A PCAOB Registered CPA Firm
Simon & Edward, LLP
Certified Public Accountants & Consultants

CTX Virtual Technologies, Inc. and Subsidiaries

Consolidated Financial Statements

As of and for the years ended December 31, 2013 and 2012

An Independent Member Of
BDO SEIDMAN ALLIANCE

CTX Virtual Technologies, Inc. and Subsidiaries

Contents

Report of Independent Registered Public Accounting Firm 3

Consolidated Financial Statements

Balance Sheets 4

Statements of Income 5

Statements of Stockholders' Equity 6

Statements of Cash Flows 7

Notes to Consolidated Financial Statements 9

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
CTX Virtual Technologies, Inc.
Boca Raton, Florida

We have audited the accompanying consolidated balance sheets of CTX Virtual Technologies, Inc. and Subsidiaries (collectively the "Company") as of December 31, 2013 and 2012 and the related consolidated statements of income, 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 consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 audit 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 presentation of the consolidated financial statements. 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 the Company at December 31, 2013 and 2012, and the results of its consolidated operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Simon & Edward, LLP

City of Industry, California
February 13, 2015

CTX Virtual Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	*2013*	*2012*
ASSETS		
Current Assets:		
Cash	$ 1,525,379	$ 2,808,702
Accounts receivable, net of allowance for bad debt of $70,599 and $757,740, respectively	9,815,326	14,130,945
Inventories, net	3,505,833	3,678,653
Prepaid expenses and other current assets	12,578,795	5,142,209
Amounts due from related parties	13,194,569	5,899,458
Total current assets	40,619,902	31,659,967
Property and equipment, net	3,749,244	3,860,921
Intangible assets, net	12,270,195	15,344,902
Debt issuance costs, net	876,978	-
Goodwill	473,557	519,578
Other assets	552,304	139,490
Total assets	**$ 58,542,180**	**$ 51,524,858**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,289,850	$ 15,072,959
Accrued liabilities and other current liabilities	10,033,227	13,849,630
Unearned revenue	4,741,939	1,457,062
Income taxes payable	12,066,629	4,075,443
Short-term bank loan	2,566,280	1,105,112
Amounts due to related parties	2,889,247	5,451,470
Derivative liability	11,741,210	1,669,470
Convertible debt, net of unamortized issuance costs of $6,124,819 and $1,560,702, respectively	6,896,300	1,830,823
Total current liabilities	59,224,682	44,511,969
Warrant liabilities	21,950,342	12,084,368
Total liabilities	81,175,024	56,596,337
Commitments and contingencies		
Stockholders' equity		
Common stock - par value of $0.001; 110,000,000 shares authorized, 24,501,091 and 22,227,698 shares issued and outstanding, respectively	24,501	22,227
Class AA preferred stock - par value of $0.001; 50,000 shares authorized, 25,874 and 27,720 shares issued and outstanding, respectively	25	27
Class A preferred stock - par value of $0.001; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Class B preferred stock - par value of $0.001; 10,000,000 shares authorized, 8,557,500 and 10,000,000 shares issued and outstanding, respectively	8,550	10,000
Class C preferred stock - par value of $0.001; 67,841shares authorized, no shares issued and outstanding	-	-
Additional paid-in capital	17,108,077	17,047,810
Accumulated deficit	(39,923,707)	(22,554,365)
Accumulated other comprehensive income	149,710	402,822
Total stockholders' equity (deficit)	(22,632,844)	(5,071,479)
Total liabilities and stockholders' equity	**$ 58,542,180**	**$ 51,524,858**

See accompanying notes to financial statements.

CTX Virtual Technologies, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	*2013*	*2012*
Net sales	$ 241,116,704	$ 119,160,232
Cost of sales	219,824,310	99,127,330
Gross profit	21,292,394	20,032,902
Operating expenses:		
General and administrative	7,006,927	2,208,880
Research and development	1,475,009	459,149
Depreciation and amortization	3,961,168	2,200,133
Selling	72,156	355,486
Deferred compensation - stock options and restricted stock	41,990	103,200
Total operating expenses	12,557,250	5,326,848
Income from operations	8,735,144	14,706,054
Other expense (income)		
Gain on bargain purchase price	-	(18,787,019)
Interest expense – convertible debt and term loan	1,100,102	-
Interest expense – amortization of convertible debt discount	5,160,497	1,357,861
Interest expense - amortization of debt issuance costs	2,923,260	-
Interest expense – issuances of warrant and derivative liability in excess of debt discount	9,113,676	-
Interest income	(8)	-
Changes in fair value of convertible debt	-	17,464
Changes in fair value of warrant liabilities	2,146,450	6,146,929
Changes in derivative liability	(965,861)	(14,735)
Other expense, net	118,740	1,821,451
Total other income, net	19,596,856	(9,458,049)
Income (loss) before income tax provision	(10,861,712)	24,164,103
Income tax provision	342,573	5,473,946
Net income (loss) before deconsolidation of subsidiary	(11,204,285)	18,690,157
Loss from deconsolidation of subsidiary	-	5,102,514
Net income (loss)	**$ (11,204,285)**	**$ 13,587,643**
Comprehensive income (loss) statements:		
Net income (loss)	$ (11,204,285)	$ 13,587,643
Income (loss) from foreign currency translation	(253,112)	32,630
Total comprehensive income (loss)	**$ (11,457,397)**	**$ 13,620,273**
Earnings (Loss) per share:		
Basic	$ (0.47)	$ 0.67
Diluted	$ (0.47)	$ 0.39

See accompanying notes to consolidated financial statements.

CTX Virtual Technologies, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

	Common Stock	Class AA Preferred Stock	Class A Preferred Stock	Class B Preferred Stock	Class C Preferred Stock	Stock Subscription Payable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2011	$ 20,261	$ 27	$ -	$ 10,000	$ -	$ 1,875,000	$ 10,052,913	$ (7,472,794)	$ 370,192	$ 4,855,599
Board compensation	63	-	-	-	-	-	89,890	-	-	89,953
Investor relation services compensation	75	-	-	-	-	-	108,525	-	-	108,600
Issuance of shares to consultants	30	-	-	-	-	-	47,970	-	-	48,000
Issuance of shares for finder's fee	143	-	-	-	-	-	147,000	-	-	147,143
Issuance of shares for acquisition of companies (Note 4)	1,108	-	-	-	-	-	3,598,892	-	-	3,600,000
Private placement	547	-	-	-	-	-	1,024,420	-	-	1,024,967
Stock subscription payable for reversal of Guoqian Division A	-	-	-	-	-	(1,875,000)	1,875,000	-	-	-
Deconsolidation of subsidiary	-	-	-	-	-	-	-	(5,102,514)	-	(5,102,514)
Stock-based compensation expense - Restricted stock	-	-	-	-	-	-	103,200	-	-	103,200
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	32,630	32,630
Dividend distribution	-	-	-	-	-	-	-	(28,669,214)	-	(28,669,214)
Net income	-	-	-	-	-	-	-	18,690,157	-	18,690,157
Balance at December 31, 2012	$ 22,227	$ 27	$ -	$ 10,000	$ -	$ -	$ 17,047,810	$ (22,554,365)	$ 402,822	$ (5,071,479)
Private placement	2,274	(2)	-	(1,450)	-	-	18,277	-	-	19,099
Stock-based compensation expense	-	-	-	-	-	-	41,990	-	-	41,990
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(253,112)	(253,112)
Dividend distribution	-	-	-	-	-	-	-	(6,165,057)	-	(6,165,057)
Net loss	-	-	-	-	-	-	-	(11,204,285)	-	(11,204,285)
Balance at December 31, 2013	$ 24,501	$ 25	$ -	$ 8,550	$ -	$ -	$ 17,108,077	$ (39,923,707)	$ 149,710	$ (22,632,844)

See accompanying notes to consolidated financial statements.

CTX Virtual Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	*2013*	*2012*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) before deconsolidation	$ (11,204,285)	$ 18,690,157
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on deconsolidation	-	(5,102,514)
Depreciation and amortization – property and equipment	420,746	174,359
Amortization of intangible assets	3,540,422	2,025,774
Stock-based compensation – stock options and restricted stocks	41,990	103,200
Changes in fair value of convertible debts	-	17,464
Changes in fair value of warrant liability	2,146,450	6,146,929
Changes in fair value of derivative liability	(965,861)	(14,735)
Interest expense – amortization of convertible debt discount costs	5,160,497	1,469,820
Interest expense – amortization of debt issuance costs	2,923,260	-
Interest expense – warrant and derivative liability in excess of debt discount	9,113,676	-
Deferred income tax, net	-	1,371,772
Gain on bargain purchase price	-	(18,787,019)
Changes in operating assets and liabilities:		
Accounts receivable	4,719,906	2,544,137
Inventories	282,272	(605,729)
Prepaid expenses and other current assets	(6,199,936)	8,097,201
Other assets	112,793	(222,523)
Accounts payable, accrued liabilities and other current liabilities	(13,759,151)	12,322,408
Income taxes payable	7,742,773	2,710,667
Net cash provided by operating activities	4,075,552	30,941,368
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(182,647)	(1,487,418)
Net payments received (due) from related parties	(6,996,021)	(2,987,478)
Increase in loan from unrelated parties	(40,000)	-
Net cash used in investing activities	(7,218,668)	(4,474,896)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible debt	10,852,913	3,391,525
Proceeds from issuance of equity shares – private placement	-	1,024,731
Principal repayments on convertible debt	(1,628,795)	-
Proceeds (repayments) from bank loan, net	1,403,801	(477,928)
Loan payments received from an individual	-	1,900,000
Distribution to shareholder	(6,130,842)	(28,669,214)
Net payments for amounts due to related parties	(2,650,450)	(2,409,250)
Net cash provided by (used in) investing activities	1,846,627	(25,240,136)
Beginning cash balance of subsidiaries acquired	-	1,500,324
Effect of foreign currency exchange translation	13,166	98
Net increase (decrease) in cash	(1,283,323)	2,726,758
Cash at beginning of year	2,808,702	81,944
Cash at end of year	**$ 1,525,379**	**$ 2,808,702**

Continued to next page

CTX Virtual Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	*2013*	*2012*
Supplemental disclosures of cash flow information:		
Interest paid	$ 119,860	$ 33,591
Income taxes paid	$ 123,807	$ 87,470
Supplementary disclosures of significant non-cash investing activities:		
The Company acquired subsidiaries (see Note 4). The following table summarizes the purchase transaction on the date of acquisition:		
Issuance of common stock	$ -	$ 3,600,000
Working capital payout liability and earn-out	-	3,727,236
Cash paid	-	-
Total purchase price		7,327,236
Less: fair value of		
Assets acquired (including cash acquired of $2,120,935 and $164,942, respectively)	-	(40,970,374)
Liabilities assumed	-	14,856,119
Goodwill (excess purchase price over fair value of net assets acquired) or bargain purchase (excess of net assets acquired over purchase price)	$ -	$ (18,787,019)

See accompanying notes to consolidated financial statements.

1. PRESENTATION AND NATURE OF OPERATIONS

Prior Business

CTX Virtual Technologies, Inc. ("CTXV" or the "Company"), we, or us, was originally incorporated as a Colorado corporation in January 1988 under the name Cap Rock Corporation, later changed its name to Striker Capital Corp. ("Striker Capital") in April 2004 and reincorporated by merger as a Nevada corporation in May 2006. On or about June 30, 2006, Striker Capital acquired all of the outstanding shares of Pioneer Realty Group, Inc., a Delaware corporation ("Pioneer"), in exchange for the issuance of a controlling equity interest in Striker Capital to the former shareholders of Pioneer. As a result of the transaction, Mr. David Cohen, a member of our Board of Directors at the time, acquired control of Striker Capital and designated management and Board of Directors. In July 2006, Striker Capital changed its name to Petro Plus USA, Inc. and in August 2006 to Petroleum Consolidators of America, Inc. ("Petroleum Consolidators"). In August 2008, Petroleum Consolidators acquired all of the outstanding shares of Gas Retailers, Inc. in exchange for the issuance of shares of Petroleum Consolidators common stock to the former shareholders of that company. From 2006 to February 2010, Petroleum Consolidators was engaged in the acquisition and operation of gasoline stations (''Prior Business").

On or about February 17, 2010, the Petroleum Consolidators acquired all of the capital stock of CTX Virtual Technologies, Inc., a Delaware corporation ("CTXV"), in exchange for shares of preferred stock of Petroleum Consolidators (the "Acquisition") and certain shareholders of CTXV and others contemporaneously therewith acquired certain shares of preferred stock of Petroleum Consolidators from a stockholder of Petroleum Consolidators. At the closing, CTXV designated a majority of the members of the board of directors and appointed certain officers of Petroleum Consolidators. The Acquisition resulted in a change in control of Petroleum Consolidators. On March 10, 2010, Mr. Clifford Rhee was appointed President and CEO of the Petroleum Consolidators. Effective with the open of business on March 25, 2010, Petroleum Consolidators effectuated a 1 for 125 reverse stock split of its shares of common stock, $0.001 par value per share. In April 2010, Petroleum Consolidators completed a reincorporation merger pursuant to which Petroleum Consolidators changed domicile to Delaware and adopted CTX Virtual Technologies, Inc. name. At the closing of these transactions, Mr. Clifford Rhee held 9,000,000 Series B Preference Shares of CTXV, representing in the aggregate of 54% of CTXV outstanding common stock on a fully diluted basis and maintained 84% of the voting power attributable to CTXV outstanding securities. The original shareholders of Petroleum Consolidators held 10,000 Series AA Preference Shares of CTXV and 1,702,135 common shares.

The acquisition of CTXV has been accounted for as a "reverse merger" and recapitalization since the shareholder of CTXV became controlling owner of Petroleum Consolidators after the acquisition. Accordingly, the assets and liabilities and the historical operations that were reflected in the financial statements are those of CTXV and were recorded at the historical cost basis.

Acquisitions

Prior to acquisitions or formation of its wholly owned subsidiaries, CTXV was a shell company with no operations. The followings are the acquisitions by CTXV:

- ***Kaibida Acquisition*** – On April 26, 2010, CTXV acquired 100% equity interest of Kaibida International Limited, a Hong Kong company ("Kaibida") incorporated on January 21, 2010, Prior to the acquisition, Mr. Lee Poo Ying and Mr. Clifford Rhee, each owned 50% ownership interest of Kaibida and signed acting in cert agreement to control Kaibida as a group.

1. PRESENTATION AND NATURE OF OPERATIONS (continued)

Acquisitions (continued)

The acquisition was accomplished by means of a share exchange in which CTXV issued 17,250 shares of Series AA Preferred Stock to the former Kaibida, Comstar and Yongyang shareholders, Mr. Lee Poo Ying, General Manager and Vice President of Manufacturing of Kaibida, received 4,150 shares. The shares issued in the exchange represented in the aggregate of 8.2% of CTXV outstanding common stock on a fully diluted basis and 1.8% of the voting power attributable to our outstanding securities. The remaining 12,100 shares of Series AA Preferred Stock were issued to the other shareholders of Comstar, Yongyang and other personnel, which represented in the aggregate of 25.9% of CTXV outstanding common stock on a fully diluted basis and 5.7% of voting rights of CTXV.

Mr. Clifford Rhee held 9,000,000 Series B preference shares before and after the acquisition, representing in the aggregate of 54% and 35.5% of CTXV outstanding common stock on a fully diluted basis before and after the acquisition, respectively, and maintained 78% of the voting power attributable to CTXV outstanding securities. Mr. Rhee had the ability to appoint all the board of directors as well as other powers as the controlling shareholder to control CTXV before and after the acquisition.

As the acquisition involved companies under common control, the acquisition was accounted for in accordance with ASC 805-50, Business Combinations – Related Issues, and the assets and liabilities and historical operations that are reflected in the financial statements are those of CTXV and Kaibida and are recorded at the historical cost basis.

In accordance with the acquisition agreement, the Company is able to exercise equity owner's rights over Kaibida, which give control over Kaibida in substance. As a result, Kaibida is treated as a subsidiary of the Company. As of December 31, 2013, the equity transfer has been completed.

- ***Acquisition of Yong Yang and Comstar***– On April 15, 2010, per the acquisition agreement entered into between all parties, Kaibida acquired all of equity interest of Fuzhou Comstar Computer Network Engineering Limited ("Comstar") and Beijing Shouxin Yongyang Technology Limited ("Yongyang"). The two operating subsidiaries have been in business since 2007 or earlier. Mr. Lee Poo Ying and Mr. Clifford Rhee each owned 50% of the outstanding equity of Kaibida while Mr. Lee Poo Ying owned 61% of the outstanding equity of Comstar and Yong Yang prior to the acquisition. According to an acting in concert agreement, Mr. Lee Poo Ying and Mr. Clifford Rhee are considered as a control group, thus having the controlling interest of Kaibida, Comstar, and Yong Yang before and after Kaibida's acquisition of both companies.

  As the acquisition involved companies under common control, the acquisition was accounted for in accordance with ASC 805-50, Business Combinations – Related Issues, and the assets and liabilities and the historical operations that are reflected in the financial statements are those of CTXV, Yong Yang, and Comstar and are recorded at their historical cost basis.

  In accordance with the acquisition agreement, the Company is able to exercise equity owner's rights over Yong Yang and Comstar, which give the Company control over Yong Yang and Comstar in substance. As a result, Yong Yang and Comstar are treated as subsidiaries of the Company. As of December 31, 2013, the equity transfer procedure has been completed.

1. PRESENTATION AND NATURE OF OPERATIONS (continued)

Acquisitions (continued)

- ***Guoqian Division A Acquisition***–On February 18, 2009, Comstar and Shenzhen Guoqian Technology Limited（or "Guoqian"） entered into a business combination agreement which would allow Comstar to control division A of Guoqian (or "Guoqian Division A"). Under this business combination agreement, Guoqian would receive 250,000 shares of comment stocks Kaibida International Limited or CTX Virtual Technologies Inc.

  The Company accounted for this acquisition under ASC 810, Consolidation, as variable interest entity subject to consolidation due to the following characteristics under the contractual agreements:
  - The equity investment at risk is not sufficient for the Guoqian Division A to finance its activities without additional subordinated financial support;
  - As a group, the holders of equity investment at risk do not possess:
    - The power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance.
    - The obligation to absorb expected losses or the right to receive the expected residual returns of the entity; and
    - Symmetry between voting rights and economic interests and where substantially all of the entity's activities either involve or are conducted on behalf of an investor with disproportionately fewer voting rights.
  - The Company has obligation to absorb losses from or right to receive benefits.

  The Company accounted for the acquisition under the purchase method of accounting in accordance with the provisions of ASC 805, "Business Combinations." Under this accounting method, the Company recorded at fair value the acquired assets of Guoqian Division A less the liabilities assumed, with the excess of the purchase price over the estimated fair value of such net assets reflected as goodwill. Based on purchase accounting performed, no goodwill was required to be recorded. The consolidated statement of operations includes the operations of Guoqian Division A from the date of acquisition.

  In January 2012, this subsidiary was deconsolidated due to lack of control and in accordance with ASC 810-10, *Consolidation*. As a result, the Company recognized a loss from deconsolidation in the amount of $5,102,514 for the year ended December 31, 2012.

- ***Celluon Technologies Holdings Acquisition*** – In April 2010, CTXV incorporated and formed CTX Technologies, Inc. ("CTX"), a 100% owned subsidiary, for purpose of acquiring Celluon Technologies Holdings ("Celluon"), a Canadian company. In April 2010 after the formation of CTX, CTX acquired 100% equity interest of Celluon. Since Mr. Clifford Rhee, the majority shareholder of Celluon has the controlling interest of CTXV before and after the acquisition, there was no change in control. The acquisition involved companies under common control, the acquisition was accounted for in accordance with ASC 805-50, Business Combinations – Related Issues, and the assets and liabilities and the historical operations that were reflected in the financial statements are those of CTXV and Celluon and were recorded at their historical cost basis. The activities of Celluon were not material for 2013 and 2012.

1. PRESENTATION AND NATURE OF OPERATIONS (continued)

- ***Xinyuanhao Acquisition***– On October 1, 2011, Kaibida acquired all of equity interest of Shenzhen Xinyuanhao Electronics Co., Ltd. ("Xinyuanhao"), which is principally engaged in manufacturing and sale of SMT. Under the agreement, Kaibida shareholders will designate and issue 3,750 Series AA preferred shares of CTX Virtual Technologies, Inc. which they owned to the sole owner of Xinyuanhao in exchange to all of the equity interest of Xinyuanhao. In 2012, these 3,750 Series AA preferred shares were converted into common shares of CTX Virtual Technologies, Inc.

  The Company accounted for the acquisition under the purchase method of accounting in accordance with the provisions of ASC 805, "Business Combinations." Under this accounting method, the Company recorded at fair value the acquired assets of Xinyuanhao less the liabilities assumed, with the excess of the purchase price over the estimated fair value of such net assets reflected as goodwill. The consolidated statement of operations includes the operations of Xinyuanhao from the date of acquisition.

- ***Business Amalgamation –*** On May 1, 2012, Kaibida International Limited entered into an amalgamation agreement with Norian Digital, Shenzhen Lebailing Communication Equipment Company Ltd., and Shenzhen Kuanda Technology Company Ltd., (Collectively 'Shenzhen Co"). Under the amalgamation agreement, the shareholders of Shenzhen Co received equity consideration in CTX Virtual Technologies Inc. ("Company") by way of 2 million shares stock transfer by the Company's select shareholders. Under the acquisition, the shareholders of Shenzhen co is entitled to certain earn-out provisions based on future earnings of the amalgamated businesses as well as deferred working capital payments over three years.

  The acquisition of the three entities enables the Company to expand its growing customer base in the smartphone manufacturing market and addition of new channels in the touch screen and tablet markets for the launch of its proprietary embedded virtual keyboard applications.

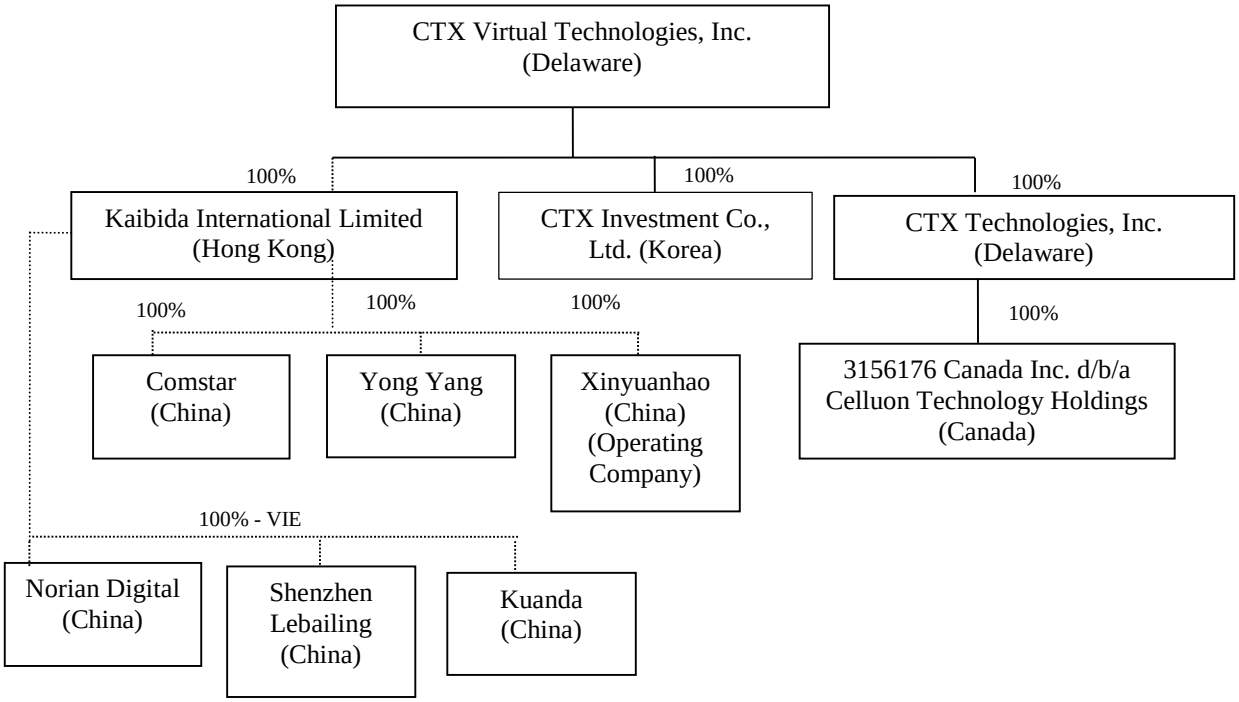
  The Company accounted for the acquisition under the purchase method of accounting in accordance with the provisions of ASC 805, "Business Combinations." Under this accounting method, the Company recorded at fair value the acquired assets less the liabilities assumed, with the excess of the purchase price over the estimated fair value of such net assets reflected as goodwill. Based on purchase accounting performed, goodwill was recorded at year-end. The consolidated statement of operations includes the operations of Shenzhen Co from the date of acquisition.

Current Business

CTX Virtual Technologies, Inc. manufactures and sells mobile communication and electronic devices and provides technology consulting services. Through its wholly-owned subsidiary, Kaibida International Limited, a Hong Kong company ("Kaibida"), the Company designs and manufactures cellular telephones including converged mobile devices, often referred to as "Smartphones" or "PDAs", for network operators and original equipment manufacturers. Kaibida also designs and manufactures printed circuit boards and other Surface Mounted Technology components used in cellular telephones and Smartphones. During the years ended December 31, 2013 and 2012, Celluon Technology did not record and business activity or sales.

3. PRESENTATION AND NATURE OF OPERATIONS (continued)

Below is a diagram showing the corporate structure of the Company as of December 31, 2013:



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation, Deconsolidation and Presentation

The consolidated financial statements include the accounts of the CTXV, its wholly-owned subsidiaries and variable interest entities (collectively the "Company"). In the preparation of consolidated financial statements of the Company, all intercompany balances and transactions have been eliminated.

In January 2012, this subsidiary was deconsolidated due to lack of control and no longer met the conditions to be VIE's primary beneficiary in accordance with ASC 810-10, Consolidation. As a result, the Company recognized a loss from deconsolidation in the amount of $0 and $5,102,514 for the years ended December 31, 2013 and 2012 which is a non-cash transaction.

Variable Interest Entities

On May 1, 2012, Kaibida International Limited entered into an amalgamation agreement with Norian Digital, Shenzhen Lebailing Communication Equipment Company Ltd., and Shenzhen Kuanda Technology Company Ltd., (collectively the "Shenzhen Co"). Under the amalgamation agreement, the shareholders of Shenzhen Co received equity consideration in CTX Virtual Technologies Inc. ("Company") by way of 2 million shares stock transfer by the Company's select shareholders. Under the acquisition, the shareholders of Shenzhen Co were entitled to certain earn-out provisions based on future earnings of the amalgamated businesses as well as deferred working capital payments over three years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Variable Interest Entities (continued)

The Company accounted for these transactions under ASC 810-10, Consolidation, "Variable Interest Entities" subsections. Under the amalgamation agreement, the board of directors of Kaibida who has the majority voting rights are comprised of directors of CTXV. The agreement also provides for Kaibida to direct and authorize any distribution of earnings of the Shenzhen Co, direct daily operations, and financially control by controlling various financial aspects of the operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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 financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews its estimates based on currently available information. Actual results could materially differ from those estimates and such differences could be material to the financial position and results of operations.

Revenue Recognition

The Company recognizes in accordance with ASC 605, Revenue Recognition, when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured, and delivery of products has occurred or services have been rendered. Accordingly, the Company recognizes revenues at the time when the economic benefits and risk associated with the transaction are transferred to the customers. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances.

Shipping and Handling Costs

All shipping and handling are expensed as incurred. Shipping and handling expenses included in selling expenses were $56,114 and $26,683 for the years ended December 31, 2013 and 2012, respectively.

Advertising and Promotion Costs

Costs associated with advertising and promotions are expensed as incurred. Advertising and promotion costs were $423,356 and $64,737 for the years ended December 31, 2013 and 2012, respectively.

Research and Development

Research and development cost primarily includes payments to third parties associated with product development and are expensed as incurred. The Company incurred $2,037,601 and $459,149 of research and development expenses for the years ended December 31, 2013 and 2012, respectively.

Segment Information

ASC 280 requires companies to report information about operating segment in interim and annual financial statements. It also requires disclosures about products and services geographic and major customers. The Company has determined that it does not have any separately reportable operating segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

The Company translates the assets and liabilities of its non-U.S. functional currency subsidiaries into dollars at the current rates of exchange in effect at the end of the reporting period. Revenues and expenses are translated at average current rates during the reporting period. Translation adjustments are included in accumulated other comprehensive income as a separate component of stockholders' equity.

Fair Value of Financial Instruments

The fair values of the Company's trade accounts receivable, income taxes receivable/payable, accounts payable, accrued expenses and other current liabilities approximate their carrying values due to the relatively short maturities of these instruments. The carrying value of the Company's short and long term debt approximates fair value based on management's best estimate of the interest rates that would be available for similar debt obligations having similar terms at the balance sheet date.

Inventories

Inventories consist of electronic components and finished goods and are valued at the lower of cost, determined on a moving average basis which approximates cost, and estimated net realizable value. The Company assesses the inventory carrying value and reduces it, if necessary, to its net realizable value based on customer orders on hand and internal demand forecasts using management's best estimates given information currently available. The Company's customer demand is highly unpredictable and can fluctuate significantly caused by factors beyond its control. The Company may maintain an allowance for inventories for potentially excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values.

Intangible Assets

Intangible assets are comprised of work force and customer relationships and is recorded at fair value at the date of purchase accounting (refer to Note 4). The intangible assets are amortized over 5 years.

Property and Equipment

Property and equipment is recorded at cost. Major improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Gains and losses from disposition of property and equipment are included in income and expense when realized. Depreciation and amortization are recorded using the straight-line method or declining method over the following estimated useful lives:

	Useful Lives	
Machinery and equipment	3-10	Years
Office equipment	2-5	Years
Automobiles	4-5	Years
Logistical equipment	3	Years
Leasehold improvement	Lesser of the lease term or useful life	

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Issuance Costs

Debt issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense based on the related debt agreements using the straight-line method, which approximates the effective interest method. The unamortized amounts are included in non-current assets in the accompanying consolidated balance sheets.

The amortization expense was $2,923,260 and $0 and was recorded as interest expense for the years ended December 31, 2013 and 2012, respectively.

Debt Discount

The Company issued warrant along with common stock to accredited investors (refer to Note 13). The initial recording was recorded as a derivative liability and debt discount which are amortized over the exercisable period of five years. The debt discount is recorded against the related debt outstanding.

The amortization expense was $5,160,497 and $1,357,861 and was recorded as interest expense for the years ended December 31, 2013 and 2012, respectively.

Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Company participates in a defined contribution retirement plan for its employees arranged by a governmental organization. The Company makes contributions to the retirement scheme at the applicable rate based on the employees' salaries. The required contributions under the retirement plans are charged to the consolidated statement of operations on an accrual basis when they are due. The Company's contributions were not material for the years ended December 31, 2013 and 2012.

Income Taxes

The Company follows ASC 740, "Income Taxes", which requires the recognition of deferred tax assets and liabilities or the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Based on the assessment, management believes that the Company is more likely than not to fully realize its deferred tax assets in U.S. As such, no valuation allowance has been established related to the Company's US operations.

The Company adopted ASC 740-10-25 on January 1, 2007, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25. As of December 31, 2013 and 2012, the Company had no material unrecognized tax benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Value Added Tax

All the PRC subsidiaries of the Company are subject to value added tax ("VAT") imposed by PRC government on its domestic product sales. The output VAT is charged to customers who purchase goods from the Company and the input VAT is paid when the Company purchases goods from its vendors. VAT rate is 17%, in general, depending on the types of product purchased and sold. The input VAT can be offset against the output VAT. VAT payable or receivable balance presented on the Company's consolidated balance sheets represents either the input VAT less than or larger than the output VAT. The debit balance represents a credit against future collection of output VAT instead of a receivable.

Impairment of Long-lived Assets

In accordance with ASC 360, "Property, Plant, and Equipment," the Company reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. The Company considers the carrying value of assets may not be recoverable based upon its review of the following events or changes in circumstances: the asset's ability to continue to generate income from operations and positive cash flow in future periods; loss of legal ownership or title to the assets; significant changes in the Company's strategic business objectives and utilization of the asset; or significant negative industry or economic trends. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset is less than its carrying amount.

The Company tested the long-lived assets for impairment as of December 31, 2013 and 2012 by comparing the discounted cash flows of the assets to their carrying values and concluded that, as of this date, no impairment existed. The Company is not aware of any events or changes in circumstances following this date that would indicate that the long-lived assets are impaired.

Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to net tangible and identifiable intangible assets of business acquired and accounted for under the acquisition method. In accordance with ASC 350, Goodwill, the impairment evaluation of goodwill is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of the second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income

Comprehensive income includes accumulated foreign currency translation gains and losses. The Company has reported the components of comprehensive income on its statements of stockholders' equity.

Concentrations of Credit Risk and Risk Factors

Accounts Receivable – Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers dispersed across diverse markets and generally short payment terms. Credit is extended based on an evaluation of the customer's financial condition and collateral generally is not required. The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record a specific allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected.

Net Revenues – Substantially all of the Company's revenues are derived from sales of the group in PRC. Any significant decline in market acceptance of the Company's products or in the financial condition of our existing customers could impair our ability to operate effectively.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income", which gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 for public entities and is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In September 2011, the FASB issued an amendment to ASC Topic 350, in ASU 2011-08 "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment", which simplifies how entities test goodwill for impairment. Under the amendment, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test for goodwill is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described under paragraphs 350-20-35-4 of the ASC. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in paragraph 350-20-35-9 of the ASC. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating the impact of adopting this amendment, but it is not expected to have a material impact on the Company's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2012-02 ("ASU 2012-02"), "Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. The guidance allows an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company is currently evaluating the impact of adopting this amendment, but it is not expected to have a material impact on the Company's consolidated financial statements.

The Company has considered all new accounting pronouncements and has concluded that there are no new pronouncements that may have a material impact on results of operations, financial condition, or cash flows, based on current information.

3. FAIR VALUE MEASUREMENTS

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability. ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SC 820 establishes three levels of inputs that may be used to measure fair value:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities tha t the Company holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurem ent.

The Company adopted ASC 820, Fair Value Measurements and Disclosures, on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Combined financial statements on a recurring basis (at least annually). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Financial instruments include cash, accounts receivable, prepayments and other receivables, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short term maturities of these instruments.

The Company has Level 2 financial instrument, warrants that are recorded at fair value on a periodic basis. Warrants are evaluated under the hierarchy of ASC Subtopic 480-10, ASC Paragraph 815-25-1 and ASC Subparagraph 815-10-15-74 addressing embedded derivatives. The fair value of such warrants are estimated using the Black-Scholes option pricing model. The foregoing warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under ASC 815.

The Company has Level 3 financial instrument, an embedded derivative that is recorded at fair value on periodic basis. The embedded derivative is evaluated under the hierarchy of ASC 480-10, ASC Paragraph 815-25-1 and ASC Subparagraph 815-10-15-74 addressing embedded derivatives. The fair value of such warrants are estimated using the Black-Scholes option pricing model. The foregoing warrants have certain anti-dilution and exercise price reset provisions which qualify the warrants to be classified as a liability under ASC 815.

As of December 31, 2012, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

Description	Level 1	Level 2	Level 3
Embedded conversion feature liability	$ -	$ -	$ 1,669,470
Warrant liabilities	$ -	$ 12,084,368	$ -

3. FAIR VALUE MEASUREMENTS (continued)

As of December 31, 2013, the following table represents the Company's fair value hierarchy for items that are required to be measured at fair value on a recurring basis:

Description	Level 1	Level 2	Level 3
Embedded conversion feature liability	$ -	$ -	$ 11,741,210
Warrant liabilities	$ -	$ 21,950,342	$ -

4. ACQUISITION

On May 1, 2012, Kaibida International Limited entered into an amalgamation agreement with Norian Digital, Shenzhen Lebailing Communication Equipment Company Ltd., and Shenzhen Kuanda Technology Company Ltd., (Collectively 'Shenzhen Co"). Under the amalgamation agreement, the shareholders of Shenzhen Co received equity consideration in CTX Virtual Technologies Inc. ("Company") by way of 2 million shares stock transfer by the Company's select shareholders. Under the acquisition, the shareholders of Shenzhen co is entitled to certain earn-out provisions based on future earnings of the amalgamated businesses as well as deferred working capital payments over three years.

The acquisition of the three entities enables the Company to expand its growing customer base in the smartphone manufacturing market and addition of new channels in the touch screen and tablet markets for the launch of its proprietary embedded virtual keyboard applications. The Company accounted for the acquisition under the purchase method of accounting in accordance with the provisions of ASC 805, "Business Combinations." Under this accounting method, the Company recorded at fair value the acquired assets less the liabilities assumed, with the excess of the purchase price over the estimated fair value of such net assets reflected as goodwill. Based on purchase accounting performed, goodwill was recorded at year-end. The consolidated statement of operations includes the operations of Shenzhen Co from the date of acquisition.

May 1, 2012	
Assets acquired and liabilities assumed	
Cash	$ 1,522,549
Accounts receivable	1,540,781
Inventories	1,952,357
Prepaid expenses and other assets	16,561,221
Property and equipment	1,772,466
Customer relations and work force	17,621,000
Accounts payable	(8,960,883)
Accrued liabilities and other current liabilities	(5,895,235)
Total identifiable net assets	**$ 26,114,255**
Satisfied by	
Fair value of shares paid by the Company's shareholders	$ 7,327,236
Total gain from bargain purchase	**$ 18,787,019**

5. INVENTORIES

Inventories comprised the following:

December31,	*2013*	*2012*
Raw material	$ 1,695,545	$ 823,787
Work-in-progress	1,130,363	999,203
Finished goods	679,925	1,855,663
Inventories, net	**$ 3,505,833**	**$ 3,678,653**

6. LOAN RECEIVALBE

In July 2010, the Company provided a loan to an unrelated company located in South Korea with interest rate per annum equal to London Inter-bank borrowing rate plus two percent. The loan and accrued interest became due on July 29, 2012. The Company subsequently received the outstanding balance plus accrued interest in July 2012.

7. DUE FROM RELATED PARTIES

Due from related parties comprised the following:

December31,	*2013*	*2012*
Due from shareholder – non-interest bearing note receivable due upon demand	$ 8,545,020	$ 5,505,786
Due from executive employee – non-interest bearing note receivable due upon demand	4,649,549	393,672
Total	**$ 13,194,569**	**$ 5,899,458**

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net comprised the following:

December31,	*2013*	*2012*
Machinery and equipment	$ 3,225,084	$ 3,081,115
Office equipment	259,527	1,246,774
Logistical equipment	197,993	9,808
Leasehold improvements	859,381	-
	4,541,985	4,337,697
Accumulated depreciation	(792,742)	(476,776)
Property and equipment, net	**$ 3,749,244**	**$ 3,860,921**

Depreciation expense on property and equipment was $420,746 and $174,359 for the years ended December 31, 2013 and 2012, respectively.

9. INTANGIBLE ASSETS, NET

Intangible assets, net comprised the following:

December31,	*2013*	*2012*
Customer relationship	$ 17,371,587	$ 17,371,587
Total	17,371,587	17,371,587
Accumulated amortization	(5,101,392)	(2,026,685)
Intangible assets, net	**$ 12,270,195**	**$ 15,344,902**

Amortization expense on intangible assets was $2,896,797 and $2,026,685 for the years ended December 31, 2013 and 2012, respectively.

As at December 31, 2013, amortization schedule for next years are as follows:

Years Ending December 31,	*Amount*
2014	3,474,317
2015	3,474,317
2016	3,474,317
2017	1,847,244
Total	**$ 12,270,195**

10. ACCRUED LIABILITIES AND OTHER CURRENT LIABILITIES

Accrued liabilities and other current liabilities consisted of the following:

December31,	*2013*	*2012*
Accrued salaries and welfare	$ 358,354	$ 538,652
Accrued value added taxes and other taxes	4,922,686	3,554,254
Working capital payable	3,419,875	3,308,498
Other accrued liabilities	1,332,312	6,448,226
Total	**$ 10,033,227**	**$ 13,849,630**

11. AMOUNTS DUE TO RELATED PARTIES

Due to related parties comprised the following:

December31,	2013	2012
Due to shareholders – non-interest bearing note receivable due upon demand	$ 2,229,377	$ 3,153,996
Due to executive employee – non-interest bearing note receivable due upon demand	659,870	2,297,474
Total	**$ 2,889,247**	**$ 5,451,470**

As of December 31, 2013, the amounts due to shareholders and executive employees are non-interest bearing and have no specific due date.

12. CONVERTIBLE DEBT

The Company had the following convertible debt outstanding:

December31,	2013	2012
January 2013 to December 2013 Convertible Debt – Various	$ 8,971,883	$ -
December 2012 Convertible Debt	1,797,000	1,572,375
November 2012 Convertible Debt	2,252,236	1,819,150
Total	13,021,119	3,391,525
Convertible debt discount, net of accretion	(6,124,819)	(1,560,702)
Total convertible debt, net	**$ 6,896,300**	**$ 1,830,823**

13. CONVERTIBLE DEBT (continued)

Convertible Debt Issued from January 2013 to December 2013

As part of December 1, 2012 convertible debt, CTX Virtual Technologies, Inc. (the "Company") the Company received proceeds of $10,852,914 through various tranches for the year ended December 31, 2013 from this transaction. The terms of the convertible debt are the same as the December 1, 2012 convertible debt.

The Company adopted the provisions of FASB ASC Topic 815, "Derivatives and Hedging" ("ASC 815") (previously EITF 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock"), as the convertible debts agreement contained that item that the number of shares to be received upon conversion will increase if an IPO does not occur within a certain time frame, the convertible debt failed to pass the "fixed for fixed" criteria of ASC815, the conversion feature of the convertible debt should have to be bifurcated and recorded separately until the conversion date.

Based on ASC 815, the Company determined that the convertible debt contained embedded derivatives and full-ratchet provision which the Company used an independent third party valuation firm to value the convertible debt and embedded derivatives using the Black-Scholes and Monte-Carlo Simulation method. The Company used an independent third party valuation firm and the result was as follows:

Description	Fair Value at Date of Issuance	Changes in Fair Value For 2013	Fair Value at December 31, 2013
Derivative liability	$ 11,037,601	$ (1,444,854)	$ 9,592,747
Warrant liability	$ 7,629,080	(119,568)	7,509,512

As a result of initial recording of derivative liability of $10,251,236 and warrant liability of $7,629,080 with net proceeds of $10,528,357, the Company recorded debt discount of $8,069,908 (which is net proceeds as the debt discount cannot exceed the proceeds and is a contra convertible debt account) and interest expense of $11,764,314 at the date of issuance of convertible debt for the year ended December 31, 2013.

Convertible Debt Issued in December 2012

On December 1, 2012, CTX Virtual Technologies, Inc. (the "Company") issued 6,835.43 between December 2012 and six months thereafter. 6,857.14 units (each, a "Unit" and collectively, the "Units") at a purchase price of $875.00 per Unit, or an aggregate purchase price of $6,000,000 (the "Offering Amount"). The minimum subscription by an investor is 50 Units ($43,750.00); however, the Company reserves the right to accept subscriptions for a lesser amount in the Company's sole discretion.

Each Unit is comprised of:

a) one senior convertible promissory note, $1,000.00 par value, convertible into shares of our common stock, $0.001 par value per share (the "Common Stock"), at a conversion price of $0.85 per share, subject to anti-dilution adjustment (each, a "Senior Convertible Note," "Convertible Note" or a "Note" and collectively, the "Senior Convertible Notes," "Convertible Notes" or the "Notes"), and
b) a warrant to purchase 588 shares of our Common Stock at a price of $0.85 per share (the "Common Stock"), subject to anti-dilution adjustment (each, a "Warrant" and collectively, the "Warrants").

13. CONVERTIBLE DEBT (continued)

Convertible Debt Issued in December 2012 (continued)

Each Senior Convertible Note shall accrue interest at a rate of 10% per annum, payable quarterly in cash, and be due and payable, at par, on the 18 month anniversary of its issuance. The Warrants are exercisable at any time from the date of issuance until the fifth anniversary of the issuance of such Warrants. There is no minimum number of Units being offered in the Offering.

The Company adopted the provisions of FASB ASC Topic 815, "Derivatives and Hedging" ("ASC 815") (previously EITF 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock"), as the convertible debts agreement contained that item that the number of shares to be received upon conversion will increase if an IPO does not occur within a certain time frame, the convertible debt failed to pass the "fixed for fixed" criteria of ASC815, the conversion feature of the convertible debt should have to be bifurcated and recorded separately until the conversion date.

Based on ASC 815, the Company determined that the convertible debt contained embedded derivatives and full-ratchet provision which the Company used an independent third party valuation firm to value the convertible debt and embedded derivatives using the Black-Scholes and Monte-Carlo Simulation method. The Company used an independent third party valuation firm and the result was as follows:

Description	Fair Value at Date of Issuance	Changes in Fair Value 2012	Fair Value at December 31, 2012	Changes in Fair Value 2013	Fair Value at December 31, 2013
Derivative liability	$ 1,614,714	$ -	$ 1,614,714	$ 138,266	$ 1,752,980
Warrant liability	$ 1,357,989	$ -	$ 1,357,989	155,959	1,513,948

As a result of initial recording of derivative liability of $1,614,714 and warrant liability of $1,357,989 with net proceeds of $1,572,375, the Company recorded debt discount of $1,572,375 (which is net proceeds as the debt discount cannot exceed the proceeds and is a contra convertible debt account) and interest expense of $1,400,328 at the date of issuance of convertible debt in 2012.

The Company accretes debt discount of $1,572,375 over the life of the convertible debt which is 18 months. The Company recorded accretion of $1,048,250 for the year ended December 31, 2013 which is recorded as interest expense.

13. CONVERTIBLE DEBT (continued)

Convertible Debt Issued in November 2012

On November 29, 2012, CTX Virtual Technologies, Inc., (the "Company") entered into 12% Convertible Note due November 29, 2013 in the amount of $1,819,150 with interest from the date of issuance at the rate of twelve (12%) percent per annum due to an private investor, an individual ("Holder"). The Company has the right to accrue the interest on the outstanding principal amount.

The Company and Holder agree use of proceeds shall be to fund the necessary tooling, fixtures, and other expenses associated with production of items necessary to fulfill Company's contracts. Cliff Rhee, the Company's CEO, shall personally provide any shortfall of funds necessary to complete the specified contract.

The Holder, at any time before the maturity date, shall have the right to convert the outstanding and unpaid principal amount of this Note, in whole but not in part, into units ("Conversion Units") at a conversion price of $2.00 per Conversion Unit.

The Company adopted the provisions of FASB ASC Topic 815, "Derivatives and Hedging" ("ASC 815") (previously EITF 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock"), as the convertible debts agreement contained that item that the number of shares to be received upon conversion will increase if an IPO does not occur within a certain time frame, the convertible debt failed to pass the "fixed for fixed" criteria of ASC815, the conversion feature of the convertible debt should have to be bifurcated and recorded separately until the conversion date.

Based on ASC 815, the Company determined that the convertible debt contained embedded derivatives and full-ratchet provision which the Company used an independent third party valuation firm to value the convertible debt and embedded derivatives using the Black-Scholes and Monte-Carlo Simulation method. The result was as follows:

Description	Fair Value at Date of Issuance	Changes in Fair Value 2012	Fair Value at December 31, 2012	Changes in Fair Value 2013	Fair Value at December 31, 2013
Derivative liability	$ 69,492	$ (14,736)	$ 54,756	$ 395,483	$ 340,727

As a result of initial recording of derivative liability of $69,492 with net proceeds of $1,819,150, the Company recorded debt discount of $205,564.

The Company accretes debt discount of $205,564 over the life of the convertible debt which is 12 months. The Company recorded accretion of $69,492 for the year ended December 31, 2013 which is recorded as interest expense.

14. WARRANT ISSUANCE

The Company issued warrants throughout various periods and these warrants meet the criteria under ASC 470-20, Debt with Conversion Options and Other Options and ASC 815-10, Derivatives and Hedging, and was accounted as a derivative instrument. Under ASC 815-15, an entity should recognize derivative instruments (which in this case would be the Warrants), including certain derivative instruments embedded in other contracts, as assets or liabilities in the statement of financial position and measure them at fair value.

The Company used an independent third party valuation firm to perform valuation of the warrants at issuance and for each reporting periods thereafter. The Company records gain or loss from changes in fair value of warrant liability in accordance with ASC 815-15.

The Company's warrant liability roll-forward schedule is as follows for the year ended December 31, 2013:

Description	Fair Value at Date of Issuance	Fair Value at December 31, 2012	Changes in Fair Value In 2013	Fair Value at December 31, 2013
January to December 2013 – Warrants issued under various convertible debt	$ 7,719,524	$ N/A	$ (135,962)	$ 7,583,562
December 2012 – Warrants issued under convertible debt	1,357,989	1,357,989	155,959	1,513,948
March 2011 – Warrants Issued upon exercise of convertible debt	4,206,305	7,258,305	1,276,442	8,534,747
May 2010 – Warrants issued with private placement offering	3,130,977	3,468,075	850,010	4,318,085
Total	**N/A**	**$ 12,084,369**	**$ 2,146,449**	**$ 21,950,342**

The Company's warrant liability roll-forward schedule is as follows for the year ended December 31, 2012:

Description	Fair Value at Date of Issuance	Fair Value at December 31, 2011	Changes in Fair Value In 2012	Fair Value at December 31, 2012
December 2012 – Warrants issued under convertible debt	$ 1,357,989	$ 1,357,989	$ -	$ 1,357,989
March 2011 – Warrants Issued upon exercise of convertible debt	4,206,305	3,098,813	4,159,492	7,258,305
May 2010 – Warrants issued with private placement offering	3,130,977	1,480,638	1,987,437	3,468,075
Total	**N/A**	**$ 5,937,440**	**$ 6,146,929**	**$ 12,084,369**

14. WARRANT ISSUANCE (continued)

Warrants Issued Under Convertible Debt (Issued in December 2012) – On December 1, 2012, CTX Virtual Technologies, Inc. (the "Company") issued 6,857.14 units (each, a "Unit" and collectively, the "Units") at a purchase price of $875.00 per Unit, or an aggregate purchase price of approximately $6,000,000 (the "Offering Amount"). The minimum subscription by an investor is 50 Units ($43,750.00); however, the Company reserves the right to accept subscriptions for a lesser amount in the Company's sole discretion. Each Unit is comprised of:

a) one senior convertible promissory note, $1,000.00 par value, convertible into shares of our common stock, $0.001 par value per share (the "Common Stock"), at a conversion price of $0.85 per share, subject to anti-dilution adjustment (each, a "Senior Convertible Note," "Convertible Note" or a "Note" and collectively, the "Senior Convertible Notes," "Convertible Notes" or the "Notes"), and
b) a warrant to purchase 588 shares of our Common Stock at a price of $0.85 per share (the "Common Stock"), subject to anti-dilution adjustment (each, a "Warrant" and collectively, the "Warrants").

Each Senior Convertible Note shall accrue interest at a rate of 10% per annum, payable quarterly in cash, and be due and payable, at par, on the 18 month anniversary of its issuance. The Warrants are exercisable at any time from the date of issuance until the fifth anniversary of the issuance of such Warrants.

Warrants Issued Upon Exercise of Convertible Debt – In March 2011 upon exercise of convertible debt (refer to Note 12), the Company issued additional warrants to the Convertible Note Holder and for the Placement agents in the amount of 8,474,576. The warrants are exercisable for five years at a price of $1.00 per share.

The warrant meets the criteria under ASC 470-20, Debt with Conversion Options and Other Options and ASC 815-10, Derivatives and Hedging, and was accounted as a derivative instrument. Under ASC 815-15, an entity should recognize derivative instruments (which in this case would be the Warrants), including certain derivative instruments embedded in other contracts, as assets or liabilities in the statement of financial position and measure them at fair value.

Private Placement Offering – In May 2010, the Company entered into stock subscription agreement whereby the Company issued approximately 4,049,218 units ("Units") for the proceeds of $2,389,038 to accredited investors at a price of $.59 per unit, each unit consisting of one share of common stock and one warrant to purchase one share of common stock.

The warrants are exercisable for five years at a price of $1.00 per share. The warrants are subject to redemption by the Company at $0.05 per warrant if the common stock achieves a volume weighted average price of at least 150% of the exercise price for 10 consecutive days and certain other conditions are satisfied. By the end of December 31, 2011, the condition of the redemption of the warrants had not been reached, no warrant was redeemed.

The warrant meets the criteria under ASC 470-20, Debt with Conversion Options and Other Options and ASC 815-10, Derivatives and Hedging, and was accounted as a derivative instrument. Under ASC 815-15, an entity should recognize derivative instruments (which in this case would be the Warrants), including certain derivative instruments embedded in other contracts, as assets or liabilities in the statement of financial position and measure them at fair value.

15. PRC STATUTORY RESERVES

In accordance with PRC Company Law, the Company is required to appropriate at least 10% of the profit arrived at for each year to the statutory surplus reserve. Appropriation to the statutory surplus reserve by the Company is based on profit arrived at under PRC accounting standards for business enterprises for each year.

The profit arrived at must be set off against any accumulated losses sustained by the Company in prior years, before allocation is made to the statutory surplus reserve. Appropriation to the statutory surplus reserve must be made before distribution of dividends to owners. The appropriation is required until the statutory surplus reserve reaches 50% of the registered capital. This statutory surplus reserve is not distributable in the form of cash dividends but only on liquidation. It can be used to make good of previous losses, if any, and may be utilized for business expansion or converted into capital by increasing registered capital to existing equity owners in proportion to their equity holding, provided that remaining reserve balance after such conversion is not less than 25% of the registered capital. As of December 31, 2013 and 2012, the accumulated balance of our statutory surplus reserve amounted to $0.

16. EQUITY

Common and Treasury Stock

On March 10, 2011, the Company's Chief Executive Officer was issued 600,000 shares of common stock in accordance with the employment agreement. On March 10, 2011, the Company exercised its option to convert $5,000,000 convertible note into 8,474,576 shares of common stock. On March 10, 2011, the company issued 1,012,304 shares of common stock to various investors who participated in the first Private Placement offering dated May 25, 2010. On June 30, 2011, the company issued 2,118,644 shares of common stock to the holder of the $5.0 million convertible note as additional shares as outlined in the conversion agreement.

Preferred Stock

The Company has designated 50,000 of the 11,000,000 authorized shares of preferred stock as convertible Series AA Preferred Stock ("Series AA Preferred Stock"). The Series AA Preferred Stock is 1-1 voting, has a liquidation preference equal to its stated value, and does not pay dividends. The holders can call the conversion of the Series AA Preferred Stock at any time.

The Company has designated 10,000,000 of the 11,000,000 authorized shares of preferred stock as Series B Convertible Preferred Stock ("Series B Preferred Stock"). The Series B Preferred Stock is 10-1 voting, has a liquidation preference equal to its purchase price, and does not pay dividends.

The Company has designated 68,741 of the 11,000,000 authorized shares of preferred stock as Series C Convertible Preferred Stock ("Series B Preferred Stock"). The Series B Preferred Stock is 1-1 voting, has a liquidation preference equal to $3.0 per share, and does not pay dividends.

17. STOCK BASED COMPENSATION

In March 2010, the Company entered into an employment agreement with the CEO of the Company whereby the Company provided the following:

- Issuance of 1,000,000 stock options to purchase common shares of CTXV at $1.00 with vesting period of 3 years;
- 600,000 restricted stock of common shares of CTXV fully vested (issued and exercised in 2011); and
- 600,000 restricted stock of common shares of CTXV vested monthly but paid on a quarterly basis through the term of the agreement (3 years).

The Company adopted ASC 718, "Compensation – Stock Compensation," using a modified prospective application, and the Black-Scholes model. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Compensation costs will be recognized over the period that an employee provides service in exchange for the award.

The estimated forfeiture rate considers historical turnover rates stratified into employee pools in comparison with an overall employee turnover rate, as well as expectations about the future. The Company periodically revises the estimated forfeiture rate in subsequent periods if actual forfeitures differ from those estimates. Compensation expense recorded under this method for the years ended December 31, 2013 and 2012 was $41,990 and $103,200, respectively, and reduced operating income and income before income taxes by the same amount by increasing compensation expense recognized in operating expense. The recognized tax benefit related to the compensation expense for the year ended December 31, 2013 was not material.

Stock Options

The fair value of each share option award on the date of grant was estimated using the Black-Scholes method based on the following weighted-average assumptions:

Risk-free interest rate	3.61%
Expected terms	10 years
Expected volatility	60.0%
Expected dividend yield	0%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option; the expected term represents the weighted-average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and using the simplified method; the expected volatility is based upon historical volatilities of the Company's common stock; and the expected dividend yield is based upon the Company's current dividend rate and future expectations.

A summary of the status of our stock options is presented below:

		Number of shares		Weighted average grant date fair value
Options outstanding and vested at January 1, 2012	$	1,000,000	$	0.33
Granted, cancelled or forfeited		-		-
Options outstanding at December 31, 2012		1,000,000		0.33
Granted, cancelled or forfeited		-		-
Options outstanding at December 31, 2013	**$**	**1,000,000**	**$**	**0.33**
Options vested at December 31, 2012	**$**	**1,000,000**	**$**	**0.33**

17. STOCK BASED COMPENSATION (continued)

The aggregate intrinsic value was $1,480,000 and $1,240,000 based upon the Company's closing stock price of $1.48 and $1,24, respectively, as of December 31, 2013 and 2012, respectively, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options of $0.33, which is outstanding at December 31, 2013 and 2012 was $0.33 per share.

As of December 31, 2013 and 2012, there was $0 and $18,657, respectively, of total unrecognized compensation cost related to non-vested stock options granted. That cost as of December 31, 2013 and 2012 is expected to be recognized over a weighted-average period of 0.0 and 0.3 year, respectively.

The Company recorded stock option compensation expense of $18,657 and $103,000, included in operating expenses, for the years ended December 31, 2013 and 2012, respectively. The recognized tax benefit related to the compensation expense for the years ended December 31, 2013 and 2012 was not material.

Restricted Shares

A summary of the status of restricted shares is presented below:

		Number of restricted shares		Weighted average grant date fair value
Restricted shares outstanding and vested at January 1, 2012	$	600,000	$	0.70
Granted		-		-
Exercised		-		-
Cancelled/ forfeited		-		-
Restricted share outstanding at December 31, 2012	**$**	**600,000**	**$**	**0.70**
Granted		-		-
Exercised		-		-
Cancelled/ forfeited		-		-
Restricted shares vested at December 31, 2013	**$**	**600,000**	**$**	**0.70**

The aggregate intrinsic value was $888,000 and $744,000 based upon the Company's closing stock price of $1.48 and $1,24, respectively, as of December 31, 2013 and 2012, respectively, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options of $0.70, which is outstanding at December 31, 2013 and 2012 was $0.70 per share.

As of December 31, 2013 and 2012, there was $0 and $23,333 of total unrecognized compensation cost related to non-vested restricted shares granted. That cost is expected to be recognized over a weighted-average period of 0.3 years.

The Company recorded restricted share compensation expense of $23,333 and $140,000, included in operating expenses, for the years ended December 31, 2013 and 2012, respectively. The recognized tax benefit related to the compensation expense for the years ended December 31, 2013 and 2012 was not material.

18. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the fiscal year. Potentially dilutive common shares consist of exercisable warrants, restricted stocks, and stock options outstanding (using the treasury method). For the year ended December 31, 2013, there is no dilutive effect due to net loss for the year.

The following table set forth the computation of basic and diluted net income per common share:

Years Ended December 31,	2013	2012
Net income (loss)	$ (9,431,487)	$ 13,587,643
Weighted-average shares of common stock outstanding:		
Basic	23,936,882	20,363,913
Dilutive effect of stock warrants	-	12,523,794
Dilutive effect of restricted stocks and stock options	-	1,600,000
Diluted	**23,936,882**	**34,487,707**
Earnings (loss) per share:		
Basic	**$ (0.39)**	**$ 0.67**
Diluted	**$ (0.39)**	**$ 0.39**

19. INCOME TAXES

The Company and its subsidiary, CTX Technologies, Inc., are incorporated in the United States and are subject to statutory income tax rate of 34% under the relevant jurisdiction. Celluon Technology Holdings Ltd. is incorporated in Canada, and is subject to statutory income tax rate of 24%. Kaibida International Limited is incorporated in Hong Kong, and is subject to statutory income tax rate of 16.5%.The Company's PRC subsidiaries are the standard statutory tax rate of PRC Enterprise Income tax of 25%.

The provision for income taxes consists of taxes on income from operations plus changes in deferred taxes for the periods presented:

Years Ended December 31,	2013	2012
Current tax expenses	$ 342,573	$ 4,102,174
Deferred tax expenses (benefits)	-	1,000,340
Total income tax expenses	**$ 342,573**	**$ 5,102,514**

20. COMMITMENTS AND CONTINGENCIES

The Company is subject to various legal proceedings from time to time as part of its business. As of December 31, 2013, the Company was party to legal proceedings or threatened legal proceedings, however the adverse outcome of which, individually or in the aggregate, it believes would not have a material adverse effect on its business, financial condition and results of operations.

The Company leases its administrative facilities under several non-cancelable operating leases. Rental expenses under operating leases included in the consolidated statement of operations were $172,837 and $325,204 for the years ended December 31, 2013 and 2012, respectively.

As at December 31, 2013, the Group's commitments for minimum lease payments under these leases for the next year are as follows:

Years Ending December 31,	*Amount($)*
2014	$ 51,421
2015	12,855
Total	**$ 64,276**

21. SUBSEQUENT EVENTS

The Company evaluated all events or transactions that occurred after December 31, 2013 up through the date the financial statements were available to be issued. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed as of and for the year ended December 31, 2013 except for the following:

- ***July 31, 2014*** – The Company entered into a Global Supply Agreement ("Supply Agreement") with tier one automotive supplier whereby the Company is the exclusive supplier to this supplier for the Company's virtual projection menu and actuation system for the center console of vehicle models and the supplier is obligated to purchase a minimum of 2.2 million units of the Products before the end of eighteen months of the start date of this contract. The Supply Agreement is personally guaranteed by the Chief Executive Officer.

- ***August 25, 2014*** – The Company executed and closed a Series A Preferred Stock Purchase Agreement ("Stock Purchase Agreement") with a pension fund (the "Purchaser"). Under the Stock Purchase Agreement, the Purchasers will purchase 1,500,000 of Series A Preferred Stock, $0.001 par value per share, at a purchase price of $10.00 per share with total proceeds of $15,000,000. The total proceeds will be provided in two tranches, $7,500,000 on August 25, 2014, and $7,500,000 in 2015. On August 25, 2014, the Company closed the first tranche and received gross proceeds of $6,725,000.

- ***April 2014*** – The Company's wholly owned subsidiary, Kaibida International Limited (a Hong Kong company), was approved and formed a Wholly Foreign Owned Enterprise ("WFOE") in China. The WFOE allows foreign companies to own companies in China. The name of the WFOE is Shenzhen Kaibida Electronic Limited which is owned by Kaibida International Limited. The Company intends to use WFOE to transfer equity interest of variable interest entities to Shenzhen Kaibida Electronic Limited in year 2015.