

CHINA GLOBAL MEDIA INC  
Form 10-K  
April 15, 2013

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

Washington, D.C. 20549

**FORM 10-K**

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

For the annual period ended **December 31, 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**

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

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The aggregate market value of the voting and non-voting stock (11,138,770 shares of common stock) held by non-affiliates of the registrant, as of March 27, 2013, was approximately \$ 1,782,203, computed by reference to the last reported sale price of \$0.16 per share on March 27, 2012. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

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 December 31, 2012 and 49,785,700 Shares of Common Stock as of March 31, 2013.

**FORM 10-K**

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As used in this Form 10-K Annual Report, unless the context requires or is otherwise indicated, the terms we, us, our, the Registrant, the Company, our company and similar expressions include the following entities (as defined below):

(i) China Global Media, Inc., formerly known as TK Star Design, Inc., a Nevada corporation ( Company ), which is a publicly traded company;

(ii) Phoenix International (China) Limited, a company organized under the laws of Hong Kong and a wholly-owned subsidiary of Company ( Phoenix International );

(iii) Hunan Beiwei International Media Consulting Co., Ltd, a limited liability company organized under the laws of the People s Republic of China and a wholly-owned subsidiary of Phoenix International ( Hunan Beiwei );

(iv) Changsha North Latitude 30 Cultural Communications Co., Ltd., a limited liability company organized under the laws of the People s Republic of China and an affiliated entity of Hunan Beiwei through contractual arrangements ( North Latitude );

(v) Changsha Beichen Cultural Communications Co., Ltd., a limited liability company organized under the laws of the People s Republic of China and an affiliated entity of Hunan Beiwei through contractual arrangements ( Beichen );

(vi) Changsha Zhongte Trade Advertising Co., Ltd., a limited liability company organized under the laws of the People s Republic of China and an affiliated entity of Hunan Beiwei through contractual arrangements ( Zhongte )

*China or PRC refers to the People s Republic of China, excluding Hong Kong, Macau and Taiwan. RMB or Renminbi refers to the legal currency of China and \$ or U.S. Dollars refers to the legal currency of the United States. We make no representation that the RMB or U.S. Dollar amounts referred to in this report could have been or could be converted into U.S. Dollars or RMB, as the case may be, at any particular rate or at all. GAAP unless otherwise indicated refers to accounting principles generally accepted in the United States.*

## **ITEM 1. BUSINESS**

### **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 North Latitude, Beichen and Zhongte. Each of the North Latitude, Beichen and Zhongte has its own focus area: North Latitude and Beichen are both specialized in advertisement and brand name development for automobile industry 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.

Our principal office is located at 25<sup>th</sup> and 26<sup>th</sup> floors of Wanxiang Enterprise Building, No.70 Station North, Changsha, Hunan, China. Our telephone number is +86-731-89970899.

### **History**

China Global Media, Inc. was founded as an unincorporated business entity in 1980 and became a corporation under the name TK Star Design, Inc. under the laws of the State of Nevada on November 3, 2008. We changed our name to China Global Media, Inc. on December 13, 2011.

Initially, we designed and manufactured customized heavy duty weight equipment for commercial gyms and college athletic programs. Over the years, our competitors sent an increasing portion of their manufacturing to China which made it difficult for us to compete on a price basis. By 2003, we discontinued our design and manufacturing efforts. We then limited our activities to 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. Commercial gyms generally wanted damaged gym equipment to be fixed quickly to minimize out of service time. They often will engage us to make repairs, even if equipment is covered by a manufacturer's warranty. We repaired most types of commercial gym equipment, but tend to avoid work on exercise equipment that makes extensive use of cables or pulleys. On occasion, we will agree to fix damages to a gym facility, such as handrails and banisters, itself while we are at the premises. Mr. Kinney did most of the repairs himself. If necessary, he would also use an independent contractor to assist him with certain repairs. We did all of our work in the Metropolitan New York Area. Most of our work was referred to us by other customers and word-of-mouth.

Substantially all of our revenues in 2010 and 2009 were derived from sales to one unrelated customer, Bally's Total Fitness. If we lost Bally's as a customer or if the amount of work that we performed for Bally's decreases significantly, our operations were likely to fail.

On July 20, 2011, through a Common Stock Purchase Agreement (between our major shareholders Thomas P. Kinney and Terry Kowalsky and Purchaser Sasha Shemirani), an Assignment and Assumption Agreement, and a Share Exchange Agreement (between Phoenix International Shareholders and us), we transferred all the business operations, assets and liabilities related to gym equipments repair business to Thomas P. Kinney and acquired Phoenix International, a Hong Kong company that was established on October 19, 2009. Upon the consummation of Share Exchange Agreement, we ceased the business of repairing, maintaining and servicing metal gym and heavy duty weight equipment, and engaged in the advertising and brand name development business.

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 46R and Hunan Beiwei was able to carry out business operations through North Latitude, Beichen and Zhongte.

Set forth below is our organizational chart:

North Latitude was formed in Changsha, Hunan Province, China, in August, 2003. Mr. Guolin Yang is the founder and owner of North Latitude.

Beichen was formed in in Changsha, Hunan Province, China in June, 2008. Mr. Guolin Yang is the founder and controlling shareholder of Beichen.

Zhongte was formed in Changsha, Hunan Province, China in September, 2002. Mr. Hongdong Xu is the founder and controlling shareholder.



## **Business 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 North Latitude, Beichen and 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.

North Latitude is one of the largest automobile advertising and brand name developing companies in Hunan Province, China. Its main business is organizing product exhibitions and promotional events for automobile companies. 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. Unlike North Latitude, however, Beichen focuses on the advertising coverage on regular media such as television channels, radio, newspaper and magazines. Beichen acquired exclusive contracts with a number of media companies for advertising coverage on automobile industries and products. It has signed such contracts with Hunan Daily (newspaper), Golden Eagle 995 Radio Station, Hunan People's Radio Station-Traffic channel, Changsha TV News channel, Voices Online auto channel, etc. It is currently negotiating with Hunan Economic TV station, Hunan Economic TV metropolis channel, and Hunan TV public channel for the exclusive coverage.

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. Zhongte also signed exclusive advertising coverage contracts with a number of major media companies including Hunan Satellite TV and a few time intervals of its sub-channels, Hunan Economic TV and a few time intervals of its sub-channels, Changsha TV new channel industry advertisement, Changsha Digital Mobile TV industry advertisement. In addition to the conventional advertisement business, Zhongte also engages in the Elevator Door Advertisement Business (put advertisement posters on elevator doors), which is a new and trendy business in China. It has signed up approximately 1,000 elevator locations in Hunan, and 1,000 elevator locations in other regions. This new business has generated approximately 2.4 million USD in sales in 2009. Zhongte plans to expand the Elevator Door Advertisement to 7 major cities in South and South-Central China and sign up 21,600 elevator door locations.

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## **Our Market**

### *Advertising Market in China:*

China has become one of the fastest growing advertising markets. According to the data from China National Bureau of Statistics, the 2009 China GDP is 33.5 billion RMB. By the comparable price computation, it grows 8.7% compared to the same period. In 2009, the Big Four traditional media advertising consumption totals 752.1 Billion Yuan, accounting for 2.24% of GDP, and increased by 16% compared to the same period in the previous year. During the period from year 2001 to 2007, the Chinese advertising market remained a stable and rapid growth, and the annual compound rate of growth achieved 13.96%. China economy's stable and healthy growth and increasing domestic consumption created a good environment for the advertising industry. The television media is still the biggest player in the advertising market and takes 87% of the market share, followed by radio stations, magazines and newspaper. In addition, the internet advertising, as a new popular media, demonstrated impressive achievements. The Chinese internet advertisement industry has overall sales of 21 billion in 2009, a growth of 7.9% compared to the same period.

In year 2007, China advertising market scale ranked 5<sup>th</sup> globally. However, due to the huge population base, China's annual advertising cost per capita is only \$18 USD. Compared to the global average of \$70.4 USD, the US average of \$921.4 USD and Japan average of \$485 USD, there is huge room for growth.

### *Advertising Market in Hunan Province, China:*

In 2009, the regional GDP of Hunan Province is 1.293 Trillion RMB Yuan, a growth of 13.6%, accounting for 3.86% of the national GDP and 4.9 percentage points higher than the national average. The great economy brings unlimited business opportunities to the advertising industry in Hunan. In 2009, the total advertising consumption in Hunan reached 4.5 Billion USD, a growth rate of 14.9% compared to 2008 and is even higher than the growth rate of GDP of Hunan. (Data source: National Bureau of statistics; State Administration of Radio, Film and Television; the Advertising Industry Association)

## **Sales and Marketing**

We carried out the sale and marketing activities solely through our own sales and marketing departments. We do not use any broker or agency to carry out sales and marketing activities.

### **Our Customers**

Our business operations are carried out through our variable interest entities North Latitude, Beichen and Zhongte. Each of their customers varies 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.

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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.

### **Our Strengths**

1. We are the leading advertising and brand name developing company in Hunan Province, China and we occupied more than 73% of the Hunan market for automobile industry advertisement. Our major competitors, including Hunan Public Channel Automobile Program, Changsha Economics and Trade Television Channel Automobile Program and other scattered automobile advertising companies, only have 27% of the Hunan market.

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.

### **Our 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 20 more media programs. These efforts will increase the volume of our media coverage by 35% annually.

3. Enter new advertisement media area and develop our own media programs. We plan to expand the Elevator Door Advertisement business to 7 major cities in South and South-Central China and sign up 21,600 new elevator door locations. We also plan to develop our own media program such as websites.

4. Continue to expand our advertising customer base.

### **Research and Development**

We do not have significant research and development activities.

### **Real Estate**

We currently leased the 25<sup>th</sup> and 26<sup>th</sup> floors of Wanxiang Enterprise Building, No.70 Station North, Changsha, Hunan, China as our office space. Our annual rent is approximately \$ 107,600 for such office space.

### **Intellectual Property**

We do not own any intellectual property.

### **Employees**

We currently employ a total of 127 employees including 125 full time employees and 2 part time employees.

In compliance with the Employment Contract Law of the PRC, we have written contracts with all our employees for various terms. The employment agreements include the positions, responsibilities and salaries of the respective employees, as well as the circumstances under which employment may be terminated in compliance with the Employment Contract Law of the PRC.

### **Government Regulation**

*Regulations on the Advertising Industry*

Under the Catalog and the Administrative Provision on Foreign Investment in the Advertising Industry, jointly promulgated by the SAIC and the MOC on March 2, 2004, foreign investors can invest in PRC advertising companies through either wholly owned enterprises or joint ventures with Chinese parties. Since December 10, 2005, foreign investors have been allowed to own up to 100% equity interest in PRC advertising companies. However, the foreign investors must have at least three years of direct operations in the advertising industry as their core businesses outside of China. This requirement is reduced to two years if foreign investment in the advertising company is in the form of a joint venture. Foreign invested advertising companies can engage in advertising design, production, publishing and agency, provided that certain conditions are met and necessary approvals are obtained.

Our advertising business is operated by our affiliated consolidated entities in China including North Latitude 30, Beichen and Zhongte. The affiliated consolidated entities are currently owned by individual shareholders who are citizens of China, and hold the requisite licenses to provide advertising services in China. The affiliated consolidated entities directly operate our advertising business and enter into advertising agreements with our customers. We expect to continue to depend on the affiliated consolidated entities to operate our advertising business in China. We do not have any equity interest in any of the affiliated consolidated entities but effectively control, and receive the economic benefits of, them through various contractual arrangements.

PRC advertising laws, rules and regulations set forth certain content requirements for advertisements in China, including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisements for anesthetic, psychotropic, toxic or radioactive drugs are prohibited. 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, together with any other advertisements which are subject to censorship by administrative authorities according to relevant laws or regulations, must be submitted to relevant authorities for content approval prior to dissemination.

Advertisers, advertising agencies and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable

law.

### *Regulations on Foreign Currency Exchange*

Pursuant to the Foreign Currency Administration Rules promulgated on January 29, 1996 and amended on January 14, 1997 and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from the SAFE or its local branch for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local branch. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

### *Foreign Exchange Registration of Offshore Investment by PRC Residents*

In October 2005, SAFE issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies ( SPV ) by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch before establishing or

acquiring control over an SPV for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in June 2007 (known as Notice 106), expanded the reach of Circular 75 by (1) purporting to cover the establishment or acquisition of control by PRC residents of offshore entities which merely acquire control over domestic companies or assets, even in the absence of legal ownership; (2) adding requirements relating to the source of the PRC resident's funds used to establish or acquire the offshore entity; (3) covering the use of existing offshore entities for offshore financings; (4) purporting to cover situations in which an offshore SPV establishes a new subsidiary in China or acquires an unrelated company or unrelated assets in China; and (5) making the domestic affiliate of the SPV responsible for the accuracy of certain documents which must be filed in connection with any such registration, notably, the business plan which describes the overseas financing and the use of proceeds. Amendments to registrations made under Circular 75 are required in connection with any increase or decrease of capital, transfer of shares, mergers and acquisitions, equity investment or creation of any security interest in any assets located in China to guarantee offshore obligations, and Notice 106 makes the offshore SPV jointly responsible for these filings.

In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006. This date was subsequently extended indefinitely by Notice 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us. Many of the terms and provisions in Circular 75 and Notice 106 remain unclear and implementation by central SAFE and local SAFE branches of Circular 75 and Notice 106 have been inconsistent since their adoption. Therefore, we cannot predict how Circular 75 and Notice 106 will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 75 and Notice 106 by our PRC resident beneficial holders.



The principal laws, rules and regulations governing dividends paid by our PRC subsidiary include the Company Law of the PRC (1993), as amended in 2006, Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, each of our PRC subsidiary and our affiliated consolidated entities in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiary and affiliated consolidated entities is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserve reaches 50% of its respective registered capital. These reserves are not distributable as cash dividends.

### *Taxation*

On March 16, 2007, the National People's Congress of China passed the New EIT Law, and on November 28, 2007, the State Council of China passed the EIT Law Implementing Rules which took effect on January 1, 2008. The EIT Law and its implementing rules impose a unified earned income tax, or EIT, rate of 25.0% on all domestic-invested enterprises and foreign invested enterprises, or FIEs, unless they qualify under certain limited exceptions. As a result, our PRC operating subsidiaries are subject to an earned income tax of 25.0%. Before the implementation of the New EIT Law, FIEs established in the PRC, unless granted preferential tax treatments by the PRC government, were generally subject to an EIT rate of 33.0%, which included a 30.0% state income tax and a 3.0% local income tax.

In addition to the changes to the current tax structure, under the New EIT Law, an enterprise established outside of China with de facto management bodies within China is considered a resident enterprise, meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New 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. In addition, a recent circular issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as resident enterprises clarified that dividends and other income paid by such resident enterprises will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This recent circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities.

In addition, the recent circular mentioned above sets out criteria for determining whether de facto management bodies are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside of China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of de facto management bodies for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. If the PRC tax authorities determine that we are a resident enterprise for PRC enterprise income tax purposes, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In addition, dividends paid to us from our PRC subsidiaries and dividends we pay to our non-PRC shareholders may be subject to a 10% withholding tax.

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**ITEM 1A. RISK FACTORS***Risks Relating to Our Business***We are subject to risks relating to the nature of China's advertising industry.**

The nature of the advertising business in China is such that sudden changes in advertising proposals and actual advertisements are frequent. In China, television stations remain responsible for the content of advertisements, and as a result, television stations may reject or recommend changes to the content of advertisements. We are exposed to the risk of unforeseen incidents or disputes with advertising clients. In addition, similar to other companies in our industry in the PRC where relationships between advertising clients within a particular industry and advertising companies are not typically exclusive, we are currently acting for multiple clients within a single industry in a number of industries. If this practice in China were to change in favor of exclusive relationships and if our efforts to respond to this change were ineffective, our business, results of operations and financial condition could be materially and adversely affected.

**We rely on contractual arrangements with our affiliated consolidated entities in China, and their shareholders, for our business operations, which may not be as effective in providing operational control or enabling us to derive economic benefits as through ownership of controlling equity interest.**

We rely on and expect to continue to rely on contractual arrangements with our affiliated consolidated entities in China and their respective shareholders to operate our advertising services business. These contractual arrangements may not be as effective in providing us with control over the affiliated consolidated entities as ownership of controlling equity interests would be in providing us with control over, or enabling us to derive economic benefits from the operations of, the affiliated consolidated entities. Under the current contractual arrangements, as a legal matter, if any of the affiliated consolidated entities or any of their shareholders fails to perform its, his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies available under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if shareholders of an affiliated consolidated entity were to refuse to transfer their equity interests in such affiliated consolidated entity to us or our designated persons when we exercise the purchase option pursuant to these contractual arrangements, we may have to take a legal action to compel them to fulfill their contractual obligations.

If (i) the applicable PRC authorities invalidate these contractual arrangements for violation of PRC laws, rules and regulations, (ii) any affiliated consolidated entity or its shareholders terminate the contractual arrangements or (iii) any affiliated consolidated entity or its shareholders fail to perform their obligations under these contractual arrangements, our business operations in China would be materially and adversely affected, and the value of your stock would substantially decrease. Further, if we fail to renew these contractual arrangements upon their expiration, we would not be able to continue our business operations unless the then current PRC law allows us to directly operate advertising businesses in China.

In addition, if any affiliate consolidated entity 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 any of the affiliated consolidated entities 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, our ability to generate revenues and the market price of your stock.

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 some 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 operating entities and we may be precluded from operating our business, which would have a material adverse effect on our financial condition and results of operations.

**We may not be able to enter into new, or renew our existing contracts with media.**

Our contracts with media such as radio station and television channels are typically for a limited term, without guarantee for renewal upon expiration. Although there are a large number of media in China, the media with the potential to become our business partners are limited. In addition, we face competition for these desirable media resources. While we intend to continue to seek opportunities for acting as the exclusive or non-exclusive advertising agent for desirable media, we may not be successful in obtaining and retaining these resources. As a result, we may not be able to successfully extend or renew our existing agreements with the media, which may have a material adverse effect on our results of operations and business prospects.

**We do not maintain liability or disruption, litigation or property insurance, and any business liability or disruption, litigation or property damage we experience might result in substantial costs to us and the diversion of our resources.**

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business disruption, business liability or similar business insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of obtaining insurance coverage for these risks and the difficulties associated with obtaining 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, disruption, litigation or property insurance coverage for our operations in China. Any occurrence of an uninsured loss or damage to property, or litigation or business disruption may result in substantial costs to us and the diversion of our resources, which could have an adverse effect on our operating results.

**We depend on our senior management's experience and knowledge of the industry and would be adversely affected by the loss of any of our senior managers.**

We are dependent on the continued efforts of our senior management team. If, for any reason, our senior executives do not continue to be active in management, our business, or the financial condition of our Company, our results of operations could be adversely affected. In addition, we do not maintain life insurance on our senior executives and other key employees.

**We face significant competition and may suffer from a loss of users and customers as a result.**

We expect to face significant competition in our advertising business, particularly from other companies that seek to provide similar services. Many of these competitors have significantly greater financial resources and more personnel than we do. They may also have longer operating histories and more experience in attracting and retaining and managing customers. They may use their experience and resources to compete with us in a variety of ways, including by competing more for users, customers, distributors, media channels and by investing more heavily in research and development and making acquisitions. If we fail to compete effectively, our business, financial condition and results of operation will be adversely affected.

**We may face intellectual property infringement claims and other related claims that could be time-consuming and costly to defend and may result in our inability to continue providing certain of our existing services.**

Advertising companies are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of third-party rights. The validity, enforceability and scope of protection of intellectual property, particularly in China, are uncertain and still evolving. In addition, many parties are actively developing and seeking protection for technologies, including seeking patent protection. There may be patents issued or pending that are held by others that cover significant aspects of our technologies, products, business methods or services. As we face increasing competition and as litigation becomes more common in China for resolving commercial disputes, we face a higher risk of being the subject of intellectual property infringement claims.

Intellectual property litigation is expensive and time consuming and could divert resources and management attention from the operations of our businesses. If there is a successful claim of infringement, we may be required to pay substantial fines and damages or enter into royalty or license agreements that may not be available on commercially acceptable terms, if at all. Our failure to obtain a license of the rights on a timely basis could harm our business. Any intellectual property litigation could have a material adverse effect on our business, financial condition or results of operations.

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**We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.**

In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require equity financing to continue to develop and exploit existing and new opportunities related to our industry and to expand into new markets. The exploitation of our services may, therefore, be dependent upon our ability to obtain financing through debt and equity or other means, and we cannot be certain that we will be able to obtain such financing.

**Our inability to fund our capital expenditure requirements may adversely affect our growth and profitability.**

Our continued growth is dependent upon our ability to generate more revenue from our existing business and raise capital from outside sources. We believe that in order to continue to capture additional market share, we will have to raise more capital to fund our business operations. In the future we may be unable to obtain the necessary financing on a timely basis and on acceptable terms, and our failure to do so may adversely affect our financial position, competitive position, growth and profitability. Our ability to obtain acceptable financing at any time may depend on a number of factors, including: our financial condition and results of operations, the condition of the PRC economy and the advertising industry in the PRC, and conditions in relevant financial markets in the United States, the PRC and elsewhere in the world.

***Risks Relating to Doing Business in China*****China's economic policies could affect our business.**

All of our assets are located in China and all of our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in China.

While China's economy has experienced a significant growth in the past twenty years, growth has been irregular, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the

overall economy of China, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by the government control over capital investments or changes in tax regulations.

The economy of China has been transitioning from a planned economy to a more market-oriented economy. In recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform and the reduction of state ownership of productive assets and the establishment of corporate governance in business enterprises; however, a substantial portion of productive assets in China are still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

**Failure to comply with PRC regulations relating to offshore investments by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute profits to us or otherwise materially adversely affect us.**

In October 2005, SAFE issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies ( SPV ) by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch before establishing or acquiring control over an SPV for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in June 2007 (known as Notice 106), expanded the reach of Circular 75 by (1) purporting to cover the establishment or acquisition of control by PRC residents of offshore entities which merely acquire "control" over domestic companies or assets, even in the absence of legal ownership; (2) adding requirements relating to the source of the PRC resident's funds used to establish or acquire the offshore entity; (3) covering the use of existing offshore entities for offshore financings; (4) purporting to cover situations in which an offshore SPV establishes a new subsidiary in China or acquires an unrelated company or unrelated assets in China; and (5) making the domestic affiliate of the SPV responsible for the accuracy of certain documents which must be filed in connection with any such registration, notably, the business plan which describes the overseas financing and the use of proceeds. Amendments to registrations made under Circular 75 are required in connection with any increase or decrease of capital, transfer of shares, mergers and acquisitions, equity investment or creation of any security interest in any assets located in China to guarantee offshore obligations, and Notice 106 makes the offshore SPV jointly responsible for these filings.

In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006. This date was subsequently extended indefinitely by Notice 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in

accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us. Many of the terms and provisions in Circular 75 and Notice 106 remain unclear and implementation by central SAFE and local SAFE branches of Circular 75 and Notice 106 have been inconsistent since their adoption. Therefore, we cannot predict how Circular 75 and Notice 106 will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 75 and Notice 106 by our PRC resident beneficial holders.

**Capital outflow policies in the People's Republic of China may hamper our ability to remit income to the United States and all our net assets are restricted assets subject to PRC's capital outflow policies.**

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency outside of the PRC. We receive substantially all of our revenues in Renminbi. Under the 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 by complying with certain procedural requirements. However, approval from appropriate government authorities is required in those cases in which Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as the repayment of bank loans denominated in foreign currencies. The PRC government also may 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 shareholders.

Since all our affiliated operating entities, business operations, revenues and assets are located in China, approximately 100% of the total net assets of all our consolidated and non-consolidated subsidiaries are subject to Chinese government's limitations on the transferability of Renminbi to foreign currencies and remittance of Renminbi out of China.

**Although we do not import goods into or export goods out of the People's Republic of China, fluctuation of the RMB may indirectly affect our financial condition by affecting the volume of cross-border money flow.**

The value of the RMB fluctuates and is subject to changes in the People's Republic of China political and economic conditions. Since July 2005, the conversion of RMB into foreign currencies, including USD, has been based on rates set by the People's Bank of China which are set based upon the interbank foreign exchange market rates and current exchange rates of a basket of currencies on the world financial markets.

**We may face obstacles from the communist system in the People's Republic of China.**

Foreign companies conducting operations in the People's Republic of China face significant political, economic and legal risks. The Communist regime in the People's Republic of China, including a stifling bureaucracy may hinder Western investment.

**We may have difficulty establishing adequate management, legal and financial controls in The People's Republic of China.**

The People's Republic of China historically has been deficient in Western style management and financial reporting concepts and practices, as well as in modern banking, computer and other control systems. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in The People's Republic of China. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards.

Because our assets and operations are located in the P.R.China, you may have difficulty enforcing any civil liabilities against us under the securities and other laws of the United States or any state.

We are a holding company, and all of our assets are located in the P.R.China. In addition, our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon these non-residents, or to enforce against them judgments obtained in United States courts, including judgments based upon the civil liability provisions of the securities laws of the United States or any state.

There is uncertainty as to whether courts of the P.R.China would enforce judgments of United States courts obtained against us or these non-residents based on the civil liability provisions of the securities laws of the United States or any state; or in original actions brought in the P.R.China, liabilities against us or non-residents predicated upon the securities laws of the United States or any state. Enforcement of a foreign judgment in the P.R.China also may be limited or otherwise affected by applicable bankruptcy, insolvency, liquidation, arrangement, moratorium or similar



laws relating to or affecting creditors' rights generally and will be subject to a statutory limitation of time within which proceedings may be brought.

**The PRC legal system embodies uncertainties, which could limit law enforcement availability.**

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, decided legal cases have little precedence. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past 27 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Each of our PRC operating subsidiaries and affiliates is subject to PRC laws and regulations. However, these laws and regulations change frequently and the interpretation and enforcement involve uncertainties. For instance, we may have to resort to administrative and court proceedings to enforce the legal protection that we are entitled to by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting statutory and contractual terms, it may be difficult to evaluate the outcome of administrative court proceedings and the level of law enforcement that we would receive in more developed legal systems. Such uncertainties, including the inability to enforce our contracts, could affect our business and operation. In addition, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the industries in which we operate, including the promulgation of new laws. This may include changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the availability of law enforcement, including our ability to enforce our agreements with the government entities and other foreign investors.

**The admission of China into the World Trade Organization could lead to increased foreign competition.**

Chinese government authorities regulate our industry. However, as a result of China becoming a member of the World Trade Organization (WTO), restrictions on foreign investment in the industry may be reduced. With WTO's requirement for a reduction of restrictions on foreign investment as a condition of membership, such events could lead to increased competition in our industry.

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business. We are considered a foreign person or foreign invested enterprise under PRC law. As a result, we are subject to PRC law limitations on foreign ownership of Chinese companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

#### *Risks Related to Corporate and Stock Matters*

#### **Risks related to our common stock**

The market price for our common stock may be volatile.

The market price for our common stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

actual or anticipated fluctuations in our quarterly operating results,

announcements of new services by us or our competitors,

changes in financial estimates by securities analysts,

changes in the economic performance or market valuations of other companies involved in the same industry,

announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments,

additions or departures of key personnel,

potential litigation, or

conditions in the market.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

**Shareholders could experience substantial dilution.**

We may issue additional shares of our capital stock to raise additional cash for working capital. If we issue additional shares of our capital stock, our shareholders will experience dilution in their respective percentage ownership in the company.

**We have no present intention to pay dividends.**

Neither during the preceding two fiscal years nor during the year ended December 31, 2010 did we pay dividends or make other cash distributions on our common stock, and we do not expect to declare or pay any dividends in the foreseeable future. We intend to retain any future earnings for working capital and to finance current operations and expansion of our business.

**A large portion of our common stock is controlled by a small number of shareholders.**

A large portion of our common stock is held by a small number of shareholders. As a result, these shareholders are able to influence the outcome of shareholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. In addition, the occurrence of sales of a large number of shares of our common stock, or the perception that these sales could occur, may affect our stock price and could impair our ability to obtain capital through an offering of equity securities. Furthermore, the current ratios of ownership of our common stock reduce the public float and liquidity of our common stock which can in turn affect the market price of our common stock.

**We may be subject to "penny stock" regulations.**

The Securities and Exchange Commission, or SEC, has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer, and our sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. These additional sales practice and disclosure requirements could impede the sale of our securities. Whenever any of our securities become subject to the penny stock rules, holders of those securities may have difficulty in selling those securities.

**Where You Can Find More Information**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

**ITEM 2. PROPERTIES**

We currently leased the 25<sup>th</sup> and 26<sup>th</sup> floors of Wanxiang Enterprise Building, No.70 Station North, Changsha, Hunan, China as our office space. Our annual rent is approximately \$ 107,600 for such office space.

**ITEM 3. LEGAL PROCEEDINGS**

We are not a party to any legal proceedings that we believe will have a material adverse effect upon the conduct of our business or our financial position.

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

There were no matters submitted to our stockholders during the year ended December 31, 2011.

**PART II****ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock is currently traded on the Over-the-Counter Bulletin Board under the symbol CGLO.

The following table sets forth the range of high and low prices of our common stock as quoted on the OTCBB during the periods indicated. The prices reported represent prices between dealers, do not include markups, markdowns or commissions and do not necessarily represent actual transactions.

			High		Low
2012	First Quarter	\$	2.01	\$	0.18
	Second Quarter	\$	0.50	\$	0.08
	Third Quarter	\$	0.25	\$	0.07
	Fourth Quarter	\$	0.19	\$	0.10
2011	First Quarter	\$	N/A	\$	N/A
	Second Quarter	\$	N/A	\$	N/A
	Third Quarter	\$	N/A	\$	N/A
	Fourth Quarter	\$	1.04	\$	1.04

Our transfer agent is Action Stock Transfer Corp, located at 2469 E. Fort Union Blvd, Ste 214, Salt Lake City, UT 84121. Phone number: 801-274-1088

*Dividend Policy*

We did not pay any cash dividends on our common stock in the year ended December 31, 2011. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business.

*Recent Sales of Unregistered Securities*

On July 20, 2011, Company entered into a Share Exchange Agreement with Phoenix International and Phoenix International Shareholders. Pursuant to the terms of the Share Exchange Agreement, Company agreed to acquire all of the issued and outstanding shares of Phoenix International from the Phoenix International Shareholders in exchange for the issuance by Company to the Phoenix International Shareholders of an aggregate of 36,351,500 newly-issued shares of common stock of Company, \$ 0.001 par value per share (the Share Exchange ), which, upon completion of the transactions contemplated by the Share Exchange Agreement, will constitute a controlling majority of Company s issued and outstanding shares of common stock. Upon consummation of the Share Exchange, Phoenix International will become a wholly-owned subsidiary of Company.

Immediately upon the entry of the Share Exchange Agreement on July 20, 2011, Company entered into Subscription Agreements with a group of accredited investors Pursuant to the Subscription Agreements, the Investors purchased (i) 615,000 shares of the Company 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 the Company s common stock and, collectively, 1,230,000 shares of the Company s common stock (the Series A Warrants ); (iii) Series B share purchase warrants to purchase, individually one share of the Company s common stock and, collectively, 1,230,000 shares of the Company s common stock (the Series B Warrants ); (iv) Series C share purchase warrants to purchase, individually one share of the Company s common stock and, collectively, 615,000 shares of the Company s common stock (the Series C Warrants ); and (v) Series D share purchase warrants to purchase , individually one share of the Company s common stock and, collectively, 615,000 shares of the Company 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.

Immediately upon the entry of Share Exchange Agreement and Purchase Agreement, on July 20, 2011, Company 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.

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.

On February 4, 2013, the Company issued a total of 2,300,000 shares of common stock to a group of Chinese individuals as of part of the consideration for the Company s cooperation with Shanghai Dongyang Media. These

shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

*Equity Compensation Plan Information*

None in the year ended December 31, 2012.

**ITEM 6. SELECTED FINANCIAL DATA.**

Not Applicable for Smaller Reporting Company



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Forward-Looking Statements

*Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words believes, project, expects, anticipates, estimates, intends, strategy, plan, may, will, would, will be, will continue, will likely result, and similar expressions. Such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results is included herein and in our other filings with the SEC.*

### 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. Through contractual arrangements, the WFOE 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.

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## **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.

## **Strength**

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 years ended December 31, 2012 and 2011*

<b><u>The Years Ended December 31,</u></b>	<b>2012</b>		<b>2011</b>	
Sales	\$	59,725,182	\$	35,930,827
Cost of sales	\$	46,741,536	\$	23,905,317
Gross profit	\$	12,983,646	\$	12,025,510
Selling, general and administrative expenses	\$	4,235,240	\$	1,906,476
Other income (expense)	\$	357,592	\$	490,562
Income taxes	\$	2,342,181	\$	2,765,968
Net income	\$	6,763,817	\$	7,843,628
Foreign currency translation adjustment	\$	124,245	\$	379,747
Comprehensive income	\$	6,888,062	\$	8,223,375

**Sales:**

Our sales for the fiscal year ended December 31, 2012 were \$59,725,182, an increase of \$23,794,355, or 66% from our sales of \$35,930,827 for the fiscal year ended December 31, 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:

	2012		2011		Variance	
	Amount (in '000 USD)	% to total sales	Amount (in '000 USD)	% to total sales	Amount (in '000 USD)	%
TV	50,730	85%	20,362	57%	30,368	149%
Radio	2,963	5%	6,446	18%	(3,483)	(54%)
Newspaper and magazine	758	1%	1,575	4%	(817)	(52%)
Exhibition and events	3,939	7%	1,947	6%	1,992	102%
Elevator door display	228	0%	1,565	4%	(1,337)	(86%)
Outdoor billboard	723	2%	2,916	8%	(2,193)	(75%)
Internet	384	0%	1,120	3%	(736)	(66%)
Total	59,725	100%	35,931	100%	23,794	

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 \$30 million due to expansion of our TV advertising business. In 2012, we expanded our business to cosmetics products. Sales generated from cosmetics product, textile product and online retailer advertisement increased by \$3.4 million, \$983,000 and \$2.5million, respectively. Our customers include Dr. Bai Marubi and JVJQ Luolai textile and T-mall online service.

Sales generated from radio decreased by \$3.4 million, due to the decreased liquor advertisement released in our major radio partner Golden Golden Eagle 955. Sales generated from newspaper and magazine decreased by \$817,000 due to the discontinued publication of our own magazine Power in third quarter of 2012. The decrease also reflected management's effort to expand our business in TV media.

### *Cost of Sales:*

Our cost of sales for the fiscal year ended December 31, 2012 was \$46,741,536, an increase of \$22,836,219 as compared to \$23,905,317 for the fiscal year ended December 31, 2011. This increase was primarily due to the expansion of our business and more revenue generated. Our cost of sales consisted 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 (in '000 USD)	% to total cost	Amount (in '000 USD)	% to total cost	Amount (in '000 USD)	%
TV	40,379	86%	14,150	59%	26,229	185%
Radio	1,679	4%	3,362	14%	(1,683)	(50%)
Newspaper and magazine	563	1%	820	3%	(257)	(31%)
Exhibition and events	2,229	5%	947	4%	1,282	135%
Elevator door display	77	0%	734	3%	(657)	(90%)
Outdoor billboard	390	1%	2,135	9%	(1,745)	(82%)
Internet	267	1%	601	3%	(334)	(56%)
Tax surcharge	1,157	2%	1,156	5%	1	0%
Total	46,741	100%	23,905	100%	22,836	

*Gross Profit:*

As a result of the foregoing, we generated an operating profit of \$12,983,646 for the fiscal year ended December 31, 2012, a \$958,136 increase from the comparable period in 2011. Gross profit rate decreased by 11.7% from 21.8% to 33.5%. The volatility in gross profit percentages was 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 Years Ended December 31,		
	2012	2011	Variance
TV	20%	31%	-11%
Radio	43%	48%	-5%
Newspaper and magazine	26%	48%	-22%
Exhibition and events	48%	51%	-3%
Elevator door display	66%	53%	13%
Outdoor billboard	46%	27%	19%
Internet	30%	46%	-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. We have to pay more to purchase the coverage right compared to previous period. The gross profit percentage from radio and newspaper and magazine decreased compared to the same period last year due to the fact that we had less revenues generated from these two resources and those revenue sources in last year had a relatively high margin. The gross margin of elevator door display increased mainly because the Company decreased its businesses with lower margin, which was consistent with the decreased revenue in this section. Gross margin from outdoor billboard and internet increased due to the increase of revenue, when certain cost associated with the service was fixed.

Sales from TV to total sales increased from 59% to 86%, however, gross margin percentage for sales from TV decreased by 11%, therefore, the overall gross profit decreased by 11.7%.

*Operating Expenses:*

Operating expenses, including selling expenses and general and administrative expenses were \$4,235,240 for the fiscal year ended December 31, 2012 as compared to \$1,906,476 for the fiscal year ended December 31, 2011, an increase of \$2,328,764. The increase of these major expenses was mainly due to our expansion of business, provision for bad debts and increased public listing fees that incurred after the reverse merger in July, 2011.

The primary changes in the operating expense include the following:

- Payroll and related expense increased by approximately \$766,000, which was due to the expansion of our business that required more administrative and sales staff from 2011 to 2012. The increase in payroll was in proportion to the increase of net sales.

- Bad debt expense increased by approximately \$885,000, which was mainly due to slow recovery of accounts receivable. In order to retain regular customers as well as develop new customers, we extended credit policy for some regular customers this year.

- Other expenses, including office, hospitality and other miscellaneous expenses, increased by approximately \$677,000 due to the expansion of our business and operation.

*Income Taxes:*

Our income taxes were \$2,342,181 for the fiscal year ended December 31, 2012, comparing to \$2,765,968 for the fiscal year ended December 31, 2011, a decrease of \$423,787. The decrease was due to the decreased income before taxes from operations.

*Net Income:*

We reported net income of \$6,763,817 and 7,843,628 for the years ended December 31, 2012 and 2011, respectively. Basic and diluted earnings per common share were identical for fiscal year ended December 31, 2011, which were \$ 0.20. For the fiscal year ended December 31, 2012, basic and diluted earnings per share were \$0.14.

*Comprehensive income:*



Comprehensive income, which adds the currency adjustment to net income, was \$6,888,062 for the fiscal year ended December 31, 2012 as compared to \$8,223,375 for the fiscal year ended December 31, 2011. The decrease of comprehensive income was mainly due to the decrease 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 requirements 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 December 31, 2012, we had cash and cash equivalents of \$5,581,867. Our current assets were \$42,622,559 and our current liabilities were \$23,343,587 as of December 31, 2012, which resulted in a current ratio of approximately 1.83:1.

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

	For the Years Ended December 31,	
	2012	2011
Cash flows by operating activities	1,659,820	81,079
Cash flows by investing activities	(4,629,423)	(146,855)
Cash flows by financing activities	4,970,966	2,780,116

Net cash by operating activities increased by \$1,578,741 for the fiscal year ended December 31, 2012 compared to the net cash provided by operating activities of \$81,079 for the fiscal year ended December 31, 2011. The increase was mainly due to the increase of advance from customers.

Net cash used in investing activities in the years ended December 31, 2012 was \$4,629,423 as compared to cash used in investing activities of \$146,855. The decreased net cash by investing activities in 2012 was mainly due to the increased cash outflow to related parties of \$1,736,923 and advance payment to long-term investment of \$2,587,169.

Net cash provided by financing activities in the fiscal year ended December 31, 2012 was \$4,970,966 as compared to cash provided by financing activities of \$2,780,116. The increased net cash provided by financing activities in 2012 was mainly due to the increased cash proceeds from short term bank loan for \$5,076,540.

*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 nine 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 nine 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 December 31, 2012, there was \$11.5 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. As of December 31, 2012, there was \$6.99 million of advance payments that were aged more than 120 days.

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.

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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 December 31, 2012, the advance payments to our major vendors include:

	Amount
Hunan radio and television advertising company	10,602,983
Golden Eagle 955 Radio Station	1,450,631
Changsha Haizhongjin Culture Co	2,295,967

*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 2013 and all tax payments will be made accordingly.

#### *Loan Facility*

On December 25, 2012, the Company obtained a loan \$2,063,100 from China Merchants Bank, due on December 25, 2013 with annual fixed interest rate of 6.0%. This loan was guaranteed by Hunan Beiwei International Media Consulting Co., Ltd., a subsidiary of the Company, Guoling Ynag, a shareholder of the Company, Hongdong Xu, a shareholder of the Company.

Loan payable of \$793,500 to Changsha Bank has a one-year term from September 27, 2012 to September 27, 2013 at a fixed interest rate of 7.8% per year. This loan was guaranteed by Guolin Yang, a shareholder of the Company.

On September 6, 2012, the Company obtained a loan \$1,269,600 from Bank of Changsha, due on September 6, 2013 with annual fixed interest rate of 7.8%. This loan has been insured by an unrelated company, Hunan Zhongda Surety Investment for Small to Mid-size Enterprise, Ltd.

On April 16, 2012, the Company obtained a loan \$952,200 from China Construction Bank with a lien on the Company's revenue, due on April 15, 2013 with annual fixed interest rate of 8.0%.

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*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 these recognition criteria being satisfied are deferred. Revenue from television advertisement is recognized as the commercials are aired. Revenue from newspapers is recognized when the advertisements are published. The Company acts as a principal obligor to its advertising clients, and accordingly,

revenue is reported on a gross basis.

#### *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 nine 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.

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#### *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 contract price. When an advertisement is completed, related advance payments are debited to cost of sales according to the matching principle. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible or unusable amounts. Periodically, management assesses performance and relationships as well as performs advance payment aging analysis to determine whether certain balances are deemed uncollectible or unusable. The Company reserves 5% of advance payment balances outstanding for more than one year and less than two years and 100% of advance payment balances outstanding for more than two years.

#### *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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

See the financial statements annexed to this annual report immediately after the signature page of this Form 10-K

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

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**ITEM 9A. 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 Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial



reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control-Integrated Framework. Based on our assessment, we believe that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual 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 that occurred during the year ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that

breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

## ITEM 9B. OTHER INFORMATION.

Not applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The following sets forth information regarding the directors and executive officers of the Company as of March 31, 2013.

<u>Name</u>	<u>Age</u>	<u>Title</u>
Guolin Yang	38	President, CEO, and Chairman and Director
Jun Liang	44	CFO, CSO, Director
Hongdong Xu	36	COO, Director
Bingchuan Xiao	51	Independent Director

*Guolin Yang* served as the Vice President of Real Estate Newspaper at Hunan Reporter Branch and Assistant Director of Reference Information Newspaper Hunan Branch, General Manager of Sanding Investment Company, adjunct professor of Hunan University, adjunct professor, vice chairman of Hunan Automobile Profession Association, Council Executive of Hunan Province Advertisement Association, vice president of Hunan Advertisement Education Council. He formed North Latitude in 2003 and formed Beichen in 2008.

*Jun Liang* has a bachelor's degree in Public Relations and a Master's degree in Business Administration. He also serves as executive member of the council and assistant deputy secretary-general of Chinese Plan Association; He is a

certified senior planner; certified senior photographer and certified senior media operator. He participated and co-founded Changsha TV politics and law channel and founded the second Chinese digital wireless multimedia Changsha Mobile TV. He is a successful journalist and Deputy Director of Changsha TV politics and law channel and news channel. He has been in charge of advertisement management for over ten years and hosted promotional events for D.B.E. Jewelry, Guangzhou Baiyun Mountain Drug Manufacture Zhengqing Drugs and etc; He won many awards from National Broadcast and Television Bureau, Ministry of Justice, Broadcast and TV Association, Chinese Advertisement Association. He received Annual National Advertising People Silver award and Bronze award. He planned large-scale concerts and shows such as Faye Wong Changsha Concert , Guangxi Bama Second International Longevity Tourism Culture Festival.

*Hongdong Xu* has a bachelor's degree in Law. He is a senior media advertisement operator. He was the manager of Hunan Louyuan Advertisement Company, the Media Supervisor General, Chief Customer Officer and Vice General Manager of Hunan Lucky Star Advertising Company. He has strong connection with Hunan Satellite TV, Hunan Economic TV, Changsha TV News Channel and Changsha Mobile TV. Mr. Xu, with his many years of experience in the industry and established good service relationships with customers who owns more than 1 billion capital assets and over tens of millions in advertising spending, among them are SEVEN Brands, Huangye Bing-Lang, WangBuLiao Apparel and etc. He formed Zhongte in 2003.

*Bingchuan Xiao*, age 51, graduated from Guangzhou Institute of Foreign Languages with a Degree of Bachelor of Arts in English Literature and linguistics in 1983. From August 1983 to April 1990, Mr. Xiao worked as a senior interpreter at the Ministry of Foreign Affairs of PRC. From October 1993 to April 2001, Mr. Xiao worked as the deputy general manager of Jiangsu Nanbei Industrial & Trading Company. From October 1993 to April 2001, Mr. Xiao worked as the deputy general manager of Jiangsu Nanbei Industrial & Trading Company. From May 2007 to October 2008, Mr. Xiao worked as the deputy general manager of Beijing Xing YU Qing Technical Trading Company. From November 2008 to January 2010, Mr. Xiao worked a Director of China Infrastructure Construction Corporation, an OTCBB listed company. He has been working as the deputy general manager of Beijing Fortune Capital Management Co., Ltd since February 2010.

### **Family Relationships**

There are no family relationships between or among any of the current and incoming directors or executive officers.

**Involvement in Certain Legal Proceedings**

To the knowledge of us, no executive officer or director has been involved in the last five years in any of the following:

Any bankruptcy petition filed by or against any business or property of such person, or of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

Any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;

Being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

Being the subject of or a party to any judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated relating to an alleged violation of any federal or state securities or commodities law or regulation, or any law or regulation respecting financial institutions or insurance companies, including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail, fraud, wire fraud or fraud in connection with any business entity; or

Being the subject of or a party to any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act, any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

**Board Committees**

As of this date, Company's board of directors has not appointed a nominating committee, audit committee or compensation committee, or committees performing similar functions nor does it have a written nominating, compensation or audit committee charter. The board of directors does not believe that it is necessary to have such committees because it believes the functions of such committees can be adequately performed by the board of directors. Further, Company is not required to have an audit, compensation or nominating committee. Accordingly, Company does not have an audit committee financial expert as such term is defined in the rules promulgated under the Securities Act and the Exchange Act. The functions ordinarily handled by these committees are currently handled by the entire board of directors. The board of directors intends, however, to review the governance structure and institute board committees as necessary and advisable in the future, to facilitate the management of Company's business.

### **Director Independence**

Currently, Mr. Bingchuan Xiao is our only Independent Director. Since the Company's Common Stock is not listed on a national securities exchange, we have used the definition of independence of The NASDAQ Stock Market to make this determination.

Under NASDAQ Marketplace Rule 4200(a)(15), an independent director is a person other than an officer or employee of the company or any other individual having a relationship which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Company's Board of Directors has determined that Bingchuan Xiao does not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director of the Company. Accordingly, he is an independent director.

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### **Audit Committee**

Currently we do not have an audit committee or committee performing similar functions.

### **Compensation Committee**

Currently we do not have a compensation committee or committee performing similar functions.

### **Nominating Committee**

Currently we do not have a nominating committee or committee performing similar functions.

#### Code of Ethics

Currently we have not adopted a code of ethics.

### **COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10 percent; of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10 percent; shareholders are required by the Securities and Exchange Commission regulations to furnish our Company with copies of all Section 16(a) reports they file.

To the Company's knowledge, based solely on a review of the copies of the reports furnished to the Company, all executive officers, directors and greater than 10 percent shareholders filed the required reports in a timely manner except that our former directors and officers Thomas P. Kinney and Terry Kowalsky did not file the Form 4 to report the change in their security ownership on July 20, 2011.

### **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Our bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by the Nevada corporation laws. There is no pending litigation or proceeding naming any of our directors or officers to which indemnification is being sought, and we are not aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

### **ITEM 11. EXECUTIVE AND DIRECTOR COMPENSATION**

#### **Summary Compensation Table**

The Summary Compensation Table shows certain compensation information for services rendered in all capacities for the fiscal periods ended December 31, 2011 and 2010. Other than as set forth herein, no executive officer's salary and

bonus exceeded \$100,000 in any of the applicable years. The following information includes the dollar value of base salaries, bonus awards, the number of stock options granted and certain other compensation, if any, whether paid or deferred.

Name and Principal Position	Year	Salary	Bonus	Option		Total
				Awards		
Guolin Yang						
CEO, President, Director	2012	\$57,275	0	0		\$57,275
	2011	\$45,000	0-	0-		\$45,000
Jun Liang						
CFO, CSO, Director	2012	\$ 47,729	0	0		\$ 47,729
	2011	\$ 26,000	0-	0-		\$ 26,000
Hongdong Xu						
COO, Director	2012	\$ 47,729	0	0		\$ 47,729
	2011	\$ 45,000	0-	0-		\$ 45,000
Bingchuan Xiao						
Independent Director	2012	\$ 31,450	0	0		\$ 31,450
	2011	0	0-	0-		0

#### **Outstanding Equity Awards at Fiscal Year-End**

None in the year ended December 31, 2012.

#### **Stock Option and Awards Plan**

None in the year ended December 31, 2012.

#### **Director Compensation**

During the year ended December 31, 2012, we paid \$31,450 to Bingchuan Xiao, our independent director.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER**

The following table sets forth certain information concerning the number of Company common shares owned beneficially by: each person known or believed by us to own, directly or beneficially, more than 5% of our common stock, each of our directors, and all of our officers and directors as a group. Unless otherwise indicated, the stockholders listed possess sole voting and investment power with respect to the common shares shown.

Name and Address of Beneficial Owners (a)	Amount and Nature of Beneficial Ownership	Percent of Class (b)
<b>Directors and Executive Officers</b>		
Guolin Yang		
<i>Director, Chairman of the Board, President, CEO</i>		
25-26F Wanxiang Enterprise Building,	17,873,934 (c)	35.90%
No.70 Station North Road,		
Changsha, Hunan Province, China, Postal Code: 410001		
Jun Liang		
<i>Director, CFO, CSO</i>		
25-26F Wanxiang Enterprise Building,	10,163,610	20.41%
No.70 Station North Road,		
Changsha, Hunan Province, China, Postal Code: 410001		
Hongdong Xu		
	7,009,386	14.08%
<i>Director, COO</i>		
25-26F Wanxiang Enterprise Building,		
No.70 Station North Road,		
Changsha, Hunan Province, China, Postal Code: 410001		
Bingchuan Xiao		
<i>Director</i>		
25-26F Wanxiang Enterprise Building,		
No.70 Station North Road,		



Changsha, Hunan Province, China, Postal Code: 410001

**35,046,930** **70.40%**

**Officers and Directors as a group**

**Greater Than 5% Shareholders**

Guolin Yang

25-26F Wanxiang Enterprise Building,

17,873,934 (c) 35.90%

No.70 Station North Road,

Changsha, Hunan Province, China, Postal Code: 410001

Jun Liang

25-26F Wanxiang Enterprise Building,

10,163,610 20.41%

No.70 Station North Road,

Changsha, Hunan Province, China, Postal Code: 410001

Hongdong Xu

7,009,386 14.08%

25-26F Wanxiang Enterprise Building,

No.70 Station North Road,

Changsha, Hunan Province, China, Postal Code: 410001

Min Yang (d)

3,600,000 7.23%

161-163 Jiefang West Road, Furong District,

Changsha, Hunan Province, China, Postal Code: 410001

**Greater Than 5% Shareholders as a group** **38,646,930** **77.63%**

(a) Pursuant to Rule 13d-3 under the Exchange Act, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days.

(b) Unless otherwise stated, each beneficial owner has sole power to vote and dispose of the shares based on 49,785,700 shares of Common Stock issued and outstanding as March 31, 2013.

(c) On March 07, 2012, Guolin Yang agreed to transfer 900,000 shares of common stock held by him to JOL Group LLC, which have been held as collateral for the \$ 140,000 service fees owed by Company to JOL Group LLC under a Communication Services Agreement. As of March 31, 2013, the actual transfer of the 900,000 shares has not been completed and therefore, as of March 31, 2013, Guolin Yang is still the beneficial owner of the said 900,000 shares and he holds a total of 17,873,934 shares of common stock of the Company.

(d) Min Yang resigned from the position of board director on January 10, 2013.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Review, Approval or Ratification of Transactions with Related Parties**

We did not have any policies or procedures in place with respect to the review and approval or ratification of the related party transactions that have been described. We believe that all transactions with related parties were on terms no less favorable than could have been obtained from third parties.

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### **Director Independence**

Currently, Mr. Bingchuan Xiao is our only Independent Director. Since the Company's Common Stock is not listed on a national securities exchange, we have used the definition of "independence" of The NASDAQ Stock Market to make this determination.

Under NASDAQ Marketplace Rule 4200(a)(15), an "independent director" is a person other than an officer or employee of the company or any other individual having a relationship which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Company's Board of Directors has determined that Bingchuan Xiao does not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director of the Company. Accordingly, he is an independent director.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

### **1) Audit Fees**

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for our audit of annual financial statements and review of financial statements included in our Form 10-Qs or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years was:

2012	\$ 104,000	Patrizio & Zhao, LLC
2011	\$ 104,000	Patrizio & Zhao, LLC

**Item 15. Exhibits and Financial Statement Schedules**

**(a) (1) Financial Statements**

The financial statements are attached immediately after the signature page of this Form 10-K Annual Report.

**(a) (2) Financial Statement Schedules**

None. The financial statement schedules are omitted because they are inapplicable or the requested information is shown in our financial statements or related notes thereto.

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**Exhibit**

**No. Description**

3.1	Articles of Incorporation*
3.2	Bylaws*
5.1	Legal Opinion by Bernard & Yam, LLP
10.1	Common Stock Purchase Agreement**
10.2	Assignment and Assumption Agreement**
10.3	Share Exchange Agreement**
10.4	Subscription Agreement**

- 10.5 Series A Warrant\*\*
- 10.6 Series B Warrant\*\*
- 10.7 Series C Warrant\*\*
- 10.8 Series D Warrant\*\*
- 10.9 Registration Rights Agreement\*\*
- 10.10 Lockup Agreement\*\*
- 10.11 Escrow Agreement\*\*
- 10.12 Communications Services Agreement\*\*
- 10.13 Communications Services Escrow Agreement\*\*
- 10.14 Promissory Note Conversion Agreement\*\*
- 10.15 Consulting Service Agreement (North Latitude 30)\* \*
- 10.16 Operating Agreement (North Latitude 30)\* \*
- 10.17 Equity Pledge Agreement (North Latitude 30)\* \*
- 10.18 Option Agreement (North Latitude 30)\* \*
- 10.19 Proxy Agreement (North Latitude 30) \*\*
- 10.20 Consulting Service Agreement (Beichen) \*\*
- 10.21 Operating Agreement (Beichen) \*\*
- 10.22 Equity Pledge Agreement (Beichen) \*\*
- 10.23 Option Agreement (Beichen) \*\*
- 10.24 Proxy Agreement (Beichen) \*\*
- 10.25 Consulting Service Agreement (Zhongte) \*\*
- 10.26 Operating Agreement (Zhongte) \*\*
- 10.27 Equity Pledge Agreement (Zhongte) \*\*
- 10.28 Option Agreement (Zhongte) \*\*
- 10.29 Proxy Agreement (Zhongte) \*\*
- 10.30 Stock Purchase Agreements with Min Yang and Chang Yang \*\*\*
- 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (6)
  
- 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (6)
  
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (6)
  
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (6)
  
- 101\*\*\*\* The following materials from our Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
  - 101.INS\*\*\*\* XBRL Instance
  - 101.SCH\*\*\*\* XBRL Taxonomy Extension Schema
  - 101.CAL\*\*\*\* XBRL Taxonomy Extension Calculation
  - 101.DEF\*\*\*\* XBRL Taxonomy Extension Definition

101.LAB\*\*\*\* XBRL Taxonomy Extension Labels  
101.PRE\*\*\*\* XBRL Taxonomy Extension Presentation

\* Incorporated by reference to the Form S-1 Registration Statement filed on December 24, 2008

\*\* Incorporated by reference to the Form 8-K Current Report filed on July 22, 2011

\*\*\* Incorporated by reference to the Form 8-K Current Report filed on December 16, 2011

\*\*\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**China Global Media, Inc.**

By: /s/Guolin Yang  
Guolin Yang

Chief Executive Officer

Director

April 12, 2012



**ANNEX: FINANCIAL STATEMENTS**

**CHINA GLOBAL MEDIA, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

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Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations and Comprehensive Income

Consolidated Statements of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements





**Patrizio & Zhao, LLC**

Certified Public Accountants and Consultants

322 Route 46 West

Parsippany, NJ 07054

Member of

Tel: (973) 882-8810

Fax: (973) 882-0788

Alliance of worldwide accounting firms

[www.pzcpa.com](http://www.pzcpa.com)

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

China Global Media, Inc.

We have audited the accompanying consolidated balance sheets of China Global Media, Inc. (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Global Media, Inc. as of December 31, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Patrizio & Zhao, LLC

Parsippany, New Jersey

April 11, 2013

**China Global Media, Inc.****Consolidated Balance Sheets**

	<b>December 31, <u>2012</u></b>	<b>December 31, <u>2011</u></b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,581,867	\$ 3,572,443
Accounts receivable, net of allowance for doubtful accounts of \$995,235 and \$182,945 at December 31, 2012 and 2011, respectively	13,332,861	9,844,032
Advance payments, net	19,486,219	14,389,042
Loans receivable, net	1,144,595	857,880
Due from related parties	1,782,738	44,898
Bank loan security deposit	533,232	31,480
Other current assets	<u>761,047</u>	<u>626,880</u>
<b>Total current assets</b>	<b>42,622,559</b>	<b>29,366,655</b>
<b>Property and equipment, net</b>	<b>2,928,299</b>	<b>3,095,868</b>
<b>Advance payment for long-term investment</b>	<b><u>2,587,984</u></b>	<b><u>-</u></b>
<b>Total assets</b>	<b><u>\$48,138,842</u></b>	<b><u>\$32,462,523</u></b>
		-
<b>Liabilities and stockholders equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,114,957	\$ 1,635,432
Short-term bank loans	5,078,400	314,800
Advances from customers	4,813,291	5,819,444
Income taxes payable	7,734,001	5,349,962
Other taxes payable	2,984,311	1,888,866
Due to shareholders	198,889	125,684
Other current liabilities	<u>419,738</u>	<u>103,079</u>
<b>Total current liabilities</b>	<b>23,343,587</b>	<b>15,237,267</b>
<b>Warrants liability</b>	<b>525,921</b>	<b>505,015</b>
<b>Long-term capital lease obligations</b>	<b><u>-</u></b>	<b><u>51,769</u></b>

<b>Total liabilities</b>	<b>23,869,508</b>	<b>15,794,051</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 December 31, 2012 and 2011, respectively	47,486	43,486
Additional paid-in capital	3,419,841	2,711,041
Statutory reserve	1,001,993	645,030
Retained earnings	19,133,596	12,726,742
Accumulated other comprehensive income	<u>666,418</u>	<u>542,173</u>
<b>Total stockholders' equity</b>	<b><u>24,269,334</u></b>	<b><u>16,668,472</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$48,138,842</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

	For the Years Ended December 31,	
	<u>2012</u>	<u>2011</u>
<b>Sales</b>	<b>\$59,725,182</b>	<b>\$35,930,827</b>
<b>Cost of sales</b>	<b><u>46,741,536</u></b>	<b><u>23,905,317</u></b>
<b>Gross profit</b>	<b>12,983,646</b>	<b>12,025,510</b>
<b>Operating expenses:</b>		-
Selling, general and administrative expenses	<u>4,235,240</u>	<u>1,906,476</u>
<b>Total operating expenses</b>	<b><u>4,235,240</u></b>	<b><u>1,906,476</u></b>
<b>Income from operations</b>	<b>8,748,406</b>	<b>10,119,034</b>
<b>Other income (expenses):</b>		-
Interest expense, net	(52,826)	(19,963)
Non-operating income	577,093	608,422
Non-operating expenses	(145,769)	(19,345)
Change in fair value of warrants liability	<u>(20,906)</u>	<u>(78,552)</u>
<b>Total other income</b>	<b><u>357,592</u></b>	<b><u>490,562</u></b>
<b>Income before provision for income taxes</b>	<b>9,105,998</b>	<b>10,609,596</b>
<b>Provision for income taxes</b>	<b><u>2,342,181</u></b>	<b><u>2,765,968</u></b>
<b>Net income</b>	<b>6,763,817</b>	<b>7,843,628</b>
<b>Other comprehensive income</b>		-
Foreign currency translation adjustment	<u>124,245</u>	<u>379,747</u>
<b>Comprehensive income</b>	<b><u>\$ 6,888,062</u></b>	<b><u>\$ 8,223,375</u></b>
<b>Earnings per common share</b>		
<b>Basic</b>	<b><u>\$ 0.14</u></b>	<b><u>\$ 0.20</u></b>
<b>Diluted</b>	<b><u>\$ 0.14</u></b>	<b><u>\$ 0.20</u></b>
<b>Weighted average number of common shares outstanding</b>		
<b>Basic</b>	<b><u>47,339,180</u></b>	<b><u>39,576,549</u></b>
<b>Diluted</b>	<b><u>47,339,180</u></b>	<b><u>39,795,727</u></b>

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

## China Global Media, Inc.

## Consolidated Statements of Changes in Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-in Capital	Statutory Reserve	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par Value	Shares	Par Value					
Balance as of January 1, 2011	-	\$ -	36,351,500	\$ 36,352	\$ 458,638	\$ 257,630	\$ 5,270,514	\$ 162,426	\$ 6,585,160
Net income	-	-	-	-	-	-	7,843,628	-	7,843,628
Other comprehensive income:									
Foreign currency translation adjustment	-	-	-	-	-	-	-	379,747	379,747
Comprehensive Income	-	-	-	-	-	-	-	-	8,223,375
Effects of reverse recapitalization	-	-	649,000	649	(649)	-	-	-	-
Issuance of common stock	-	-	615,000	615	203,081	-	-	-	818,696
Conversion of promissory notes	-	-	5,870,200	5,870	(5,870)	-	-	-	-
Proceeds from common stock to be issued	-	-	-	-	1,600,000	-	-	-	1,600,000
Capital contribution from stockholders	-	-	-	-	455,841	-	-	-	455,841

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Statutory reserve	-	-	-	-	-	387,400	(387,400)	-	-			
<b>Balance as of December 31, 2011</b>	<b>-\$</b>	<b>-</b>	<b>43,485,700</b>	<b>\$</b>	<b>2,711,041</b>	<b>\$</b>	<b>645,030</b>	<b>\$</b>	<b>12,726,742</b>	<b>542,173</b>	<b>\$</b>	<b>10,000,000</b>
										<b>43,486</b>		
Net income	-	-	-	-	-	-	6,763,817	-	-	-	-	-
Other comprehensive income:												
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	124,245	-	-
Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Cash contribution from shareholders	-	-	-	-	712,800	-	-	-	-	-	-	-
Conversion of additional paid-in capital to common stock	-	-	4,000,000	4,000	(4,000)	-	-	-	-	-	-	-
Statutory reserve	-	-	-	-	-	356,963	(356,963)	-	-	-	-	-
<b>Balance as of December 31, 2012</b>	<b>-\$</b>	<b>-</b>	<b>47,485,700</b>	<b>\$</b>	<b>3,419,841</b>	<b>\$</b>	<b>1,001,993</b>	<b>\$</b>	<b>19,133,596</b>	<b>666,418</b>	<b>\$</b>	<b>20,000,000</b>
										<b>47,486</b>		

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



**China Global Media, Inc. Consolidated Statements of Cash Flows**

**For the Years Ended  
December 31,  
2012                      2011**

**Cash flows from operating activities:**

Net Income

\$6,763,817

\$ 7,843,628

Adjustments to reconcile net income to net cash

provided by (used in) operating activities:

Depreciation

218,867

199,462

Provisions for bad debts

1,166,467

304,482

Change in fair value of warrants liability

20,906

78,552

Provision for registration rights liability

21,525

12,300

Changes in current assets and current liabilities:

Accounts receivable

(4,216,976)

(6,563,892)

Advance payments

(5,332,708)

(9,603,633)

Other current assets

(128,483)

(477,193)

Accounts payable and accrued expenses

467,518

(490,860)

Advances from customers

(1,053,885)

4,943,938

Income taxes payable

2,339,115

2,765,968

Other taxes payable

1,079,505

1,121,540

Other current liabilities

314,152

(53,213)

**Total adjustments**

**(5,103,997)**

**(7,762,549)**

**Net cash provided by operating activities**

**1,659,820**

**81,079**

**Cash flows from investing activities:**

Loans receivable

(279,541)

(555,252)

Due from related parties

(1,736,923)

422,593

Acquisition of property and equipment

(25,790)

(14,196)

Advance payment for long-term investment

(2,587,169)

\_\_\_\_\_ -

**Net cash used in investing activities**

**(4,629,423)**

**(146,855)**

**Cash flows from financing activities:**

Due to shareholders

-

109,275

Proceeds from issuance of securities

-

615,000

Proceeds from common stock to be issued

-

1,600,000

Additional capital contribution from shareholders

712,800

455,841

Proceeds from short-term bank loan

5,076,540

-

Repayment of short-term bank loan

(317,040)

-

Bank loan security deposit

(501,334)

-

**Net cash provided by financing activities**

**4,970,966**

**2,780,116**

**Effect of foreign currency translation on cash**

**8,061**

**61,010**

**Net increase in cash and cash equivalents**

2,009,424

2,775,350

**Cash and cash equivalents** beginning

3,572,443

797,093

**Cash and cash equivalents** ending

\$5,581,867

\$3,572,443

**Supplemental schedule of non-cash activities:**

Capital lease payment made by a shareholder on behalf of the Company

\$ 73,796

\$ 17,561

Common stock issued for conversion of promissory notes

\$ 4,000

\$ 5,870

**Supplemental disclosure information:**

Cash paid for interest

\$ 107,845

\$ 19,963

Cash paid for income taxes

\$ -

\$ -

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

**China Global Media, Inc.**

**Notes to Consolidated Financial Statements**

**NOTE 1 ORGANIZATION AND NATURE OF BUSINESS**

China Global Media, Inc. ( CGLO , formerly TK Star Design, Inc. or PUBCO ) is a publicly trading company incorporated in the State of Nevada on November 3, 2008. Its shares are currently quoted on the Over the Counter Bulletin Board ( OTCBB ). The accompanying consolidated financial statements include the financial statements of CGLO and its controlled subsidiaries (collectively, the Company ). Through its operating subsidiaries based in the People s Republic of China ( PRC ), the Company is engaged in the business of designing, production and distribution of advertisements. Its main coverage is southern Chinese provinces especially Hunan Province.

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 restructuring agreements ( Restructuring Agreements ) with 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 ). These agreements were intended to comply with PRC s existing laws and regulations so that the parties involved could legally seek foreign capital to grow their business. Zhongte, North Latitude and Beichen were incorporated on September 27, 2002, August 26, 2003 and June 3, 2008, respectively, in the city of Changsha, Hunan Province, PRC. The Restructuring Agreements, including a Consulting Services Agreement and an Operating Agreement, provide that all business revenues of Zhongte, North Latitude and Beichen shall 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 parties. 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).

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 its shareholders in exchange for an aggregate of 36,351,500 shares of PUBCO s newly-issued common stock at \$0.001 par value. The completion of the above transaction established a controlling majority of PUBCO s outstanding common stock. Upon execution of the share exchange, Phoenix International became a wholly owned subsidiary of PUBCO. On December 13, 2011 PUBCO changed its name from TK Star Design, Inc. to China Global Media, Inc.



## **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-K and Article 8 of Regulation S-X of the Securities and Exchange Commission.

In preparing the accompanying audited consolidated financial statements, the Company evaluated the period from December 31, 2012 through the date the consolidated financial statements were issued for material subsequent events requiring recognition or disclosure. (see Note 17)

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

### **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.

### **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.

### **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 these recognition criteria being satisfied are deferred. Revenue from television advertisement is recognized as the commercials are aired. Revenue from newspapers is recognized when the advertisements are published. The Company acts as a principal obligor to its advertising clients, and accordingly, revenue is reported on a gross basis.

### **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. The allowance for doubtful accounts as of December 31, 2012 and 2011 was \$995,235 and \$182,945, respectively.

## **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 contract price. When an advertisement is completed, related advance payments are debited to cost of sales according to the matching principle. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible or unusable amounts. Periodically, management assesses performance and relationships as well as performs advance payment aging analysis to determine whether certain balances are deemed uncollectible or unusable. The Company reserves 5% of advance payment balances outstanding for more than one year and less than two years and 100% of advance payment balances outstanding for more than two years. The allowance for doubtful accounts as of December 31, 2012 and 2011 was \$414,928 and \$58,391, respectively.

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

**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, which are deemed to be uncollectible or require an excessive collection cost are written off to the allowance for losses. The allowance for loan losses as of December 31, 2012 and 2011 was \$139,224 and \$165,157, respectively.

**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.

**LONG-LIVED ASSETS**

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, codified in ASC Topic 360-10-35, the Company reviews the recoverability of its long-lived assets on a periodic basis in order to identify business conditions, which may indicate a possible impairment. The assessment for potential impairment is based primarily on the Company's ability to recover the carrying value of its long-lived assets from expected future undiscounted cash flows. If the carrying value of such asset exceeds the undiscounted cash flow, the asset would be

deemed to be impaired. Impairment would then be measured as the difference between the fair value of the long-lived assets and their carrying value. For the years ended December 31, 2012 and 2011, no impairment loss has been recorded based on management's assessment.

## **INCOME TAXES**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases, operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is provided to reduce the carrying amount of deferred tax assets if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized. No differences were noted between the book and tax bases of the Company's assets and liabilities. Therefore, there are no deferred tax assets or liabilities for the years ended December 31, 2012 and 2011.

## **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company adopted the provisions of Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1- Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date;

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

### **FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Level 2- Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data;

Level 3- Inputs are unobservable inputs which reflect the reporting entity's own assumptions of what the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, prepaid expenses, other receivables, advance to suppliers, short-term loan, accounts payable, advance from customers, other payables and accrued expenses approximate their fair market value based on the short-term maturity of these instruments. The carrying value of the long-term debt approximates fair value based on market rates and terms currently available to the Company. The Company uses Level 3 method to measure fair value of its warrants liability (see note 14). The Company did not identify any other assets or liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with ASC 820.

### **EARNINGS PER SHARE**

Earnings per share is calculated in accordance with the ASC 260, Earnings per share. Basic net earnings per share is based upon the weighted average number of common shares outstanding, but excluding shares issued as compensation that have not yet vested. Diluted net earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised, and that all unvested shares have vested. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

### **STATEMENT OF CASH FLOW**

In accordance with FASB ASC 230, cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

## FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The financial position and results of operations of the Company are determined using local currency (Chinese Yuan) as the functional currency. Assets and liabilities are translated at the prevailing exchange rate in effect at each year end. Contributed capital accounts are translated using the historical rate of exchange when capital is contributed. Income statement accounts are translated at the average rate of exchange during the year. Currency translation adjustments arising from the use of different exchange rates are included in accumulated other comprehensive income in shareholders' equity. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations.

The exchange rates used to translate amounts in RMB into US Dollars for the purposes of preparing the consolidated financial statements were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Balance sheet items, except for stockholders equity items	RMB 1: US\$0.15870	RMB 1: US\$0.15740
Amounts included in the statements of operations and comprehensive income, and statements of cash flows	RMB 1: US\$0.15865	RMB 1: US\$0.15496
Stockholders' equity items	Historical rate	Historical rate

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

**COMPREHENSIVE INCOME**

The Company has adopted SFAS No. 130, codified in ASC Topic 220-10, Reporting Comprehensive Income, which establishes rules for the reporting and display of comprehensive income, its components and accumulated balances. ASC 220-10 defines comprehensive income to include all changes in equity, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on available-for-sale marketable securities, except those resulting from investments by owners and distributions to owners.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, to simplify the manner in which entities test indefinite-lived intangible assets for impairment. The ASU permits an entity to first assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not expect the adoption to have a significant impact on its financial statements.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities (Topic 210). These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity's financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The Company does not expect the adoption to have a significant impact on its financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220). ASU 2011-12 allows deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income in ASU No. 2011-05. This update is effective at the same time as the amendments in ASU No.



2011-05. The adoption of this ASU will not have a material impact on the Company's financial statements.

## **RECLASSIFICATION**

Certain amounts as of December 31, 2011 were reclassified for presentation purposes.

## **NOTE 3 ADVANCE PAYMENTS**

As of December 31, 2012 and 2011, the outstanding advance payments, net to media vendors for advertising coverage were \$19,486,219 and \$14,389,042, respectively.

## **NOTE 4 LOANS RECEIVABLE**

As of December 31, 2012 and 2011, the Company had outstanding loans receivable, net to unrelated parties of \$1,144,595 and \$857,880, respectively. These loans are payable on demand, do not bear interest, and are made in good faith.

**NOTE 5 DUE FROM RELATED PARTIES**

As of December 31, 2012, the Company had outstanding loans to related parties in the aggregate amount of \$1,782,738. These loans are primarily made to two related entities, to accommodate their financing needs. One loan of \$952,200 was made to Chansha Beian cultural communications Co., Ltd., an entity owned by a member of immediate families of Guolin Yang, shareholder of the Company. The term is one year with the annual fixed interest rate of 8.0%. The other loan of \$650,670 was made to Zhitongdaohe Movie and TV Production Co., Ltd., an entity owned by Hongdong Xu, shareholder of the Company. This loan is payable on demand, does not bear interest, and is made in good faith.

As of December 31, 2011, the Company had outstanding loans to related parties of \$44,898. 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 December 31, 2012 and 2011 consists of the following:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Office equipment and furniture	\$ 206,918	\$ 179,637
Vehicles	372,910	219,596
Vehicles capital lease	-	150,259
Buildings and improvements	<u>2,999,430</u>	<u>2,974,860</u>
Subtotal	3,579,258	3,524,352
Less: accumulated depreciation	<u>650,959</u>	<u>428,484</u>

Total

\$2,928,299

\$3,095,868

Depreciation expense for the years ended December 31, 2012 and 2011 was \$218,867 and \$199,462, respectively. The capital lease obligation was paid off during 2012.

**NOTE 7 ADVANCE PAYMENTS FOR LONG-TERM INVESTMENT**

On September 20, 2012, the WFOE entered into an agreement with Shanghai Dongyang Investment Management Co., Ltd. to form Beiwei Dongyang Corp ( Beiwei Dongyang ), a joint venture to be engaged in the business of transportation advertising. Pursuant to the agreement, the Company will hold 51% interest in the new joint venture, and is responsible for an initial investment of approximately \$2,881,992. As of December 31, 2012, the Company made advance payments of approximately \$2,587,984. (see Note 17)

**NOTE 8 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses as of December 31, 2012 and 2011 consist of the following:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Accounts payable	\$ 1,750,405	\$ 1,346,826
Accrued expenses	<u>364,552</u>	<u>288,606</u>
Total	<u>\$ 2,114,957</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:

	<b>December 31, <u>2012</u></b>	<b>December 31, <u>2011</u></b>
On August 8, 2011, the Company signed a loan agreement with Bank of Changsha with a lien on the Company's revenue. The loan was repaid in full on August 2, 2012 and the interest was calculated using annual fixed interest rate of 7.98%, paid monthly. The loan was insured by Hunan Furong Surety for Small to Mid-size Enterprise, Ltd.	\$ -	\$314,800
On April 16, 2012, the Company signed a loan agreement with China Construction Bank with a lien on the Company's revenue. The loan is to be repaid in full on April 15, 2013 and the interest is calculated using annual fixed interest rate of 8.0%, paid monthly.	\$ 952,200	\$ -
On September 6, 2012, 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 September 6, 2013 and the interest is calculated using annual fixed interest rate of 7.8%, paid monthly. The loan is insured by Hunan Zhongda Surety Investment for Small to Mid-size Enterprise, Ltd.	\$1,269,600	\$ -
On September 27, 2012, 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 September 27, 2013 and the interest is calculated using annual fixed interest rate of 7.8%, paid monthly. The loan was guaranteed by Guolin Yang, a shareholder of the Company.	\$ 793,500	\$ -
On December 25, 2012, the Company signed a loan agreement with China Merchants Bank. The loan is to be repaid in full on December 25, 2013 and the interest is calculated using annual fixed interest rate of 6.0%, paid monthly. The loan was guaranteed by Hunan Beiwei International Media Consulting Co., Ltd., a subsidiary of the Company, Guolin Yang, a shareholder of the Company, Hongdong Xu, a shareholder of the Company.	<u>\$2,063,100</u>	<u>\$ -</u>
Total short-term bank loan	<u>\$5,078,400</u>	<u>\$314,800</u>

**NOTE 10 ADVANCES FROM CUSTOMERS**

As of December 31, 2012 and 2011, the Company had advances from customers of \$4,813,291 and \$5,819,444, respectively. These advances are interest-free and unsecured.

#### **NOTE 11 INCOME TAXES**

China Global Media, Inc. is a U.S. holding company incorporated in the state of Nevada and does not engage in any business operations. It has accumulated losses since its inception date and does not expect to generate any future revenue to offset these accumulated losses. Accordingly, there is no income tax provision or benefit for U.S. income tax purposes.

Phoenix International (China) Limited is a holding company incorporated in Hong Kong, PRC and is exempt from taxes on income or capital gains under the corporate tax laws thereof.

The Company's Chinese subsidiaries are governed by PRC's Income Tax Law and are subject to statutory income tax rate of 25%. For the years ended December 31, 2012 and 2011, the income tax provision for the Company was \$2,342,181 and \$2,765,968, respectively.

**NOTE 11 INCOME TAXES (CONTINUED)**

PRC Ministry of Finance ( MOF ) and State Administration of Taxation ( SAT ) jointly issued Cai Shui [2008] Circular 1 ( Circular 1 ) on February 22, 2008. 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 thereafter shall be exempt from withholding tax ( WHT ) whereas distributions 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 as of December 31, 2012 and 2011 consist of the follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Business taxes payable	\$1,855,542	\$1,216,308
Fees and surcharges payable	<u>1,128,769</u>	<u>672,558</u>
Total	<u>\$2,984,311</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.

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 Share 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 December 31, 2011, the Company incurred \$12,300 in registration rights liability and included such amount in other current liabilities in the accompanying consolidated financial statements.

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

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 December 31, 2012 was as following:

	<u>December 31, 2012</u>
Series A Warrants issued on July 20, 2011, at fair value	\$ 177,029
Series B Warrants issued on July 20, 2011, at fair value	174,938
Series C Warrants issued on July 20, 2011, at fair value	86,977
Series D Warrants issued on July 20, 2011, at fair value	<u>86,977</u>
Total	<u>\$ 525,921</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 243%.

**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 Years Ended December 31,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Net income	\$ 6,763,817	\$ 7,843,628
Weighted average common shares (denominator for basic earnings per share)	47,339,180	39,576,549
Effect of dilutive securities:		
Common stock to be issued (see Note 13)	<u>          -</u>	<u>      219,178</u>
Weighted average common shares (denominator for diluted earnings per share)	<u>47,339,180</u>	<u>39,795,727</u>
Basic earnings per share	<u>\$      0.14</u>	<u>\$      0.20</u>
Diluted earnings per share	<u>\$      0.14</u>	<u>\$      0.20</u>

For the years ended December 31, 2012 and 2011, the Company had 3,690,000 warrants that are potentially dilutive in future earnings per share calculations. Such dilution will be dependent on the excess of the market price of the Company's stock over the exercise price and other components of the treasury stock method.

**NOTE 16 CONCENTRATIONS AND CREDIT RISKS**

For the year ended December 31, 2012, one major media vendor accounted for approximately 78% of the Company's cost for issuing advertisements. For the year ended December 31, 2011, three major media vendors accounted for approximately 60.8% of the Company's cost for issuing advertisements. Total advertisements issued by these media vendors were \$36,440,042 and \$14,533,593 for the years ended December 31, 2012 and 2011, respectively.

Two major customers accounted for approximately 52.6% of the Company's sales for the year ended December 31, 2012. Five major customers accounted for approximately 43.5% for the Company's sales for the year ended December 31, 2011. Total sales to these customers were \$31,404,794 and \$15,612,131, for the years ended December 31, 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.

#### **NOTE 17 SUBSEQUENT EVENTS**

On March 25, 2013, the WFOE formed under the laws of the PRC, Beiwei Dongyang, a joint venture to be engaged in the business of transportation advertising. Approximately 90% of the initial investment in the joint venture was made before December 31, 2012.