MOQIZONE HOLDING CORPORATION

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMEBR 31, 2013 AND 2012

Unaudited consolidated financial statements (the "financial statements") for Moqizone Holding Corporation for the years ended December 31, 2013 and 2012 have been prepared by management. Accordingly, the financial statements have not been audited, reviewed or compiled by independent accountants. The financial statements have been prepared in accordance with generally accepted accounting principles.

Trading Symbol: **MOQZ**
CUSIP Number: **058479 10 6**

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MOQIZONE HOLDING CORPORATION

Unaudited Consolidated Balance Sheets

		December 31, 2013	December 31, 2012
ASSETS			
Current assets:			
Cash	$	1,075	1,069
Total current assets		1,075	1,069
Total assets	$	1,075	1,069
LIABILITIES			
Current liabilities:			
Accounts payables and accruals	$	1,153,596	977,847
Accrued directors' fee		331,207	247,858
Interest payable		504,855	458,136
Preferred stock dividend payable		544,536	288,455
Convertible note		246,500	198,935
Note payable, net of debt discount		150,000	112,500
Warrant liabilities		0	6,573
Total current liabilities		2,930,694	2,290,304
Shareholders' deficit			
Common stock, 40,000,000 shares authorized, $0.001 par value, 13,875,727 issued and outstanding as of December 31, 2013 and 2012.		13,876	13,876
Series A preferred stock, 15,000 shares authorized, $0.001 par value, 1,095 issued and outstanding as of December 31, 2013 and 2012.		1	1
Series C preferred stock, 869,422 shares authorized, $0.001 par value, 847,200 issued and outstanding as of December 31, 2013 and 2012.		847	847
Additional paid-in capital		3,535,016	3,535,016
Accumulated deficit		(6,720,333)	(6,080,661)
Accumulated other comprehensive income		240,974	241,686
Total shareholders' deficit		(2,929,619)	(2,289,235)
Total liabilities and shareholders' deficit	$	1,075	1,069

See accompanying notes to unaudited consolidated financial statements

MOQIZONE HOLDING CORPORATION

Unaudited Consolidated Statements of Operations and Comprehensive Loss

		Year ended December 31,	
		2013	2012
Revenue, net	$	17,345	-
Costs and expenses			
Selling, general and administrative expenses		(218,845)	(224,359)
Loss from operations		(201,500)	(224,359)
Other (expenses)/income			
Interest expenses, net of interest income		(188,665)	(134,608)
Change in fair value of derivative liaabilities		6,573	11,580,333
Total other income/(expenses)		(182,092)	11,445,725
Net profit/(loss)	$	(383,592)	11,221,366
Other comprehensive income/(loss)			
Foreign currency translation adjustment		(712)	(720)
Comprehensive income/(loss)	$	(384,304)	11,220,646
Net income per share:			
Basic	$	(0.03)	0.81
Diluted	$	(0.03)	0.71
Weighted average number of shares used in computation:			
Basic		13,875,727	13,875,727
Diluted		13,875,727	15,699,568

See accompanying notes to unaudited consolidated financial statements

MOQIZONE HOLDING CORPORATION

Unaudited Consolidated Statement of Shareholders' Deficit

	Ordinary shares (US$0.001 par value)		Series A preferred shares (US$0.001 par value)		Series C preferred shares (US$0.001 par value)		Additional paid-in	Accumulated other comprehensive	Accumulated	Total shareholders'
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	capital	income	losses	equity
Balance as of December 31, 2011	13,875,727	$13,876	1,095	$1	847,200	$847	$3,460,016	$242,406	($17,045,947)	($13,328,801)
Foreign exchange translation difference								(720)		(720)
Accrued preferred dividend									(256,080)	(256,080)
Estimated fair value of warrant issued with note payable							75,000			75,000
Net income (loss)									11,221,366	11,221,366
Balance as of December 31, 2012	13,875,727	13,876	1,095	1	847,200	847	3,535,016	241,686	(6,080,661)	(2,289,235)
Foreign exchange translation difference								(712)		(712)
Accrued preferred dividend									(256,080)	(256,080)
Net income (loss)									(383,592)	(383,592)
Balance as of December 31, 2013	13,875,727	$13,876	1,095	$1	847,200	$847	$3,535,016	$240,974	($6,720,333)	($2,929,619)

See accompanying notes to unaudited consolidated financial statements

MOQIZONE HOLDING CORPORATION

Unaudited Consolidated Statements of Cash Flows

		Year ended December 31,	
		2013	2012
Operating activities			
Net income/(loss)	$	(383,592)	11,221,366
Adjustments:			
Amortization of debt discount		85,065	37,500
Change in fair value of derivative liabilities		(6,573)	(11,580,333)
Other payables and accruals		222,469	233,328
Accrued directors' fees		83,349	83,350
Net cash used in operating activities		718	(4,789)
Effect of exchange rate on cash		(712)	(720)
(Decrease)/increase in cash		6	(5,509)
Cash, beginning of period		1,069	6,578
Cash, end of period	$	1,075	1,069
Supplement disclosure of cash flow information			
Interest paid	$	-	-
Supplement disclosure of non-cash transactions			
Preferred stock dividend payable	$	256,081	256,081
Estimated fair value of warrant issued with note payable	$	-	75,000

See accompanying notes to unaudited consolidated financial statements

MOQIZONE HOLDING CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

Note 1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of MoqiZone Holding Corporation (the "Company"), its subsidiaries of MoqiZone Holdings Limited, a Cayman Island corporation ("MoqiZone Cayman"), MobiZone Holdings Limited, a Hong Kong corporation ("MobiZone Hong Kong"), MoqiZone (Shanghai) Information Technology Company Limited ("Shanghai MoqiZone") and a variable interest entity ("VIE"), Shenzhen Alar Technology Company Limited ("Shenzhen Alar"). The Company, its subsidiaries and VIE are collectively referred to as the "Group". MobiZone Hong Kong operates a Chinese online game content delivery platform company that delivers last mile connectivity to internet cafes installed with our WiMAX equipment and which have joined into our MoqiZone WiMAX Network.

The Share Exchange Agreement, Reverse Merger and Reorganization

On March 15, 2009, Trestle Holdings, Inc. (the "Trestle") entered into a Share Exchange Agreement with MoqiZone Cayman, Cheung Chor Kiu Lawrence, the principal shareholder of MoqiZone Cayman ("Cheung"), and MKM Capital Opportunity Fund Ltd. ("MKM"), our principal shareholder (the "Agreement"). MoqiZone Cayman is the record and beneficial owner of 100% of the share capital of MobiZone Hong Kong and MobiZone Hong Kong is the record and beneficial owner of 100% of the share capital of Shanghai MoqiZone.

On June 1, 2009, pursuant to the Agreement, and as a result of MobiZone Hong Kong's receipt of $4,345,000 in gross proceeds from the financing described below, the Company acquired all of the issued and outstanding capital stock of MoqiZone Cayman in exchange for the issuance to Cheung and the other shareholders of MoqiZone Cayman of 10,743 shares of our soon to be created Series B convertible preferred stock. The transaction was regarded as a reverse merger whereby MoqiZone Cayman was considered to be the accounting acquirer as it retained control of Trestle after the exchange and Trestle is the legal acquirer. The share exchange was treated as a recapitalization and, accordingly, Trestle reclassified its common stock and additional paid-in-capital accounts for the year ended December 31, 2008. The Financial Statements have been prepared as if MoqiZone had always been the reporting company and then on the share exchange date, had changed its name and reorganized its capital stock.

As of August 28, 2009, our corporate name changed from Trestle Holdings, Inc. to MoqiZone Holding Corporation and our authorized capital increased by 15,000,000 shares of preferred stock. Pursuant to the additional financings we closed in August 2009 and the authority vested in our Board of Directors, we also filed a certificate of designation of Series A preferred stock and certificate of designation of Series B preferred stock with Delaware's Secretary of State to designate 15,000 of the 15,000,000 shares of preferred stock as Series A preferred stock and 10,743 of the 15,000,000 shares of preferred stock as Series B preferred stock.

On August, 31, 2009, a one-for-254.5 reverse stock split became effective and reduced outstanding shares of our common stock to 703,794 shares. Following the reverse stock split described and per the terms and conditions of our share exchange, the Series B Preferred Stock automatically (and without any action on the part of the holders) converted (on the basis of 1,000 shares of common stock for each share of Series B Preferred Stock) into an aggregate of 10,743,000 shares of our common stock, representing approximately 95% of our issued and outstanding shares of common stock, on a fully-diluted basis, as at the time of conversion (but prior to the issuance of any other equity or equity type securities).

As a result of these transactions, our authorized capital consisted of 40,000,000 shares of common stock and 15,000 and 869,422 shares of Series A and C preferred stock, respectively, as at December 31, 2009. There were 13,620,620 shares of common stock and 1,145 shares of Series A preferred stock issued and outstanding as at that date.

Note 2. PRINCIPAL ACCOUNTING POLICIES

1) Basis of presentation

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. On an ongoing basis, we evaluate our estimates which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

2) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods.

Significant estimates made by management include, among others, fair value of common stock and preferred stock issued and fair value of derivative liabilities. The Company bases its estimates on historical experience, knowledge of current conditions and belief of what could occur in the future considering available information. The Company reviews its estimates on an on-going basis. The actual results experienced by the Company may differ materially and adversely from its estimates. To the extent there are material differences between the estimates and actual results, future results of operations will be affected.

3) Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIE subsidiary for which the Company is the primary beneficiary. All transaction and balances among the Company, its subsidiaries and VIE subsidiary have been eliminated upon consolidation.

The Group has adopted "*Consolidation of Variable Interest Entities*. This interpretation requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

To comply with PRC laws and regulations that restrict foreign ownership of companies that operate online games, the Company operates its online games mainly through Shenzhen Alar, which is wholly owned by certain PRC citizens. Shenzhen Alar holds the licenses and approvals to operation line games in the PRC.

Pursuant to the contractual arrangements with Shenzhen Alar, MoqiZone Shanghai mainly provides the following intra-group services to Shenzhen Alar.

- Gaming related licensing service;

- Software licensing service;
- Equipment and maintenance service;
- Strategic consulting service;
- Licensing of billing technology; and
- Billing service.

In addition, MoqiZone Shanghai has entered into agreements with Shenzhen Alar and its equity owners with respects to certain shareholder rights and corporate governance matters that provide the Company with the substantial ability to control Shenzhen Alar. Pursuant to these contractual arrangements:

The equity owners of Shenzhen Alar have granted an irrevocable proxy to individuals designated by MoqiZone Shanghai to exercise the right to appoint directors, general manager and other senior management of Shenzhen Alar;

Shenzhen Alar will not enter into any transaction that may materially affect its assets, liabilities, equity or operations without the prior written consent of MoqiZone Shanghai.

Shenzhen Alar will not distribute any dividend;

The equity owners of Shenzhen Alar have pledged their equity interest in Shenzhen Alar to MoqiZone Shanghai to secure the payment obligations of Shenzhen Alar under all the agreements between Shenzhen Alar and MoqiZone Shanghai; and

The equity owners of Shenzhen Alar will not transfer, sell, pledge or dispose of their equity interest in Shenzhen Alar without any prior written consent of MoqiZone Shanghai.

As a result of these agreements, the Company is considered the primary beneficiary of Shenzhen Alar and accordingly Shenzhen Alar's results are consolidated in the Company's financial statements.

4) Cash and cash equivalents

Cash and cash equivalents represent cash on hand and highly liquid investment placed with banks, which have original maturities less than three months. Cash and cash equivalents kept with financial institutions in the People's Republic of China ("PRC") are not insured or otherwise protected. Should

any of those insinuations holding the Company's cash become insolvent, or the Company is unable to withdraw funds for any reason, the Company could lose the cash on deposit on that institution.

5) Fair value of measurements

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The established fair value hierarchy prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and must be used to measure fair value whenever available.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. For example, level 3 inputs would relate to forecasts of future earnings and cash flows used in a discounted future cash flows method.

The Company's financial instruments consist of cash, accounts payable, accrued expenses, notes payable and convertible notes payable. The Company cannot determine the estimated fair value of its convertible notes payable as instruments similar to the convertible notes payable could not be found. Other than for convertible notes payable, the carrying value for all such instruments approximates fair value due to the short-term nature of the instruments.

The Company uses Level 3 of the fair value hierarchy to measure the fair value of the derivative liabilities and revalues its derivative warrant liabilities at every reporting period and recognizes gains or losses in the statements of operations that are attributable to the change in the fair value of the derivative warrant liabilities.

6) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. We license a client-end software to internet cafes for them to automatically update their client-end software on a real time basis. Revenue for such licensing fee is recognized on a straight-line basis over the license period.

7) Income taxes

The Company utilizes FASB Accounting Standard Codification Topic 740 (“ASC 740”) “Income taxes” (formerly known as SFAS No. 109, "Accounting for Income Taxes"), which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the unaudited consolidated 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.

ASC 740 “Income taxes” (formerly known as Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109 (“FIN 48”)) clarifies the accounting for uncertainty in tax positions. This interpretation requires that an entity recognizes in the unaudited consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the statements of operations.

8) Property, plant and equipment

Property, plant and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred.

9) Research and development costs

Research and development costs are expensed as incurred. The research and development costs were not material for the years ended December 31, 2013 and 2012.

10) Foreign currency translation

Since the Group operates solely in Hong Kong and the PRC, the Group's functional currency is the Hong Kong Dollar ("HKD") and the Renminbi ("RMB"). Assets and liabilities are translated into U.S. Dollars at the exchange rates at the end of each reporting period and records the related translation adjustments as a component of other comprehensive income (loss). Revenue and expenses are translated using average exchange rates prevailing during the period. Foreign currency transaction gains and losses are included in current operations.

11) Comprehensive income (loss)

Comprehensive income is defined to include all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation gain, net of tax.

12) Recent accounting pronouncements

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.

13) *Beneficial Conversion Features*

In certain instances, the Company entered into convertible notes that provide for an effective or actual rate of conversion that is below market value, and the embedded beneficial conversion feature ("BCF") does not qualify for derivative treatment. In these instances, the Company accounts for the value of the BCF as a debt discount, which is then amortized to interest expense over the life of the related debt using the straight-line method which approximates the effective interest method.

14) Stock-Based Compensation

All share-based payments, including grants of stock to employees, directors and consultants, are recognized in the consolidated financial statements based upon their estimated fair values.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows ASC Topic 505. As such, the value of the applicable stock-based compensation is periodically re-measured and income or expense is recognized during their vesting terms. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is primarily recognized over the term of the consulting agreement. In accordance with FASB guidance, an asset acquired in exchange for the issuance of fully vested, non-forfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes.

15) Basic and Diluted Loss per Common Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders for the period by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted-average number of common and common equivalent shares, such as warrants outstanding during the period. Common stock equivalents from warrants and convertible preferred stock and notes payable were approximately 110,000 for the year ended December 31, 2013 and are excluded from the calculation of diluted net loss per share for the year then ended because the effect is anti-dilutive.

For the year ended December 2012, the Company common stock equivalents consisted of: (a) 258,751 warrants, (b) 109,556 shares related to convertible notes payable, and (c) 1,455,534 shares related to convertible preferred stock.

16) Derivative Liabilities

The Company evaluates debt instruments, preferred stock, stock options, stock warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under the relevant sections of ASC Topic 815-40, *Derivative Instruments and Hedging: Contracts in Entity's Own Equity* . The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative instrument and is marked-to-market at each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or other expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Financial instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815-40 are reclassified to a liability account at the fair value of the instrument on the reclassification date.

Certain of the Company's warrants with down round provisions are treated as derivatives for accounting purposes. The Company estimates the fair value of these provisions using the Black-Scholes Merton option pricing model ("Black-Scholes") (see Note 5).

Note 3. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has an accumulated deficit of approximately $7,000,000 and has generated little revenues from operations since inception. In addition, the Company has a shareholders' deficit of approximately $3,000,000 as of December 31, 2013. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying unaudited consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 4. CONVERTIBLE NOTES

During 2010, the Company entered into an aggregate of $246,500 in convertible promissory notes bearing interest at 8%, due in August 2013. The convertible notes allow the lender to convert the unpaid principal and accrued interest into shares of the Company's common stock at a conversion price of $2.25. The embedded conversion feature of approximately $184,000 was treated as a debt discount and was amortized to interest expense over the life of the notes. The Company amortized the debt discount

through the maturity of the convertible promissory notes. The amortization of the debt discount for the embedded conversion feature was approximately $40,000 and $61,000 for years ended December 31, 2013 and 2012. In connection with the issuance of the convertible notes, the Company issued warrants to purchase an aggregate of 246,500 shares of the Company's common stock at an exercise price of $1.70. The relative fair value of the related warrants was approximately $30,000 at the date of grant and was amortized over the life of the notes. During the years ended December 31, 2013 and 2012, the Company expensed approximately $6,667 and $10,000 related to the amortization of the debt discount.

In March 2012, the Company entered into a contingently convertible note payable with a related party in the amount of $150,000 bearing interest at 18%, due in September 2013. The note allows the lender to convert the unpaid principal and accrued interest into shares of the Company's common stock at a conversion price of 60% of a funding in the amount in excess of $500,000. Until such time as the Company closes on such funding, the note is not convertible. Accordingly, the Company did not record any value to the conversion feature at the time of issuance or through December 31, 2013. In connection with the issuance of the note, the Company issued warrants to purchase an aggregate of 75,000 shares of the Company's common stock at an exercise price of $1.00. The relative fair value of the related warrants was approximately $75,000 at the date of grant and was amortized over the life of the notes. During the years ended December 31, 2013 and 2012, the Company expensed approximately $37,500 and $37,500 related to the amortization of the debt discount.

Note 5. WARRANT LIABILITY

The Company applies the accounting standard that provides guidance for determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity's own stock. The standard applies to any freestanding financial instrument or embedded features that have the characteristics of a derivative, and to any freestanding financial instruments that are potentially settled in an entity's own common stock.

From time to time, the Company has issued warrants to purchase common stock and notes payable convertible to common stock. Certain of the warrants and notes contain price protection features that result in these instruments being treated as derivatives. Accordingly, the Company has estimated the fair value of these embedded conversion features and warrants using Black-Scholes with the following assumptions:

- Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods. We believe this method produces an estimate that is representative of our expectations of future

volatility over the expected term of these warrants and embedded conversion features. The Company currently has no reason to believe that future volatility over the expected remaining life of these warrants and embedded conversion features is likely to differ materially from historical volatility.

- The expected life is based on the remaining term of the warrants and embedded conversion features.
- The risk-free interest rate is based on U.S. Treasury securities consistent with the remaining term of the warrants and embedded conversion features.

During the years ended December 31, 2013 and 2012, the Company recorded gain of approximately $7,000 and $11,600,000, respectively, related to the change in fair value of the warrants which is included in change in fair value of derivative liabilities in the accompanying unaudited consolidated statements of operations.

The following table presents our warrants which have no observable market data and are derived using Black-Scholes measured at fair value on a recurring basis, using Level 3 inputs, as of December 31, 2013 and 2012:

	December 31, 2012
Annual dividend yield	-%
Expected life (years)	0.50
Risk-free interest rate	0.10%
Expected volatility	306%

The level 3 carrying value as of December 31, 2012:

	December 31, 2013
Warrants	$ -
Embedded conversion features	6,573
	$ 6,573
Change in fair value	$ 6,573

The following table presents the changes in fair value of our warrants measured at fair value on a recurring basis as of December 31, 2013:

	December 31, 2013
Balance as of January 1, 2012	$ 6,573
Issuance of warrants	-
Expiration of derivatives	(6,573)
Balance as of December 31, 2013	$ -

Note 6. SHAREHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 15,000 shares of Series A Preferred Stock ("Series A") par value of $0.001 per share. The Series A will, with respect to dividends and liquidation, winding up or dissolution, rank: (a) senior with respect to dividends and pari passu in right of liquidation with the common stock; (b) senior to any future designation of preferred stock; (c) junior to all existing and future indebtedness of the Company. Commencing on date of issuance, holders of Series C will be entitled to receive dividends on each outstanding share of Series A, which will accrue in shares of Series A at a rate equal to 8% per annum from the issuance date; (d) liquidation value of $1,000 per share; and (e) votes with the common stock on an if-converted basis. The Conversion price of the Series A shall mean 556 shares of common stock for each shares of Series A converted. The Series A may be converted at any time. In each of the years ended December 31, 2013 and 2012, the Company accrued approximately $100,000 of dividends payable related to the Series A.

The Company is authorized to issue 2,250,000 shares of Series C Preferred Stock ("Series C") par value of $0.001 per share. The Series C will, with respect to dividends and liquidation, winding up or dissolution, rank: (a) senior with respect to dividends and pari passu in right of liquidation with the common stock; (b) junior to the Series C; (c) senior to any future designation of preferred stock; (d) junior to all existing and future indebtedness of the Company. Commending on date of issuance, holders of Series C will be entitled to receive dividends, at the Company's option, on each outstanding share of Series C, which will accrue in shares of Series C at a rate equal to 8% per annum from the issuance date; (e) liquidation value of $2.25 per share; and (f) votes with the common stock on an if-converted basis. The Conversion price of the Series C shall mean 1 share of common stock for each share of Series C converted. The Series C may be converted at any time. In each of the years ended December 31, 2013 and 2012, the Company accrued approximately $156,000 of dividends payable related to the Series C.

Employee share option plan

On July 22, 2010, the Board of Directors approved the 2010 Equity Incentive Plan, pursuant to which 1,500,000 shares of our common stock are reserved for issuances to current and prospective employees, non-employee directors, consultants or other persons who provide services to us that hold positions of responsibility and whose performance, in management's – or other board appointed committee – judgment, can have a significant effect on our success.

On July 22, 2010, the Company granted an aggregate of 1,455,000 three-year options to 51 employees to purchase common stock at an exercise price of US$2.25 per share. These options were to vest semi-annually in equal amounts over the life of the options. These options were valued at approximately US$1,548,000 which represents the grant date fair value of these options. The cost of these options were to be expensed as they vested and were to be recorded in general and administrative expenses as share-based compensation expenses. Pursuant to these options, The Company was to incur approximately $258,000 of expenses on January 22, 2011 and incurring in equal amounts every six months with the last expense incurring on July 22, 2013. However, all of the options were forfeited prior to vesting. Accordingly, during the years ended December 31, 2013 and 2012, the Company did not record any stock based compensation expense.

There were no stock options outstanding at December 31, 2013 and 2012.

Warrants

The following represents a summary of all common stock warrant activity for the year ended December 31, 2013:

	Outstanding Common Stock Warrants		
	Number of Shares	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value (1)**
Outstanding at December 31, 2012	1,162,831	$ 3.36	$ -
Grants	-	-	-

Exercised	-	-	-
Cancelled/Expired	(1,087,131)	3.29	-
Outstanding and exercisable at December 31, 2013	75,000	$ 1.00	$ -

(1) Represents the difference between the exercise price and the estimated fair value of the Company's common stock at the end of the reporting period.

(2) The common stock warrants outstanding and exercisable as of December 31, 2013 and 2012 have a weighted-average contractual remaining life of 0.4 years and 1.2 years, respectively.

Note 7. INCOME TAX

Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains. In addition, payment of dividends by us is not subject to withholding tax in the Cayman Islands.

Under the current Hong Kong Inland Revenue Ordinance, MobiZone Hong Kong is subject to 16.5% income tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by MobiZone Hong Kong to us are not subject to any Hong Kong withholding tax.

With the introduction of the EIT Law, China has resumed imposition of a withholding tax (10.0% in the absence of a bilateral tax treaty or new domestic regulation reducing such withholding tax rate to a lower rate). As Mobizone Hong Kong is the sole shareholder of Shanghai MoqiZone, the dividends from Shanghai MoqiZone may be taxed at a reduced withholding tax rate of 5% per the Double Tax Avoidance Arrangement between Hong Kong and Mainland China.

Our PRC companies are subject to PRC business tax. We primarily pay business tax on gross revenues generated from online game operations, rentals, service fees and license fees. Our PRC operating companies pay business tax on their gross revenues derived from online game operations at a rate ranging from 3% to 5%, and this business tax is deducted from total revenues. In addition, our PRC subsidiaries pay a 5% business tax on the gross revenues derived from their contractual arrangements with our PRC operating companies, and these taxes are primarily recorded in operating expenses in accordance with our accounting policy.

The difference between the income tax expenses and the expected income tax computed at statutory Enterprise Income Tax rate ("EIT") of the PRC was as follows:

	2013	2012
	(unaudited)	(unaudited)
Statutory rate	34%	34%
Income tax rate reduction	-	-
Permanent differences	-	-
Non-taxable income of fair value adjustment	(34%)	(34)%
Effective income tax rate	**0.0%**	**0.0%**

Note 8. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist primarily of cash and cash equivalents and prepayments and other current assets. As of December 31, 2013 and 2012 substantially all of the Group's cash and cash equivalents were held by major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality.

Note 9. COMMITMENTS AND CONTINGENCIES

Operating Lease

There were no operating leases for the years ended December 31, 2013 and 2012.

Legal Proceeding

There has been no legal proceeding in which the Company is a party for the years ended December 31, 2013 and 2012.

Note 10. SUBSEQUENT EVENTS

There were no events or transactions other than those disclosed in this report, if any, that would require recognition or disclosure in our consolidated financial statements for the year ended December 31,

2013.