
VALENTINE BEAUTY INC. AND SUBSIDIARY
F/K/A CHINA EDUCATION TECHNOLOGY INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(UNAUDITED)

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Valentine Beauty Inc. and Subsidiary
Consolidated Balance Sheet
As of March 31, 2014
(Unaudited)

ASSETS	March 31, 2014
CURRENT ASSETS	
Cash and cash equivalents	\$ 15,869
Accounts receivable	446
Inventory	73,512
Prepayment and deposits	5,000
TOTAL CURRENT ASSETS	94,827
PLANT AND EQUIPMENT, NET	4,896
TOTAL ASSETS	\$ 99,723
LIABILITIES AND STOCKHOLDERS' (DEFICIT) / EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 21,917
Convertible notes payable - related party, net of discount of \$65,023	104,977
Convertible notes payable - related party	55,000
Accrued income taxes payable	14,313
Other payable and accrued liabilities	73,710
Derivative liabilities	126,246
Due to related party	64,491
TOTAL CURRENT LIABILITIES	460,654
TOTAL LIABILITIES	460,654
STOCKHOLDERS' (DEFICIT) / EQUITY	
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized, 730,000 shares issued and outstanding as of March 31, 2014	73
Common stock, \$0.0001 par value, 290,000,000 shares authorized, 107,107,307 shares issued and outstanding as of March 31, 2014	10,711
Additional paid in capital	(75,185)
Retained earnings (deficit)	(296,530)
TOTAL STOCKHOLDERS' (DEFICIT) / EQUITY	(360,931)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) / EQUITY	\$ 99,723

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

Valentine Beauty Inc. and Subsidiary
Consolidated Statement of Operations
For the Three Months Ended March 31, 2014
(Unaudited)

	For the Three Months Ended March 31, 2014
Revenues	
Sales	\$ 61,010
Cost of sales	13,157
Gross profit	47,853
 Operating expenses	
Selling, general and administrative expenses	35,512
Professional fees	-
Depreciation	317
Total Operating Expenses	35,830
Operating income	12,023
 Other income (expenses)	
Interest expenses	(7,741)
Amortization of discount to note payable	(26,243)
Changes in derivative liabilities	(32,112)
Total other income (expenses)	(66,096)
Income (loss) before income taxes	(54,072)
Income taxes	-
Net income (loss)	\$ (54,072)
 Earnings per common share	
Basic	**
 Weighted average common shares outstanding	
Basic	107,107,307

** Less than \$.01

The accompanying notes are an integral part of the financial statements

Valentine Beauty Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2014
(Unaudited)

		For the Three Months Ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$	(54,072)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Depreciation and amortization		317
Amortization of discount to note payable		26,243
Changes in derivative liabilities		32,112
Changes in operating assets and liabilities:		
Accounts receivable		(446)
Inventory		6,556
Prepayment and deposits		-
Accounts payable		978
Accrued income taxes payable		-
Accrued expenses		5,124
NET CASH (USED IN) OPERATING ACTIVITIES		16,811
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment		-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable		-
(Repayment) to notes payable		-
Proceeds from (repayment to) due to related parties		(2,480)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		(2,480)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		14,331
CASH AND CASH EQUIVALENTS:		
Beginning of period		1,537
End of period	\$	15,869
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$	-
Cash paid for interest	\$	-

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

Valentine Beauty Inc. and Subsidiary
Consolidated Statement of Stockholders' Equity (Deficit)
For the period ended March 31, 2014
(Unaudited)

	Preferred Stock \$0.0001 par value		Common Stock \$0.0001 par value		Additional Paid in Capital	Retained Earnings (Deficit)	Total Stockholders' (Deficit)
	Shares	Amount	Shares	Amount			
Balance, December 31, 2011	-	\$ -	100,000,000	\$ 10,000	\$ (10,000)	\$ (104,643)	\$ (104,643)
Reorganization due to recapitalization	870,000	87	107,307	11	(64,499)		(64,401)
Net income	-	-	-	-		27,784	27,784
Balance, December 31, 2012	<u>870,000</u>	<u>87</u>	<u>100,107,307</u>	<u>10,011</u>	<u>(74,499)</u>	<u>(76,859)</u>	<u>(141,260)</u>
Conversion of preferred stock	(140,000)	(14)	7,000,000	700	(686)		-
Net (loss)	-	-	-	-		(165,599)	(165,599)
Balance, December 31, 2013	<u>730,000</u>	<u>\$ 73</u>	<u>107,107,307</u>	<u>\$ 10,711</u>	<u>\$ (75,185)</u>	<u>\$ (242,458)</u>	<u>\$ (306,859)</u>
Net (loss)	-	-	-	-		(54,072)	(54,072)
Balance, March 31, 2014	<u>730,000</u>	<u>\$ 73</u>	<u>107,107,307</u>	<u>\$ 10,711</u>	<u>\$ (75,185)</u>	<u>\$ (296,530)</u>	<u>\$ (360,931)</u>

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

VALENTINE BEAUTY INC. AND SUBSIDIARY
F/K/A CHINA EDUCATION TECHNOLOGY INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

NOTE—1 ORGANIZATION AND BUSINESS BACKGROUND

Valentine Beauty Inc. F/K/A China Education Technology Inc. (the “Company”) was incorporated in the state of Delaware in 1996 in name of Envirosafe Corporation. On April 3, 2008, the Company changed its corporate name to China Education Technology Inc. and redomiciled from Delaware to Nevada on October 6, 2008. On November 26, 2013, the Company changed its corporate name to Valentine Beauty Inc. to reflect the Plan of Exchange disclosed below. The Company’s common shares are quoted on the “Pink Sheets - Other” quotation market under the symbol “VLBI.PK”.

The Company is an investment holding company, whose only asset is 100% equity interest in Valentine Spa Inc. (referred to herein as the “Valentine Spa”), a Texas Corporation incorporated under the Texas Business Corporation Act on May 18, 2001 with the business providing beauty and cosmetic products and services to their clients.

On November 15, 2013, a Plan of Exchange (the “Exchange”) was executed between and among the Company, Valentine Spa, the majority stockholder of the Company and the stockholder of Valentine Spa, pursuant to which 100,000,000 shares of the Company’s common stock were issued to the stockholder of Valentine Spa. Upon completion of the Exchange, Valentine Spa became the Company’s wholly-owned subsidiary and the former stockholder of Valentine Spa then owned a ‘controlling interest’ in the Company representing 58.73% of the voting shares of the Company on a fully dilutive basis.

The stock exchange transaction has been accounted for as a reverse acquisition and recapitalization of the Company whereby Valentine Spa is deemed to be the accounting acquirer (legal acquiree) and the Company to be the accounting acquiree (legal acquirer). The accompanying consolidated financial statements are in substance those of Valentine Spa, with the assets, liabilities, revenues and expenses, of the Company being included effective from the date of stock exchange transaction. Accordingly, the financial position, results of operations, and cash flows of the accounting acquirer are included for all periods presented as if the recapitalization had occurred at the beginning of the earliest period presented and the operations of the accounting acquiree are included from the date of stock exchange transaction.

Valentine Beauty Inc. and its wholly-owned subsidiary, Valentine Spa, are hereafter referred to as (the “Company”).

NOTE—2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) under the accrual basis of accounting.

Use of estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. These accounts and estimates include, but are not limited to, the valuation of accounts receivables, inventories, income taxes and the estimation on useful lives of property, plant and equipment. Actual results could differ from these estimates.

F/K/A CHINA EDUCATION TECHNOLOGY INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

NOTE—2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of March 31, 2014, the Company had \$446 balance in accounts receivable.

Fair value of financial instruments

The Company measures its financial and non-financial assets and liabilities, as well as makes related disclosures, in accordance with FASB Accounting Standards Codification No. 820, *Fair Value Measurement* ("ASC 820"), which provides guidance with respect to valuation techniques to be utilized in the determination of fair value of assets and liabilities. Approaches include, (i) the market approach (comparable market prices), (ii) the income approach (present value of future income or cash flow), and (iii) the cost approach (cost to replace the service capacity of an asset or replacement cost). ASC 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one more significant inputs or significant value drivers are unobservable.

Our financial instruments include cash, inventory, prepayment and deposits, accounts payable, accrued income tax payable, accrued liabilities, convertible note payable – related party, and derivative liabilities.

The carrying values of the Company's cash, inventory, prepayment and deposits, accounts payable, accrued income tax payable, and accrued liabilities approximate their fair value due to their short-term nature.

The Company's convertible note payable – related party are measured at amortized cost.

F/K/A CHINA EDUCATION TECHNOLOGY INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

NOTE—2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments (continued)

The derivative liabilities are stated at their fair value as a level 3 measurement. The Company used a Black-Scholes model to determine the fair values of these derivative liabilities. See Note 3(A) for the Company's assumptions used in determining the fair value of these financial instruments.

Convertible note payable

The Company accounts for convertible note payable in accordance with the FASB Accounting Standards Codification No. 815, *Derivatives and Hedging*, since the conversion feature is not indexed to the Company's stock and can't be classified in equity. The Company allocates the proceeds received from convertible note payable between the liability component and conversion feature component. The conversion feature that is considered embedded derivative liabilities has been recorded at their fair value as its fair value can be separated from the convertible note and its conversion is independent of the underlying note value. The Company has also recorded the resulting discount on debt related to the conversion feature and is amortizing the discount using the effective interest rate method over the life of the debt instruments.

Derivative liabilities

The Company accounts for derivative liabilities in accordance with the FASB Accounting Standards Codification No. 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 requires companies to recognize all derivative liabilities in the balance sheet at fair value, and marks it to market at each reporting date with the resulting gains or losses shown in the Statement of Operations.

Basic Income (Loss) Per Share

The Company calculates net income (loss) per share in accordance with the FASB Accounting Standards Codification No. 260, *Earnings per Share*. Basic income (loss) per share is calculated by dividing the Company's net income or loss applicable to common shareholders by the weighted average number of common shares during the period. If applicable, diluted earnings per share assume the conversion, exercise or issuance of all common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. There were no adjustments required to net loss for the periods presented in the computation of basic loss per share. No diluted loss per share is required to be represented.

Revenue recognition

In accordance with guidance by paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition, the Company recognizes revenue when persuasive evidence of an arrangement exists, transfer of title has occurred or services have been rendered, the selling price is fixed or determinable and collectability is reasonably assured.

Cost of Goods Sold

Cost of goods sold consists primarily of costs of raw materials and direct labor, and other costs directly attributable to revenues generation. Write-down of inventories to lower of cost or market is also recorded in cost of goods sold.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

NOTE—2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company adopts the ASC Topic 740, “*Income Taxes*” regarding accounting for uncertainty in income taxes, which prescribes the recognition threshold, and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. In addition, the guidance requires the determination of whether the benefits of tax positions will be more likely than not sustained upon audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely than not sustained upon audit, a company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely than not sustained upon audit, a company does not recognize any portion of the benefit in the financial statements. The guidance provides for de-recognition, classification, penalties and interest, accounting in interim periods and disclosure.

For the three months ended March 31, 2014, the Company did not have any interest and penalties associated with tax positions. As of March 31, 2014, the Company did not have any significant unrecognized uncertain tax positions.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

Related parties

Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence. A material related party transaction has been identified in Note 3 and Note 5 in the financial statements.

Subsequent Events

The Company evaluated for subsequent events through the issuance date of the Company’s financial statements.

Recently issued accounting standards

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements up to ASU 2014-08, and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its consolidated financial condition or the consolidated results of its operations.

NOTE—3 CONVERTIBLE NOTES PAYABLE – RELATED PARTY***(A) Convertible Notes Payable – Derivative liabilities***

On November 14, 2013, the Company issued four convertible promissory notes in total amount of \$170,000 (the “Notes”) to two related parties in connection with the Plan of Exchange, dated November 15, 2013 (see Note 1). The Notes bear an interest rate of 10% per annum and are due on November 14, 2014, pursuant to which the holders of the Notes have an option to convert all or any portion of the accrued interest and unpaid principal balance of the Notes into the common stock of the Company or its successors, at 90% of the market bid price of the common stock on the demand date for conversion.

The Company has determined that the conversion feature of the Notes represents an embedded derivative since the Notes are convertible into a variable number of shares upon conversion. Accordingly, the Notes are not considered to be conventional debt and the embedded conversion feature must be bifurcated from the debt host and accounted for as a derivative liability. Accordingly, the fair value of this derivative instrument has been recorded as a liability on the balance sheet with the corresponding amount recorded as a discount to the Notes. Such discount will be accreted from the issuance date to the maturity date of the Notes. The change in the fair value of the derivative liability will be recorded in other income or expenses in the statement of operations at the end of each period, with the offset to the derivative liability on the balance sheet. The fair value of the embedded derivative liability was determined using the Black-Scholes valuation model on the issuance date with the assumptions in the table below.

At March 31, 2014, the Company revalued the embedded derivative liability with the assumptions in the table below. For the period from December 31, 2013 to March 31, 2014, the Company increased the derivative liability of \$94,134 by \$32,112 resulting in a derivative liability of \$126,246 at March 31, 2014.

Reporting Date	Fair Value	Term (Years)	Assumed Conversion Price	Market Price on Issuance Date	Volatility Percentage	Risk-free Rate
12/31/13	\$94,134	0.87	\$0.99	\$1.10	182%	0.0013
3/31/14	\$126,246	0.62	\$0.369	\$0.41	225%	0.0013

As of March 31, 2014, the carrying values of the Notes were \$104,977, net of debt discounts of \$65,023. The Company recorded interest expense related to the Notes of \$4,250 and amortization of debt discounts in amount of \$26,243 during the three months ended March 31, 2014. The interest expense of \$4,250 has been included under accrued liabilities.

The Notes	3/31/2014
Proceeds	\$ 170,000
Less derivative liabilities on initial recognition	(104,970)
Value of the Notes on initial recognition	65,030
Add accumulated accretion expense	39,947
Balance as at March 31, 2014	<u>\$ 104,977</u>

NOTE—3 CONVERTIBLE NOTES PAYABLE – RELATED PARTY (CONTINUED)

(B) Convertible Notes Payable

On August 14, 2012, the Company entered into a 10% convertible promissory note with its shareholder in the amount of \$55,000. The note is due on demand. The holder of this Note may, at his option, convert all or any portion of the accrued interest and unpaid principal balance of this Note into fully paid and non-assessable shares of common stock of the Company or his successors, at the conversion ratio of One Tenth Cent (\$0.001) per share or 75% discount of the then current bid price, whichever is lower. There were no derivative liabilities related to this Note since the conversion ratio of One Tenth Cent (\$0.001) was considered as the lower price during the period. In addition, the Company had nominal trading volume for its stock on the date of issuance and no beneficial conversion was recorded.

NOTE 4 – DERIVATIVE LIABILITIES

As of March 31, 2014, the Company's derivative liabilities are embedded derivatives associated with the Company's convertible note payable (see Note 3(A)). Due to the Notes' conversion feature, the actual number of shares of common stock that would be required if a conversion of the note as described in Note 3(A) was made through the issuance of the Company's common stock cannot be predicted. As a result, the conversion feature requires derivative accounting treatment and will be bifurcated from the note and "marked to market" each reporting period through the statement of operations.

The Company measured the fair value of the derivative liabilities as \$94,134 on December 31, 2013, and remeasured the fair value as \$126,246 on March 31, 2014, respectively, and recorded the change of fair value of \$32,112 in the statements of operations for the three months ended March 31, 2014.

NOTE—5 DUE TO RELATED PARTY

As of March 31, 2014, the Company had balance of \$64,491, respectively, due to Leigh Valentine, a related party of the Company.

The funds borrowed from the related party were to fund the Company's operations. The loan agreement was not evidenced by any promissory note, but rather a verbal agreement between the related party and the Company. The note is due on demand.

NOTE—6 CAPITAL STRUCTURE

As of March 31, 2014, the Company was authorized to issue 10,000,000 shares of convertible preferred stock, par value \$0.0001, of which 730,000 shares issued and outstanding, and 290,000,000 shares of common stock, par value \$0.0001, of which 107,107,307 shares issued and outstanding.

NOTE—7 COMMITMENT AND CONTINGENCIES

The Company leases its office and distribution center under a month to month operating lease agreement. The company pays \$1,800 per month for this space. The lease can be cancelled anytime with 30 days written notice.

For the three months ended March 31, 2014, rental expenses were \$2,770.

NOTE—8 GOING CONCERN

These consolidated financial statements have been prepared assuming that Company will continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

As of March 31, 2014, the Company had an accumulated deficit of \$296,530. Management has taken certain action and continues to implement changes designed to improve the Company's financial results and operating cash flows. The actions involve certain cost-saving initiatives and growing strategies, including (a) reductions in raw materials costs; (b) expansion of the business model into new markets, and; (c) significant reductions in lease costs. Management believes that these actions will enable the Company to improve future profitability and cash flow in its continuing operations through December 31, 2014. As a result, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of the Company's ability to continue as a going concern.

NOTE—9 SUBSEQUENT EVENTS

In accordance with ASC Topic 855-10, the Company has analyzed its operations subsequent to March 31, 2014 to the date these consolidated financial statements were issued. In addition to the transactions disclosed below, the Company does not have other material subsequent events to disclose in these financial statements.

On April 11, 2014, 222,000 shares of Preferred Stock of the Company were converted into 11,100,000 shares of Common Stock of the Company upon the request from the Preferred Stock holders.