares could adversely affect the stock price.

There is a risk that we could be treated as a U.S. domestic corporation for U.S. federal income tax purposes after the Business Combination, which could result in significantly greater U.S. federal income tax liability to us.

There is a risk that we will be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. federal income tax consequences to U.S. holders of ordinary shares or warrants of SearchMedia.

If you acquire (directly, indirectly, or constructively) 10% or more of our shares, you may be subject to taxation under the controlled foreign corporation, or CFC rules.

We may choose to redeem our outstanding warrants at a time that is disadvantageous to the warrant holders, preventing such holders from realizing the potential economic value of their warrants.

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Our warrant holders may not be able to exercise their warrants, which may significantly reduce their economic value and create liability for us.

Unless otherwise indicated or required by the context, all references in this Annual Report on Form 20-F 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).

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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

This annual report on Form 20-F contains the consolidated statements of operations data for our company for the years ended December 31, 2008, 2009 and 2010 and the selected consolidated balance sheet data for our company as of December 31, 2009 and 2010 have been derived from our audited financial statements included elsewhere in this annual report.

The consolidated statements of operations data for our company for the years ended December 31, 2006 and 2007 have been omitted from the Selected Financial Data per the instructions to Item 3 of Form 20-F. As previously disclosed in the Explanatory Note to our Annual Report on Form 10-K for the year ended December 31, 2009 filed on November 1, 2010, the historical financial statements of SearchMedia International for the years ended December 31, 2007 and December 31, 2008 were restated as a result of the analysis of our financial statements for the year ended December 31, 2009. After we completed the business combination pursuant to which we (1) redomiciled from Delaware to the Cayman Islands, as a Cayman Islands exempt company and (2) completed the acquisition of Search Media International, resulting in Search Media International becoming a wholly-owned subsidiary of SearchMedia Holdings (the Business Combination) and in connection with our preparation of the Annual Report on Form 10-K for the fiscal year ended December 31, 2009, we identified accounting irregularities and potential financial and operational improprieties, relating to transactions and financial reporting matters that occurred under the management of SearchMedia International before the Business Combination, which were not previously identified as a result of material weaknesses in our internal control over financial reporting. These material weaknesses related to, among other things: (i) recording of various erroneous transactions by certain employees; (ii) recording of certain assets and other accounting irregularities related to acquisitions; (iii) diligence and approval of questionable transactions; and (iv) confirmation of payments related to acquisitions.

We have restated the consolidated financial statements of SearchMedia International Limited as of and for the year ended December 31, 2008, but we omitted the consolidated Selected Financial Information for the years ended December 31, 2006 and 2007 to avoid undue reliance on SearchMedia International Limited financial information for these periods.

You should read the selected consolidated financial data in conjunction with those financial statements and the accompanying notes and Item 5. Operating and Financial Review and Prospects.

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Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods.

	For the Years Ended December 31		
	2008	2009	2010
	(Amounts in thousands, except share data)		
Selected consolidated statement of operations data			
Net revenues	$ 41,685	$ 37,741	$ 48,967
Cost of revenues	(30,624)	(28,059)	(36,454)
Gross profit	11,061	9,682	12,513
Operating expenses:			
Sales and marketing	(6,117)	(3,384)	(4,462)
General and administrative	(13,135)	(13,832)	(12,203)
Loss from operations	(8,191)	(7,534)	(4,152)
Other income/(expense)			
Interest income	131	11	24
Interest expense	(2,717)	(1,962)	(45)
Decrease in fair value of liability warrant		824	
Gain/(loss) on extinguishment of notes	(4,400)	6,669	
Loss on impairment of goodwill and intangible assets	(13,953)	(15,749)	(39,411)
Loss on abandonment of lease	(46)	(550)	(1,256)
Loss on impairment of fixed assets	(2,135)		
Loss on disposal of fixed assets	(2,121)	(15)	(4)
Other income/ (expense), net			(368)
Foreign currency transaction loss, net	(167)	(24)	(7)
Total other expense	(25,408)	(10,796)	(41,067)
Loss before income taxes	(33,599)	(18,330)	(45,219)
Provision for income taxes	(1,481)	(4,319)	(1,420)
Net loss	$ (35,080)	$ (22,649)	$ (46,639)
Net loss from operations per share:			
Basic and diluted	$ (0.0162)	$ (0.0044)	$ (0.0022)
Weighted average number of shares outstanding Basic and diluted	2,169,269	5,100,465	20,796,789

	As of December 31,	
	2009	2010
	(In thousands)	
Selected consolidated balance sheet data		
Cash and cash equivalents	$ 29,398	$ 7,554
Accounts receivable, net	12,996	18,065
Goodwill	45,891	45,955

Total assets	99,765	86,871
Acquisition consideration payable	16,381	39,195
Total liabilities	51,365	86,408
Net assets	48,400	463
Total equity	48,400	463

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risk Related to Our Business and Operations

There is substantial doubt as to our ability to continue as a going concern, which could adversely affect our ability to meet our ongoing financing needs as well as to obtain third party financing.

As indicated in the report on our financial statements issued by our auditors, Marcum Bernstein & Pinchuk LLP, there is substantial doubt about our ability to continue as a going

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concern. As of December 31, 2010 our current liabilities exceeded our current assets by $39.4 million and our net shareholders equity was $0.5 million. Our cash and cash equivalent as of December 31, 2010 was $7.6 million. We cannot assure you that our business will generate sufficient cash flow from operations in the future to service our debts and make necessary capital expenditures, in which case we may (i) seek additional financing, (ii) dispose of certain assets or (iii) seek to refinance some or all of our debts. We are also taking a number of other actions to address the issue, including amendment of earn-out agreements which provides for extension of the payment time period, seeking funding from existing shareholders and adopting other cost-saving strategies. We cannot assure you that any of the alternatives above can be implemented on satisfactory terms, if at all. The inclusion of the substantial doubt language in the audit report about our ability to continue as a going concern could affect our ability to obtain financing from third parties or could result in increased costs of such financing.

We may not have sufficient liquidity to pay earn-out payments when they come due, which could materially and adversely affect our operations.

We are obligated to pay earn-out payments over the next two to three years in connection with our acquisitions of a number of advertising businesses. We estimate that $29.0 million is payable within the next twelve months from the date of this Annual Report on Form 20-F and $10.2 million is payable after the next twelve months. We also estimate that more than 50% of the earn-out payable is payable in stock.

Based on the current cash position and forecast for the rest of the payment period we believe that we currently do not have sufficient capital to pay the required cash earn-out payments over the next twelve months. In addition, due to a variety of factors which cannot presently be ascertained, including without limitation, the amount of working capital that we have available, and the financial performance of both the company and the acquired companies entitled to receive an earn-out payment, there can be no assurance that we will have sufficient liquidity to meet our long-term earn-out obligations. If such failure cannot be remedied through renegotiation of the terms of such earn-outs with the acquiring companies or the raising of the required proceeds on reasonable terms, our operations are likely to be adversely and materially impacted.

We have a history of significant operating losses and our future revenue and operating profitability are uncertain.

We recorded a net loss of $46.6 million for the year ended December 31, 2010 and we ended the year with an accumulated deficit of $122.2 million. In addition, we recorded a net loss of approximately $22.6 million for the year ended December 31, 2009. Loss from operations reduced from $7.5 million in 2009 to $4.2 million in 2010. The greater net loss in 2010 was due to impairment charges which were non-cash. We may continue to incur operating losses for the foreseeable future, and such losses may be substantial. We will need to increase revenue in order to generate sustainable operating profit. Given our history of operating losses, we cannot be certain that we will be able to achieve operating profitability on an annual basis. Our failure to achieve profitability could adversely affect the trading price of our common stock and our ability to raise additional capital.

We have identified material weaknesses in our internal control over financial reporting and we have had to restate our historical financial statements.

In August 2010, we announced that we would restate the financial statements of SearchMedia International as of and for the year ended December 31, 2008, to, among other things, correct an overstatement of revenue $47.0 million in 2008. We restated our financial statements for the year ended December 31, 2008, which was filed in our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on November 1, 2010.

After the Business Combination and in connection with our preparation of the Annual Report on Form 10-K filed November 1, 2010, we identified accounting irregularities and potential financial and operational improprieties, relating to transactions and financial reporting matters that occurred under the management of SearchMedia International before the Business Combination, which were not previously identified as a result of material weaknesses in our internal control over financial reporting. These material weaknesses relate to, among other things: (i) recording of various erroneous transactions by certain employees; (ii) recording of certain assets and other accounting irregularities related to acquisitions; (iii) diligence and approval of questionable transactions; and (iv) confirmation of payments related to acquisitions.

We have implemented and we plan to further implement steps to address these material weaknesses and improve our internal control over financial reporting. However, the implementation of these measures may not fully address these control weaknesses, and to date these control weaknesses have not been remediated in full. If we fail to implement and maintain the adequate internal control procedures in a timely manner, we may not be able to conclude that we have effective internal control over financial reporting. Furthermore, we cannot be certain we will effectively remediate our control weaknesses or that restatements will not occur in the future. The preparation and filing of restatements could create a significant strain on our internal resources and cause delays in our filing of quarterly or annual financial results, increase our financial accounting and related costs, and divert management s attention from the operation of our business.

We are subject to ongoing securities litigation and a government inquiry in the United States.

We and certain of our current and former directors and executive officers are defendants in a federal securities class action in the United States. The amended complaint alleges that the defendants violated Sections 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 and Rules 10b-5 and 14a-9 thereunder by making false and misleading statements regarding our acquisition of SearchMedia International and by overstating SearchMedia International s financial results during the period April 1, 2009 through August 20, 2010 (Proposed Class Period). The Company and certain of its co-defendants have moved to dismiss the claims asserted against them. We cannot predict the outcome of the motion to dismiss. Moreover, we cannot predict if the court will certify a class.

In addition, we have been notified that the U.S. Securities and Exchange Commission, Los Angeles Regional Office, is conducting a formal investigation regarding the issues that are the subject of our restatement of financial results announced on August 20, 2010. We are cooperating fully with the SEC during this investigation process. We cannot predict the cost or potential liabilities associated with responding to the SEC investigation or any related investigations or litigation that may arise from the matters under inquiry.

We have notified our insurance carriers of these matters. One carrier, which issued a directors and officers liability policy that applies to part of the Proposed Class Period, has informed the Company that it formed the view that its policy does not provide coverage for these matters. Accordingly, 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. Litigation and regulatory actions or proceedings can be time consuming and expensive, and could divert management time and attention from our business, which could have a material adverse effect on our revenues and results of operations. 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. Finally, we cannot provide any assurance that the final outcome of these matters will not have a material adverse effect on our business, results of operations, or financial condition.

Deterioration of economic conditions and a resulting decrease in demand for advertising services would materially and adversely affect our financial condition and results of operations and limit our growth prospects.

Demand for our advertising services, and the resulting advertising spending by our clients on our network, is affected significantly by prevailing economic conditions. The current economic downturns in global markets have impacted, and are expected to further impact, materially and adversely, the advertising spending of our existing and potential multinational clients and, as the crisis spreads to China, the advertising spending of our existing and potential domestic clients. With a severe decline in economic conditions, clients who would normally spend on a broad range of traditional and new media may curtail their overall spending or concentrate their advertising spending on one medium. As we derive most of our revenues from our billboard and in-elevator advertising networks, a decrease in demand for advertising media in general and for our advertising media or advertising networks in particular would materially and adversely affect our financial condition and results of operations and limit our growth prospects. In addition, our clients who are adversely affected by the worsened economic conditions may delay paying the advertising fees to us, which would adversely affect our liquidity and results of operations.

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A business strategy of making acquisitions subjects us to all of the risks inherent in identifying, acquiring and operating newly acquired businesses.

Our growth strategy includes acquiring new businesses to complement and expand our existing operations. In the future, we may continue to make acquisitions of, or investments in, businesses that we believe could complement or expand our current business or offer growth opportunities. To that end, we may spend significant management time and resources in analyzing and negotiating acquisitions or investments that are not consummated. The ongoing process of integrating these businesses is distracting, time consuming, expensive, and requires continuous optimization and allocation of resources. Additionally, if we use stock as consideration, this would have a dilutive effect on existing stockholders. If we use cash, this would reduce our liquidity and impact our financial flexibility. We may seek debt financing for particular acquisitions, which may not be available on commercially reasonable terms, or at all. We face all the risks associated with a business acquisition strategy, including, but not limited to:

- the potential disruption of our existing businesses, including the diversion of management attention and the redeployment of resources;
- entering new markets or industries in which we have limited prior experience;
- failure to identify in due diligence key issues specific to the businesses we seek to acquire or the industries or other environments in which they operate, or, failure to protect against contingent liabilities arising from those issues;
- unforeseen or hidden liabilities;
- difficulties in integrating, aligning and coordinating organizations which will likely be geographically separated and may involve diverse business operations and corporate cultures;
- difficulties in integrating and retaining key management, sales, research and development, production and other personnel;
- potential loss of key employees, clients or distribution partners of the acquired businesses;
- difficulties in incorporating the acquired business into our organization;
- the potential loss of customers, distributors or suppliers;
- adverse effects on our existing business relationships with our advertisers;
- difficulties in integrating or expanding information technology systems and other business processes to accommodate the acquired businesses;
- risks associated with integrating financial reporting and internal control systems;
- the potential for future impairments of goodwill if the acquired business does not perform as expected;
- the inability to obtain necessary government approvals for the acquisition, if any; and
- successfully operating the acquired business.

If we cannot overcome these challenges, we may not realize actual benefits from past and future acquisitions, which will impair our overall business results. If we complete an investment or acquisition, we may not realize the anticipated benefits from the transaction.

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

We experienced rapid expansion in recent years, which resulted, and will continue to result, in substantial demand on our management resources. To manage our growth, we must develop and improve our existing administrative and operational systems and our financial and management controls, and further expand, train and manage our work force. We also need to incur substantial costs and spend substantial resources in connection with these efforts. We may not have the resources to revamp our systems and controls, recruit or train our personnel, or afford to incur the costs and expenses in order to successfully manage our growth. Failure to manage our growth may materially and adversely affect our business and growth potential.

Future charges due to possible impairments of acquired assets may have a material adverse effect on our financial condition and results of operations.

A portion of our assets is comprised of goodwill and other intangible assets, which may be subject to future impairment that would result in financial statement write-offs. Goodwill and other intangible assets represent approximately 57.5% of our total assets at December 31, 2010. If there is a material change in our business operations or prospects, the value of the intangible assets we have acquired or may acquire in the future could decrease significantly. On an ongoing basis and at least annually, we will evaluate, partially based on discounted expected future cash flows, whether the carrying value of such intangible assets may no longer be recoverable, in which case a charge to earnings may be necessary. Any future determination requiring the write-off of a significant portion of unamortized intangible assets, although not requiring any additional cash outlay, could have a material adverse effect on our financial condition, results of operations and stock price.

We face significant competition for advertising spending from operators of new and traditional advertising networks. If we cannot successfully compete, our results of operations would be materially and adversely affected.

We face competition for general advertising spending from operators of many other forms of advertising networks, such as television, print media, Internet and other types of out-of-home advertising.

Our success depends on the continuing and increased interest of advertising clients and agencies in in-elevator, outdoor billboard, transit advertising as components of their advertising strategies. Advertisers may elect not to use our services if they believe that the viewing public is not receptive to advertising platforms we offer or that these platforms do not provide sufficient value as effective advertising mediums. If we cannot successfully compete for advertising spending against traditional, Internet and other types of out-of-home advertising, we will be unable to generate sufficient revenues and cash flows to operate our business, and our results of operations could be materially and adversely affected.

For in-elevator and billboard advertising spending, we face competition from different players across different platforms and in different cities where we operate. For our in-elevator advertising platform, we compete primarily against large regional operators and other nationwide operators some of which have substantially more financial resources than we have. For our billboard advertising platform, we compete against mostly local or regional outdoor billboard owners and operators, as the outdoor billboard market in China is largely fragmented. For our transit advertising platform, we compete against other seasoned operators. We compete for advertising spending on these platforms generally on the basis of network coverage, service quality and brand name. If we cannot compete successfully for advertising spending on these platforms, our market share and our results of operations would suffer.

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

SearchMedia International entered the out-of-home advertising market in 2005. We have been a public company since 2009. Accordingly, we have a limited operating history for our current operations upon which you can evaluate the viability and sustainability of our business and our acceptance by advertisers.

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If we fail to develop and maintain relationships with site owners, managers and sublessors that provide us access to desirable locations and network platforms, our growth potential and our business could be harmed.

Our ability to generate revenues from advertising sales depends largely on our ability to provide a large network of our media products across media platforms at desirable locations. The effectiveness of our network also depends on the cooperation of site owners and managers to allow us to install the desired types of frames at the desired spots on their properties and, for in-elevator advertising, to keep the elevators in operation and accessible to the viewing public. To address these needs, we must develop and maintain business relationships with site managers and owners and, for a portion of our network, sublessors that consist primarily of advertising companies. Since the ownership of residential and office buildings are fragmented, maintaining these relationships requires considerable operational resources in terms of contract management and site development and maintenance personnel. If we fail to devote the necessary resources to maintaining these relationships or if we fail to perform our obligations under the existing leases, these lessors and sublessors may terminate their leases with us or not renew them upon expiration. In some cases, we have not maintained good relations and some of our leases have been terminated or may be terminated in the future. As there is a limited supply of billboards at desirable locations and a limited number of subway stations, the termination of a significant number of the leases for billboards and light boxes at subway stations could harm our multi-platform growth and operation strategies and our business and prospects could suffer as a result.

Failures to obtain site owners consents or objections from site owners to the installations of our media products could lead to termination of our contracts or installations, which would harm our results of operations.

PRC real estate laws and regulations require that we obtain prior consent of site owners and managers for any commercial use of public areas or facilities of residential properties. We generally enter into display placement agreements with site managers. To comply with PRC real estate laws and regulations, we also need to obtain or urge site managers to obtain prior consent of site owners committees or site owners. In some circumstances, it is difficult to locate site owners. If we enter into an agreement for display placement with a site manager without the consent from the relevant site owners, we could be subject to fines of up to RMB0.2 million (approximately $29,000) for each site and be required to remove our advertising posters from the affected building. In addition, site owners who object to the installation of poster frames in their buildings may cause site managers to terminate or fail to renew site contracts with us, which would harm our results of operations.

If we are unable to obtain or retain desirable placement locations for our advertising poster frames and outdoor billboards on commercially advantageous terms, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

Our cost of revenues consists primarily of operating lease cost of advertising space for displaying advertisements, depreciation of advertisement display equipment, amortization of intangible assets relating to lease agreements and direct staff and material costs associated with production and installation of advertisement content. Our operating lease cost represents a significant portion of our cost of revenues. In 2009 and 2010, our operating lease cost accounted for 84.4% and 91.4%, respectively, of our cost of revenues and 62.0% and 64.3% respectively, of our total revenues. In the future, we may need to pay higher amounts in order to renew existing leases, obtain new and desirable locations, or secure exclusivity and other favorable terms. If we are unable to secure commercially advantageous terms or pass increased location costs onto our advertising clients through rate increases, our operating margins and earnings could decrease and our results of operations could be materially and adversely affected.

The shareholders of Jingli Shanghai may have potential conflicts of interest with us.

The shareholders of Jingli Shanghai are also the founders and shareholders of the Company. Conflicts of interests between their dual roles as shareholders of both Jingli Shanghai and the Company may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of the Company or that any conflict of interest will be resolved in our favor. In addition, these individuals may breach or cause Jingli Shanghai to breach or refuse to renew the existing contractual arrangements that allow us to effectively control Jingli Shanghai and receive economic benefits from it. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of Jingli Shanghai, we would have to rely on legal proceedings, the outcome of which is uncertain and could be disruptive to our business.

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

Our future success depends heavily on the continued services of our senior executives and other key employees, their industry expertise, their experience in business operations and sales and marketing, and their working relationships with our advertising clients as well as the site owners, property developers, property management companies, homeowner associations and relevant government authorities that affect the site contracts with us.

We do not have a long history of working with some of these senior executives and key employees. If one or more of our senior executives 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 join a competitor or forms a competing company, we may lose clients, site contracts, key professionals and staff members. We have entered into an employment agreement with each of our executive officers, which agreement contains non-competition provisions. However, if a dispute arises between us and our executive officers, there is no assurance that any of these agreements could be enforced, or to what extent they could be enforced, in China, in light of the uncertainties with China s legal system.

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

The competitive market for out-of-home advertising requires us to continuously identify new advertising trends of advertisers and consumers. In response to these new advertising trends, we may need to quickly develop and adopt new formats, features and enhancements for our advertising network and/or cost-effectively expand into additional advertising media and platforms beyond in-elevator, billboards, and transit platform advertising. We may be required to incur, but may not have the financial resources necessary to fund, development and acquisition costs in order to keep pace with new advertising trends. If we fail to identify or respond adequately to these changing advertising trends, demand for our advertising network and services may decrease and we may not be able to compete effectively or attract advertising clients, which would have a material and adverse effect on our business prospects and revenues.

Our growth could suffer if we fail to expand our media networks to include new media offerings, media platforms or enter into new markets.

Currently, our network primarily consists of in-elevator, outdoor billboard and transit advertising. Our growth strategy includes broadening our service offerings and possibly entering into new advertising markets. It is difficult to predict whether consumers and advertising clients will accept our entry into new media markets or accept the new media products or platforms we may offer. It is also difficult to predict whether we will be able to generate sufficient revenues to offset the costs of entering into these new markets or introducing these new products or new media platforms. We may also have limited or no prior experience working with these new products, platforms or markets. If we fail to expand our media network to include new media products, platforms or markets, our growth could suffer as a result.

If site managers or owners shut down our displays for site maintenance or other reasons, our business could be adversely affected.

Under certain site leasing contracts we entered into with site managers or owners, site managers or owners have the right to shut down our displays with prior written notice if they need to inspect or maintain the sites where we have installed advertising displays, or for other reasons such as facility reconstruction. However, under our contracts with our advertising clients, if these displays are shut down for an extended period of time, we are required to substitute these suspended displays with alternative displays. If we cannot reach an agreement with our clients on the alternative displays, we could be required to refund the advertising fees paid by these clients. If a substantial number of our displays are shut down by site managers within a short time period, we may not be able to locate alternative display locations and may incur substantial remedial costs. Our relationships with our advertising clients could also suffer and our financial results could be adversely affected.

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Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

We regard our copyrights, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of the intellectual property used in our business may adversely affect our business and reputation. We have historically relied on a combination of trademark and copyright law, trade secret protection and restrictions on disclosure to protect our intellectual property rights. We have entered into confidentiality agreements with all our employees. We cannot assure you that these confidentiality agreements will not be breached, or that we will have adequate remedies for any breach.

We are still in the process of registering in China the SearchMedia trademark and logo used in our business. We cannot assure you that our trademark application will ultimately proceed to registration or will result in registration with scope adequate for our business. Some of our pending applications or registration may be successfully challenged or invalidated by others. If our trademark application is not successful, we may have to use different marks for affected services or technologies, or enter into arrangements with any third parties who may have prior registrations, applications or rights, which might not be available on commercially reasonable terms, if at all.

In addition, monitoring and preventing unauthorized use of our trademarks and other intellectual property is difficult and expensive, and litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

We rely on computer software and hardware systems in managing our operations; any failure in these systems could adversely affect our business, financial condition and results of operations.

We are dependent upon our computer software and hardware systems in supporting the sales, scheduling and maintenance of our network. In addition, we rely on our computer hardware for the storage and delivery of the data on our network. Any system failure which causes interruptions to the input and retrieval of data or increases our service time could disrupt our normal network operations. In addition, computer hackers infecting our network with viruses could cause our network to become unavailable. Although we believe that our disaster recovery plan is adequate to handle the failure of our computer software and hardware systems, we cannot assure you that we will be able to effectively carry out this disaster recovery plan or that we would be able to restore our network operations fast enough to avoid a significant disruption to our business. Any failure in our computer software and/or hardware systems could decrease our revenues and harm our relationships with advertisers and target audiences, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We have no business liability, disruption or litigation insurance, and we could incur substantial costs if our business is disrupted due to natural disasters, litigation or other business interruptions.

The insurance industry in China is still at an early stage of development. 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, we do not have any business liability or disruption coverage for our operations in China. All industries are subject to legal claims. As a public company, we are particularly susceptible to securities and derivative lawsuits. These claims may be costly to defend and divert the attention of our management and our resources in general. Defense and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal claim or proceeding could have a material effect on our business, financial condition, results of operations or cash flows. Any business disruption or litigation may result in our incurring substantial costs and the diversion of resources.

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Our operating results are difficult to predict and may fluctuate from period to period.

Our operating results are difficult to predict and may fluctuate from period to period. Factors that are likely to cause our operating results to fluctuate include:

- our ability to maintain and increase sales to existing advertising clients, attract new advertising clients and satisfy our clients demands;
- the frequency of our clients advertisements on our network;
- remaining competitive with the pricing strategies of our competitors;
- effects of strategic alliances, potential acquisitions and other business combinations, and our ability to successfully and timely integrate alliances or acquired businesses into our business;
- changes in government regulations in relation to the advertising industry;
- lower advertising spending immediately following a major holiday season in China; and
- economic and geopolitical conditions in China and elsewhere.

Many of the factors discussed above are beyond our control, making our results difficult to predict from period to period. Although we did not experience significant seasonality in our business, except for generally lower sales in periods immediately following major holiday seasons historically, you should not rely on our operating results for prior periods as an indication of our future results. If our revenues for a particular period are lower than expected, we may be unable to reduce our operating expenses for that period by a corresponding amount, which would harm our operating results for that period relative to our operating results from other periods.

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.

Applicable PRC laws and regulations currently require any foreign entities that invest in the advertising services industry in China to have at least two years of direct operations in the advertising industry outside of China. We are a Cayman Islands corporation and a foreign legal person under Chinese laws. Before we acquired 100% of the equity interests of Ad-Icon in 2008, we had not directly operated an advertising business outside of China and thus could not qualify for the requirement of minimum two years experience outside China under PRC regulations. Accordingly, our subsidiary, Jieli Consulting, is currently ineligible to apply for the required business license for providing advertising services in China. Therefore, we entered into contractual arrangements with our consolidated variable interest entity in China, Jingli Shanghai, and prior to formation of Jingli Shanghai, we operated our advertising business through Shanghai Sige Advertising and Media Co., Ltd., or Sige, Shenzhen Dale Advertising Co., Ltd., or Dale and Beijing Conghui Advertising Co., Ltd., or Conghui. Jingli Shanghai is currently owned by two PRC citizens, Ms. Qinying Liu and Ms. Le Yang, and holds the requisite business license to provide advertising services in China. Jingli Shanghai and its subsidiaries directly operate a portion of our advertising network, enter into display placement agreements and sell advertising spaces to our clients with respect to certain of our operating subsidiaries. In 2010, Ad-Icon Shanghai, a wholly-owned subsidiary of Ad-Icon, acquired some of Jingli Shanghai s subsidiaries and operates advertising business through such subsidiaries. Before the remaining subsidiaries of Jingli Shanghai are acquired by Ad-Icon Shanghai, we are expected to continue to be dependent on Jingli Shanghai and its subsidiaries to operate a portion of our advertising business. We do not have any equity interest in Jingli Shanghai but receive the economic benefits and assume the economic risks of it through various contractual arrangements and certain corporate governance and shareholder rights arrangements. In addition, we have entered into agreements with Jingli Shanghai and each of the shareholders of Jingli Shanghai which allow us to exert control over Jingli Shanghai.

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If we, Jieli Consulting, Jieli Network, Jingli Shanghai or any of our future PRC subsidiaries are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the State Administration for Industry and Commerce, or SAIC, which regulates advertising companies, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of Jingli Shanghai or our PRC subsidiary and other affiliated entities, if any;
- discontinuing or restricting the operations of any transactions among our PRC subsidiary, Jingli Shanghai and its shareholders;
- imposing fines, confiscating the income of Jingli Shanghai or our income, or imposing other requirements with which we or our PRC subsidiary and affiliated entities may not be able to comply;
- requiring us or our PRC subsidiary and affiliated entities to restructure our ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of the Business Combination to finance our business and operations in China.

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business, and our financial condition and results of operations.

We rely on contractual arrangements with Jingli Shanghai and its shareholders for our China operations, which may not be as effective in providing operational control as would be the case through ownership of a controlling equity interest in such operating entities.

In April 2008, we acquired 100% of the equity interest in Ad-Icon, a Hong Kong company, which operates an outdoor billboard advertising business. In December 2009, Ad-Icon established Ad-Icon Shanghai in China. In 2010, Ad-Icon Shanghai acquired most of the subsidiaries of Jingli Shanghai, but as of the date of filing of the Annual Report on Form 20-F, Ad-Icon Shanghai has not acquired all remaining subsidiaries of Jingli Shanghai. We have relied and expect to continue to rely on contractual arrangements with Jingli Shanghai and its shareholders to operate a portion of our business in China before we complete the acquisition of all subsidiaries of Jingli Shanghai. For a description of these contractual arrangements, see Information on the Company Organizational Structure Contractual Arrangements with Jingli Shanghai and its Shareholders in this Annual Report on Form 20-F. These contractual arrangements include an equity pledge agreement, under which the shareholders of Jingli Shanghai pledged their equity interests in Jingli Shanghai to Jieli Consulting. Such pledge was duly created by recording the pledge on Jingli Shanghai s register of shareholders in accordance with the PRC Collateral Law. According to the PRC Property Rights Law, effective as of October 1, 2007, the pledge needs to be registered with the relevant local branch of the Shanghai Administration of Industry and Commerce. Jingli Shanghai successfully registered the pledge with the Shanghai Administration of Industry and Commerce Chongming Sub-bureau on February 2, 2009. These contractual arrangements may not be as effective as ownership of a controlling equity interest would be in providing us with control over Jingli Shanghai. Under the current contractual arrangements, as a legal matter, if Jingli Shanghai or any of its shareholders fails to perform their respective obligations under these contractual arrangements, 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, which may not be effective. For example, if the shareholders of Jingli Shanghai were to refuse to transfer their equity interests in Jingli Shanghai to us or our designee when we exercise the call option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith towards us, we may have to take legal action to compel them to perform their contractual obligations. In addition, we may not be able to renew these contracts with Jingli Shanghai and/or its shareholders.

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In addition, if Jingli Shanghai or all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If Jingli Shanghai undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business and our ability to generate revenue.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration 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. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our affiliated entity, and our ability to conduct our business may be materially and negatively affected.

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

Substantially all of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China s economy differs from the economies of developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures may benefit the overall PRC economy, they may also have a negative effect on us. For example, our business, financial condition and results of operations may be adversely affected by changes in tax regulations or government s control over capital investments and foreign currencies. As the PRC economy is increasingly linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, such as the recent financial and economic crises. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for our services and products and consequently have a material adverse effect on our business and prospects. The various economic and policy measures enacted by the PRC government to forestall economic downturns or shore up the PRC economy may not succeed and our business could be negatively affected as a result.

If advertising registration certificates are not obtained for advertisements on our outdoor billboard or rapid transit networks, we may be subject to fines.

On May 22, 2006, the SAIC amended the Provisions on the Registration Administration of Outdoor Advertisements, or the new outdoor advertisement provisions. Pursuant to the new outdoor advertisement provisions, advertisements placed on posters, digital displays, light boxes, neon lights via outdoor premises, space, facilities, as well as those placed in rapid transit stations are treated as outdoor advertisements and must be registered in accordance with the local SAIC by advertising distributors and advertising registration certificates must be obtained. After review and examination, if an application complies with the requirements, the local SAIC will issue an Outdoor Advertising Registration Certificate for such advertisement. The content, format, specifications, periods and locations of dissemination of the outdoor advertisement must be submitted for filing with the local SAIC.

We require advertisers to apply for and obtain the registration certificates for their advertisements. If an advertiser displays an advertisement without the requisite registration, the relevant local SAICs may require us to disgorge advertising revenues or may impose fines on us.

Our outdoor billboards, light boxes and neon signs are subject to municipal zoning requirements, governmental approvals and administrative controls. If we are required to tear down our billboards, light boxes or neon signs as a result of these requirements, approvals or controls, our operations could be materially and adversely affected.

Our billboards, light boxes and neon signs are subject to local regulations which may impose detailed requirements regarding municipal zoning requirements and governmental approvals. Each outdoor placement and installation may require a license with specific terms of use. If we, or our lessors or sublessors, violate the terms of the license for the relevant placement and installation for a billboard, light box or neon sign, we could be required to tear it down. We may also be required to tear it down as result of change of municipal zoning requirements or actions taken by local authorities for city beautification, clean-up or other purposes. If we lose a significant number of billboards, light boxes and/or neon signs as a result, our business operations would be materially and adversely impacted. Moreover, if we are unable to perform our advertising contracts as a result of these losses, we may incur remedial costs and our relationships with our advertising clients and financial results could be harmed as a result.

If we were deemed a resident enterprise by PRC tax authorities, we could be subject to tax on our global income and our non-PRC shareholders could be subject to certain PRC taxes.

Under the New PRC Enterprise Tax law effective January 1, 2008, or the EIT law, an enterprise established outside of the PRC with de facto management bodies within the PRC is considered a resident enterprise and will be subject to the EIT at the rate of 25% on its global income. The implementing rules of the EIT law define de facto management as substantial and overall management and control over the production and operations, personnel, accounting, and properties of the enterprise. The State Tax Administration issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the de facto management body of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, like our company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation s general position on how the de facto management body test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If we were to be considered a resident enterprise by the PRC tax authorities, our global income would be subject to tax under the EIT law at the rate of 25% and, to the extent we were to generate substantial amount of income outside of PRC in the future, we would be subject to additional taxes. In addition, if we were to be considered a resident enterprise, the dividends we pay to our non-PRC enterprise shareholders would be subject to withholding tax and our non-PRC enterprise shareholders would be subject to a 10% income tax on any gains they would realize from the transfer of their shares, if such income were sourced from within the PRC.

As of the date of this Annual Report on Form 20-F, no final interpretations on the implementation of the resident enterprise designation are available for companies such as ours. Moreover, any such designation, when made by PRC tax authorities, will be determined based on the facts and circumstances of individual cases. As a result, we cannot currently determine the likelihood of the Company being designated a resident enterprise .

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our subsidiaries and affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws and regulations applicable to wholly foreign-owned enterprises. The PRC legal system is based on statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In

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addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after a violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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

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

As an operator of an advertising medium, we are obligated under PRC law to monitor the advertising content displayed on our network for compliance with applicable law. Although the advertisements displayed on our network may have been previously displayed over public media, we may be required to separately and independently vet these advertisements for content compliance before displaying them on our networks. In addition, for advertising content related to certain types of products and services, such as alcohol, cosmetics, pharmaceuticals and medical procedures, we are required to confirm that the advertisers have obtained requisite government approvals including the advertiser s operating qualifications, proof of quality inspection of the advertised products, government pre-approval of the contents of the advertisement and filings with the local authorities. Previously, we did not strictly abide by these requirements. We have remedied this noncompliance and have, among other things, employed qualified advertising inspectors who are trained to review advertising content for compliance with relevant PRC laws and regulations. However, there can be no assurances that we will not be penalized for our past noncompliance or that each advertisement provided by an advertising client is in compliance with relevant PRC advertising laws and regulations or that the supporting documentation and government approvals provided by our advertising clients are accurate and complete.

Moreover, civil claims may be filed against us for fraud, defamation, subversion, negligence, copyright or trademark infringement or other violations due to the nature and content of the information displayed on our network. If consumers find the content displayed on our network to be offensive, site managers and owners may seek to hold us responsible for any consumer claims against them or may terminate their relationships with us.

In addition, if the security of our content management system is breached and unauthorized images or text are displayed on our network, viewers or the PRC government may find these images or text to be offensive, which may subject us to civil liability or government censure, and harm our reputation. If our viewers do not believe our content is reliable and accurate, our business model may become less appealing to them and our advertising clients may be less willing to place advertisements on our network. Government censure, investigation or any other government action, or any civil suits against us could divert management time and resources and could have a material and adverse effect on our business, results of operations and financial condition.

Governmental control of currency conversion may materially and adversely affect the value of your investment. Substantial limitations may be imposed on the removal of funds from the PRC to the Company, or the infusion of funds by us to our subsidiaries and affiliates located in the PRC.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries.

Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or SAFE, by complying with

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certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our parent, the Company. As dividends from Chinese operations will be the primary source of revenue production for us, failure to be able to receive such dividends could materially and adversely impact the value of your Company shares and could make it impossible for us to meet our cash flow requirements.

On August 29, 2008, SAFE issued 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 Circular No. 142. Pursuant to Circular No. 142, the RMB fund from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the examination and approval department of the government, and cannot be used for domestic equity investment unless it is otherwise provided for Documents certifying the purposes of the RMB fund from the settlement of foreign currency capital including a business contract must also be submitted for the settlement of the foreign currency. We used to provide loans to Jingli Shanghai in RMB settled from foreign currency capital of Jieli Consulting and Jieli Network. With the strengthened administration on settlement of foreign currency, these previous loan arrangements may no longer be feasible. If the foreign exchange control system prevents Jingli Shanghai from obtaining sufficient RMB to satisfy its currency demands, the operation of the Company may be materially and adversely affected.

Our subsidiary in Hong Kong, Ad-Icon Company Limited, on December 11, 2009, established Ad-Icon Advertising (Shanghai) Co., Ltd., a wholly-owned subsidiary in China, which is permitted to operate advertising business in China. Through Ad-Icon Shanghai, we can enter into advertising contracts directly with clients and submit those contracts for the purpose of settling foreign currencies. In the meantime, we can submit the business contracts between Jieli Consulting/Jieli Network and Jingli Shanghai for the purpose of settling foreign currencies. According to our PRC counsel to the Company, both alternatives are permissible under PRC laws.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may prevent us from making loans or capital contributions to our PRC operating subsidiaries and affiliated entities.

As an offshore holding company of our PRC operating subsidiaries and affiliates, any loans by us to our PRC subsidiaries or consolidated PRC affiliates are subject to PRC regulations and approvals. For example:

- loans by us to our wholly-owned subsidiaries in China, each of which is a foreign-invested enterprise, to finance the activities cannot exceed statutory limits and must be registered with SAFE, or its local counterpart; and
- loans by us to Jingli Shanghai, which is a domestic PRC entity, may require the approval from the relevant government authorities or registration with SAFE or its local counterpart.

We may also decide to finance our wholly-owned subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. Because Jingli Shanghai is a domestic PRC entity, we are not likely to finance our activities by means of capital contributions due to regulatory issues relating to foreign investment in domestic PRC entities, as well as the licensing and other regulatory issues discussed in the Business Regulatory Matters section of this Annual Report on Form 20-F. There can be no assurances that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or Jingli Shanghai. If we fail to receive such registrations or approvals, our ability to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

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

The value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China s political and economic conditions and China s foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. As a result of this policy change, Chinese RMB appreciated approximately 6.4%, less than 1.0% and 3.0% against the U.S. dollar in 2008, 2009 and 2010, respectively. It is possible that the Chinese government will adopt a more flexible currency policy, which could result in more significant fluctuations of Chinese RMB against the U.S. dollar.

Substantially all of our revenues and costs are denominated in Renminbi, and a significant portion of our financial assets are also denominated in Renminbi. Thus, a resumption of the appreciation of the Renminbi against the U.S. dollar would, for instance, further increase our costs in U.S. dollar terms. In addition, as we principally rely on dividends and other distributions paid to us by our subsidiaries and affiliated entities in China, any significant depreciation of the Renminbi against the U.S. dollar may have a material adverse effect on our revenues and financial condition. In addition, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our preferred or ordinary shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. Any fluctuation of the exchange rate between the Renminbi and the U.S. dollar could also result in foreign current translation losses for financial reporting purposes.

Any health epidemics and other outbreaks, or war, acts of terrorism and other man -made or natural disasters could severely disrupt our business operations.

Our business could be materially and adversely affected by the outbreak of avian influenza, H1N1 Flu, severe acute respiratory syndrome, or SARS, or another epidemic. In recent years, there have been reports on the occurrences of avian influenza and H1N1 Flu in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian influenza, H1N1 Flu, SARS or other adverse public health developments in China could require the temporary closure of our offices or prevent our staff from traveling to our clients offices to sell our services or provide on site services. Such closures could severely disrupt our business operations and adversely affect our results of operations.

Our operations are vulnerable to interruption and damage from natural and other types of disasters, including snowstorms, earthquakes, fire, floods, environmental accidents, power loss, communications failures and similar events. If any disaster were to occur in the future, our ability to operate our business could be materially impaired.

We are a Cayman Islands company and, because the rights of shareholders under Cayman Islands law differ from those under U.S. law, you may have fewer protections as a shareholder.

The company s conduct of its corporate affairs will be governed by its Memorandum and Articles of Association, and the Company is subject at all times to the Companies Law (2010 Revision) of the Cayman Islands. The rights of shareholders to take action against the directors, the rights of minority shareholders and the fiduciary duties of the directors under Cayman Islands law are governed by the Companies Law (2010 Revision) and/or common law principles derived from cases in the Cayman Islands and in the courts of England (English case law is not binding but is considered persuasive in the courts of the Cayman Islands). The rights of shareholders and the fiduciary duties of directors under Cayman Islands law differ from those established under statutes or judicial precedent in some jurisdictions in the United States. Additionally, the removal of a director from our Board, even for cause, may in certain circumstances require the approval of our shareholders. Also, the Cayman Islands has a less developed body of securities law compared to the United States and less developed or judicially interpreted bodies of corporate law compared to many U.S. states, including Delaware.

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In the future, our Board of Directors may be subject to potential deadlock.

Pursuant to the share exchange agreement and Business Combination, we entered into a voting agreement with China Seed Ventures, L.P., Qinyng Liu, Le Yang, Vervain Equity Investment Limited, Sun Hing Associates Limited, and Linden Ventures, each a previous SearchMedia International shareholder or warrantholder, and Frost Gamma Investments Trust, Robert Fried, Rao Uppaluri, Steven Rubin and Jane Hsiao, each a previous Ideation shareholder, which provides, among other things, that, for a period which commenced on October 30, 2009 and ends on October 30, 2012, each party to the voting agreement will agree to vote in favor of the director nominees nominated by the Ideation representative and the SM Cayman shareholders representatives as provided in the share exchange agreement. Our Articles of Association require the approval by a majority of the Directors for many corporate actions. Although our current Board of Directors presently consists of five members, there may be occasions when the previous SearchMedia International shareholders and warrantholders exercise their contractual right to fill the vacancies, which could result in an even number of six or eight board members. Because there are no mechanisms in the voting agreement or our Articles of Association which provide a mechanism to resolve a Board deadlock, it is possible that our Board of Directors may be unable to obtain majority approval in certain circumstances, which would prevent us from taking actions that may be important to our business and operations.

As a foreign private issuer, we will be exempt from certain SEC requirements that provide stockholders with protections and information that must be made available to stockholders of U.S. public companies.

On June 30, 2010, we became a foreign private issuer, which reduces the reporting requirements under the Exchange Act, resulting in fewer costs associated with financial and reporting compliance. For example, as a foreign private issuer we will be exempt from certain provisions applicable to U.S. public companies, including:

- the rules requiring the filing with the SEC of quarterly reports on Form 6-K or current reports on Form 6-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations with respect to a security registered under the Exchange Act;
- provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material non-public information; and
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any short swing trading transactions, or a purchase and sale, or a sale and purchase, of the issuer s equity securities within less than six months.

As a foreign private issuer, we will file an annual report on Form 20-F within six months of the close of fiscal year 2010, and within four months of each fiscal year beginning with fiscal year 2011, and reports on Form 6-K relating to certain material events promptly after we publicly announces these events. However, because of the foregoing filing exemptions, our shareholders will not be afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

Because we do not intend to pay dividends on our ordinary shares for the foreseeable future, stockholders will benefit from an investment in our ordinary shares only if those shares appreciate in value.

We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on factors our board of directors deem relevant, including, among others, our results of operations, financial condition and cash requirements, business prospects, the terms of our credit facilities, if any, and any other financing arrangements. Accordingly, realization of a gain on stockholders investments will depend on the appreciation of the price of our ordinary shares, and there is no guarantee that our ordinary shares will appreciate in value.

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Voting control by executive officers, directors and other affiliates of the company may limit your ability to influence the outcome of director elections and other matters requiring shareholder approval.

The executive officers, directors and other affiliates of the Company own over 38% of our voting shares. These shareholders can control substantially all matters requiring approval by our shareholders, including the election of directors and the approval of other business transactions. This concentration of ownership could have the effect of delaying or preventing a change in control of the Company or discouraging a potential acquirer from attempting to obtain control of the Company, which in turn could have a material adverse effect on the market price of ordinary shares or prevent our shareholders from realizing a premium over the market price for their ordinary shares.

The NYSE Amex may delist our securities from quotation on its exchange, which could limit investors ability to make transactions in our securities and subject us to additional trading restrictions.

If the NYSE Amex delists our securities from trading on its exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- a reduced liquidity with respect to our securities;
- a determination that our common stock is a penny stock which will require brokers trading in our common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our common stock;
- a limited amount of news and analyst coverage for the company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

On April 8, 2011, we received notice of noncompliance with Section 704 of the NYSE Amex Company Guide, which required us to hold our stockholders annual meeting during 2010 for the fiscal year ended December 31, 2009. The Exchange notified us on May 5, 2011 that it accepted our plan dated April 6, 2011 and granted us an extension until October 4, 2011 to regain compliance with continued listing standards. We will be subject to periodic review by Exchange Staff during its extension period. This Form 20-F is being filed on June 30, 2011 and we expect to hold our annual general stockholders meeting before the October 4, 2011 deadline. Following the annual general stockholders meeting, we anticipate that we will be in compliance with Section 704 of the Company Guide.

A significant number of shares are eligible for future sale by our stockholders and the sale of those shares could adversely affect the stock price.

A significant number of our outstanding shares of common stock became eligible for resale beginning October 30, 2010, as a result of the expiration of lock up provisions on resale. If our stockholders whose shares are eligible for resale sell or attempt to sell their stock in the public market, the trading price of our common stock could decline.

There is a risk that we could be treated as a U.S. domestic corporation for U.S. federal income tax purposes after the Business Combination, which could result in significantly greater U.S. federal income tax liability to us.

Section 7874(b) of the Code generally provides that a corporation organized outside the United States which acquires, directly or indirectly, pursuant to a plan or series of related transactions substantially all of the assets of a corporation organized in the United States will be treated as a domestic corporation for U.S. federal income tax purposes if shareholders of the acquired corporation, by reason of owning shares of the acquired corporation, own at least 80% (of either the voting power or the value) of the stock of the acquiring corporation after the acquisition. If Section 7874(b) were to apply to the conversion, then we, as the surviving entity, would be subject to U.S. federal income tax on its worldwide taxable income following the Business Combination as if we were a domestic corporation.

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Although Section 7874(b) should not apply to treat us as a domestic corporation for U.S. federal income tax purposes because the Business Combination should be treated as part of the same transaction and, therefore, this 80% threshold was not reached, due to the absence of full guidance on how the rules of Section 7874(b) will apply to the transactions contemplated by the Business Combination, this result is not entirely free from doubt. As a result, stockholders and warrant holders are urged to consult their own tax advisors on this issue. We intend to take the position that we are a foreign corporation for U.S. federal income tax purposes. The immediately following two risk factors assume that we will be treated as a foreign corporation for U.S. federal income tax purposes.

There is a risk that we will be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. federal income tax consequences to U.S. holders of ordinary shares or warrants of SearchMedia.

We will be treated as a PFIC for any taxable year in which either (1) at least 75% of its gross income (looking through certain corporate subsidiaries) is passive income or (2) at least 50% of the average value of its assets (looking through certain corporate subsidiaries) produce, or are held for the production of, passive income. Passive income generally includes dividends, interest, rents, royalties, and gains from the disposition of passive assets. If we were a PFIC for any taxable year during which a U.S. holder held our ordinary shares or warrants, the U.S. holder may be subject to increased U.S. federal income tax liability and may be subject to additional reporting requirements.

Based on the expected composition of the assets and income of the Company and our subsidiaries after the Business Combination, it is not anticipated that we will be treated as a PFIC following the Business Combination. The actual PFIC status of the Company for any taxable year, however, will not be determinable until the conclusion of our taxable year, and accordingly there can be no assurance as to the status of the Company as a PFIC for the current taxable year or any future taxable year. U.S. holders of our securities are urged to consult their own tax advisors regarding the possible application of the PFIC rules.

If you acquire (directly, indirectly, or constructively) 10% or more of our shares, you may be subject to taxation under the controlled foreign corporation, or CFC rules.

Each 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and that owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC s taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC s subpart F income, even if the subpart F income is not distributed. In addition, if a person that is or was a 10% U.S. Shareholder of a CFC during the 5-year period ending on the date on which such person sells or exchanges shares of stock of such corporation recognizes gain such a sale or such person as a dividend to the extent of earnings and profits of the corporation attributable to such stock that were accumulated while such person held the stock while the corporation was a CFC. After 2010, dividends may be taxed at higher rates than long-term capital gains. A foreign corporation is considered a CFC if 10% U.S. Shareholders own more than 50% of the total combined voting power of all classes of voting stock of the foreign corporation, or the total value of all stock of the corporation. A 10% U.S. Shareholder is a U.S. person, as defined in the Internal Revenue Code, that owns at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. For purposes of determining whether a corporation is a CFC, and therefore whether the more-than-50% and 10% ownership tests have been satisfied, shares owned includes shares owned directly or indirectly through foreign entities or shares considered owned under constructive ownership rules. The attribution rules are complicated and depend on the particular facts relating to each investor. U.S. holders are urged to consult their own tax advisors regarding the possible application of the CFC rules.

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Risks Relating to Our Stockholders and Warrant holders

We may choose to redeem our outstanding warrants at a time that is disadvantageous to the warrant holders, preventing such holders from realizing the potential economic value of their warrants.

Subject to there being a current prospectus under the Securities Act, we may redeem all of the currently outstanding warrants at any time after they become exercisable at a price of $0.01 per warrant, upon a minimum of 30 days prior written notice of redemption, if and only if, the last sale price of our ordinary shares equals or exceeds $11.50 per share for any 20 trading days within a 30-trading-day period ending three business days before we send the notice of redemption. Calling all of such warrants for redemption could force the warrant holders to:

- exercise the warrants and pay the exercise price for such warrants at a time when it may be disadvantageous for the holders to do so;
- sell the warrants at the then-current market price when they might otherwise wish to hold the warrants; or
- accept the nominal redemption price which, at the time the warrants are called for redemption, is likely to be substantially less than the market value of the warrants.

Our warrant holders may not be able to exercise their warrants, which may significantly reduce their economic value and create liability for us.

Holders of our warrants will be able to receive shares upon exercise of the warrants only if:

- a current registration statement under the Securities Act relating to the ordinary shares underlying the warrants is then effective; and
- such shares are qualified for sale or exempt from qualification under the applicable securities laws of the states in which the various holders of warrants reside.

A registration statement covering the shares underlying the warrants is not currently effective. In addition, some states may not permit us to register the shares issuable upon exercise of our warrants for sale. The value of the warrants will be greatly reduced if a registration statement covering the shares issuable upon the exercise of the warrants is not filed and declared effective or if the securities are not qualified, or exempt from qualification, in the states in which the holders of warrants reside. We have agreed to qualify for sale the common stock underlying our warrants in each state in which the units issued in the Ideation IPO were initially offered. However we did not agree to qualify such securities in any other state.

Holders of warrants who reside in jurisdictions in which the shares underlying the warrants are not qualified and in which there is no exemption will be unable to exercise their warrants and would either have to sell their warrants in the open market or allow them to expire unexercised, which could result in the filing of claims against and other losses for us.

Item 4 Information on the Company

A. History and Development of the Company

History and Development

SearchMedia Holdings legal name is SearchMedia Holdings Limited. We are a Cayman Islands exempted company. Our predecessor, Ideation Acquisition Corp., was incorporated on June 1, 2007. SearchMedia operates under The Companies Law (2010 Revision) of the Cayman Islands. Our principal executive offices are located at 13F, Central Modern Building, 468 Xin Hui Road, Putuo District, Shanghai, China, 200060, and our telephone number is 86-2162278018. Our Internet website address is www.searchmediaholdings.com. The Internet website address provided in this Annual Report on Form 20-F is not intended to function as a hyperlink and information obtained at the address is not and should not be considered part of this Annual Report on Form 20-F and is not incorporated by reference in this Annual Report on
Form 20-F.

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.

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.

In April 2008, we acquired 100% of the equity interest in Ad-Icon, a Hong Kong company operating an outdoor billboard advertising business. Since Ad-Icon, as a Hong Kong investor, is eligible to invest in the advertising industry in China without restriction on main business and operation years, it established a wholly-owned company Ad-Icon Shanghai in China. In 2008 and 2010, Ad-Icon Shanghai acquired 100% of the equity interests in Zhejiang Continental, Shanghai Botang , Shanghai Haiya, Beijing Wanshuizhiyuan, Wuxi Ruizhong and Shenyang Jingli. As of the date of this Annual Report on Form 20-F, Jingli Shanghai still holds 100% of the equity interests of our other Chinese affiliates, namely, Tianjin Shengshitongda, Qingdao Kaixiang, and Wenzhou Rigao.

B. Business Overview

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 December 31, 2010, we operate a network of about 1,000 high-impact billboards in 15 cities, including Beijing, Hong Kong, Qingdao, Shanghai, Shenyang, Hangzhou, 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.

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In-elevator platform. As of December 31, 2010, our network of about 150,000 printed and digital poster frames delivered targeted advertising messages inside elevators to captive audiences in high-rise residential and office buildings in 70 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 December 31, 2010, we act as an agency for a subway network in addition to a bus advertising network of 5,000 buses in Beijing.

Our multi-platform offerings are cross-marketed by a sales force located in 15 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.

We expect to expand 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, 2008, 2009 and 2010, we had revenue of $41.7 million, $37.7 million and $49.0 million and a net loss of $35.1 million, $22.6 million and $46.6 million respectively. At the years ended December 31, 2009 and 2010, we had total assets of $99.8 million and $86.9 million, respectively.

Our Business

The following table sets forth a breakdown of our total revenues by category for the periods indicated:

	For the years ended December, 31		
	2008	2009	2010
		(In thousands)	
In-elevator networks	7,405	7,025	9,117
Outdoor billboards	31,932	28,854	35,762
Transits	2,348	1,862	4,088
Total net revenue	41,685	37,741	48,967

SearchMedia Holdings Limited is a holding company and, through its consolidated subsidiaries and variable interest entities (VIEs) (collectively the Group), is principally engaged in the provision of advertising services in the out-of-home advertising industry. The Group s advertising service revenues generated from customers outside the PRC is less than 10% of the Group s total consolidated revenues and the Group s total long-lived tangible assets located outside the PRC is less than 10% of the Group s total consolidated long-lived tangible assets. Consequently no geographic information is presented.

Advertising Network

We are one of the largest operators of integrated outdoor billboard and in-elevator advertising networks in China. We have coverage of 70 cities, including larger cities such as Hong Kong, Shanghai, Hangzhou, Beijing, Guangzhou and Shenzhen. As of December 31, 2010 our advertising network included high-impact billboards, neon signs and light boxes, poster frames located in commercial and residential buildings, and an agency for transit advertising.

Media Products

Our core outdoor billboard and in-elevator portfolios are complemented by our transit advertising platform, which together create an attractive multi-platform, one-stop shop service for our local, national and international advertising clients.

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Outdoor Billboard Platform

As of December 31, 2010, we operate a network of about 1,000 high-impact billboards in 15 cities, including Beijing, Hong Kong, Qingdao, Shanghai, Shenyang, Shenzhen, Guangzhou, Hangzhou, Chongqing and Chengdu. Our billboards are mostly large format billboards, banners, light boxes and other outdoor postings deployed in commercial centers and other desirable areas with heavy vehicle and/or foot traffic. Our goal is optimize our billboard portfolio in locations that are desirable for our advertisers while maximizing the profitability of our concession leases.

Our target audiences for these advertisements are mid- to high-income shoppers, pedestrians and car-driving consumers. We believe our billboard advertisements effectively increase our advertising clients brand awareness. We intend to continue to bid for high-profile projects that will bring positive media exposure, leading to greater market acceptance and brand recognition for our company. Management plans to continue to build our nationwide portfolio of traditional outdoor billboard properties through organic expansion and strategic acquisitions.

In-Elevator Platform

We install poster frames primarily on the inside of elevators of modern high-rise buildings in 70 cities across 27 provinces in China, including Shanghai, Beijing, Guangzhou and Shenzhen. We typically install two to three poster frames in each elevator. 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. As of December 31, 2010, our elevator advertising network consisted of about 150,000 poster frames. The in-elevator advertising platform allows us to target captive audiences comprised of middle- and high-end businesses and consumer groups.

Poster frames may take the following forms:

Printed Poster Frames. We specialize in high impact-printed poster frames which are made of several materials in various sizes suitable for a wide range of display messages. Our printed poster frames mainly include paper, and illuminated poster frames;

Paper poster frames are conventional poster frames made of paper with a visual size of 540mm by 390mm; and

Illuminated poster frames are posters encased in thin metal boxes and illuminated by LED optical fiber. The visual size of such posters is typically 540mm by 390mm.

Digital poster frames. These poster frames are LCD screens with memory card slots that allow the screens to change images at regular intervals. Our digital poster frames change images in loops, with typically six images within each 60-second loop. The visual size of the screens is typically 405mm by 305mm.

We sell advertising space on our poster frame network on a per display basis. For each frame that is upgraded from printed poster frame to digital frame, up to six multiple digital images can now be displayed inside each physical frame and we increases our available advertising inventory and opportunities for revenue.

Subway Advertising Platform

We manage an agency that includes a network of light boxes in subways with sizes ranging from 1.5m by 1.75m to 1.5m by 3.5m.

Bus Advertising Platform

Commencing in the second quarter of 2010, we began managing a network of approximately 5,000 buses for bus-body advertising in Beijing. This advertising consists of large format sticker advertising.

Advertising Clients

With coverage in 70 cities and a broad range of media offerings, we have attracted a large and diverse base of local, national and international advertisers. We have a highly diversified advertising base of national and international clients, in addition to a broad client list of local advertisers. These advertising clients are from diverse industries ranging from telecommunications, insurance and banking, to automobiles, real estate, electronics and fast-moving consumer goods.

We enter into most of our advertising contracts with advertising agencies. We also enter into a portion of advertising contracts with direct clients. Our top five advertising clients in aggregate accounted for approximately 23.1% of our advertising service revenues for the year ended December 31, 2010.

A typical advertising contract specifies the duration, site location, types and number of advertising placements, price and payment terms with our advertising clients. Before placing an advertisement, we typically review the advertisement content to be displayed, the relevant approvals for displaying the content, the registered trademark of the client and other materials required by applicable laws.

Generally, our minimum advertising period is 7 days. The contract terms generally range from one to three months for elevator advertisements, six months to 24 months for billboards, one to three months for subway advertisements and one to six months for bus advertisements. In general, we base our listed price on a number of factors, including locations, quantity of displays, scale, types of audience, nature of communities and duration of clients advertising campaigns. We increase our listed prices from time to time to reflect changes in market prices.

Relationships with Site Managers and Owners

We lease spaces in office and residential buildings, subway stations and other high traffic commercial areas to install poster frames, billboards, neon signs and light boxes. Establishing and maintaining long-term relationships with site managers and owners are critical aspects of our business.

We lease billboard locations from managers of commercial centers and other desirable areas of heavy vehicle or foot traffic, such as outside walls of commercial buildings, bus stops and main roads. The term of a location leasing contract is generally one to five years. We are responsible for periodic monitoring, maintenance and repair of frames. Under most of the leasing contracts, we are granted a right of first refusal with respect to renewals. The rental terms and fees under our location leasing contracts vary considerably depending on the city, location, and number of billboards that may be installed.

We lease elevators in high traffic high-rise buildings from property developers, property management companies or homeowner associations. We target both high-rise residential buildings and office buildings. The term of an elevator leasing contract is generally one to three years. The rental terms and fees under our elevator leasing contracts vary considerably depending on the city, location and size of the building and number of flat-panel poster frames that may be installed. Upon entering into a leasing contract, we can install the pre-agreed poster frames in the elevator area usually in three days. We are responsible for periodic maintenance and repair of elevator poster frames. Under a typical lease agreement, a lessor is not allowed to move, remove, damage or hide from view our poster frames, and is required to inform us immediately in the event of any damage to our poster frames. The rental terms and fees under our elevator leasing contracts vary considerably depending on the city, location and size of the building and number of flat-panel poster frames that may be installed.

Sales

As of December 31, 2010, our sales efforts were spearheaded by a team of approximately 110 advertising sales personnel in 13 cities. Our sales personnel generally have prior sales experience in China s advertising industry and, once hired, receive training to gain a deeper understanding of the out-of-home advertising market, our advertising network, our competitive strengths and the value propositions we offer our advertising clients. We also provide our sales personnel with current data that measures the effectiveness of our advertising network and case studies of successful campaigns conducted on our network. Our sales personnel typically earn commissions on sales, in addition to base salaries.

We supplement our sales efforts by providing value-added advisory services to some of our clients, especially small-size local clients. Each sale starts with a thorough understanding of a client s advertising needs that leads to tailored solutions that optimize advertising spending on our network. In these services, we assess the clients media needs and budgets, assist in allocating media resources across the various media platforms and assist with the creative process in the design and placement of the poster frames.

Competitive Advantages

We believe we enjoy the following advantages over our competitors:

Nationwide coverage and leading market share. With a nationwide coverage of 70 cities throughout China and Hong Kong, we are one of the largest operators of out-of-home advertising media networks in China. We believe our market share and experience have enabled us to build a strong brand and reputation in the industry and have allowed us to attract a highly diversified advertising base of national and international clients, in addition to a broad client list of local advertisers. We believe our growing nationwide coverage, our market share and diversified, effective advertising media platforms will continue to help us expand our client base and media portfolio, create significant barriers to entry in existing markets and provide added leverage in our quest to expand to new geographic and advertising markets.

Extensive advertising network across multiple media platforms. We believe our extensive advertising network across multiple media platforms allows us to act as a one-stop shop for advertising clients that seek nationwide distribution of advertising content across multiple advertising channels, including outdoor billboards, elevators, subway stations and buses. The site-specific billboards and frames in our large portfolio further combine nationwide marketing with the benefit of precision targeting of audiences. These attributes allow us to accommodate clients that desire to scale and optimize their advertising solutions based on their advertising budgets, targeted audiences and nature of marketing. Additionally, we believe that many of our clients are often using in-elevator advertising for promotional purposes, as opposed to only brand awareness, which is a core strategy for these advertisers regardless of the economic climate. We believe the appeal of our scalable, targeted and effective advertising solutions will continue to attract new and recurring clients.

Scalable revenue model. Each of our media platforms can be characterized by a low cost structure and low level of capital expenditures required for expansion, which we expect will allow us to cost-efficiently expand and scale our operations in response to market conditions and new opportunities. We believe our expansion opportunities, both geographic and in new advertising markets, can be further characterized by low incremental cost and high marginal profit, as we continue to leverage our existing resources.

Strong management team. We have strengthened our management team at the corporate level with the addition of several key executives since the completion of the merger, who bring operational, financial and management experiences from both multinational and leading domestic companies. Through a series of acquisitions in different cities in 2008 and 2010, we also retained experience regional senior management at the acquired subsidiaries to help build the businesses. Under the leadership of our management at a corporate and subsidiary level, we have been able to pursue acquisitions and build our sales force, increase brand awareness and build a diverse client base.

Competition

As a multi-platform media company with presence in 70 cities in China and Hong Kong, we compete with different players across our platforms and cities of operation. We compete for advertising clients generally on the basis of network coverage, service quality, technology, media offerings, services and brand name. We have built our competitive position primarily on our nationwide coverage, leading market share, and our ability to offer broad geographic coverage, diverse media platforms and quality services.

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Outdoor billboard platform. As the outdoor billboard market in China is largely fragmented with no clear nationwide leader, we compete primarily with other local or regional outdoor billboard owners and operators. We also compete with operators of other forms of outdoor media, including digital outdoor displays and street furniture advertising.

In-elevator platform. We compete primarily with other nationwide operators of in-elevator poster frame advertising. We may face competition in individual cities from local and regional players and new entrants into the local and regional market from time to time.

Transit platform. We compete with other operators of subway light box and bus-body advertising.

We also compete for the advertising budget of advertisers with other operators of out-of-home advertising and operators of other advertising media including television, radio, newspapers, magazines and the Internet.

Although we do not experience significant seasonality in our business, advertising spending is affected by holidays and one-time events. Advertising spending for outdoor media typically decreases during the Chinese New Year, which occurs in the first calendar quarter of each year, and increases in the last calendar quarter.

Intellectual Property

The SearchMedia brand and our other intellectual property rights contribute to our competitive advantage in the outdoor advertising market in China. To protect our brands and our other intellectual property, we rely on a combination of trademark, trade secret and copyright laws in China as well as imposing procedural and contractual confidentiality and invention assignment obligations on our employees, consultants and others.

While we cannot assure you that our efforts will deter others from misappropriating our intellectual properties, we will continue to create and protect our intellectual property rights in order to maintain our competitive position.

Regulatory Matters

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 State Administration for Industry and Commerce, or SAIC, which regulates the advertising industry. PRC Advertising Law was promulgated in 1994. In addition, the State Council, SAIC and other ministries and agencies have issued regulations that regulate our business as discussed below.

Restrictions on Foreign Ownership in the Advertising Industry

The principal regulations governing foreign ownership in the advertising industry in China include:

The Catalogue for Guiding Foreign Investment in Industry (2007);

The Administrative Regulations on Foreign-invested Advertising Enterprises (2004), as amended in 2008; and

The Notice Regarding Investment in the Advertising Industry by Foreign Investors Through Equity Acquisitions (2006).

These regulations require foreign entities that directly invest in the advertising industry in China to have at least two years of direct operations in the advertising industry outside of China. Since December 10, 2005, foreign investors that have operated in the advertising industry outside of China as their main business for at least three years have been permitted to directly own a 100% interest in advertising companies in China. Notwithstanding the aforementioned provisions, Hong Kong and Macao investors that have operated in the advertising industry have been permitted to directly own a 100% interest in advertising companies in China starting from January 1, 2004, without restriction on main business and operation years compared to other foreign investors.

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PRC laws and regulations prohibit the transfer of any approvals, licenses or permits, including business licenses containing a scope of business that permits engaging in the advertising industry. Therefore, we, through Jieli Consulting, entered into contractual arrangements with Jingli Shanghai.

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 establishing the structure for operating our PRC advertising business do not comply with PRC government restrictions on foreign investment in the advertising industry, we could be subject to severe penalties. See Risk Factors Risks Related 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 SearchMedia s China business do not comply with applicable PRC laws and regulations, SearchMedia could be subject to severe penalties.

Regulation of Advertising Services

The principal regulations governing advertising businesses in China include:

PRC Advertising Law (1994);

The Advertising Administrative Regulations (1987); and

The Implementing Rules for the Advertising Administrative Regulations (2004).

Business License for Advertising Companies

PRC advertising laws and regulations stipulate that companies engaging in advertising activities must obtain from the SAIC or its local branch a business license that specifically includes operation of an advertising business in its scope of business. Furthermore, if a company sets up a new site outside of the location where it is registered to conduct advertising business, the company shall register with the local SAIC where the site is located to obtain a branch business license for the site. Companies and branches conducting advertising activities without such licenses may be subject to penalties, including fines, confiscation of advertising income, orders to cease advertising operations, and revocation of their business license or other licenses. 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. Ad-Icon Shanghai, Jingli Shanghai and their subsidiaries and branches have obtained such business licenses from the local branch of the SAIC as required by the existing PRC regulations.

Advertising Content

PRC advertising laws and regulations set forth certain content requirements for advertisements in China, which include prohibitions on misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest, among others. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are also prohibited. The dissemination of tobacco advertisements via media is prohibited, as is the display of tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. 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 out-of-home, radio, film, television, print and other forms of media, together with any other advertisements which are subject to censorship by administrative authorities according to 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 such restriction or censorship comprise a material portion of the advertisements displayed on our media format.

PRC advertising laws and regulations require advertisers, advertising operators and advertising distributors 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 products that are subject to government censorship and approval, advertising distributors are obligated to ensure that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAIC or its local branch may revoke the violator s licenses or permits for advertising business operations. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties in the course of their advertising business.

Outdoor Advertising

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

- utilize traffic safety facilities or traffic signs;
- impede the use of public facilities, traffic safety facilities or traffic signs;
- obstruct commercial or public activities or create an eyesore 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 from having outdoor advertisements.

In addition to PRC Advertising Law, the SAIC promulgated the Outdoor Advertising Registration Administrative Regulations on December 8, 1995, as amended on December 3, 1998 and May 22, 2006, respectively, which govern the outdoor advertising industry in China.

Outdoor advertisements in China must be registered with the local SAIC before dissemination. The advertising distributors are required to submit a registration application form and other supporting documents for registration. If the application complies with the requirements, the local SAIC will issue an Outdoor Advertising Registration Certificate for such advertisement. The content, format, specifications, periods and locations of dissemination of the outdoor advertisement must be submitted for filing with the local SAIC and shall not be changed without approval. After the outdoor advertisement is registered, if it is not displayed within three months, an application shall be filed with the original registration authorities for cancellation. Outdoor advertising facilities must be safely installed and should be maintained on a regular basis to ensure safety and neatness. Advertising content must be true and lawful and not contain any misleading statements.

Local authorities have also issued detailed regulations on operation of outdoor advertising that may prohibit outdoor advertisements in certain areas or through certain facilities or may require that concession rights be obtained through a bidding process for public spaces. In cities where we base our operations, including Shanghai, Beijing, Qingdao, Hangzhou, and Shenyang, the placement and installation of outdoor advertising facilities are subject to municipal zoning requirements and governmental approvals. Each outdoor advertising facility requires a license for placement and installation with specific terms of use for a certain number of year.

Regulations on Dividend Distribution

The principal regulations governing dividend distributions of wholly foreign-owned companies include:

- The Company Law of the PRC (1993), as amended in 2005;

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Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and

Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended in 2001.

Under these 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. In addition, a wholly foreign-owned company is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its reserve fund until the accumulated amount of such fund reaches 50% of its registered capital. At the discretion of a wholly foreign-owned company, it may allocate a portion of its after-tax profits, based on PRC accounting standards, to its staff welfare and bonus fund. The reserve fund and staff welfare and bonus fund are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed as dividends.

Regulations on Trademarks

The PRC Trademark Law and the PRC Trademark Implementing Regulations provide the basic legal framework for the regulation of trademarks in China, and the SAIC is responsible for the registration and administration of trademarks throughout the country. The PRC has adopted a first-to-file principle with respect to trademarks.

PRC law provides that each of the following acts constitutes infringement of the exclusive right to use a registered trademark:

use of a trademark that is identical with or similar to a registered trademark in respect of the same or similar commodities without the authorization of the trademark registrant;

sale of commodities infringing upon the exclusive right to use the trademark;

counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark;

changing a registered trademark and selling products on which the altered registered trademark is used without the consent of the trademark registrant; and

otherwise infringing upon the exclusive right of another person to use a registered trademark.

In the PRC, a trademark owner who believes the trademark is being infringed has three options:

Option 1: The trademark owner can provide his trademark registration certificate and other relevant evidence to the SAIC or its local branches, which can, in its discretion, launch an investigation. The SAIC may take actions such as ordering the infringer to immediately cease the infringing behavior, seizing and destroying any infringing products and representations of the trademark in question, closing the facilities used to manufacture the infringing products or imposing a fine. If the trademark owner is dissatisfied with the SAIC s decision, he may, within 15 days of receiving such decision, institute civil proceedings in court.

Option 2: The trademark owner may institute civil proceedings directly in court. Civil remedies for trademark infringement include:

injunctions;

requiring the infringer to take steps to mitigate the damage (i.e., publish notices in newspapers); and

damages which are measured by either the gains acquired by the infringer from the infringement, or the losses suffered by the trademark owner, including expenses incurred by the trademark owner to claim and litigate such infringement. If it is difficult to determine the gains acquired by the infringer from the infringement, or the losses suffered by the trademark owner, the court may elect to award compensation of not more than RMB500,000.

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Option 3: If the trademark infringement is so serious as to constitute a crime, the trademark owner may file a complaint with the police, and the infringer is subject to investigation for criminal liability in accordance with PRC laws.

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

On October 21, 2005, the SAFE issued a titled entitled Circular on several issues concerning foreign exchange regulation of corporate finance and roundtrip investments by PRC residents through special purpose companies incorporated overseas, or Circular No. 75, which became effective as of November 1, 2005.

According to Circular No. 75:

- prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch;

- an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (1) the injection of equity interests or assets of an onshore enterprise to the offshore company, or (2) the completion of any overseas fund raising by such offshore company; and

- an amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the offshore company, such as (1) an increase or decrease in its capital, (2) a transfer or swap of shares, (3) a merger or division, (4) a long term equity or debt investment, or (5) the creation of any security interests over the relevant assets located in China.

Moreover, Circular No. 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC before issuance of Circular No. 75 are required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. Failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents and onshore company to penalties under PRC foreign exchange administration regulations.

On January 5, 2007, the SAFE issued the Implementing Rules of the Administrative Measures for Individual Foreign Exchange, or the Individual Foreign Exchange Rule, which, among other things, specifies approval requirements for a PRC citizen s participation in the employee stock holding plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, the SAFE issued the Processing Guidance on Foreign Exchange Administration of Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rule.

According to the Stock Option Rule, if a PRC domestic individual participates in any employee stock holding plan or stock option plan of an overseas listed company, a PRC domestic agent or the PRC subsidiary of such overseas listed company must, among others things, file, on behalf of such individual, an application with the SAFE to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with stock purchase or stock option exercise as PRC domestic individuals may not directly use overseas funds to purchase stocks or exercise stock options. Such PRC individuals foreign exchange income received from the sale of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in PRC opened and managed by the PRC subsidiary of the overseas listed company or the PRC agent before distributing them to such individuals.

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Our PRC citizen employees who may be granted stock options, restricted share awards of the Company, or PRC optionees, will be subject to the Stock Option Rule. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rule, we and/or our PRC optionees may be subject to fines and other legal sanctions and we may be prevented from granting additional options or other awards of the Company to our PRC employees.

In addition, the General Administration of Taxation has issued certain circulars concerning employee stock options. Pursuant to 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.

Regulation on Overseas Listing

In August 2006, six PRC regulatory agencies promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors, or the M&A Rules, regulating the mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules became effective in September 2006, and was amended on June 22, 2009, and the rules, among other things, purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV s securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

There is still uncertainty as to how the new regulations will be interpreted or implemented or whether prior approval from CSRC is required under the new regulations for the listing and trading of our shares on NYSE Amex. See Risk Factors Risk Related to Doing Business in the People s Republic of China The approval of the China Securities Regulatory Commission, or the CSRC, may be required under a recently adopted PRC regulation. The regulation also establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for SearchMedia to grow through acquisitions.

C. Organizational 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 20-F.

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refers to equity control Ad-Icon Company Limited (HK) (17) Shanghai Botang Advertising Co. Ltd (4) Shanghai Haiya Advertising Co. Ltd (5) Tianjin Shengshitongda Advertising Creativity Co. Ltd (12) Shanghai Jincheng Advertising Co. Ltd (13) Shaanxi Xinshichuang Advertising Planning Co. Ltd (14) Qingdao Kaixiang Advertising Co. Ltd.(10) Wenzhou Rigao Advertising Co. Ltd (11) Wuxi Ruizhong Advertising Co. Ltd (7) Beijing Wanshuizhiyuan Advertising Co. Ltd (6) Offshore Onshore Zhejiang Continental Advertising Co. Ltd (9) Jieli Network Technology Development (Shanghai)Co. Ltd (2) Shenyang Jingli Advertising Co. Ltd (8) SearchMedia Holdings Limited (NYSE AMEX: IDI) Great Talent Holdings Ltd. (16) refers to contractual control Changsha Jingli Advertising Co. Ltd (15) SearchMedia International Limited Shanghai Jingli Advertising Co. Ltd (3) Ad-Icon Advertising (Shanghai) Co. Ltd (18) Jieli Investment Management Consulting (Shanghai)Co. Ltd (1)

(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. [inactive]

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

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

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

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

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Most of our advertising business in China is currently provided through Ad-Icon Shanghai and its subsidiaries, with a portion of our operations provided through our contractual arrangements with our consolidated PRC variable interest entities, namely, Jingli Shanghai, and its subsidiaries. Our consolidated PRC variable interest entities hold the requisite licenses to provide advertising services in China. Our subsidiary, Jieli Consulting, has entered into a series of contractual arrangements with Jingli Shanghai and its subsidiaries and shareholders under which:

- we are able to exert effective control over our consolidated PRC variable interest entities;

- a substantial portion of the economic benefits of our consolidated PRC variable interest entities are transferred to us; and

- we have an exclusive option to purchase all or part of the equity interests in our consolidated PRC variable interest entities in each case when, and to the extent, permitted by PRC law.

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 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

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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 any existing 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 Consulting 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.

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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;

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;

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

In May 2010, Ad-Icon Shanghai acquired 100% of the equity interest in Zhejiang Continental Advertising Co., Ltd., a Chinese company primarily engaged in the outdoor billboard advertising business.

On December 11, 2009, Ad-Icon Company Limited, or Ad-Icon, established Ad-Icon Advertising (Shanghai) Co., Ltd., a wholly-owned subsidiary in China, which is permitted to operate advertising businesses in China. In 2010, Ad-Icon Advertising (Shanghai) Co., Ltd., or Ad-Icon Shanghai, acquired 100% of the equity interests in Zhejiang Continental Advertising Co, Ltd. Furthermore, 100% of the equity interests in Shanghai Botang Advertising Co., Ltd., Shanghai Haiya Advertising Co., Ltd., Beijing Wanshuizhiyuan Advertising Co., Ltd., Wuxi Ruizhong Advertising

Co., Ltd. and Shenyang Jingli Advertising Co., Ltd acquired by Jingli Shanghai have been transferred to Ad-Icon Shanghai. As of the date of this Annual Report on Form 20-F, Jingli Shanghai still holds 100% of the equity interests of the other Chinese affiliates mentioned above.

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We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC counsel that if the PRC government finds that the agreements that establish the structure for operating our PRC media related businesses do not comply with PRC government restrictions on foreign investment in the media industry, we could be subject to severe penalties including being prohibited from continuing our operations. See Item 3.D. Key information Risk factors Risks related to the regulation of our business and to our structure.

D. Property, Plant and Equipment

Our headquarters are located at 13F, Central Modern Building, 468 Xin Hui Road, Putuo District, Shanghai, China, 200060, where we lease approximately 880 square meters of office space. As of December 31, 2010, our offices in 13 cities occupy an aggregate of approximately 4150 square meters of leased space.

Item 4A Unresolved Staff Comments

Not applicable.

Item 5 Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our consolidated financial statements and related notes included in this Annual Report on Form 20-F. This Annual Report on Form 20-F contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA), Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about our expectations, beliefs, or intentions regarding our business, financial condition, results of operations, strategies, or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends, or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those contained in Part I, Item 3.D Key Information Risk Factors of this Annual Report on Form 20-F. We do not undertake any obligation to update forward-looking statements. We intend that all forward-looking statements be subject to the safe harbor provisions of PSLRA. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance.

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. We are one of the largest operators of integrated outdoor billboard and in-elevator advertising networks in China. 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 December 31, 2010, we operate a network of about 1,000 high-impact billboards with over 600,000 square feet of surface display area in 15 cities, including Beijing, Hong Kong, Qingdao, Shanghai, Shenyang, Shenzhen, Guangzhou, Hangzhou, Chongqing and Chengdu. Our billboards are mostly deployed in commercial centers and other desirable areas with heavy vehicle or foot traffic.

In-elevator platform. As of December 31, 2010, our network of about 150,000 printed and digital poster frames delivered targeted advertising messages inside elevators to captive audiences in high-rise residential and office buildings in 70 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 December 31, 2010, we are an agency for subway advertising and a bus advertising network of 5,000 buses in Beijing.

Our multi-platform offerings are cross-marketed by a sales force located in 15 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.

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.

Industry Trends and Uncertainties

Operating results are affected by these factors that impact the out-of-home advertising industry in China:

Growth of the PRC economy and the advertising industry. The growth of the PRC economy affects the size and growth rate of the advertising industry in China. As the advertising industry is typically sensitive to general economic conditions, any slowdown in the economy, such as the recent worldwide economic downturn, could directly and adversely affect the overall advertising spending in China by multinational and domestic advertisers. The amount and timing of collection of advertising fees from advertisers may also be negatively impacted as a result, which could in turn affect our liquidity and results of operations.

Advertising spending and budget cycle of advertisers. Advertising spending and budget cycle of advertisers will affect the amount and timing of demand for our service offerings. In a contracted economy, the budget size for advertising may be reduced. Advertisers may have shorter budget cycles, may contract for shorter-term advertising promotions and may seek a media platform with higher average returns on their advertising spending.

Advertisers marketing strategy and budget. Our revenues depend on advertising spending budgeted by our clients for out-of-home advertising, including offerings through our outdoor billboard, in-elevator displays, street furniture and transit advertising platforms. The level of acceptance of our platforms by advertisers and the value of its advertising network relative to its low cost, as perceived by our advertisers, affect our business growth.

Competition and pricing pressure. The level of competition in the out-of-home advertising market from existing operators and new market entrants for clients and for media assets could affect opportunities for growth, influence prices that we could charge for our advertising services, and affect the leasing cost of advertising space. We compete for advertising clients generally on the basis of network coverage, service quality, technology, media offerings, services and brand name.

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Seasonality and One-Time Events. Although we do not experience significant seasonality in our business, advertising spending is affected by holidays and one-time events. Advertising spending for outdoor media typically decreases during the Chinese New Year, which occurs in the first calendar quarter of each year, and increases in the last calendar quarter.

Laws regulating advertising in the PRC. A change in PRC law or government practice regulating the advertising industry in general and our service platforms in particular could affect our results of operations, in terms of compliance costs and scope of advertising services offered to clients.

Company Specific Trends and Uncertainties

Our operating results are also directly affected by company-specific factors, including the following:

Ability to maintain market position and expand into new cities. The market for out-of-home advertising services is relatively new and rapidly evolving, and as a multi-platform media company with a presence in major cities in China, we compete with different players across our platforms and cities of operation. For our in-elevator advertising platform, we compete primarily with other nationwide operators of in-elevator poster frame advertising. We may face competition in individual cities from local and regional players and new entrants into the local and regional market from time to time. For our billboard advertising platform, we compete against mostly local or regional outdoor billboard owners and operators, as the outdoor billboard market in China is largely fragmented. For our transit advertising platform, we compete against other operators of subway light box and bus-body advertising. We also compete for the advertising budget of advertisers with other operators of out-of-home advertising and operators of other advertising media including television, radio, newspapers, magazines and the Internet. Our continued ability to maintain our market position is central to our ability to attract new clients, expand relationships with site owners and managers and increase our revenues.

Ability to expand client base and increase the number of advertising contracts and average revenues per contract. Our ability to expand our client base and increase the number of advertising contracts and average revenues per contract is a key driver of our revenue growth. We believe our extensive advertising network across multiple media platforms allows us to act as a one-stop shop for advertising clients that seek nationwide distribution of advertising content across multiple advertising channels, including outdoor billboards, elevators and subway stations.

Ability to sign and extend site leases for lower rentals. Our ability to generate revenues and increase profitability from advertising sales depends largely on our ability to provide a large network of our media products across media platforms at desirable locations on commercially advantageous terms. The effectiveness of our network also depends on the cooperation of site owners and managers to allow us to install the desired types of poster frames at the desired spots on their properties and, for in-elevator advertising to keep the elevators in operation and accessible to the viewing public. In some cases, we have not maintained good relations and some of our leases have been terminated or may be terminated in the future.

Ability to integrate acquired companies. We acquired a number of advertising businesses in 2008 in 2010. We have been in the process of integrating and centralizing the operational accounting, legal, human resource and administrative functions of the acquired companies. Due to certain corporate issues and unpaid earnout obligations, such efforts, to date, have not fully met our expectations which create a substantial risk that we may not be able to fully realize the anticipated benefits of these acquisitions. The extent to which we are able to successfully integrate the acquired companies into our business, in terms of sales and marketing, client service, growth strategy and corporate culture, will impact our results of operations.

Ability to shorten accounts receivable collection period. As is consistent with the payment terms and collection practice of the advertising industry in China, the collection period of our accounts receivable is relatively long, which generally range from three months to six months or longer from the invoicing date. Relative to direct advertising clients, the collection period is longer for accounts receivable from advertising agency clients. We expect such practice to continue in the foreseeable future. The onset and deepening of the recent global financial and economic crises could negatively impact the cash flows of our multinational and local clients and, in turn, the amount and timing of the collection of accounts receivable from them.

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Ability to cross-sell. Our ability to increase revenues by effectively leveraging our multi-platform advertising network will be determined by our ability to integrate our sales efforts and successfully implementing cross-selling sales initiatives. To further implement cross-selling initiatives, we plan to employ an integrated sales approach under which we will coordinate the sales and maintenance teams across platforms and geographic regions and provide them with the proper incentive structure to encourage more cohesive and consistent services to our clients and a heightened awareness of opportunities to cross-sell our media offerings while optimizing advertising solutions for our clients.

Ability to retain key employees and sales people. Recruiting and retaining a team of senior executives, key employees and sales team with industry knowledge and experience is essential to our continued success.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to allowance for doubtful accounts, estimate of useful lives of intangible assets, impairment of goodwill and other intangibles, cash flow forecasts, share-based compensation expense, and contingencies and litigation liabilities. We base our estimates on historical experience, known or expected trends, independent valuations and various other assumptions that are believed to be reasonable under the circumstances based on information available as of the date of the issuance of these financial statements. The results of such assumptions form the basis for making estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The current economic environment and its potential effect on us and our clients have combined to increase the uncertainty inherent in such estimates and assumptions. Future results could be significantly affected if actual results were to be different from these estimates and assumptions.

We believe the following critical accounting policies govern our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

We recognize advertising service revenue on a straight-line basis over the period in which the customer advertisement is to be displayed, which typically ranges from 1 month to 2 years, starting from the date we first display the advertisement. Written contracts are entered into between us and our customers to specify the price, the period and the location at which the advertisement is to be displayed. Revenue is only recognized if the collectability of the advertising service fee is probable.

We generate advertising service revenues from the sales of frame space on the poster frame network, advertising time slots on traditional billboard networks and the sale of advertising services through our transit based media. In the majority of advertising arrangements, we act as a principal in the transaction and record advertising revenues on a gross basis. The associated expenses are recorded as cost of revenues. In some instances we are considered an agent and recognize revenue on a net basis.

Customer payments received in excess of the amount of revenue recognized are recorded as deferred revenue in the consolidated balance sheet, and are recognized as revenue when the advertising services are rendered.

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Accounts receivable and allowance for doubtful accounts

Accounts receivable consist of amounts billed but not yet collected and unbilled receivables. Unbilled receivables relate to revenues earned and recognized, but which have not been billed by us in accordance with the terms of the advertising service contract. The payment terms of our service contracts with its customers vary and typically require an initial payment to be billed or paid at the commencement of the service period, progress payments to be billed during the service period, and a final payment to be billed after the completion of the service period. None of our accounts receivable bear interest. The allowance for doubtful accounts is management s best estimate of the amount of probable credit losses in our existing accounts receivable. Management determines the allowance based on historical write-off experience and reviews of customer-specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to its customers.

As of December 31, 2009 and 2010, our accounts receivable includes amounts earned and recognized as revenues of US$2.4 million and US$6.1 million, respectively but not yet billed (unbilled receivables). Management expects all unbilled receivables to be billed and collected within 12 months of the balance sheet date.

As December 31, 2010, we provided a $3.2 million reserve against accounts receivable. Management s estimate of the appropriate reserve on accounts receivable at December 31, 2010 was based on the aged nature of these accounts receivable. In making its judgment, management assessed its customers ability to continue to pay their outstanding invoices on a timely basis, and whether their financial position might deteriorate significantly in the future, which would result in their inability to pay their debts to us.

Goodwill and Intangible Assets

Goodwill and other intangible assets are accounted for in accordance with the provisions of FASB ASC 350 Intangibles Goodwill and Other . We account for business acquisitions using the acquisition method of accounting. Before 2009, goodwill consists of the cost of acquired businesses in excess of the fair value of the net assets acquired. Other intangible assets are separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of an intent to do so.

Beginning January 1, 2009, goodwill is measured as the excess of a over b below:

a. The aggregate of the following:

1. The consideration transferred measured in accordance ASC 805, which generally requires acquisition-date fair value.

2. The fair value of any non-controlling interest in the acquiree.

3. In a business combination achieved in stages, the acquisition-date fair value of the acquirer s previously held equity interest in the acquiree.

b. The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with ASC 805.

Under FASB ASC 350, goodwill, including any goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have indefinite useful lives, are not amortized.

During the year ended December 31, 2008, we acquired the respective advertising businesses of Shanghai Jincheng, Shaanxi Xinshichuang, Qingdao Kaixiang, Beijing Wanshuizhiyuan, Shenyang Jingli, Shanghai Haiya, Shanghai Botang, Ad-icon, Tianjin Shengshitongda, Wenzhou Rigao, and Wuxi Ruizhong (acquired entities). Pursuant to a series of acquisition agreements signed with each of the acquired entities ex-owners in 2008, the purchase consideration for each acquisition would be settled in cash and is contingent based on the operational results agreed and confirmed by us and each of the acquired entities ex-owners for each individual 12-month period in a 2-year earn-out period following respective acquisition dates (earn-out period). The contingent purchase price consideration for each entity is payable when each individual 12-month period during the earn-out period is completed and the operational results are agreed and confirmed. As such, the purchase price allocation cannot be completed until the contingencies are resolved. Therefore, the contingent consideration was not determinable beyond a reasonable doubt at the date of acquisition, and no goodwill was recognized due to the contingent nature of the consideration. However, a liability is recorded for the estimated fair value of identifiable net assets acquired, which represents the amount of negative goodwill upon initial purchase price allocation. Upon resolution of the contingency, adjustment to goodwill or against the identifiable net assets is to be made in accordance with ASC Topic 805.

The initial allocation of purchase price for all acquisitions made in 2008 was based on valuations performed by independent valuation firms using the multiple period excess earnings method.

At the initial allocation of purchase price, we also estimate fair value of acquired intangible assets including customer relationship and lease agreements. Our intangible assets are amortized on a straight line basis over their respective estimated useful lives, which are the periods over which the assets are expected to contribute directly or indirectly to our future cash flows. Our intangible assets represent customer relationship, lease agreements, and non-compete agreement, which have estimated useful lives ranging from 0.5 to 4.4 years.

Impairment of long-lived assets

a) Impairment of goodwill

We test goodwill for possible impairment in the fourth quarter of each fiscal year or when circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Circumstances that could trigger an impairment test between annual tests include, but are not limited to:

- a significant adverse change in the business climate or legal factors;
- an adverse action or assessment by a regulator;
- unanticipated competition;
- loss of key personnel;
- the likelihood that a reporting unit or a significant portion of a reporting unit will be sold or disposed of; and
- a change in reportable segments; and/or results of testing for recoverability of a significant asset group within a reporting unit.

We utilize a two-step method to perform a goodwill impairment review. In the first step, we determine the fair value of the reporting unit using expected future discounted cash flows and estimated terminal values. If the net book value of the reporting unit exceeds the fair value, we would then perform the second step of the impairment test which requires allocation of the reporting unit s fair value of all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill. The implied fair value of the goodwill is then compared to the carrying value to determine impairment, if any.

As of December 31, 2009 and 2010, we had a goodwill balance of $45.9 million and $46.0 million, respectively, which is not deductible for tax purposes. The results of our annual impairment test resulted in a goodwill impairment loss of $39.4 million mainly due to our billboard and agency service business in 2010, and $15.7 million for our billboard service business in 2009, as the valuations indicated that the fair value of the businesses were less than the carrying value.

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Application of goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to the reporting units, assigning goodwill to reporting units and estimating the fair value of each reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value of each reporting unit which could trigger impairment.

In calculating the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages and terminal growth rates. We may incur additional goodwill impairment charges in the future although we cannot predict whether this will occur.

b) Impairment of long-lived assets other than goodwill

Indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values. Finite-lived intangible assets are amortized over their respective useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with FASB ASC 360-10-15, Impairment or Disposal of Long-Lived Assets .

In evaluating long-lived assets for recoverability, including finite-lived intangibles and property and equipment, we use our best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with FASB ASC 360-10-15. To the extent that estimated future, undiscounted cash inflows attributable to the asset, less estimated future, undiscounted cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the undiscounted future cash flows. In calculating the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, gross margin percentages and terminal growth rates.

In fourth quarter of 2008, we determined that a substantial portion of equipment for billboard displays related to the Shanghai Bund project may not be effectively utilized in the future due to the decision to halt marketing plans due to the unfavorable economic environment and concession site reconstruction. As a result, we recorded a $2.1 million impairment loss during the year ended December 31, 2008. There was no impairment loss for the years ended December 31, 2009 and 2010.

For the year ended December 31, 2008, we recorded an impairment loss on intangible assets in the amount of $0.9 million associated with our transit business due to the cancellation of major subway concession contracts which were acquired at acquisition. There was no impairment loss for the years ended December 31, 2009 and 2010.

Fair Value of Financial Instruments

FASB ASC 820 Fair Value Measurements and Disclosures establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

Level 1 defined as observable inputs such as quoted prices in active markets;

Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Except for promissory notes, the fair value of our financial assets and liabilities approximate their carrying amount because of the short-term maturity of these instruments. Based on management judgment, the fair value of the promissory notes is not materially different from its carrying value with reference to observable market transactions between market participants comparative with us and promissory note investors which are the best information available in the circumstances.

Share-based payments

Our accounts for share-based payments in accordance with ASC Topic 718, Compensation Stock Compensation . Under ASC 718, we measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the costs over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. For awards with performance conditions, the compensation expense is based on the grant-date fair value of the award, the number of shares ultimately expected to vest and the vesting period.

We determined the estimated grant-date fair value of share options based on the Binomial Tree option-pricing model using the following assumptions:

Options granted to employee:	2009	2010
Risk-free rate of return	3.43%	2.744%-4.142%
Weighted average expected option life	10 years	10 years
Expected volatility rate	40.30%	64.00%
Dividend yield	0%	0%

The expected volatility in the table above was based on the weighted average volatility of several comparable U.S. listed companies in the advertising industry with operations in the PRC. Since we were a private company at the time the options were issued, we estimated the potential volatility of its ordinary share price by referring to the weighted average volatility of these comparable companies because management believes that the weighted average volatility of such companies is a reasonable benchmark to use in estimating the expected volatility of our ordinary shares.

Because our share options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation model may not provide an accurate measure of the fair value of our share options. Although the fair value of share options is determined in accordance with ASC Topic 718, Compensation Stock Compensation, using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Recently issued accounting standards

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-05, Compensation Stock Compensation (Topic 718) . This standard codifies EITF Topic D-110 Escrowed Share Arrangements and the Presumption of Compensation and is effective immediately. The provisions of ASU 2010-05 did not have a material effect on the financial position, results of operations or cash flows of the Company and is effective immediately.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) : Improving Disclosures about Fair Value Measurements. This amendment to Topic 820 has improved disclosures about fair value measurements on the basis of input received from the users of financial statements. This is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The provisions of ASU 2010-06 did not have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, FASB issued ASU No. 2010-09 (ASC Topic 855), which removes the requirement for an SEC filer to disclose a date in both issued and revised financial statements. This amendment shall be applied prospectively for interim or annual financial periods ending after June 15, 2010. We do not believe the adoption will have a material effect on our financial statements.

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In February 2010, the FASB issued ASU 2010-10, Consolidation (Topic 810) . The amendments to the consolidation requirements of Topic 810 resulting from the issuance of Statement 167 are deferred for a reporting entity s interest in an entity (1) that has all the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 (before the Statement 167 amendments) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20. The deferral is primarily the result of differing consolidation conclusions reached by the International Accounting Standards Board (IASB) for certain investment funds when compared with the conclusions reached under Statement 167. The deferral is effective as of the beginning of a reporting entity s first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period, which coincides with the effective date of Statement 167. Early application is not permitted. The provisions of ASU 2010-10 are effective for the Company beginning in 2010. The adoption of ASU 2010-10 did not have a material impact on the financial position, results of operations or cash flows of the Company.

In March 2010, the FASB issued ASU 2010-11, Derivative and Hedging (Topic 815) . All entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not only in the form of subordination of one financial instrument to another will be affected by the amendments in this Update because the amendments clarify that the embedded credit derivative scope exception in paragraph 815-15-15-8 through 15-9 does not apply to such contracts. ASU 2010-11 is effective at the beginning of the reporting entity s first fiscal quarter beginning after June 15, 2010. The provisions of ASU 2010-11 are not expected to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB issued ASU 2010-13, Compensation Stock Compensation (Topic 718) . This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The provision of ASU 2010-13 are not expected to have a material effect on the financial position, results of operations or cash flows of the Company.

In December 2010, the FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts . This ASU amends guidance for Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. ASU 2010-28 is effective for fiscal years and interim periods beginning after December 15, 2010, with early adoption not permitted. The Group does not expect that the adoption of ASU 2010-28 will have a material impact on its financial position, results of operations, or cash flows.

In December 2010, the FASB issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations . This ASU specifies that if a public company presents comparative financial statements, the entity should only disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The Company is in the process of evaluating the effect of adoption of this pronouncement.

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A. Operating Results

Results of Operations

For the Year ended December 31, 2010 compared to the Years ended December 31, 2009 and December 31, 2008

The following table sets forth the amounts and the percentage relationship to revenues of certain items in our consolidated statements of income for the years ended December 31, 2008, 2009 and 2010:

	For the Years Ended December 31,			Increase/	Increase/ (Decrease)
(Amount in thousands)	2008	2009	2010	(Decrease)% 2009 vs 2008	% 2010 vs 2009
Revenues	$ 41,685	$ 37,741	$ 48,967	(9%)	30%
Cost of revenues	(30,624)	(28,059)	(36,454)	(8%)	30%
Gross profit	11,061	9,682	12,513	(12%)	29%
Operating expenses					
Sales and marketing expenses	(6,117)	(3,384)	(4,462)	(45%)	32%
General and administrative expenses	(13,135)	(13,832)	(12,203)	5%	(12%)
Total operating expenses	(19,252)	(17,216)	(16,665)	(10%)	(3%)
Loss from operations	(8,191)	(7,534)	(4,152)	(8%)	(45%)
Other income/(expense)					
Interest income	131	11	24	(92%)	118%
Interest expense	(2,717)	(1,962)	(45)	(28%)	(98%)
Increase in fair value of liability warrant		824			(100%)
(Loss)/Gain on extinguishment of the notes	(4,400)	6,669		252%	(100%)
Loss on impairment of goodwill and intangible assets	(13,953)	(15,749)	(39,411)	13%	150%
Loss on abandonment of lease	(46)	(550)	(1,256)	1096%	128%
Loss on impairment of fixed assets	(2,135)			(100%)	
Loss on disposals of fixed assets	(2,121)	(15)	(4)	(99%)	(73%)
Other income/ (expense), net			(368)		
Foreign currency transaction loss, net	(167)	(24)	(7)	(86%)	(71%)
Total other expense	(25,408)	(10,796)	(41,067)	(58%)	280%
Loss before income taxes	(33,599)	(18,330)	(45,219)	(45%)	147%
Provision for income taxes	(1,481)	(4,319)	(1,420)	192%	(67%)
Net loss	$ (35,080)	$ (22,649)	$ (46,639)	(35%)	106%

Revenue. We generate our revenues from providing advertising services over our network which consists primarily of the following platforms:

Outdoor billboard platform. We typically sign advertising contracts with terms ranging from 6 to 24 months for billboard advertisements. Each contract will typically specify the billboard location, measurement and the price. The contract price varies substantially from contract to contract, based on the location and measurement of the billboard. Deposits or progress payments are typically required at various stages of the contract performance, such as signing of contract, confirmation of content and completion of service period.

In-elevator platform. We typically sign advertising contracts with terms ranging from 1 to 6 months for in-elevator advertisements. Typically, we negotiate for a contract price for covering a set of cities or districts within cities. We may sometimes help certain clients design a detailed plan, based on the contract price and targeted demographics, with particular buildings where the advertisements will be displayed within the cities or districts specified under the contract. Progress payments are typically required at various stages of the contract performance.

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Transit advertising platform. We typically sign advertising contracts with terms ranging from one to three months for subway and bus advertisements. The price typically consists of advertising fees and production fees for subway and bus advertisements. Typically, the contracts specify a certain combination of subway stations and bus lines and we have the discretion to assign specific subway light boxes and bus lines for each contract. Service payments are typically required at pre-specified dates prior to the completion of the contract.

We recognize advertising service revenues on a straight-line basis over the period in which the advertisement is required to be displayed, starting from the date we first display the advertisement. We only recognize revenue if the collectability of the service fee is probable. The amount of advertising service revenues recognized is net of business taxes and surcharges ranging between 8% and 9%.

Our revenue generation is affected by the number of advertising contracts we enter into with clients and the average revenues per contract. The number of our advertising contracts is also driven by client-specific factors such as timing of introduction of new advertising campaigns, seasonality of clients operations and growth of business sectors in which our clients operate. Depending on client demand, the number of service contracts with our clients varies from period to period. The loss of, or significant reduction in, business from any major client without replacement clients could adversely impact our operating results. Conversely, the addition of a major advertising service contracts may significantly increase our revenues.

Our revenues per contract are affected by factors affecting out-of-home advertising service providers. As we typically negotiate for the overall contract amount before providing an advertising plan with specific display locations, average revenues per contract are particularly affected by the acceptance of our platforms as part of the marketing strategies and budgets of our clients.

Revenues for the year ended December 31, 2010 were $49.0 million compared to $37.7 million for the year ended December 31, 2009 and $41.7 million for the year ended December 31, 2008. Revenue in 2010 increased primarily due to the better economic environment in 2010 and the expansion of outdoor billboard, elevator and transit platform. The newly acquired subsidiary, Zhejiang Continental, contributed $4.4 million of revenue to our billboard business in 2010. In addition, the number of our contracts increased from 1,403 in 2009 to 1,509 in 2010. We intend to increase the number of contracts in the future in addition to increasing the average revenue per contract.

Cost of revenues. The cost of revenues consists primarily of operating lease cost of advertising space for displaying advertisements, depreciation of advertisement display equipment, amortization of intangible assets relating to lease agreements and direct staff and material costs associated with production and installation of advertisement content. Cost of revenues for the year ended December 31, 2010 was $36.5 million compared to $28.1 million for the year ended December 31, 2009 and $30.6 million for the year ended December 31, 2008. The costs of revenues for both periods primarily consisted of leasing cost to site owners and managers. The increase in cost of revenues in 2010 was primarily due to the increase in number of elevator frames and outdoor billboards throughout the year. The cost of revenues as a percentage of revenues was 74.4% for 2010, as compared to 74.4% for 2009 and 73.5% for 2008. The slight changes were due primarily to changes in the mix of service offerings and the cost associated with our network expansion. We intend to increase our margins in the future through enhancing our occupancy rates while also increasing our average revenue per contract.

Gross profit. Our gross profit for the year ended December 31, 2010 was $12.5 million compared to $9.7 million for the year ended December 31, 2009 and $11.1 million for the year ended December 31, 2008 which is in line with the change in net revenues throughout the year. Our gross margin decreased from 26.5% in 2008 to 25.7% in 2009 and increased to 25.6% in 2010 due primarily to changes in the mix of service offerings.

Operating expenses. Selling and marketing expenses consist of marketing and promotion, amortization of intangible assets relating to customer relationship and sales commissions, payroll, traveling expenses, transportation and advertising expenses incurred by our selling and distribution team. General and administrative expenses consist primarily of salaries and benefits for management and administrative personnel, share-based compensation, rental and utility expenses.

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Total operating expenses for the year ended December 31, 2010 were $16.7 million compared to $17.2 million for the year ended December 31, 2009 and $19.3 million for the year ended December 31, 2008. The components of operating expenses are set forth below:

Sales and marketing expenses. Sales and marketing expenses was $4.5 million for the year ended December 2010 compared to $3.4 million for the year ended December 31, 2009 and $6.1 million for the year ended December 31, 2008, primarily due to the changes in sales commissions in line with the net revenues and increase in marketing expenses for expansion of business.

General and administrative expenses. General and administrative expenses were $12.2 million for 2010 compared to $13.8 million for 2009 and $13.1 million for 2008.

The following table describes our general and administrative expenses for the years ended December 31, 2008, 2009 and 2010. The increase in bad debt expenses in 2009 and 2010 is primarily due to an increase in bad debt for elevator and billboards subsidiaries. Staff salary declined from $5.5 million in 2008 to $2.8 million in 2009 as a result of increased efficie