GRAND PERFECTA, INC.

CONSOLIDATED BALANCE SHEETS

	July 31, 2015	July 31, 2014
Assets		
Current assets		
Cash	$ 75,778	$ 1,882,272
Accounts receivable, net	612,553	634,455
Due from related parties	487,852	1,481,811
Current portion of notes receivable	1,537,869	1,682,327
Deferred tax assets, current portion	303,024	1,039,489
Prepaid expenses and other current assets	417,208	66,659
Total current assets	3,434,284	6,787,013
Property and equipment, net	273,263	376,055
Other assets		
Long-term notes receivables, net of current portion	547,372	632,124
Long-term portion due from related parties, net of current portion	1,471,932	–
Deferred tax assets, long-term portion	222,423	232,757
Goodwill	6,257,112	7,549,434
Other assets	496,019	617,413
Total other assets	8,994,858	9,031,728
Total assets	$ 12,702,405	$ 16,194,796
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 1,458,735	$ 2,617,037
Deferred revenues	1,189,437	1,390,210
Current portion of notes payable	3,489,541	9,113,727
Notes payable to related parties	993,918	–
Convertible note payable	1,620,000	–
Taxes payable	612,102	755,867
Total current liabilities	9,363,733	13,876,841
Long-term portion of notes payable, net of current portion	1,174,500	728,846
Total liabilities	10,538,233	14,605,687
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value, 100,000,000 shares authorized, 100,000 shares issued and outstanding as of July 31, 2015 and 2014	100	100
Common stock, $0.001 par value, 500,000,000 shares authorized, 30,500,000 shares issued and outstanding as of July 31, 2015 and 2014	30,500	30,500
Additional paid-in capital	4,121,034	4,121,034
Accumulated other comprehensive income	439,265	736,356
Accumulated deficit	(2,645,873)	(3,564,512)
Total GPI stockholders' equity	1,945,026	1,323,478
Noncontrolling interest	219,146	265,631
Total stockholders' equity	2,164,172	1,589,109
Total liabilities and stockholders' equity	$ 12,702,405	$ 16,194,796

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended July 31, 2015	For the Year Ended July 31, 2014
Net sales	$ 17,736,064	$ 22,233,442
Total revenues	17,736,064	22,233,442
Operating expenses:		
Cost of sales	4,473,096	6,858,818
Depreciation expense	110,383	238,487
Advertising	911,562	1,711,855
Rent expense	812,747	845,058
Salaries and wages	5,151,504	5,234,053
Other general and administrative expenses	4,303,062	4,326,663
Total operating expenses	15,762,354	19,214,934
Income from operations	1,973,710	3,018,508
Other income (expense):		
Other income	131,371	9,861
Gain on exchange	40,275	32,116
Interest income	12,620	17,798
Interest expense	(790,427)	(1,190,842)
Total other income (expense)	(606,161)	(1,131,067)
Net income before provision for income taxes	1,367,549	1,887,441
Provision for income taxes	449,316	882,009
Net income	918,233	1,005,432
Less: net loss attributable to noncontrolling interest	(406)	–
Net income attributable to GPI	$ 918,639	$ 1,005,432
Net income per share, basic and diluted	$ 0.03	$ 0.04
Weighted average number of common shares outstanding, basic and diluted	30,500,000	27,869,863

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended July 31, 2015	July 31, 2014
Net income	$ 918,233	$ 1,005,432
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(297,091)	93,108
Total other comprehensive income, net of tax	(297,091)	93,108
Comprehensive income	621,142	1,098,540
Comprehensive income (loss) attributable to noncontrolling interest	(46,079)	(10,842)
Comprehensive income attributable to GPI stockholders	$ 575,063	$ 1,087,698

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Noncontrolling	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Income**	**Deficit**	**Interest**	**Total**
Balance, July 31, 2013	100,000	100	27,500,000	27,500	1,285,120	643,248	(4,569,944)	276,473	(2,337,503)
Stock issued for cash	–	–	3,000,000	3,000	2,937,000	–	–	–	2,940,000
Capital withdrawal	–	–	–	–	(101,086)	–	–	–	(101,086)
Foreign currency translation adjustment	–	–	–	–	–	93,108	–	(10,842)	82,266
Net income	–	–	–	–	–	–	1,005,432	–	1,005,432
Balance, July 31, 2014	100,000	100	30,500,000	30,500	4,121,034	736,356	(3,564,512)	265,631	1,589,109
Foreign currency translation adjustment	–	–	–	–	–	(297,091)	–	(46,079)	(343,170)
Net income	–	–	–	–	–	–	918,639	(406)	918,233
Balance, July 31, 2015	100,000	$ 100	30,500,000	$ 30,500	$ 4,121,034	$ 439,265	$ (2,645,873)	$ 219,146	$ 2,164,172

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended July 31, 2015	For the Year Ended July 31, 2014
Cash flows from operating activities		
Net income	$ 918,233	$ 1,005,432
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	110,383	238,487
Loss on sale of property and equipment	–	22,531
Loss on write-off of notes receivables	89,188	–
Provision for (benefit from) deferred taxes	558,578	280,255
Changes in operating assets and liabilities:		
Accounts receivable	(93,557)	(241,720)
Prepaid expenses and other current assets	(383,965)	9,216
Other assets	15,578	(118,008)
Accounts payable and accrued expenses	(786,567)	(768,659)
Deferred revenue	42,878	50,443
Taxes payable	(13,426)	356,995
Net cash provided by operating activities	457,323	834,972
Cash flows from investing activities		
Purchase of property and equipment	(70,507)	(100,031)
Proceeds (payments) for lending to related parties, net	274,876	(328,684)
Proceeds from collection of notes receivables	891,305	302,689
Payments for notes receivable lending	(1,163,402)	(770,940)
Proceeds from acquisition of subsidiary	–	4,657
Net cash used in investing activities	(67,728)	(892,309)
Cash flows from financing activities		
Proceeds from sale of stock	–	2,940,000
Proceeds from notes payable	1,433	2,571
Proceeds from convertible note payable	1,720,000	–
Payments on note payable	(3,686,849)	(1,177,648)
Net cash provided by (used in) financing activities	(1,965,416)	1,764,923
Effect of exchange rate fluctuations on cash	(230,673)	6,463
Net change in cash	(1,806,494)	1,714,049
Cash, beginning of the period	1,882,272	168,223
Cash, end of the period	$ 75,778	$ 1,882,272
Supplemental disclosure of cash flow information:		
Interest paid	$ 783,425	$ 1,190,842
Income taxes paid	$ 199,015	$ 247,696

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Organization

Grand Perfecta, Inc. ("Grand Perfecta" or "GPI") was incorporated in the State of Nevada on March 25, 2002, as STI Holdings, Inc. ("STI"). On May 12, 2012, the Company completed an Agreement and Plan of Reorganization whereby it acquired 100% of the issued and outstanding shares of Link Bit Consulting Co, Ltd. ("LinkBit" or the "Company"), a Japanese corporation, for 25,000,000 common shares in a transaction accounted for as a recapitalization of LinkBit. Effective March 29, 2013, STI amended its Articles of Incorporation to change its name to Grand Perfecta, Inc. On May 27, 2013, the Company issued 272,668 shares in exchange for 100% of the issued and outstanding shares of Umajin Hong Kong Ltd. ("Umajin HK"), a Hong Kong corporation that maintains an office in Hong Kong. In August 2015 we formed a California subsidiary, Sports Perfecta, Inc., for the purpose of seeking opportunities to conduct business in the United States. Through the date of this filing Sports Perfecta has had no activity or operations. The operations of Grand Perfecta, LinkBit, Umajin HK and Sports Perfecta, Inc. are collectively referred to as the "Company."

Nature of Business

The Company is engaged in the business of transmitting and providing horse racing information via various types of media, including multiple websites owned and operated by the wholly owned subsidiaries of LinkBit and Umajin HK.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with principles generally accepted in the United States of America ("GAAP") and include the accounts of Grand Perfecta and its wholly-owned subsidiaries LinkBit and Umajin HK. The Company has determined that two affiliated entities, Space Cultivation Mobile and Japan Horse Circle, which LinkBit conducts business with are variable interest entities and that the Company is the primary beneficiary of each entity. As a result, the Company has consolidated the accounts of these variable interest entities into the accompanying consolidated financial statements. As the Company does not have any ownership interest in these variable interest entities, the Company has allocated the contributed capital in these variable interest entities as a component of noncontrolling interest. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with 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 reported periods. Amounts could materially change in the future.

Liquidity

As of July 31, 2015, we had cash of $75,778 and a working capital deficit of $5,929,449 as compared to cash of $1,882,272 and a working capital deficit of $7,089,828 as at July 31, 2014. The decrease in cash as of July 31, 2015 was primarily the result of $2,940,000 in proceeds from sale of common stock received during the year ended July 31, 2014, of which a portion was used to fund the operating activities of the Company, as well as to pay down outstanding notes payable with higher interest rates during the year ended July 31, 2015.

In March 2015, we issued a convertible debenture in the face amount of Japanese JPY200,000,000, approximately US$1,620,000 at July 31, 2015, (see Note 9). We intend to continue to improve our balance sheet by reducing short term liabilities and invest in promoting and expanding our services. The funds obtained through the debenture placement will facilitate that effort.

The funding received in March 2015 notwithstanding, we continue to have a significant working capital deficit that adversely affects our business by limiting the resources we have available to pursue the promotion of our information services and develop new information service opportunities for potential users. Historically we have relied on extensions of note payment due dates and new debt financing to repay note obligations as they came due in order to continue operations. Going forward we will continue to use extensions and new debt financing, such as the recent debenture offering, to address note obligations that come due, endeavor to gradually reduce obligations with cash flow provided by operations, and pursue over the next 12 months equity financing that we can apply to debt reduction and business development. Nevertheless, the shortage of working capital adversely affects our ability to develop, sponsor, or participate in activities that promote our information services to prospective users and to develop new content, because a substantial portion of cash flow goes to reduce debt rather than to advance operating activities. There is no assurance that our plans for addressing our working capital shortages will be successful, and our failure to be reasonably successful should be expected to result in a significant contraction of our operations and potentially a failure of the business.

Foreign Exchange

The Company's primary operations are conducted in Japan and performed by its wholly owned subsidiaries LinkBit and Umajin HK. LinkBit's functional currency is the Japanese Yen and Umajin HK's functional currency is the Hong Kong Dollar.

The financial statements of each entity are prepared using the applicable functional currencies, and have been translated into U.S. dollars ("USD"). Assets and liabilities are translated into USD at the applicable exchange rates at period-end. Stockholders' equity is translated using historical exchange rates. Revenue and expenses are translated at the average exchange rates for the period. Any translation adjustments are included as foreign currency translation adjustments in accumulated other comprehensive income in the Company’s stockholders’ equity.

The following rates were used to translate the accounts of LinkBit and Umajin HK into USD at the following balance sheet dates.

	Balance Sheet Dates	
	July 31, 2015	July 31, 2014
Japanese Yen to USD	0.0081	0.0098
Hong Kong Dollars to USD	0.1290	0.1290

The following rates were used to translate the accounts of LinkBit and Umajin HK into USD for the following operating periods.

	For the Year Ended	
	July 31, 2015	July 31, 2014
Japanese Yen to USD	0.0086	0.0099
Hong Kong Dollars to USD	0.1290	0.1290

Cash and Cash Equivalents

The Company considers all highly liquid holdings with maturities of three months or less at the time of purchase to be cash equivalents. The Company had no cash equivalents as of July 31, 2015 and 2014.

Accounts Receivable

Accounts receivable are carried at net realizable value, representing the outstanding balance less an allowance for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering each customer's financial condition and credit history, as well as current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The Company had no allowance for doubtful accounts as of July 31, 2015 and 2014.

Property and Equipment

Property and equipment are recorded at historical cost and depreciated on a straight-line basis over their estimated useful lives once the individual assets are placed in service. Estimated useful lives for the assets are as follows.

Buildings and fixtures	8 - 43 years
Autos and trucks	2 - 6 years
Tools and equipment	4 - 10 years
Computer software	5 years

Intangible Assets

The Company's intangible assets include goodwill, which represents the excess of purchase price over tangible and intangible assets acquired, less liabilities assumed arising from business acquisitions. Goodwill is not amortized, but is reviewed for potential impairment on an annual basis at the reporting unit level. As required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-20, the Company conducted an analysis of the goodwill on its single reporting unit using the Company. For the fiscal years ending July 31, 2015 and 2014, the assessment for impairment found that there is no impairment of goodwill. The Company has no accumulated impairment losses on goodwill.

Long-Lived Assets

In accordance with ASC 360-10, the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. There was no impairment of assets identified during the years ended July 31, 2015 and 2014.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in the absence of a principal, most advantageous market for the specific asset or liability.

GAAP provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:

- Level 1 — Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access.
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:
  - Quoted prices for similar assets or liabilities in active markets
  - Quoted prices for identical or similar assets or liabilities in markets that are not active
  - Inputs other than quoted prices that are observable for the asset or liability
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 — Inputs that are unobservable and reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows).

The Company has determined that the book value of its outstanding financial instruments as of July 31, 2015 and 2014 approximates the fair value.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentration of credit risk include cash, accounts receivable, notes receivable, and amounts due from related parties. The Company maintains its cash in banks located in Japan and Hong Kong in financial institutions with high credit ratings. Substantially all of the Company's revenues are generated from customers in Japan. The Company conducts periodic reviews of the financial condition and payment practices of its customers and note receivable holders. The Company has not experienced significant losses relating to these concentrations in the past.

Revenue Recognition

The Company's revenue consists primarily of sales of comprehensive horse racing information through multiple websites focusing on all aspects of the horse racing industry in Japan. Publication of horse racing digital magazines, providing support for print publications, and participating in other public events and media programs related to the horse racing industry do not generate significant revenue directly. These activities are undertaken for the purpose of increasing the number of horse racing fans and driving potential customers to our websites so as to hopefully eventually convert them to paying customers.

The Company recognizes revenue on arrangements in accordance with ASC 605, Revenue Recognition. Revenue is recognized only when the price is fixed and determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured. The majority of the Company's revenue is generated by per-item sales. For all users, payment is received at the time of purchase. The Company recognizes revenue for per-item sales when the requested information is supplied to the user. For information packages that span a period of time, the Company recognizes revenue over the term of the package. Revenues are presented net of refunds, credits and known and estimated credit card chargebacks. The Company reports revenue net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority. Rights to content purchased by customers in advance of the content being provided are recorded as deferred revenue.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs incurred amounted to $911,562 and $1,711,855 for the years ended July 31, 2015 and 2014, respectively.

Basic and Diluted Earnings Per Share

In accordance with ASC 260, Earnings Per Share, the basic income per common share is computed by dividing the net income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if diluted potential common stock had been converted to common stock. No dilutive potential common shares were included in the computation of diluted net income per share because their impact was anti-dilutive. As of July 31, 2015 and 2014, the Company had total options of 3,000,000 which were excluded from the computation of net income per share because they are anti-dilutive. As of July 31, 2015 and 2014, the Company had convertible notes convertible into 1,472,727 and 0, respectively, shares of common stock which were excluded from the computation because they are anti-dilutive. As a result, the basic and diluted earnings per share were the same for each of the periods presented.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 creates a new topic in the ASC Topic 606 and establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenue. In addition, ASU 2014-09 adds a new Subtopic to the Codification, ASC 340-40, Other Assets and Deferred Costs: Contracts with Customers, to provide guidance on costs related to obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer that are not in the scope of another ASC Topic. The guidance in ASU 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods therein. Early application is not permitted. Management is in the process of assessing the impact of ASU 2014-09 on the Company's financial statements.

3. PROPERTY AND EQUIPMENT, NET

The Company's property and equipment consisted of the following.

	July 31, 2015	July 31, 2014
Buildings and fixtures	$ 262,126	$ 272,079
Autos and trucks	294,513	356,324
Tools and equipment	427,469	569,152
Computer software	1,284,209	1,560,267
Horses	24,454	41,347
	2,292,771	2,799,169
Less: accumulated depreciation	(2,019,508)	(2,423,114)
	$ 273,263	$ 376,055

Depreciation expense amounted to $110,383 and $238,487 for the year ended July 31, 2015 and 2014, respectively.

4. DUE FROM RELATED PARTIES

The Company made short-term revolving advances to executive officers, directors and other related parties. All loans are unsecured and due within one year of the issuance date, and earn interest at rates ranging from 0% to 3% per annum. The total amounts outstanding from related parties amounted to $1,959,784 and $1,481,811 as of July 31, 2015 and 2014, respectively.

Of the total related party receivables, the amounts outstanding directly from officers and directors amounted to $0 and $1,144,647 as of July 31, 2015 and 2014, respectively. Subsequent to the year ended July 31, 2014, the Company settled the amounts due directly from officers and directors of the Company in full.

The remaining outstanding receivables amounting to $1,959,784 and $337,164 as of July 31, 2015 and 2014, respectively, represented amounts outstanding from a related party entity owned by one of the directors of the Company. Of the amount outstanding from this related party as of July 31, 2015, $1,471,932 of the outstanding balance bears interest at 0.48% and is due in full on February 28, 2018. The remaining portion of $487,852 is non-interest bearing and due on demand. Subsequent to the year ended July 31, 2015, the Company settled $1,471,932 of the outstanding balance (see Note 14).

Management considers all of these outstanding advances to be fully collectible and has determined that no allowance is necessary.

5. NOTES RECEIVABLE

The Company's outstanding notes receivable consist of unsecured advances, including interest ranging from 0% to 8% per annum, payable in full on dates extending through 2039. As of July 31, 2015 and 2014, the Company had total outstanding notes receivable of $2,085,241 and $2,314,451, respectively. The portion of these outstanding notes receivables that were either due on demand or had scheduled due dates within one year amounted to $1,537,869 and $1,682,327 as of July 31, 2015 and 2014, respectively.

The future scheduled maturities of outstanding notes receivables as of July 31, 2015 based on contractual due dates are as follows.

		Year Ended July 31,
2016	$	1,537,869
2017		–
2018		–
2019		8,492
2020		16,756
Thereafter		522,124
Total	$	2,085,241

6. GOODWILL

The Company has recorded goodwill relating to the purchase of Media 21, Inc. in 2011, as well as the acquisition of Umajin HK on May 27, 2013. The following is a summary of the activity relating to goodwill for the years ended July 31, 2014 and 2015.

Balance as of July 31, 2013	$	7,853,432
Foreign currency translation adjustment		(303,998)
Balance as of July 31, 2014		7,549,434
Foreign currency translation adjustment		(1,292,322)
Balance as of July 31, 2015	$	6,257,112

7. NOTES PAYABLE

A summary of the Company's outstanding notes payable is as follows:

Unsecured note payable issued on March 26, 2012, due on demand, bearing interest at 1% per annum due monthly.	810,000	980,000
Unsecured note payable issued on January 30, 2013, due on demand, bearing interest at 1% per annum due monthly.	405,000	490,000
Unsecured note payable issued on July 23, 2013, due on July 5, 2016, bearing interest at 1.2% per annum due monthly.	136,728	327,712
Unsecured note payable issued on September 30, 2013, due on September 30, 2014, bearing interest at 15% per annum due monthly.	–	784,000
Unsecured note payable issued on December 20, 2011, due on October 31, 2015, bearing interest at 15% per annum due monthly.	1,539,000	2,058,000
Unsecured note payable issued on June 28, 2013, due on October 31, 2015, bearing interest at 15% per annum due monthly.	162,000	196,000
Unsecured note payable issued on August 2, 2010, due on July 31, 2015, bearing interest at 12% per annum due monthly.	–	1,715,000
Unsecured note payable issued on January 20, 2011, due on June 30, 2017, bearing interest at 12% per annum due monthly.	931,500	1,960,000
Unsecured note payable resulting from the Company co-signing for debt of a vendor in 2010. The note is due on demand, bearing interest at 18% per annum due monthly.	348,300	774,200
Unsecured note payable issued on July 20, 2011, due on July 20, 2018, bearing interest at 12% per annum due monthly.	243,000	294,000
Unsecured notes payable, non-interest bearing, due on demand	48,855	58,527
Total notes payable	4,664,041	9,842,573
Less: current portion of notes payable	3,489,541	9,113,727
Long-term portion of notes payable	**$ 1,174,500**	**$ 728,846**

Substantially all of the above outstanding notes payable are personally guaranteed by the Company's Chief Executive Officer.

Future scheduled maturities of long-term debt are as follows:

	Year Ended July 31,
2016	$ 3,489,541
2017	931,500
2018	243,000
Total	$ 4,664,041

8. NOTES PAYABLE TO RELATED PARTIES

As of July 31, 2015, the Company had an outstanding note payable balance due to its Chairman and CEO amounting to $831,918 and an outstanding note payable balance due to its President amounting to $162,000. The note payable balances are non-interest bearing and are due on demand.

9. CONVERTIBLE NOTE PAYABLE

On March 5, 2015, the Company entered into a convertible note agreement for total principal borrowings of JPY 200,000,000 (US $1,620,000 at July 31, 2015). The amounts are due one year after the issuance of the note on March 5, 2015, and bear interest at a rate of 1% per annum. At the option of the debt holder, beginning 40 days after the issuance of the note, the debt holder may convert the outstanding balance of the note into shares of the Company's common stock at a conversion rate equal to one share per JPY130.90 or $1.10 of outstanding principal and accrued interest.

The conversion feature associated with the convertible note payable created a derivative liability as of April 14, 2015, the date in which the note became convertible. The Company valued the derivative as of the initial date and as of the year-end date of July 31, 2015 using the Black-Scholes pricing model. The value at each of these dates amounted to $0. The assumptions used in the Black-Scholes model during the year ended July 31, 2015 were as follows.

	Year Ended July 31, 2015
Expected life in years	0.60 - 0.89
Stock price volatility	32.0% - 32.4%
Risk-free interest rate	0.23% - 0.33%
Expected dividends	None
Forfeiture rate	NA

10. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue up to 100,000,000 shares of preferred stock with a par value of $0.001, with 100,000 shares designated as Series A Preferred Stock. The Series A Preferred Stock receive a 10 to 1 voting preference over common stock. Accordingly, for every share of Series A Preferred Stock held, the holder receives the voting rights equal to 10 shares of common stock. As such, the holders of the Series A Preferred Stock have the equivalent voting capability of 1,000,000 shares of common stock. The Series A Preferred Stock also has a $0.05 per share liquidation preference over common stock, and can be redeemed by the Company at any time, upon thirty days' notice, for $0.05 per share.

The Company had 100,000 shares of Series A Preferred Stock issued and outstanding as of July 31, 2015 and 2014.

Common Stock Transactions

On June 11, 2014 the Company sold 3,000,000 common shares of stock for cash proceeds of $2,940,000. There were no such transactions during the year ended July 31, 2015. In connection with the sale of stock on June 11, 2014, the Company granted an option to the buyer to purchase an additional 3,000,000 shares of common stock for a purchase price of $3 million at any time prior to June 11, 2019.

11. INCOME TAXES

The Company records its deferred taxes under the liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consisted of the following as of July 31, 2015 and 2014.

	July 31, 2015	July 31, 2014
Deferred tax assets:		
Commission expenses	$ 273,730	$ 285,443
Allowance for doubtful accounts	40,762	37,839
Deposits	151,102	515,907
Accrued salary	–	90,528
Other	125,491	397,065
Deferred tax liabilities:		
Depreciation	(27,465)	(22,413)
Business tax receivable	(12,874)	–
Others	(1,457)	(1,850)
Valuation allowance	(23,842)	(30,273)
Net deferred tax assets	$ 525,447	$ 1,272,246

The income tax provision differs from the amount of income tax determined by applying the Japanese income tax rate to pretax income from continuing operations for the years ended July 31, 2015 and 2014 due to the following.

	July 31, 2015		July 31, 2014	
Income tax based on book income at Japanese statutory rate	$	527,350	$	751,503
Entertainment expense		121,904		136,953
Additional taxes		2,487		1,611
Tax loss carry-forwards utilized only for local tax		(122,837)		(53,424)
Tax rate difference between current tax and deferred tax assets		(42,187)		56,329
Others		(37,401)		(10,963)
Total income tax provision	$	449,316	$	882,009

12. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its corporate headquarters and administrative offices in Toyko Japan, as well as the administrative offices of Umajin HK in Hong Kong under operating leases extending through April 15, 2019. The Company incurred rent expense of $812,747 and $845,058 for the years ended July 31, 2015 and 2014, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows.

Years ending July 31,

2016	$	626,761
2017		117,302
2018		71,317
2019		53,487
Total	$	868,867

Litigation

In the ordinary course of business, the Company may be or has been involved in legal proceedings from time to time. As of the date of this annual report, there have been no material legal proceedings relating to the Company.

13. RELATED PARTY TRANSACTIONS

As of July 31, 2015 and 2014, the Company had $1,959,784 and $1,481,811, respectively, of notes receivable due from related parties (see Note 4).

As of July 31, 2015, the Company had an outstanding note payable balance due to its Chairman and CEO amounting to $831,918 and an outstanding note payable balance due to its President amounting to $162,000 (see Note 8).

The Company pays a monthly fee to a related party entity owned by one of its directors for providing content. For the years ended July 31, 2015 and 2014, the fee paid to the related party amounted to $1,242,222 and $1,457,238, respectively, and is included as a component of cost of sales in the accompanying consolidated statements of operations.

14. SUBSEQUENT EVENTS

Effective November 2, 2015, the Company entered into a Note Payable and Satisfaction Agreement (the “Agreement”) with Umajin Co., Ltd. (“Umajin Japan”), a related party company owned a director of the Company. The Company was a holder of a promissory note made by Umajin Japan in the principal amount of JPY 181,720,000 ($1,471,932 as of July 31, 2015). The promissory note was secured by 1,400,000 shares of the Company’s common stock, which were owned by Umajin Japan. Pursuant to the Agreement, Umajin Japan agreed to sell its shares of common stock to the Company, and the Company has agreed to release Umajin Japan from any further obligation due under the promissory note.