

CHINA GLOBAL MEDIA INC  
Form 10-Q  
August 14, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **June 30, 2012**

**. TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE EXCHANGE ACT**

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

**China Global Media, Inc.**

*(Exact name of small business issuer as specified in its charter)*

**Nevada**

(State or other jurisdiction of incorporation)

**333-156457**  
(Commission File Number)

**04-3626788**  
(I.R.S. Employer Identification No.)

**25-26F Wanxiang Enterprise Building,**

**No.70 Station North Road,**

**Changsha, Hunan Province,**

**China, Postal Code: 410001**  
(Address of Principal Executive Office)

**+86-731-89970899**

(Issuer's Telephone Number)

Copy of Communications To:

**Bernard & Yam, LLP**

**Attention: Bin Zhou, Esq.**

**401 Broadway Suite 1708**

**New York, NY 10013**

**Tel: 212-219-7783**

**Fax: 212-219-3604**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 last 90 days. **YES x NO**

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

<b>Large accelerated filer</b>	<input type="checkbox"/>	<b>Accelerated filer</b>	<input type="checkbox"/>
<b>Non-accelerated filer</b>	<input type="checkbox"/>	<b>Smaller reporting company</b>	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**YES**  **NO**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 47,485,700 Shares of Common Stock, as of June 30, 2012 and as of August 13, 2012.

**CHINA GLOBAL MEDIA, INC.**

**FORM 10-Q**

**JUNE 30, 2012**

**INDEX**

**PART I - FINANCIAL INFORMATION**

- Item 1. Financial Statements
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosures About Market Risk
- Item 4. Controls and Procedures

**PART II - OTHER INFORMATION**

- Item 1. Legal Proceedings
- Item 1A. Risk Factors
- Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
- Item 3. Defaults Upon Senior Securities
- Item 4. Submissions of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits

**SIGNATURES**

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CHINA GLOBAL MEDIA, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**(UNAUDITED)**

## CHINA GLOBAL MEDIA, INC.

## Consolidated Balance Sheets

	<b>June 30, <u>2012</u></b>	<b>December 31, <u>2011</u></b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,656,981	\$ 3,572,443
Accounts receivable, net of allowance for doubtful accounts of \$184,223 and \$182,945 at June 30, 2012 and December 31, 2011, respectively	12,000,727	9,844,032
Advance payments	14,027,990	14,389,042
Loans receivable, net	727,566	857,880
Other current assets	<u>880,742</u>	<u>703,258</u>
<b>Total current assets</b>	<b><u>30,294,006</u></b>	<b><u>29,366,655</u></b>
<b>Property and equipment, net</b>	<b><u>3,030,861</u></b>	<b><u>3,095,868</u></b>
<b>Total assets</b>	<b><u>\$33,324,867</u></b>	<b><u>\$32,462,523</u></b>
		-
<b>Liabilities and stockholders equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 694,400	\$ 1,635,432
Short-term bank loan	317,000	314,800
Advances from customers	1,985,272	5,819,444
Income taxes payable	6,753,168	5,349,962
Other taxes payable	2,026,804	1,888,866
Due to shareholders	160,689	125,684
Other current liabilities	<u>99,404</u>	<u>103,079</u>
<b>Total current liabilities</b>	<b><u>12,036,737</u></b>	<b><u>15,237,267</u></b>
<b>Warrants liability</b>	<b>259,626</b>	<b>505,015</b>
<b>Long-term capital lease obligations</b>	<b><u>26,132</u></b>	<b><u>51,769</u></b>
<b>Total liabilities</b>	<b><u>12,322,495</u></b>	<b><u>15,794,051</u></b>
<b>Stockholders equity:</b>		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value, 99,000,000 shares authorized, 47,485,700 and 43,485,700 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	47,486	43,486
Additional paid-in capital	2,707,041	2,711,041

Edgar Filing: CHINA GLOBAL MEDIA INC - Form 10-Q

Statutory reserve	645,030	645,030
Retained earnings	16,956,030	12,726,742
Accumulated other comprehensive income	<u>646,785</u>	<u>542,173</u>
<b>Total stockholders' equity</b>	<b><u>21,002,372</u></b>	<b><u>16,668,472</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$33,324,867</u></b>	<b><u>\$32,462,523</u></b>

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

## CHINA GLOBAL MEDIA, INC.

## Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Sales	\$16,279,823	\$3,729,852	\$31,318,399	\$8,644,468
Cost of sales	<u>12,714,497</u>	<u>2,491,951</u>	<u>24,680,467</u>	<u>6,360,253</u>
Gross profit	3,565,326	1,237,901	6,637,932	2,284,215
<b>Operating expenses:</b>				
Selling, general and administrative expenses	<u>682,401</u>	<u>229,037</u>	<u>1,391,297</u>	<u>438,862</u>
<b>Total operating expenses</b>	<u>682,401</u>	<u>229,037</u>	<u>1,391,297</u>	<u>438,862</u>
Income from operations	2,882,925	1,008,864	5,246,635	1,845,353
<b>Other income (expenses):</b>				
Interest expense, net	(4,015)	(2,916)	(7,048)	(6,825)
Non-operating income (expenses)	7,767	(1,227)	114,574	(1,453)
Change in fair value of warrants liability	<u>(18,155)</u>	<u>-</u>	<u>245,389</u>	<u>-</u>
<b>Total other income (expenses)</b>	<u>(14,403)</u>	<u>(4,143)</u>	<u>352,915</u>	<u>(8,278)</u>
Income before provision for income taxes	2,868,522	1,004,721	5,599,550	1,837,075
Provision for income taxes	<u>731,437</u>	<u>252,523</u>	<u>1,370,262</u>	<u>458,235</u>
Net income	2,137,085	752,198	4,229,288	1,378,840
<b>Other comprehensive income</b>				
Foreign currency translation adjustment	<u>83,449</u>	<u>95,752</u>	<u>104,612</u>	<u>139,681</u>
<b>Comprehensive income</b>	<u>\$ 2,220,534</u>	<u>\$ 847,950</u>	<u>\$ 4,333,900</u>	<u>\$ 1,518,521</u>
<b>Earnings per common share</b>				
Basic	<u>\$ 0.05</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>
<b>Weighted average number of common shares outstanding</b>				
Basic	<u>47,485,700</u>	<u>36,351,500</u>	<u>47,264,706</u>	<u>36,351,500</u>
Diluted	<u>47,485,700</u>	<u>36,351,500</u>	<u>47,315,337</u>	<u>36,351,500</u>

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



**CHINA GLOBAL MEDIA, INC.****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>For the Six Months Ended June 30,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>Cash flows from operating activities:</b>		
Net Income	\$ 4,229,288	\$ 1,378,840
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	111,521	95,733
Change in fair value of warrants liability	(245,389)	-
Provision for registration rights liability	12,300	-
Changes in current assets and current liabilities:		
Accounts receivable	(2,090,007)	(1,159,186)
Advance payments	462,077	(3,791,157)
Other current assets	(174,045)	(328,922)
Accounts payable and accrued expenses	(951,822)	2,014,855
Advances from customers	(3,878,753)	1,699,894
Income taxes payable	1,367,196	458,236
Other taxes payable	124,864	(9,275)
Other current liabilities	<u>(7,090)</u>	<u>25,670</u>
<b>Total adjustments</b>	<b>(5,269,148)</b>	<b>(994,152)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(1,039,860)</b>	<b>384,688</b>
<b>Cash flows from investing activities:</b>		
Loans made to unrelated parties	136,448	-
Acquisition of property and equipment	(24,792)	(7,164)
Due from shareholder	<u>-</u>	<u>(75,381)</u>
<b>Net cash provided by (used in) investing activities</b>	<b>111,656</b>	<b>(82,545)</b>
<b>Effect of foreign currency translation on cash</b>	<b><u>12,742</u></b>	<b><u>18,876</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(915,462)</b>	<b>321,019</b>
<b>Cash and cash equivalents beginning</b>	<b><u>3,572,443</u></b>	<b><u>797,093</u></b>
<b>Cash and cash equivalents ending</b>	<b><u>\$ 2,656,981</u></b>	<b><u>\$ 1,118,112</u></b>
<b>Supplemental schedule of non-cash activities:</b>		
Capital lease payment made by a shareholder on behalf of the Company	<u>\$ 35,560</u>	<u>\$ 10,423</u>
Conversion of additional paid-in capital to common stock	<u>\$ 4,000</u>	<u>\$ -</u>
	-	-

**Supplemental disclosure information:**

Cash paid for interest	<u>\$ 7,048</u>	<u>\$ 6,825</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

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

**CHINA GLOBAL MEDIA, INC.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**NOTE 1 ORGANIZATION AND NATURE OF BUSINESS**

China Global Media, Inc. (formerly TK Star Design, Inc.) ( CGLO , formerly PUBCO ), a publicly traded company, was incorporated under the laws of the State of Nevada on November 3, 2008. CGLO is a reporting company pursuant to the Securities Exchange Act of 1934 and its shares are currently quoted on the Over The Counter Bulletin Board. The accompanying consolidated financial statements include the financial statements of CGLO and its controlled subsidiaries (collectively, the Company ). The Company s primary business is to design, produce and distribute advertisements in the People s Republic of China ( PRC ), especially in the Hunan Province and other southern Chinese provinces.

On July 20, 2011, PUBCO entered into a Share Exchange Agreement with the shareholders of Phoenix International (China) Limited ( Phoenix International ). Pursuant to the Share Exchange Agreement, PUBCO agreed to acquire all outstanding shares of Phoenix International from the Phoenix International Shareholders in exchange for an aggregate of 36,351,500 newly-issued common shares of PUBCO at \$0.001 par value. The completion of the above transaction established a controlling majority of PUBCO s outstanding common stock. Upon the closing of the share exchange, Phoenix International became the wholly owned subsidiary of PUBCO. On December 13, 2011 PUBCO changed its name from TK Star Design, Inc. to China Global Media, Inc.

Phoenix International was incorporated on October 19, 2009 in Hong Kong, PRC. On June 7, 2010, Phoenix International formed Hunan Beiwei International Media Consulting Co., Ltd., a wholly foreign-owned enterprise ( WFOE ) in the county of Changsha, Hunan Province, PRC under the corporate laws of PRC.

On June 15, 2010, the WFOE entered into a series of agreements, the purpose of which was to restructure Changsha Zhongte Trade Advertising Co., Ltd. ( Zhongte ), Changsha North Latitude 30 Cultural Communications Co., Ltd. ( North Latitude ) and Changsha Beichen Cultural Communications Co., Ltd. ( Beichen ) in accordance with PRC law so that they could seek capital in order to grow their business (the Restructuring ). Zhongte, North Latitude and Beichen were formed on September 27, 2002, August 26, 2003 and June 3, 2008, respectively, in the city of Changsha, Hunan Province, PRC. The Agreements, including a Consulting Services Agreement and an Operating Agreement, provide that all business revenues of Zhongte, North Latitude and Beichen will be directed in full into bank accounts designated by the WFOE, and the WFOE agrees to provide full guarantee for the performance of any contracts, agreements or transactions between Zhongte, North Latitude and Beichen and any third party. As a result of the above-described agreements, Zhongte, North Latitude, and Beichen became the WFOE s Variable Interest Entities ( VIEs ) as defined in FASB ASC 810 (formerly FIN-46R).

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION AND CONSOLIDATION**

As disclosed in Note 1, Zhongte, North Latitude and Beichen are VIEs of the WFOE. VIEs are those entities in which the WFOE, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entities, and therefore the WFOE is the primary beneficiary of these entities. As a result, the VIEs are consolidated by the WFOE following the provision of ASC 810 "Consolidation of Variable Interest Entities" ("ASC 810"), and eventually consolidated into the Company's financial statements. All inter-company transactions and balances have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) applicable to financial information and the requirements of Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the Company does not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION AND CONSOLIDATION (CONTINUED)**

In preparing the accompanying unaudited consolidated financial statements, the Company evaluated the period from June 30, 2012 through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

**INTERIM FINANCIAL STATEMENTS**

These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, as not all disclosures required by US GAAP for annual financial statements are presented. The interim financial statements follow the same accounting policies and methods of computations as the audited consolidated financial statements for the year ended December 31, 2011.

**RISK AND UNCERTAINTIES**

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the PRC's political, economic and legal environments as well as by the general state of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**NOTE 3 ACCOUNTS RECEIVABLE**

Accounts receivable are stated at original invoice amount less allowance for doubtful receivables based on management's periodic review of aging of outstanding balances and customer credit history. Allowance for doubtful accounts amounted to \$184,223 and \$182,945 as of June 30, 2012 and December 31, 2011, respectively.

**NOTE 4 ADVANCE PAYMENTS**

As of June 30, 2012 and December 31, 2011, the advance payments to media vendors for advertising coverage amounted to \$14,027,990 and \$14,389,042, respectively.

**NOTE 5 LOANS RECEIVABLE**

As of June 30, 2012 and December 31, 2011, the Company had outstanding loans to unrelated parties of \$727,566 and \$857,880, respectively. These loans are payable on demand, do not bear interest, and are made in good faith.

**NOTE 6 PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2012 and December 31, 2011 consists of the following:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Office equipment and furniture	\$ 205,659	\$ 179,637
Vehicles	221,131	219,596
Vehicles capital lease	151,309	150,259
Buildings and improvements	<u>2,995,650</u>	<u>2,974,860</u>
Subtotal	3,573,749	3,524,352
Less: accumulated depreciation	<u>542,888</u>	<u>428,484</u>
Total	<u>\$3,030,861</u>	<u>\$3,095,868</u>

Depreciation expense for the three months ended June 30, 2012 and 2011 was \$52,596, and \$45,499, for the six months ended June 30, 2012 and 2011 was \$111,521 and \$95,733, respectively. Amortization of vehicles under capital leases included in depreciation expense for the three months ended June 30, 2012 and 2011 was \$2,959 and \$5,212, for the six months ended June 30, 2012 and 2011 was \$11,302 and \$10,392, respectively.

**NOTE 7 CAPITAL LEASES FUTURE MINIMUM LEASE PAYMENTS**

The Company leases certain vehicles under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the property and equipment and was \$151,309 and \$150,259 as of June 30, 2012 and December 31, 2011, respectively. Accumulated amortization of the leased vehicles as of June 30, 2012 and 2011 was \$121,266 and \$88,637, respectively. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 10,428
2013	12,070
2014	4,711
2015	4,711
2016	<u>6,282</u>
Total minimum lease payments	\$ 38,202
Less: current maturities of capital lease obligations	<u>12,070</u>

Long-term capital lease obligations

\$ 26,132



**NOTE 8 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Accounts payable	\$ 617,480	\$ 1,346,826
Accrued expenses	<u>76,920</u>	<u>288,606</u>
Total	<u>\$ 694,400</u>	<u>\$ 1,635,432</u>

The carrying value of accounts payable and accrued expenses approximates their fair value due to the short-term nature of these obligations.

**NOTE 9 SHORT-TERM BANK LOAN**

Short-term bank loan consists of the following:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
On August 8, 2011, the Company signed a loan agreement with Bank of Changsha with a lien on the Company's revenue. The loan is to be repaid in full on August 2, 2012 and the interest is calculated using annual fixed interest rate of 7.98%, paid monthly. The loan is insured by Hunan Furong Surety for Small to Mid-size Enterprise, Ltd.	<u>\$317,000</u>	<u>\$314,800</u>
Total short-term bank loan	<u>\$317,000</u>	<u>\$314,800</u>

**NOTE 10 ADVANCES FROM CUSTOMERS**

As of June 30, 2012 and December 31, 2011, the Company had advances from customers of \$1,985,272 and \$5,819,444, respectively. These advances are interest-free and unsecured.

**NOTE 11 INCOME TAXES**

China Global Media, Inc. is a Nevada corporation and conducts all of its business through its Chinese subsidiaries, which solely operate in the PRC. As it is a U.S. holding company, it did not generate any revenues for the six months ended June 30, 2012 and 2011, and therefore there was no income tax provision or benefit for U.S. income tax purpose.

Phoenix International (China) Limited was incorporated in Hong Kong, China. Under the corporate tax laws of Hong Kong, it is not subject to tax on income or capital gains.

The Company's Chinese subsidiaries are governed by the Income Tax Law of the PRC and are subject to statutory income tax rate of 25%. For the six months ended June 30, 2012 and 2011, the income tax provision for the Company was \$1,370,262 and \$458,235, respectively.

On February 22, 2008, the Ministry of Finance ( MOF ) and the State Administration of Taxation ( SAT ) jointly issued Cai Shui [2008] Circular 1 ( Circular 1 ). According to Article 4 of Circular 1, distributions of accumulated profits earned by a Foreign Invested Entity ( FIE ) prior to January 1, 2008 to foreign investor(s) in 2008 or after will be exempt from withholding tax ( WHT ) while distribution of the profit earned by an FIE after January 1, 2008 to its foreign investor(s) shall be subject to WHT. Since the Company intends to reinvest its earnings to further expand its businesses in mainland China, its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies in the foreseeable future.

**NOTE 12 OTHER TAXES PAYABLE**

Other taxes payable consist of the following:

**June 30, 2012**

**December 31, 2011**

Business taxes payable	\$1,336,290	\$1,216,308
Fees and surcharges payable	<u>690,514</u>	<u>672,558</u>
Total	<u>\$2,026,804</u>	<u>\$1,888,866</u>

**NOTE 13 STOCK AUTHORIZATION AND ISSUANCE**

On July 20, 2011, Phoenix International (China) Limited and its shareholders, Guolin Yang, Zhenping Wang, Hongdong Xu, and Jun Liang, (collectively, the Shareholders ) entered into a Share Exchange Agreement with TK Star Design Inc ( PUBCO ), which later changed its name to China Global Media, Inc. ( CGLO ). Pursuant to the Share Exchange Agreement, PUBCO agreed to acquire all outstanding shares of Phoenix International from the Phoenix International Shareholders in exchange for an aggregate of 36,351,500 newly-issued common shares of PUBCO at \$0.001 par value. The completion of the above transaction established a controlling majority of PUBCO s outstanding common stock. Upon consummation of the share exchange, Phoenix International became a wholly-owned subsidiary of PUBCO.

**NOTE 13 STOCK AUTHORIZATION AND ISSUANCE (CONTINUED)**

Immediately upon the execution of the Share Exchange Agreement on July 20, 2011, PUBCO entered into Subscription Agreements with a group of accredited investors ( Investors ). Pursuant to the Subscription Agreements, the Investors purchased (i) 615,000 shares of PUBCO s common stock (the Purchased Shares ) for the purchase price of \$1.00 per share; (ii) Series A share purchase warrants to purchase, individually one share of PUBCO s common stock and, collectively, 1,230,000 shares of PUBCO s common stock (the Series A Warrants ); (iii) Series B share purchase warrants to purchase, individually one share of PUBCO s common stock and, collectively, 1,230,000 shares of PUBCO s common stock (the Series B Warrants ); (iv) Series C share purchase warrants to purchase, individually one share of PUBCO s common stock and, collectively, 615,000 shares of PUBCO s common stock (the Series C Warrants ); and (v) Series D share purchase warrants to purchase , individually one share of PUBCO s common stock and, collectively, 615,000 shares of PUBCO s common stock (the Series D Warrants ) (collectively, the Series A Warrants, the Series B Warrants, the Series C Warrants and the Series D Warrants, the Warrants ). Each purchase of a Purchased Shares entitles the Investors to two shares of Series A Warrants, two shares of Series B Warrants, one share of Series C Warrants and one share of Series D Warrants.

Pursuant to the Subscription Agreements and the related Registration Rights Agreements, PUBCO has agreed to file a resale Registration Statement on Form S-1 within 45 days following the closing of the Subscription Agreements ( Required Filing Date ) registering the Purchased Securities (together the Registrable Securities ) with the Securities and Exchange Commission (the SEC ). In the event PUBCO fails to file the Registration Statement by the Required Filing Date, or the Registration Statement is not declared effective by the SEC within 120 days after the Required Filing Date, PUBCO has agreed to pay liquidated damages to each investor. Liquidated damages begin accruing from and including the day following such Filing Default, until the date that the Registration Statement is filed, or declared effective, as applicable, at a rate per month (or portion thereof) equal to 0.50% of the total purchase price of the Shares purchased by such investor pursuant to the Purchase Agreement. However, the penalties may not exceed an aggregate of 9% of the total purchase price. As of March 31, 2012, the Company incurred \$12,300 in registration rights liability and included such amount in other current liabilities in the accompanying consolidated financial statements.

Upon entering the Share Exchange Agreement and Purchase Agreement on July 20, 2011, PUBCO authorized the conversion of unpaid convertible promissory notes in the total amount of \$5,870.20 into 5,870,200 shares of common stock, at the conversion price of \$0.001 per share.

Upon entering the Subscription Agreements on July 20, 2011, PUBCO entered into a Communications Services Agreement ( Services Agreement ) with JOL Group, LLC under which JOL Group, LLC will provide PUBCO with communications and marketing services, and PUBCO will pay \$400,000 for those services. \$260,000 will be paid upon the closing of the said Subscription Agreements and \$140,000 will be paid by the 105th day following the closing of the Subscription Agreements. Upon completion of the share exchange transaction, Mr. Guolin Yang, a major shareholder of PUBCO, will place 900,000 of his personal shares of common stock in an escrow account as collateral for the timely payment of \$140,000.

On December 12, 2011, the Company entered into two stock purchase agreements with Min Yang and Chang Yang, respectively. Pursuant to the agreement terms, the Company issued 4,000,000 shares of common stock to Min Yang and Chang Yang for an aggregate consideration of \$1,600,000. The cash proceeds were received on December 16, 2011, but the stocks were not issued until January 11, 2012.

**NOTE 14 WARRANTS LIABILITY**

The fair value of the warrants liability as of June 30, 2012 was as following:

	<b><u>June 30, 2012</u></b>
Series A Warrants issued on July 20, 2011, at fair value	\$ 88,139
Series B Warrants issued on July 20, 2011, at fair value	86,541
Series C Warrants issued on July 20, 2011, at fair value	42,473
Series D Warrants issued on July 20, 2011, at fair value	<u>42,473</u>
Total	<u>\$ 259,626</u>

The terms of these warrants issued on July 20, 2011, as described in Note 13, are as follows: (a) Series A warrants, with an expected term of 5 years, entitle holders to purchase an aggregate of 1,230,000 shares of PUBCO's common stock at an exercise price of \$0.5 per share; (b) Series B warrants, with an expected term of 5 years, entitle holders to purchase an aggregate of 1,230,000 shares of PUBCO's common stock at an exercise price of \$0.75 per share; (c) Series C warrants, with an expected term of 5 years, entitle holders to purchase an aggregate of 615,000 shares of PUBCO's common stock at an exercise price of \$1.00 per share; and (d) Series D warrants, with an expected term of 5 years, entitle holders to purchase an aggregate of 615,000 shares of PUBCO's common stock at an exercise price of \$1.00 per share. Pursuant to the agreement of these warrants, these warrants may be settled by physical or net share settlement at a choice of the holder. In addition, these warrants are subject to the Registration Rights Agreement as described in Note 13. Under such agreement, the Company agreed to pay liquidated damages to each investor at a rate per month (or portion thereof) equal to 0.50% of the total purchase price of \$615,000 in the event the Company has not filed the Registration Statement by the Required Filing Date, or the Registration Statement is not declared effective by the SEC within 120 days after the Required Filing Date. However, the penalties may not exceed an aggregate of 9% of \$615,000. Since the Company has an absolute obligation to make cash payments to the holder of the warrants in the event the Company fails to make timely filings with the SEC, under FASB ASC 815 (formerly EITF 00-19), the series A, B, C, D warrants issued by the Company on July 20, 2011 are accounted for as liability. The Company used the Binomial model in calculating the fair market value of the Warrants. The principal assumptions used in the computation of the Warrants are: expected term of 5 years; a risk-free rate of return of 0.72%; dividend yield of zero percent; and a volatility of 200%.

**NOTE 15 EARNINGS PER SHARE**

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share has been computed by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share has been computed by dividing net earnings by the weighted average number of shares outstanding including the dilutive effect of equity securities. The weighted average number of shares calculated for Diluted EPS excludes the potential common stock that would be exercised under the warrants granted to investors because of their anti-dilutive effect.

	<b>For the Three Months Ended June 30,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Net income	\$ 2,137,085	\$ 752,198
Weighted average common shares (denominator for basic earnings per share)	47,485,700	36,351,500
Effect of dilutive securities:		
Warrants	_____ -	_____ -
Weighted average common shares (denominator for basic earnings per share)	<u>47,485,700</u>	<u>36,351,500</u>
Basic earnings per share	<u>\$ 0.05</u>	<u>\$ 0.02</u>
Diluted earnings per share	<u>\$ 0.05</u>	<u>\$ 0.02</u>

**NOTE 15 EARNINGS PER SHARE (CONTINUED)**

	<b>For the Six Months Ended June 30,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Net income	\$ 4,229,288	\$ 1,378,840
Weighted average common shares (denominator for basic earnings per share)	47,264,706	36,351,500
Effect of dilutive securities:		
Warrants	<u>50,631</u>	<u>-</u>
Weighted average common shares (denominator for diluted earnings per share)	<u>47,315,337</u>	<u>36,351,500</u>
Basic earnings per share	<u>\$ 0.09</u>	<u>\$ 0.04</u>
Diluted earnings per share	<u>\$ 0.09</u>	<u>\$ 0.04</u>

**NOTE 16 CONCENTRATIONS AND CREDIT RISKS**

For the six months ended June 30, 2012, five major media vendors accounted for approximately 91% of the Company's cost for issuing advertisements. For the six months ended June 30, 2011, six major media vendors accounted for approximately 87% of the Company's cost for issuing advertisements. Total advertisements issued by these media vendors were \$22,439,230 and \$5,254,274 for the six months ended June 30, 2012 and 2011, respectively.

Five major customers accounted for approximately 79% for the Company's sales for the six months ended June 30, 2012. Nine major customers accounted for approximately 62% of the Company's sales for the six months ended June 30, 2011. Total sales to these customers were \$24,771,903 and \$5,324,866 for the six months ended June 30, 2012 and 2011, respectively.

Financial instruments which potentially subject the Company to credit risk consist principally of cash on deposit with financial institutions. Management believes that the financial institutions where the Company maintains its cash and cash equivalents are financially sound and minimal credit risk exists with respect to these investments.





## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and result of operations contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of the other reports we file with the Securities and Exchange Commission. Actual results may differ materially from those contained in any forward-looking statements*

*The following discussion and analysis of financial condition and results of operations relates to the operations and financial condition reported in the financial statements of TK Star for the three months ended June 30, 2012 and 2011 and should be read in conjunction with such financial statements and related notes included in this report and the Company's Annual Report for the year ended December 31, 2011.*

### **Overview**

We mainly engage in the business of advertisement and brand name development in China, especially in Hunan Province and other southern Chinese provinces. Our business operations are carried out through our variable interest entities Changsha North Latitude 30 Cultural Communications Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ( North Latitude ); Changsha Beichen Cultural Communications Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ( Beichen ) and Changsha Zhongte Trade Advertising Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ( Zhongte ). Each of the North Latitude, Beichen and Zhongte has its own focus area: North Latitude and Beichen are both specialized in automobile industrial advertisement and brand name development while North Latitude focuses on organizing the auto exhibitions and product promotional events and Beichen focuses on the advertisement coverage on regular media such as TV channels, radio and newspaper. Zhongte focuses on advertisement of other industries, especially food and textile industries.

### **Company History**

We were incorporated under the laws of the State of Nevada on November 3, 2008. Originally we engaged in the business of repairing, maintaining and servicing metal gym and heavy duty weight equipment for commercial gyms and health club facilities located in the Metropolitan New York Area

On July 20, 2011, we entered into a Share Exchange Agreement with the shareholders of Phoenix International (China) Limited, a company organized under the laws of Hong Kong ( Phoenix International ). Pursuant to the terms of the Share Exchange Agreement, we acquired all of the issued and outstanding shares of Phoenix International from the Phoenix International Shareholders in exchange for the issuance by us to the Phoenix International Shareholders of

an aggregate of 36,351,500 newly-issued shares of common stock, \$ 0.001 par value per share (the Share Exchange ), which, upon completion of the transactions contemplated by the Share Exchange Agreement, constitutes a controlling majority of our issued and outstanding shares of common stock. Upon the closing of the share exchange transaction, Phoenix International became our wholly owned subsidiary and we ceased the business of repairing, maintaining and servicing metal gym and heavy duty weight equipment, and became engaged in the advertising and brand name development business in China through Phoenix International and its subsidiary and affiliated companies in China.

Phoenix International is a holding company that owns 100% of the equity of Hunan Beiwei. Hunan Beiwei, a PRC company established in June 2010, is a wholly owned subsidiary of Phoenix International. On June 15, 2010, Hunan Beiwei entered into a set of contractual arrangements with three operating companies in Changsha, Hunan Province, China, which were North Latitude, Beichen and Zhongte. The contractual arrangements are comprised of a series of agreements, including a Consulting Service Agreement and an Operating Agreement, through which Hunan Beiwei has the right to advise, consult, manage and operate North Latitude, Beichen and Zhongte and to collect and own all of North Latitude, Beichen and Zhongte's net profits and net losses. Additionally, under a Proxy Agreement, the shareholders of North Latitude, Beichen and Zhongte have vested their voting control over North Latitude, Beichen and Zhongte to Hunan Beiwei. In order to further reinforce Hunan Beiwei's rights to control and operate North Latitude, Beichen and Zhongte, North Latitude, Beichen and Zhongte and its shareholders have granted Hunan Beiwei, under an Option Agreement, the exclusive right and option to acquire all of their equity interests in North Latitude, Beichen and Zhongte, or, alternatively, all of the assets of North Latitude, Beichen and Zhongte. Further, the shareholders of North Latitude, Beichen and Zhongte agreed to pledge all of their rights, titles and interests in North Latitude, Beichen and Zhongte to Hunan Beiwei under an Equity Pledge Agreement.

Upon entry of these contractual arrangements, North Latitude, Beichen and Zhongte became the Variable Interest Entities ( VIE ) of Hunan Beiwei pursuant to FIN 46 (R) and Hunan Beiwei was able to carry out business operations through North Latitude, Beichen and Zhongte.

## **Sales and Marketing**

Our business operations are carried out through our variable interest entities North Latitude, Beichen and Zhongte. Each of their customers vary depending on the focus of each of their own business.

North Latitude is one of the largest automobile advertising and brand name developing companies in Hunan Province, China. North Latitude is the designated national advertising agency of Changsha Automobile Plant, a local division of FOTON which is one of the largest commercial vehicle manufacturers in Asia. North Latitude is the Hunan Province exclusive advertising agent for over 10 well-known automobile brands, including Faw-Volkswagen, Shanghai Volkswagen, Dongfeng Citroen, Faw Toyota, Guangzhou Honda, SAIC MG and etc. It also represents, on non-exclusive basis, more than 30 other automobile brands in Hunan and neighboring provinces. It has designed and organized hundreds of product exhibitions and promotional events and gained high reputation in automotive industry in Hunan region.

Beichen, like North Latitude, also provides advertising services for automobile industries. Its customers include Faw-Volkswagen, Shanghai Volkswagen, Dongfeng Citroen, Faw Toyota, Guangzhou Honda, SAIC MG and etc.

Zhongte provides comprehensive advertising services for a variety of industries, especially food and textile industries. Its customers include several China's most famous brands such as SEVEN brand apparel, WangBuLiao apparel, Huang Ye Bing-Lang, Ausnutria Dairy and many others.

## **Strategy**

1. We are the leading advertising and brand name developing company in Hunan Province, China. Our major competitors, including Hunan Public Channel Automobile Program, Changsha Economics and Trade Television Channel Automobile Program and other scattered automobile advertising companies.

2. We have a group of highly regarded professionals to serve our customers. We also have a top-level management team who has had more than 10 years experiences in advertising business.

3. We have strong relationship with a number of famous automobile companies which enables us to expand our business to other parts of China by becoming the national and multi-regional advertising agencies for our existing customers.

4. We have access to a lot of high quality media resources, such as television stations, radio, newspaper and magazines. Our strong connections with these media enable us to negotiate better contract terms and prices for the media coverage.

## **Strategies**

We believe that we are well-positioned to address the advertising demands of our clients by securing additional advertising media resources and also entering the new advertisement media areas such as elevator door advertisement. Our strategies are:

1. Expand our business to more regions and the entire China. Currently we own the majority market shares in Hunan. We plan to first expand to Yangtze River delta. Then we will expand to Pearl River delta region and Beijing-Tianjin metro region.

2. Expand and enhance our portfolio of advertising media resources. We plan to enter exclusive advertising coverage contracts with more media programs.

3. Enter new advertisement media area and develop our own media programs. We plan to expand the Elevator Door Advertisement business and sign up new elevator door locations. We also plan to develop our own media program such as websites.

4. Continue to expand our advertising customer base.

## Results of Operations

The following table shows the results of operations of our business.

### *Comparison of the quarter ended June 30, 2012 and 2011*

<b><u>The Quarters Ended June 30,</u></b>	<b>2012</b>		<b>2011</b>	
Sales	\$	16,279,824	\$	3,729,852
Cost of sales	\$	12,714,498	\$	2,491,951
Gross profit	\$	3,565,326	\$	1,237,901
Selling, general and administrative expenses	\$	682,401	\$	229,037
Other income (expenses)	\$	(14,403)	\$	(4,143)
Income taxes	\$	731,437	\$	252,523
Net income	\$	2,137,085	\$	752,198
Foreign currency translation adjustment	\$	83,449	\$	95,752
Comprehensive income	\$	2,220,534	\$	847,950

### **Sales:**

Our sales for the quarter ended June 30, 2012 were \$16,279,823, an increase of \$12,549,971, or 336% from our sales of \$3,729,852 for the quarter ended June 30, 2011. This increase was mainly due to our continued sales and marketing efforts to locate and develop new customers who contributed to the sales growth.

Sales generated by the portfolio of advertising media resources are as follows:

	The Quarter Ended June 30,				Variance	
	2012		2011		Amount	
	Amount	% to total	Amount	% to total	(in '000 USD)	%
	(in '000 USD)	sales	(in '000 USD)	sales		
TV	14,388	88%	2,423	65%	11,965	494%
Radio	693	4%	506	14%	187	37%
Newspaper and magazine	116	1%	178	5%	(62)	(35%)
Exhibition and events	801	5%	383	10%	418	109%
Elevator door display	46	0%	115	3%	(69)	(60%)
Outdoor billboard	155	1%	56	1%	99	177%
Internet	80	1%	67	2%	13	19%
Total	16,279	100%	3,728	100%	12,551	

From late 2011, the Company has been focusing on the expansion of TV advertising coverage and more working capital has been invested in a buy-out of advertising coverage for a certain period of time on TV programs. Sales generated from TV advertisements increased by \$11.97 million due to expansion of our TV advertising business. In 2012, we expanded our business to cosmetics products. In the quarter ended June 30, 2012, sales generated for cosmetics product advertisement increased by \$10.9 million. Our customers include Dr. Bai Marubi and JVJQ .

Sales generated from radio and outdoor billboard increased by \$187,000 and \$99,000, respectively, due to engagements with a new partner to display advertisements for our clients on outdoor billboards and our continuing effort to expand our business in various media resource.

#### ***Cost of Sales:***

Our cost of sales for the quarter ended June 30, 2012 was \$12,714,497, an increase of \$10,222,546 as compared to \$2,491,951 for the quarter ended June 30, 2011. This increase was primarily due to the expansion of our business and more revenue generated. Our cost of sales consists primarily of expenses associated with the service, including fees paid to third parties for advertisements.

Cost of sales from portfolio of advertising media resources is as follows:

	The Quarter Ended June 30,					
	2012		2011		Variance	
	Amount (in '000 USD)	% to total cost	Amount (in '000 USD)	% to total cost	Amount (in '000 USD)	%
TV	11,441	90%	1,639	66%	9,802	598%
Radio	514	4%	316	13%	198	62%
Newspaper and magazine	95	1%	157	6%	(62)	(39%)
Exhibition and events	460	4%	252	10%	208	83%
Elevator door display	18	0%	47	2%	(29)	(62%)
Outdoor billboard	128	1%	42	2%	86	205%
Internet	58	0%	38	1%	20	53%
Total	12,714	100%	2,491	100%	10,223	

*Gross Profit:*

As a result of the foregoing, we generated an operating profit of \$3,565,326 for the quarter ended June 30, 2012, a \$2,327,425 increase from the comparable period in 2011. Gross profit rate decreased by 11% from 33% to 22%. The volatility in gross profit percentages is mainly due to the change of combinations of revenue from different media and the change of gross profit percentage of each advertising media resource. Gross profit percentage from the portfolio of advertising media resources is as follows:

	The Quarter Ended June 30,		
	2012	2011	Variance
TV	20%	32%	-12%
Radio	26%	38%	-12%
Newspaper and magazine	18%	12%	6%
Exhibition and events	43%	34%	9%
Elevator door display	61%	59%	2%
Outdoor billboard	17%	25%	-8%
Internet	29%	43%	-16%

Gross profit percentage for TV decreased mainly due to the increased business competition in this industry. The advertisement coverage resource is stable since our vendors are stable. However, there are increasing advertising agents like us coming into the business. Gross profit percentage for radio decreased by 12%. In the quarter ended June 30, 2011, we had advertising coverage from a new radio station with a gross margin over 50%, which improves the overall margin in the quarter in 2011. The gross profit percentage from newspaper, exhibition and events, outdoor billboard and internet fluctuate quarter to quarter due to the fact that we are relatively new in these industries and the cost highly depends on the competition with other companies and the relationship with the media. When the sales from these media are limited, the gross margin fluctuated significantly.

Since sales from TV to total sales increased from 65% to 88%, however, gross margin percentage for sales from TV decreased by 12%, the overall gross profit decreased by 11%.

*Operating Expenses:*

Operating expenses, including selling expenses and general and administrative expenses, were \$682,401 for the quarter ended June 30, 2012 as compared to \$229,037 for the quarter ended June 30, 2011, an increase of \$453,364. The increase of these major expenses was mainly due to our expansion of business and increased public listing fees that occurred after the reverse merger in July, 2011.

The primary changes in the operating expense include the following:

- Payroll and related expense increased by approximately \$267,000, which was due to the expansion of our business that required more administrative and sales staff from 2011 to 2012. The increase in payroll is in proportion to the increase of net sales.
- Other expenses, including office, hospitality and other miscellaneous expenses increased by approximately \$186,000 due to the expansion of our business and operation.

*Income Taxes:*

Our income taxes were \$731,437 for the quarter ended June 30, 2012, comparing to \$252,523 for the quarter ended June 30, 2011, an increase of \$478,914. Such increase is due to the increased income before taxes from operations.

*Net Income:*

We reported net income of \$2,137,085 and \$752,198 for the quarters ended June 30, 2012 and 2011, respectively. Basic and diluted earnings per common share were identical for quarter ended June 30, 2012, which were \$ 0.05. For the quarter ended June 30, 2011, basic and diluted earnings per share were \$0.02. This increase was the result of the



commencement of normal operations in 2011. We believe that this trend will continue during our 2012 fiscal year and beyond.

*Comprehensive income:*

Comprehensive income, which adds the currency adjustment to net income, was \$2,220,534 for the quarter ended June 30, 2012 as compared to \$847,950 for the quarter ended June 30, 2011. The increase of comprehensive income was mainly due to an increase of our net income.

*Comparison of the six months ended June 30, 2012 and 2011*

<b><u>The Six Months Ended June 30,</u></b>	<b>2012</b>		<b>2011</b>	
Sales	\$	31,318,399	\$	8,644,468
Cost of sales	\$	24,680,467	\$	6,360,253
Gross profit	\$	6,637,932	\$	2,284,215
Selling, general and administrative expenses	\$	1,391,297	\$	438,862
Other income (expense)	\$	352,915	\$	(8,278)
Income taxes	\$	1,370,262	\$	458,235
Net income	\$	4,229,288	\$	1,378,840
Foreign currency translation adjustment	\$	104,612	\$	139,681
Comprehensive income	\$	4,333,900	\$	1,518,521

*Sales:*

Our sales for the six months ended June 30, 2012 were \$31,318,399, an increase of \$22,673,931, or 262% from our sales of \$8,644,468 for the six months ended June 30, 2011. This increase was mainly due to our continued sales and marketing efforts to locate and develop new customers who contributed to the sales growth.

Sales generated by the portfolio of advertising media resources are as follows:

	The Six Months Ended June 30,				Variance	
	2012		2011		Amount	
	Amount (in '000 USD)	% to total sales	Amount (in '000 USD)	% to total sales	(in '000 USD)	%
TV	28,194	90%	6,292	73%	21,902	348%
Radio	1,249	4%	1,056	12%	193	18%
Newspaper and magazine	317	1%	383	4%	(66)	(17%)
Exhibition and events	942	3%	511	6%	431	84%
Elevator door display	96	0%	156	2%	(60)	(38%)
Outdoor billboard	329	1%	149	2%	180	121%
Internet	191	1%	97	1%	94	97%
Total	31,318	100%	8,644	100%	22,674	

From late 2011, the Company has been focusing on the expansion of TV advertising coverage and more working capital has been invested in a buy-out of advertising coverage for a certain period of time on TV programs. Sales generated from TV advertisements increased by \$21.9 million due to expansion of our TV advertising business. In 2012, we expanded our business to cosmetics products. In the 6 months ended June 30, 2012, sales generated from cosmetics product advertisement increased by \$21.7 million. Our customers includes Dr. Bai Marubi and JVIQ

Sales generated from Exhibition and events and Outdoor billboard increased by \$431,000 and \$180,000, respectively, due to engagements with a new partner to display advertisements for our clients on outdoor billboards and our continuing effort to expand our business in various media resource. For the 6 months ended June 30, 2012, we organized 89 exhibition and events, compared to 61 in the same period for last year.

#### ***Cost of Sales:***

Our cost of sales for the six months ended June 30, 2012 was \$24,680,467, an increase of \$18,320,214 as compared to \$6,360,253 for the six months ended June 30, 2011. This increase was primarily due to the expansion of our business and more revenue generated. Our cost of sales consists primarily of expenses associated with the service, including fees paid to third parties for advertisements.

Cost of sales from portfolio of advertising media resources is as follows:

	2012		2011		Variance	
	Amount	% to total	Amount	% to total	Amount	%
	(in '000 USD)	cost	(in '000 USD)	cost	(in '000 USD)	
TV	22,670	92%	4,723	74%	17,947	380%
Radio	857	3%	766	12%	91	12%
Newspaper and magazine	233	1%	309	5%	(76)	(25)
Exhibition and events	542	2%	318	5%	224	70%
Elevator door display	36	0%	64	1%	(28)	(44%)
Outdoor billboard	238	1%	126	2%	112	89%
Internet	103	1%	53	1%	50	94%
Total	24,679	100%	6,359	100%	18,320	

*Gross Profit:*

As a result of the foregoing, we generated an operating profit of \$6,637,932 for the six months ended June 30, 2012, a \$4,353,717 increase from the comparable period in 2011. Gross profit rate decreased by 5% from 26% to 21%. The volatility in gross profit percentages is mainly due to the change of combinations of revenue from different media and the change of gross profit percentage of each advertising media resource. Gross profit percentage from the portfolio of advertising media resources is as follows:

	The Six Months Ended June 30,		Variance
	2012	2011	
TV	20%	25%	-5%
Radio	31%	27%	4%
Newspaper and magazine	26%	19%	7%
Exhibition and events	42%	38%	5%
Elevator door display	63%	59%	4%
Outdoor billboard	28%	15%	12%
Internet	46%	45%	1%

Gross profit percentage for TV decreased mainly due to the increased business competition in this industry. The advertisement coverage resource is stable since our vendors are stable. However, there are increasing advertising agents like us coming into the business. We have to pay more to purchase the coverage right compared to previous period. In contrast, the gross profit percentage from newspaper, exhibition and events, outdoor billboard increased compared to the same period last year due to the fact that we are relatively new in these industries and the cost highly depends on the competition with other companies and the relationship with the media. When the sales from these media are limited, the gross margin fluctuated significantly.

Since sales from TV to total sales increased from 74% to 92%, however, gross margin percentage for sales from TV decreased by 5%, the overall gross profit decreased by 5%.

*Operating Expenses:*

Operating expenses, including selling expenses and general and administrative expenses, were \$1,391,297 for the six months ended June 30, 2012 as compared to \$438,862 for the six months ended June 30, 2011, an increase of \$952,435. The increase of these major expenses was mainly due to our expansion of business and increased public listing fees that occurred after the reverse merger in July, 2011.

The primary changes in the operating expense include the following:

- Payroll and related expense increased by approximately \$467,000, which was due to the expansion of our business that required more administrative and sales staff from 2011 to 2012. The increase in payroll is in proportion to the increase of net sales.
  
- Public listing related expenses, including audit and accounting fees, attorney service expenses and other professional service expenses, increased by approximately \$85,380 due to our public listing effort since July 2011. We anticipate that our professional expenses related to the public listing in US will remain at its current level in the near future.
  
- Other expenses, including office, hospitality and other miscellaneous expenses increased by approximately \$400,000 due to the expansion of our business and operation.

*Income Taxes:*

Our income taxes were \$1,370,262 for the six months ended June 30, 2012, comparing to \$458,235 for the six months ended June 30, 2011, an increase of \$912,027. Such increase is due to the increased income before taxes from operations.

*Net Income:*

We reported net income of \$4,229,288 and \$1,378,840 for the six months ended June 30, 2012 and 2011, respectively. Basic and diluted earnings per common share were identical for six months ended June 30, 2012, which were \$ 0.09. For the six months ended June 30, 2011, basic and diluted earnings per share were \$0.04. This increase was the result of the commencement of normal operations in 2011. We believe that this trend will continue during our 2012 fiscal year and beyond.

*Comprehensive income:*

Comprehensive income, which adds the currency adjustment to net income, was \$4,333,900 for the quarter ended June 30, 2012 as compared to \$1,518,421 for the quarter ended June 30, 2011. The increase of comprehensive income was mainly due to an increase of our net income.

**Liquidity and Capital Resources**

We fund our working capital needs from operations, advance payments from customers, bank borrowings, and capital from shareholders. Our working capital requirements are influenced by the level of our operations, the numerical and dollar volume of our sales contracts, the progress of our contract execution, and the timing of accounts receivable collections.

Based on our current operating plan, we believe that our existing resources, including cash generated from operations as well as the bank loans, will be sufficient to meet our working capital requirement for our current operations over the next twelve months. In order to fully implement our business plan and continue our growth, however, we will require additional capital either from our shareholders or from outside sources.

As of June 30, 2012, we had cash and cash equivalents of \$2,656,981. Our current assets were \$30,294,006 and our current liabilities were \$12,036,737 as of June 30, 2012, which resulted in a current ratio of approximately 2.52:1.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Six Months Ended June 30,	
	2012	2011
Cash flows by operating activities	(1,039,860)	384,688
Cash flows by investing activities	111,656	(82,545)
Cash flows by financing activities	-	-

Net cash provided by operating activities decreased by \$1,416,548 for the six months ended June 30, 2012 compared to the net cash provided by operating activities of \$384,688 for the six months ended June 30, 2011. The decrease was mainly due to an increase in advances from customers, accounts receivables, and non-cash gain from changes in fair value of warranty liability, partially offset by an increase in net income and taxes payable.

Net cash provided by investing activities in the six months ended June 30, 2012 was \$111,656 as compared to cash used in investing activities of \$82,545. The increased net cash provided by investing activities in 2012 was mainly due to the increased cash proceeds from repayment of unrelated party receivables of \$136,448.

*Accounts Receivable, and Allowance for Doubtful Accounts.*

Substantial portions of our business operations are conducted in the People's Republic of China. During the normal course of business, we extend unsecured credit to our customers. Our standard collection term is three to six months. We review our accounts receivable based on the customers' financial condition and their prior payment history to determine if the allowance for doubtful accounts is adequate. The Company reserves 5% of accounts receivable balances that have been outstanding for more than six months and less than one year, 20% of accounts receivable balances that have been outstanding for more than one year and less than two years, and 100% of accounts receivable balances that have been outstanding for more than two years. The collection of accounts receivable will substantially increase our liquidity and we will maintain the current level of accounts receivable balance in the near future. As of June 30, 2012, there was \$8.62 million of accounts receivable that were aged more than 90 days.

*Advance payments*

The Company is required to make payments to a number of media companies to acquire exclusive contracts for advertising coverage before the contract is signed, including Hunan radio and television advertising company, Golden Eagle 955 Radio Station, Hunan People's Radio Station-Traffic channel, Changsha TV News channel, Voices Online Auto Channel. The advance payments represent security deposit of 5-10% of the contract price and payments for the rights before the advertisement is released. It is non-refundable. When the contract was signed, the advance payment became advertising right in nature and when it was executed and advertisement is released, the assets would be amortized as cost of sales.

The contractual term for these exclusive coverage rights includes:

1.

The time for the advertisement to release (for example, Monday to Friday, naming rights for entertainment show, in the year of 2012)

2.

The media on which the advertisements would be released (for example: Hunan TV)

3.

The content of the advertisements (For example: Dr Bai Cosmetics)

4.

The total agreed coverage rights fee (for example: 8.5 million RMB)

5.

And the deposit required (5%)

The recoverability of the advance payments is highly dependent on our sales of the advertising coverage to our customers. Historically, the company has not experienced any material losses in advance payments since, as required, the Company needs to disclose the content and objects of the advertisement before signing the contract and usually the Company obtains advertising releasing intent with customers before it acquires advertising coverage right from media.

With the expansion of our business, we expect that the advance payments to media will increase when we buy more advertising coverage on certain media.

As of June 30, 2012, the advance payments to our major vendors include:

	Amount
Hunan radio and television advertising company	8,697,528
Golden Eagle 955 Radio Station	1,214,718
Changsha Haizhongjin Culture Co	2,293,073

*Advances from customers*

Advances from customers represent cash received in advance from customers according to the contracts for advertising service fees and advertisement production.

The customer is required to make an initial deposit amounting to 5% of the contract amount. The deposit is recorded as an advance payment and is recognized as revenue when the contractual services are provided or when the advertisement is released on the designated media.

The advances from customers are usually not refundable to the customers.

#### *Income tax liabilities*

The Company's Chinese subsidiaries are governed by the Income Tax Law of the PRC and are subject to a statutory income tax rate of 25%. The subsidiaries are accruing the income tax expense but have not paid any since 2009. The Company is being propositioned by local governments of several counties in Changsha that if the Company could relocate its registration address to those counties, the Company would be granted favorable tax treatments. We have not paid any of the accrued tax liability since we are still in the process of selecting the location. When we reach a final decision, we will use our working capital to make tax payments, which can significantly impact our liquidity since all income tax liability needs to be paid off. We expect to make our decision by the end of 2012 and all tax payments will be made accordingly.

#### *Loan Facility*

Loan payable to Changsha Bank has a one-year term from August 8, 2011 to August 8, 2012 at a fixed interest rate of 7.98% per year. This loan has been guaranteed by an unrelated company, Hunan Furong Surety for Small to Mid-size Enterprise, Ltd.

#### *Loans receivable from unrelated parties*

Loans receivable from unrelated parties consist of various cash advances to unrelated companies and individuals with which the Company has business relationships. Loans to outside parties are reviewed periodically for impairment. The Company considers the assets to be impaired if the collectability of the balances becomes doubtful.

#### **Off -Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.



## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of its financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles. Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and judgments. See Note 2 to our consolidated financial statements,

Basis of Presentation and Summary of Significant Accounting Policies. We believe that the following paragraphs reflect the more critical accounting policies that currently affect our financial condition and results of operations:

### *Use of Estimates*

The preparation of consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include reserves for accounts receivable and income taxes. Actual results could differ from those estimates.

### *Revenue Recognition*

The Company derives its revenues primarily from designing, producing and distributing advertisements. Revenue is recognized when all of the following criteria are satisfied: (a) persuasive evidence of an arrangement exists; (b) the price is fixed or determinable; (c) collectability is reasonably assured; and (d) services have been performed. Any payments received prior to the completion of these recognition criteria are deferred. Revenue from television advertisement is recognized as the commercials are aired. Revenue from newspapers is recognized when the advertisements are published.

### *Cash Equivalents*

In accordance with Statement of Financial Accounting Standards No. 95, Statement of Cash Flows, codified in ASC Topic 230, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents .

### *Accounts Receivable*

Accounts receivable are recorded net of allowance for doubtful accounts. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. Periodically, management assesses customer credit history and relationships as well as performs accounts receivable aging analysis to determine whether certain balances are deemed uncollectible. The Company reserves 5% of accounts receivable balances outstanding for more than six months and less than one year, 20% of accounts receivable balances outstanding for more than one year and less than two years, and 100% of accounts receivable balances outstanding for more than two years.

#### *Advance Payments*

The Company periodically makes advance payments to a number of media companies to acquire exclusive contracts for advertising coverage. The advance payments generally represent 5-10% of the contracted price. When an advertisement is completed, related advance payments are debited to cost of sales according to the matching principle.

#### *Loans Receivable*

Loans receivable consist of various cash advances to unrelated companies and individuals with which the Company has business relationships. The allowance for loan losses reflects management's best estimate of probable losses determined principally on the basis of historical experience. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses.

#### *Property and Equipment*

Property and equipment are stated at cost. Depreciation is calculated based on the straight-line method over the estimated useful lives of the assets as follows:

Vehicles	5 to 8 years
Office equipment and furniture	3 to 5 years
Building and improvements	10 to 20 years

Cost of repairs and maintenance is expensed as incurred. Gain or loss on disposal of property and equipment, if any, is recognized in the consolidated statements of operations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a smaller reporting company, as defined by Rule 229.10(f)(1).

### **ITEM 4. CONTROLS AND PROCEDURES**

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the Evaluation), under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were effective as of the end of the period covered by this report.

#### Management's Report on Internal Controls over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

.  
Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

.  
Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and

.  
that our receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

.  
Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

As of June 30, 2012, our management conducted an assessment of the effectiveness of the Company's internal control over financial reporting. In making this assessment, management followed an approach based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO ). Based on this assessment, management believes that the Company's internal control over financial reporting is effective.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report.

*Changes in Internal Controls*

We have also evaluated our internal controls for financial reporting, and there have been no change in our internal control over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting during the fiscal quarter ended June 30, 2012.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Currently we are not aware of any litigation pending or threatened by or against the Company.

**ITEM 1A. RISK FACTORS**

Not required for Smaller Reporting Company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On December 12, 2011, Min Yang, Chang Yang and Company revised the stock purchase agreements that were entered on November 30, 2011. Under the revised terms of the stock purchase agreements, we will issue 3,600,000 shares of common stock to Min Yang, a resident of China, for the price of US \$ 0.40 (or RMB 2.55 Yuan) per share, an aggregate of US \$ 1,440,000 (or RMB 9,180,000Yuan); we will issue 400,000 shares of common stock to Chang Yang, a resident of China, for the price of US \$ 0.40 (or RMB 2.55 Yuan) per share, an aggregate of US \$ 160,000 (or RMB 1,040,400 Yuan). Min Yang also agreed to a one year lock up period imposed on all the shares she acquires from the Company under the revised Stock Purchase Agreements. During the one year lock up period, she will not sell, transfer or assign any share to others. The 3,600,000 shares were issued to Min Yang on January 11, 2012.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

(a)

Exhibits

- 31.1 Section 302 Certificate of Chief Executive Officer \*
- 31.2 Section 302 Certificate of Chief Financial Officer \*
- 32.1 Section 906 Certificate of Chief Executive Officer \*
- 32.2 Section 906 Certificate of Chief Financial Officer \*

\* filed herewith

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIGNATURES

**China Global Media, Inc.**  
(Registrant)

*/s/ Guolin Yang*

Guolin Yang

Title: President and Chief Executive Officer

August 14, 2012