

CHINA GLOBAL MEDIA INC  
Form 10-Q  
May 20, 2013

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

Washington, D.C. 20549

**FORM 10-Q**

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

the quarterly period ended **March 31, 2013**

**[ ] . 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 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]**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 49,785,700 Shares of Common Stock as of March 31, 2013 and as of May 17, 2013.



**CHINA GLOBAL MEDIA, INC.**

**FORM 10-Q**

**MARCH 31, 2013**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CHINA GLOBAL MEDIA, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2013 AND 2012**

**(UNAUDITED)**

## China Global Media, Inc.

## Consolidated Balance Sheets

	<b>March 31, <u>2013</u> (Unaudited)</b>	<b>December 31, <u>2012</u></b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,549,470	\$ 5,581,867
Accounts receivable, net of allowance for doubtful accounts of \$1,000,879 and \$995,235 at March 31, 2013 and December 31, 2012, respectively	13,079,615	13,332,861
Advance payments, net	19,598,362	19,486,219
Loans receivable, net	1,151,086	1,144,595
Due from related parties	1,784,097	1,782,738
Bank loan security deposit	536,256	533,232
Other current assets	<u>810,413</u>	<u>761,047</u>
<b>Total current assets</b>	<b>39,509,299</b>	<b>42,622,559</b>
<b>Property and equipment, net</b>	<b>2,905,840</b>	<b>2,928,299</b>
<b>Intangible assets, net</b>	<b>6,384,000</b>	<b>-</b>
<b>Advance payment for long-term investment</b>	<u>-</u>	<u>2,587,984</u>
<b>Total assets</b>	<b><u>\$48,799,139</u></b>	<b><u>\$48,138,842</u></b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,009,205	\$ 2,114,957
Short-term bank loans	6,543,600	5,078,400
Due to related party	1,663,734	-
Advances from customers	1,316,343	4,813,291
Income taxes payable	7,777,862	7,734,001
Other taxes payable	3,014,109	2,984,311
Due to shareholders	198,883	198,889
Other current liabilities	<u>196,261</u>	<u>419,738</u>
<b>Total current liabilities</b>	<b>21,719,997</b>	<b>23,343,587</b>
<b>Warrants liability</b>	<u>550,344</u>	<u>525,921</u>
<b>Total liabilities</b>	<b>22,270,341</b>	<b>23,869,508</b>
<b>Equity</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, 49,785,700 and 43,485,700 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	49,786	47,486
Additional paid-in capital	3,417,541	3,419,841

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Statutory reserve	1,001,993	1,001,993
Retained earnings	19,284,100	19,133,596
Accumulated other comprehensive income	<u>803,102</u>	<u>666,418</u>
<b>Total stockholders equity</b>	<b><u>24,556,522</u></b>	<b><u>24,269,334</u></b>
<b>Noncontrolling interest</b>	<b><u>1,972,276</u></b>	<b><u>-</u></b>
<b>Total liabilities and equity</b>	<b><u>\$48,799,139</u></b>	<b><u>\$48,138,842</u></b>

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

## China Global Media, Inc.

## Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	For the Three Months Ended March 31,	
	<u>2013</u>	<u>2012</u>
Sales	\$ 12,953,919	\$ 15,038,576
Cost of sales	<u>12,205,248</u>	<u>11,965,970</u>
Gross profit	748,671	3,072,606
<b>Operating expenses:</b>		
Selling, general and administrative expenses	<u>1,036,346</u>	<u>708,896</u>
<b>Total operating expenses</b>	<u>1,036,346</u>	<u>708,896</u>
<b>Income (loss) from operations</b>	(287,675)	2,363,710
<b>Other income (expenses):</b>		
Interest expense, net	(80,698)	(3,033)
Non-operating income, net	482,795	106,807
Change in fair value of warrants liability	<u>(24,423)</u>	<u>263,544</u>
<b>Total other income</b>	<u>377,674</u>	<u>367,318</u>
<b>Income before provision for income taxes</b>	89,999	2,731,028
<b>Provision for income taxes</b>	<u>416</u>	<u>638,825</u>
<b>Net income</b>	89,583	2,092,203
<b>Less: net loss attributable to noncontrolling interest</b>	<u>(60,921)</u>	-
<b>Net income attributable to China Global Media, Inc.</b>	\$ <u>150,504</u>	\$ <u>2,092,203</u>
<b>Earnings per common share</b>		
<b>Basic</b>	\$ <u>0.00</u>	\$ <u>0.04</u>
<b>Diluted</b>	\$ <u>0.00</u>	\$ <u>0.04</u>



**Weighted average number of common shares  
outstanding**

<b>Basic</b>	<b><u>48,891,256</u></b>	<b><u>47,046,140</u></b>
<b>Diluted</b>	<b><u>48,891,256</u></b>	<b><u>47,776,779</u></b>

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

China Global Media, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

For the Three Months Ended  
March 31,  
2013                      2012

Net income

\$ 89,583

\$ 2,092,203

Other comprehensive income

Foreign currency translation adjustment

136,684

21,163

Total other comprehensive income

136,684

21,163

**Total Comprehensive income**

**226,267**

**2,113,366**

Less: Comprehensive loss attributable to the noncontrolling interest

(60,921)

-

**Comprehensive income attributable to China Global Media, Inc.**

**\$ 287,188**

**\$ 2,113,366**

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



## China Global Media, Inc.

## Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended March 31,	
	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Net Income	\$ 89,583	\$ 2,092,203
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	49,592	58,925
Change in fair value of warrants liability	24,423	(263,544)
Changes in current assets and current liabilities:		
Accounts receivable	328,281	168,027
Advance payments	(1,633)	(1,531,443)
Other current assets	(44,971)	(76,063)
Accounts payable and accrued expenses	(1,115,378)	(808,931)
Due to related party	1,660,815	-
Advances from customers	(3,518,062)	(1,120,507)
Income taxes payable	-	638,825
Other taxes payable	12,852	124,901
Other current liabilities	<u>(225,269)</u>	<u>3,716</u>
<b>Total adjustments</b>	<b><u>(2,829,350)</u></b>	<b><u>(2,806,094)</u></b>
<b>Net cash used in operating activities</b>	<b>(2,739,767)</b>	<b>(713,891)</b>
<b>Cash flows from investing activities:</b>		
Advance payment for long-term investment	804,151	-
Loans made to unrelated parties	-	136,568
Due from related parties	8,736	-
Acquisition of property and equipment	(10,594)	(15,586)
Acquisition of intangible assets	<u>(2,549,120)</u>	<u>-</u>
<b>Net cash provided by (used in) investing activities</b>	<b>(1,746,827)</b>	<b>120,982</b>
<b>Cash flows from financing activities:</b>		
Proceeds from short-term bank loan	<u>1,433,880</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<b>1,433,880</b>	<b>-</b>
<b>Effect of foreign currency translation on cash</b>	<b><u>20,317</u></b>	<b><u>(60,664)</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,032,397)</b>	<b>(653,573)</b>
<b>Cash and cash equivalents beginning</b>	<b><u>5,581,867</u></b>	<b><u>3,572,443</u></b>
<b>Cash and cash equivalents ending</b>	<b><u>\$ 2,549,470</u></b>	<b><u>\$ 2,918,870</u></b>
<b>Supplemental schedule of non-cash activities:</b>		

Advances payment converted to intangible assets	<u>\$ 1,793,943</u>	<u>\$ -</u>
Intangible assets contributed from minority shareholder	<u>\$ 2,029,737</u>	<u>\$ -</u>
Capital lease payment made by a shareholder on behalf of the Company	<u>\$ -</u>	<u>\$ 8,343</u>
Conversion of APIC to common stock	<u>\$ -</u>	<u>\$ 4,000</u>

**Supplemental disclosure information:**

Cash paid for interest	<u>\$ 81,120</u>	<u>\$ 3,033</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

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

**China Global Media, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**NOTE 1 ORGANIZATION AND NATURE OF BUSINESS**

China Global Media, Inc. ( 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.

On March 25, 2013, the WFOE formed under the laws of the PRC, Beiwei Dongyang Corp ( Beiwei Dongyang ), a joint venture, with Shanghai Dongyang Investment Management Co., Ltd., ( Shanghai Dongyang ) to be engaged in the business of transportation advertising. In this new joint venture, the WFOE has 51% ownership and Shanghai Dongyang has 49% ownership. Approximately \$2,112,583 of the initial investment in the joint venture was made by the WFOE before March 31, 2013.

## **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 interim financial information and the requirements of Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the Company does not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included.



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

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

In preparing the accompanying unaudited consolidated financial statements, the Company evaluated the period from March 31, 2013 through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

**INTERIM FINANCIAL STATEMENTS**

These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, as not all disclosures required by US GAAP for annual financial statements are presented. The interim financial statements follow the same accounting policies and methods of computations as the audited consolidated financial statements for the year ended December 31, 2012.

**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 adversely influenced by the PRC's political, economic and legal environments as well as by the general state of the PRC's economy. Specifically, the Company's business may be negatively 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.

**INTANGIBLE ASSETS**

Intangible assets are stated at cost. Intangible assets with finite life are amortized over their estimated useful life using straight-line method whereas intangible assets with infinite life are not subject to amortization. Impairment test is performed at a minimum once a year to determine possible impairment loss. Estimated useful life of intangible assets is as follows:

Estimated Useful Life

Patents

10 years

## **IMPAIRMENT OF INTANGIBLE ASSETS**

The Company applies the provisions of FASB ASC Topic 350 Goodwill and Other Intangible Assets which addresses how goodwill and other acquired intangible assets should be accounted for in financial statements. In this regard, the Company tests these intangible assets for impairment annually or more frequently if indicators of potential impairment are present. Such circumstances could include, but are not limited to: (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. The Company measures the carrying amount of the asset against the estimated discounted future cash flows associated with it at a risk-free rate of interest. Should the present value of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

**NOTE 3 ACCOUNTS RECEIVABLE**

Accounts receivable are stated at original invoice amount less allowance for doubtful accounts based on management's periodic review of aging of outstanding balances and customer credit history. Allowance for doubtful accounts amounted to \$1,000,879 and \$995,235 as of March 31, 2013 and December 31, 2012, respectively.

**NOTE 4 ADVANCE PAYMENTS**

As of March 31, 2013 and December 31, 2012, the advance payments to media vendors for advertising coverage amounted to \$19,598,362 and \$19,486,219, respectively.

**NOTE 5 LOANS RECEIVABLE**

As of March 31, 2013 and December 31, 2012, the Company had outstanding loans to unrelated parties of \$1,151,086 and \$1,144,595, respectively. These loans are payable on demand, do not bear interest, and are made in good faith.

**NOTE 6 DUE FROM RELATED PARTIES**

Due from related parties as of March 31, 2013 and December 31, 2012 consists of the following:

<b>Name of related party</b>	<b><u>March 31, 2013</u></b>	<b><u>December 31, 2012</u></b>
Chansha Beian cultural communications Co., Ltd.,	\$ 1,003,125	\$ 952,200
Zhitongdaohe Movie and TV Production Co., Ltd.,	654,360	650,670
Other	<u>126,612</u>	<u>179,868</u>
Total	<u>\$1,784,097</u>	<u>\$1,782,738</u>

Chansha Beian cultural communications Co., Ltd., an entity owned by a member of immediate families of Guolin Yang, shareholder of the Company. The loan term is one year with the annual fixed interest rate of 8.0%.

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.

**NOTE 7 PROPERTY AND EQUIPMENT**

Property and equipment as of March 31, 2013 and December 31, 2012 consists of the following:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Office equipment and furniture	\$ 218,705	\$ 206,918
Vehicles	375,025	372,910
Buildings and improvements	<u>3,016,440</u>	<u>2,999,430</u>
Subtotal	3,610,170	3,579,258
Less: accumulated depreciation	<u>704,330</u>	<u>650,959</u>
 Total	 <u>\$2,905,840</u>	 <u>\$2,928,299</u>

Depreciation expense was \$49,592 and \$58,925 for the three months ended March 31, 2013 and 2012, respectively.

**NOTE 8 INTANGIBLE ASSETS**

Intangible assets as of March 31, 2013 and December 31, 2012 consist of the following:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Patent	<u>\$6,384,000</u>	<u>\$ -</u>
Less: accumulated amortization	<u>-</u>	<u>-</u>
Total	<u>\$6,384,000</u>	<u>\$ -</u>

Shanghai Dongyang Management Co., Ltd., ( Shanghai Dongyang ) owned a patent for an advertising vehicle with an aggregate fair value of \$6,384,000. The patent has a term of ten years starting from August 15, 2013. In March 2013, Shanghai Dongyang contributed this patent to the new joint venture Beiwei Dongyang in exchange for a 49% interest (valued approximately \$2,029,737) in the joint venture. The remaining value of the patent of approximately \$4,354,263 was sold to Beiwei Dongyang.

For the three months ended March 31, 2013 and 2012, no amortization expense was recorded.

**NOTE 9 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses as of March 31, 2013 and December 31, 2012 consist of the following:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Accounts payable	\$ 763,103	\$1,750,405
Accrued expenses	<u>246,102</u>	<u>364,552</u>
Total	<u>\$1,009,205</u>	<u>\$2,114,957</u>

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

**NOTE 10 SHORT-TERM BANK LOAN**

Short-term bank loan consists of the following:

	<b>March 31, <u>2013</u></b>	<b>December 31, <u>2012</u></b>
On April 16, 2012, the Company signed a loan agreement with China Construction Bank with a lien on the Company's revenue. The loan was repaid in full on April 15, 2013 and the interest was calculated using annual fixed interest rate of 8.0%, paid monthly.	\$ 957,600	\$ 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 7.56%, paid monthly. The loan is insured by Hunan Zhongda Surety Investment for Small to Mid-size Enterprise, Ltd.	\$1,276,800	\$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.	\$ 798,000	\$ 793,500

**NOTE 10 SHORT-TERM BANK LOAN (CONTINUED)**

	<b>March 31, <u>2013</u></b>	<b>December 31, <u>2012</u></b>
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.	\$2,074,800	\$2,063,100
On January 23, 2013, the Company signed a loan agreement with China Merchants Bank. The loan is to be repaid in full on January 23, 2014 and the interest was calculated using annual fixed interest rate of 6.6%, paid monthly.	\$ 319,200	\$ -
On March 28, 2013, the Company signed a loan agreement with China Merchants Bank. The loan is to be repaid in full on March 28, 2014 and the interest is calculated using annual fixed interest rate of 6.6%, paid monthly.	<u>\$1,117,200</u>	<u>\$ -</u>
Total short-term bank loan	<u>\$6,543,600</u>	<u>\$5,078,400</u>

**NOTE 11 DUE TO RELATED PARTY**

As of March 31, 2013 and December 31, 2012, the balance due to related party was \$1,663,734 and \$0, respectively. This amount is used to purchase patent from Shanghai Dongyang. All amounts are non-interest-bearing and unsecured.

**NOTE 12 ADVANCES FROM CUSTOMERS**

As of March 31, 2013 and December 31, 2012, the Company had advances from customers of \$1,316,343 and \$4,813,291, respectively. These advances are interest-free and unsecured.

### **NOTE 13 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 three months ended March 31, 2013 and 2012, the income tax provision for the Company was \$416 and \$638,825, respectively.

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 14 OTHER TAXES PAYABLE**

Other taxes payable as of March 31, 2013 and December 31, 2012 consist of the following:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Business taxes payable	\$1,938,261	\$1,855,542
Fees and surcharges payable	<u>1,075,848</u>	<u>1,128,769</u>
Total	<u>\$3,014,109</u>	<u>\$2,984,311</u>

**NOTE 15 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 Shares entitles the Investors to two shares of Series A Warrants, two shares of Series B Warrants, one share of Series C Warrants and one share of Series D Warrants.

Pursuant to the Subscription Agreements and the related Registration Rights Agreements, PUBCO has agreed to file a resale Registration Statement on Form S-1 within 45 days following the closing of the Subscription Agreements ( Required Filing Date ) registering the Purchased Securities (together the Registrable Securities ) with the Securities and Exchange Commission (the SEC ). In the event PUBCO fails to file the Registration Statement by the Required Filing Date, or the Registration Statement is not declared effective by the SEC within 120 days after the Required Filing Date, PUBCO has agreed to pay liquidated damages to each investor. Liquidated damages begin accruing from and including the day following such Filing Default, until the date that the Registration Statement is filed, or declared effective, as applicable, at a rate per month (or portion thereof) equal to 0.50% of the total purchase price of the Shares purchased by such investor pursuant to the Purchase Agreement. However, the penalties may not exceed an aggregate of 9% of the total purchase price. As of March 31, 2013, the Company incurred \$33,825 in registration rights liability and included such amount in other current liabilities in the accompanying consolidated financial statements.

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

**NOTE 15 STOCK AUTHORIZATION AND ISSUANCE (CONTINUED)**

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 16 WARRANTS LIABILITY**

The fair value of the warrants liability as of March 31, 2013 was as following:

	<b><u>March 31, 2013</u></b>
Series A Warrants issued on July 20, 2011, at fair value	\$ 185,881
Series B Warrants issued on July 20, 2011, at fair value	182,849
Series C Warrants issued on July 20, 2011, at fair value	90,807
Series D Warrants issued on July 20, 2011, at fair value	<u>90,807</u>
Total	<u>\$ 550,344</u>

The terms of these warrants issued on July 20, 2011, as described in Note 15, 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 15. 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 0.77%; dividend yield of zero percent; and a volatility of 237%.

#### **NOTE 17 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.

**NOTE 17 EARNINGS PER SHARE (CONTINUED)**

	<b>For the Three Months Ended March 31,</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
Net income attributable to CGLO	\$ 150,504	\$ 2,092,203
Weighted average common shares (denominator for basic earnings per share)	48,891,256	47,046,140
Effect of dilutive securities:		
Warrants	<u>          -</u>	<u>      730,639</u>
Weighted average common shares (denominator for diluted earnings per share)	<u>48,891,256</u>	<u>47,776,779</u>
Basic earnings per share	<u>\$      0.00</u>	<u>\$      0.04</u>
Diluted earnings per share	<u>\$      0.00</u>	<u>\$      0.04</u>

**NOTE 18 CONCENTRATIONS AND CREDIT RISKS**

One major media vendor accounted for approximately 92% of the Company's cost for issuing advertisements for the three months ended March 31, 2013. Two major media vendors accounted for approximately 92% of the Company's cost for issuing advertisements for the three months ended March 31, 2012. Total advertisements issued by these media vendors were \$11,269,713 and \$11,030,492 for the three months ended March 31, 2013 and 2012, respectively.

One major customer accounted for approximately 76% for the Company's sales for the three months ended March 31, 2013. Two major customers accounted for approximately 67% of the Company's sales for the three months ended March 31, 2012. Total sales to these customers were \$9,784,596 and \$10,086,871 for the three months ended March 31, 2013 and 2012, respectively.

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



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

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

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

### **Overview**

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

### **Company History**

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

On July 20, 2011, we entered into a Share Exchange Agreement with the shareholders of Phoenix International (China) Limited, a company organized under the laws of Hong Kong ( Phoenix International ). Pursuant to the terms of the Share Exchange Agreement, we acquired all of the issued and outstanding shares of Phoenix International from the Phoenix International Shareholders in exchange for the issuance by us to the Phoenix International Shareholders of an aggregate of 36,351,500 newly-issued shares of common stock, \$ 0.001 par value per share (the Share Exchange ), which, upon completion of the transactions contemplated by the Share Exchange Agreement, constitutes a controlling majority of our issued and outstanding shares of common stock. Upon the closing of the share exchange transaction, Phoenix International became our wholly owned subsidiary and we ceased the business of repairing, maintaining and servicing metal gym and heavy duty weight equipment, and became engaged in the advertising and brand name development business in China through Phoenix International and its subsidiary and affiliated companies in China.

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

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



On March 25, 2013, the WFOE formed under the laws of the PRC, Beiwei Dongyang Corp ( Beiwei Dongyang ), a joint venture to be engaged in the business of transportation advertising. Approximately 90% (approximately \$2,112,583) of the initial investment in the joint venture was made before March 31, 2013.

## **Sales and Marketing**

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

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

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

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

## **Strategy**

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

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

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

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

### **Strategies**

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

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

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

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

4. Continue to expand our advertising customer base.



## Results of Operations

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

### *Comparison of the quarter ended March 31, 2013 and 2012*

<u>The Quarters Ended March 31,</u>	<b>2013</b>		<b>2012</b>	
Sales	\$	12,953,919	\$	15,038,576
Cost of sales	\$	12,205,248	\$	11,965,970
Gross profit	\$	748,671	\$	3,072,606
Selling, general and administrative expenses	\$	1,036,346	\$	708,896
Other income (expense)	\$	377,674	\$	367,318
Income taxes	\$	416	\$	638,825
Net income	\$	89,583	\$	2,092,203
Less: net loss attributable to noncontrolling interest		(60,921)		-
Net income attributable to China Global Media, Inc.		150,504		2,092,203
Foreign currency translation adjustment	\$	136,684	\$	21,163
Comprehensive income attributable to China Global Media, Inc.	\$	287,188	\$	2,113,366

### *Sales:*

Our sales for the quarter ended March 31, 2013 were \$12,953,919, a decrease of \$2,084,657, or 14% from our sales of \$15,038,576 for the quarter ended March 31, 2012. This decrease was mainly due to our continued sales and marketing efforts to locate and develop new customers who contributed to the sales growth.

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

	The Quarter Ended March 31,				Variance	
	2013		2012		Amount	%
	Amount (in '000 USD)	% to total sales	Amount (in '000 USD)	% to total sales	(in '000 USD)	
TV	11,927	92%	13,806	92%	(1,879)	(14%)

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Radio	449	4%	556	4%	(107)	(19%)
Newspaper and magazine	136	1%	201	1%	(65)	(32%)
Exhibition and events	269	2%	141	1%	128	91%
Elevator door display	11	0%	50	0%	(39)	(78%)
Outdoor billboard	120	1%	174	1%	(54)	(31%)
Internet	42	0%	111	1%	(69)	(62%)
Total	12,954	100%	15,039	100%	(2,085)	

The Company focused 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 decreased by \$1.87 million due to expansion of our TV advertising business and more working capital was invested in securing more media coverage resources.

**Cost of Sales:**

Our cost of sales for the quarter ended March 31, 2013 was \$12,205,248, an increase of \$239,278 as compared to \$11,965,970 for the quarter ended March 31, 2012. This increase was primarily due to the expansion of our business and more working capital was invested in securing more media coverage resources. Our cost of sales consists primarily of expenses associated with the service, including fees paid to third parties for advertisements.

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

	The Quarter Ended March 31,		2012		Variance	
	2013		2012			
	Amount	% to total	Amount	% to total	Amount	%
	(in '000 USD)	cost	(in '000 USD)	cost	(in '000 USD)	
TV	11,555	94%	11,229	94%	326	29%
Radio	238	2%	343	3%	(105)	(31%)
Newspaper and magazine	108	1%	138	1%	(30)	(22%)
Exhibition and events	203	2%	82	1%	121	148%
Elevator door display	4	0%	18	0%	(14)	(78%)
Outdoor billboard	74	1%	110	1%	(36)	(33%)
Internet	23	0%	46	0%	(23)	(50%)
Total	12,205	100%	11,966	100%	239	

**Gross Profit:**

As a result of the foregoing, we generated an operating profit of \$748,671 for the quarter ended March 31, 2013, a \$2,323,935 decrease from the comparable period in 2012. Gross profit rate decreased by 14% from 20% to 6%. The volatility in gross profit percentages is mainly due to the change of combinations of revenue from different media and the change of gross profit percentage of each advertising media resource. Gross profit percentage from the portfolio of advertising media resources is as follows:

	The Quarter Ended March 31,		Variance
	2013	2012	

TV	3%	19%	-16%
Radio	47%	38%	9%
Newspaper and magazine	21%	31%	-10%
Exhibition and events	25%	42%	-17%
Elevator door display	65%	64%	1%
Outdoor billboard	38%	37%	1%
Internet	45%	59%	-14%

Gross profit percentage for TV decreased mainly due to the increased business competition in this industry. The advertisement coverage resource is stable since our vendors are stable. However, there are increasing advertising agents like us coming into the business. Gross profit percentage for TV decreased by 16%. We have to pay more to purchase the coverage right compared to previous period. The gross profit percentage from newspaper and magazine, exhibition and events and internet decreased compared to the same period last year due to the fact that we had less revenue generated from these three sources and those revenue sources in last year had a relatively high margin. The gross profit percentage from newspaper, exhibition and events and internet fluctuate quarter to quarter due to the fact that we are relatively new in these industries and the cost highly depends on the competition with other companies and the relationship with the media. When the sales from these media are limited, the gross margin fluctuated significantly.

Although sales from TV to total sales remains same percentage, gross margin percentage for sales from TV decreased by 16%, the overall gross profit decreased by 14%.

*Operating Expenses:*

Operating expenses, including selling expenses and general and administrative expenses, were \$1,036,346 for the quarter ended March 31, 2013 as compared to \$708,896 for the quarter ended March 31, 2012, an increase of \$327,450. The increase of these major expenses was mainly due to our expansion of business.

The primary changes in the operating expense include the following:

- Payroll and related expense increased by approximately \$161,960, which was due to the expansion of our business that required more administrative and sales staff later year of 2012.
- Other expenses, including office, hospitality and other miscellaneous expenses increased by approximately \$152,000 due to the expansion of our business and operation.

*Income Taxes:*

Our income taxes were \$416 for the quarter ended March 31, 2013, comparing to \$638,825 for the quarter ended March 31, 2012, a decrease of \$638,409. Such decrease is due to the decreased income before taxes from operations.

*Net Income:*

We reported net income of \$89,583 and \$2,092,203 for the quarters ended March 31, 2013 and 2012, respectively. Basic and diluted earnings per common share were identical for quarter ended March 31, 2013, which were \$ 0.00. For the quarter ended March 31, 2012, basic and diluted earnings per share were \$0.04. This decrease was the result of the decrease in sales revenue and the increase in operating expenses due to our on-going investments and efforts in the business expansions. We believe that this trend will continue during our 2013 fiscal year and beyond.

*Comprehensive income:*

Comprehensive income, which adds the currency adjustment to net income, was \$226,267 for the quarter ended March 31, 2013 as compared to \$2,113,366 for the quarter ended March 31, 2012. The decrease of comprehensive income was mainly due to a 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 requirement for our current operations over the next twelve months. In order to fully implement our business plan and continue our growth, however, we will require additional capital either from our shareholders or from outside sources.

As of March 31, 2013, we had cash and cash equivalents of \$2,549,470. Our current assets were \$39,509,299 and our current liabilities were \$21,719,997 as of March 31, 2012, which resulted in a current ratio of approximately 1.82:1.

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

	For the Three Months Ended	
	March 31,	
	2013	2012
Cash flows used in operating activities	(2,739,767)	(713,891)
Cash flows provided by (used in) investing activities	(1,746,827)	120,982
Cash flows provided by financing activities	1,433,880	-

Net cash used in operating activities increased by \$2,025,876 for the three months ended March 31, 2013 compared to the net cash used in operating activities of \$713,891 for the three months ended March 31, 2012. The decrease was mainly due to a decrease in advance from customers.

Net cash used in investing activities in the three months ended March 31, 2013 was \$1,746,827 as compared to cash provided by investing activities of \$120,982. The increased net cash used in investing activities in 2013 was mainly due to the increased cash used for purchasing intangible assets.



Net cash provided by financing activities in the three months ended March 31, 2013 was \$1,433,880 as compared to \$nil in the same period of 2012. The increase was due to the two short-term bank loans proceed from China Merchants Bank.

*Accounts Receivable, and Allowance for Doubtful Accounts.*

Substantial portions of our business operations are conducted in the People's Republic of China. During the normal course of business, we extend unsecured credit to our customers. Our standard collection term is three to six months. We review our accounts receivable based on the customers' financial condition and their prior payment history to determine if the allowance for doubtful accounts is adequate. The Company reserves 5% of accounts receivable balances that have been outstanding for more than six months and less than one year, 20% of accounts receivable balances that have been outstanding for more than one year and less than two years, and 100% of accounts receivable balances that have been outstanding for more than two years. The collection of accounts receivable will substantially increase our liquidity and we will maintain the current level of accounts receivable balance in the near future. As of March 31, 2013, there was \$8.62 million of accounts receivable that were aged more than 90 days.

*Advance payments*

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

The contractual term for these exclusive coverage rights includes:

1.

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

2.

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

3.

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

4.

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

5.

And the deposit required (5%)

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

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

As of March 31, 2013, the advance payments to our major vendors include:

	Amount
Hunan radio and television advertising company	11,401,734
Golden Eagle 955 Radio Station	1,105,185
Changsha Haizhongjin Culture Co	2,308,987

*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*

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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*

Loan payable \$957,600 to China Construction Bank has a one-year term from April 16, 2012 to April 15, 2013 at a fixed interest rate of 8.0% per year. The loan was guaranteed by our revenue.

Loan payable of \$798,000 to Bank of Changsha has a one-year term from September 27, 2012 to September 26, 2013 at a fixed interest rate of 7.8% per year. On September 6, 2012, the Company obtained a loan \$1,276,800 from Bank of Changsha, due on September 5, 2013 with annual fixed interest rate of 7.56%. This loan has been insured by an unrelated company, Hunan Zhongda Surety Investment for Small to Mid-size Enterprise, Ltd

Loan payable \$2,074,800 to China Merchants Bank has a one-year term from December 25, 2012 to December 25, 2013 at a fixed interest rate of 6.0% per year. The loan was guaranteed by Hunan Beiwei, Guolin Yang, Hongdong Xu.

Loan payable \$319,200 to China Merchants Bank has a one-year term from January 23, 2013 to January 23, 2014 at a fixed interest rate of 6.6% per year.

Loan payable \$1,117,200 to China Merchants Bank has a one-year term from March 28, 2013 to March 28, 2014 at a fixed interest rate of 6.6% per year.

#### *Loans receivable from unrelated parties*

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

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

We do not have any off-balance sheet arrangements.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of its financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles. Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and judgments. See Note 2 to our consolidated financial statements, Basis of Presentation and Summary of Significant Accounting Policies. We believe that the following paragraphs reflect the more critical accounting policies that currently affect our financial condition and results of operations:

#### *Use of Estimates*

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

#### *Revenue Recognition*

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





### *Cash Equivalents*

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

### *Accounts Receivable*

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

### *Advance Payments*

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

### *Loans Receivable*

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

### *Property and Equipment*

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

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

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

*Intangible Assets*

Intangible assets are stated at cost. Intangible assets with finite life are amortized over their estimated useful life using straight-line method whereas intangible assets with infinite life are not subject to amortization. Impairment test is performed at a minimum once a year to determine possible impairment loss. Estimated useful life of intangible assets is as follows:

Estimated Useful Life

Patents

10 years

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

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

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

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

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

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

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

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

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

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

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

As of March 31, 2013, our management conducted an assessment of the effectiveness of the Company's internal control over financial reporting. In making this assessment, management followed an approach based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO ). Based on this assessment, management believes that the Company's internal control over financial reporting is effective.

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

#### Changes in Internal Controls

We have also evaluated our internal controls for financial reporting, and there have been no change in our internal control over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting during the fiscal quarter ended March 31, 2013.



## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

Not required for Smaller Reporting Company.

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

On 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 9,180,000 Yuan); 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.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

None.

### **ITEM 5. OTHER INFORMATION**

None





**ITEM 6. EXHIBITS**

(a)

Exhibits

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

\* filed herewith

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

SIGNATURES

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

/s/ Guolin Yang

Guolin Yang

Title: President and Chief Executive Officer

May 20, 2013

