

GRAND PERFECTA, INC.
CONSOLIDATED BALANCE SHEETS

| | January 31, 2016 (Unaudited) | July 31, 2015 |
|--|------------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 57,057 | \$ 75,778 |
| Accounts receivable, net | 1,361,211 | 612,553 |
| Due from related parties | — | 487,852 |
| Current portion of notes receivable | 1,665,102 | 1,537,869 |
| Deferred tax assets, current portion | 310,506 | 303,024 |
| Prepaid expenses and other current assets | 458,157 | 360,825 |
| Total current assets | <u>3,852,033</u> | <u>3,377,901</u> |
| Property and equipment, net | <u>309,664</u> | <u>273,263</u> |
| Other assets | | |
| Long-term notes receivables, net of current portion | 553,467 | 547,372 |
| Long-term portion due from related parties, net of current portion | — | 1,471,932 |
| Deferred tax assets, long-term portion | 227,915 | 222,423 |
| Goodwill | 6,408,764 | 6,257,112 |
| Other intangible assets, net | 140,660 | — |
| Other assets | 595,116 | 552,402 |
| Total other assets | <u>7,925,922</u> | <u>9,051,241</u> |
| Total assets | <u>\$ 12,087,619</u> | <u>\$ 12,702,405</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 2,393,882 | \$ 1,402,227 |
| Deferred revenues | 1,170,415 | 1,245,945 |
| Current portion of notes payable | 3,304,582 | 3,489,541 |
| Notes payable to related parties | 1,081,747 | 993,918 |
| Convertible note payable | 1,660,000 | 1,620,000 |
| Taxes payable | 122,258 | 612,102 |
| Total current liabilities | <u>9,732,884</u> | <u>9,363,733</u> |
| Long-term portion of notes payable, net of current portion | <u>1,784,500</u> | <u>1,174,500</u> |
| Total liabilities | <u>11,517,384</u> | <u>10,538,233</u> |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, \$0.001 par value, 100,000,000 shares authorized, 100,000 shares issued and outstanding as of January 31, 2016 (unaudited) and July 31, 2015 | 100 | 100 |
| Common stock, \$0.001 par value, 500,000,000 shares authorized, 29,100,000 and 30,500,000 shares issued and outstanding as of January 31, 2016 (unaudited) and July 31, 2015, respectively | 29,100 | 30,500 |
| Additional paid-in capital | 3,926,434 | 4,121,034 |
| Common stock issuable | 120,000 | — |
| Accumulated other comprehensive income | 508,505 | 439,265 |
| Accumulated deficit | (4,238,078) | (2,645,873) |
| Total GPI stockholders' equity | <u>346,061</u> | <u>1,945,026</u> |
| Noncontrolling interest | <u>224,174</u> | <u>219,146</u> |
| Total stockholders' equity | <u>570,235</u> | <u>2,164,172</u> |
| Total liabilities and stockholders' equity | <u>\$ 12,087,619</u> | <u>\$ 12,702,405</u> |

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three Months Ended | | For the Six Months Ended | |
|---|-----------------------------------|--------------------|---------------------------------|--------------------|
| | January 31, | January 31, | January 31, | January 31, |
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net sales | \$ 3,671,863 | \$ 4,908,922 | \$ 7,248,175 | \$ 9,512,086 |
| Total revenues | <u>3,671,863</u> | <u>4,908,922</u> | <u>7,248,175</u> | <u>9,512,086</u> |
| Operating expenses: | | | | |
| Cost of sales | 1,280,896 | 1,197,191 | 2,371,682 | 2,463,120 |
| Depreciation and amortization expense | 18,695 | 27,064 | 38,565 | 56,645 |
| Advertising | 45,512 | 152,706 | 98,145 | 453,844 |
| Rent expense | 212,706 | 199,521 | 422,813 | 416,658 |
| Salaries and wages | 1,238,098 | 1,373,603 | 2,484,031 | 2,760,283 |
| Other general and administrative expenses | 1,117,763 | 985,895 | 2,121,513 | 1,995,278 |
| Total operating expenses | <u>3,913,670</u> | <u>3,935,980</u> | <u>7,536,749</u> | <u>8,145,828</u> |
| Income (loss) from operations | <u>(241,807)</u> | <u>972,942</u> | <u>(288,574)</u> | <u>1,366,258</u> |
| Other income (expense): | | | | |
| Loss on settlement of note receivable | (1,312,276) | – | (1,312,276) | – |
| Other income | 10,664 | 21,846 | 13,131 | 40,080 |
| Gain on exchange | 5,992 | 10,513 | 7,078 | 24,590 |
| Interest income | 4,456 | 3,292 | 7,248 | 7,022 |
| Interest expense | (150,669) | (206,782) | (298,771) | (456,387) |
| Total other income (expense) | <u>(1,441,833)</u> | <u>(171,131)</u> | <u>(1,583,590)</u> | <u>(384,695)</u> |
| Net income (loss) before provision for income taxes | (1,683,640) | 801,811 | (1,872,164) | 981,563 |
| Provision for (benefit from) income taxes | (185,682) | 400,906 | (279,944) | 490,782 |
| Net income (loss) | <u>(1,497,958)</u> | <u>400,905</u> | <u>(1,592,220)</u> | <u>490,781</u> |
| Less: net loss attributable to noncontrolling interest | (15) | – | (15) | – |
| Net income (loss) attributable to GPI | <u>\$ (1,497,943)</u> | <u>\$ 400,905</u> | <u>\$ (1,592,205)</u> | <u>\$ 490,781</u> |
| Net income (loss) per share, basic and diluted | <u>\$ (0.05)</u> | <u>\$ 0.01</u> | <u>\$ (0.05)</u> | <u>\$ 0.02</u> |
| Weighted average number of common shares outstanding, basic and diluted | <u>29,130,435</u> | <u>30,500,000</u> | <u>29,815,217</u> | <u>30,500,000</u> |

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | For the Three Months Ended | | For the Six Months Ended | |
|---|-----------------------------------|--------------------|---------------------------------|--------------------|
| | January 31, | January 31, | January 31, | January 31, |
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net income (loss) | \$ (1,497,958) | \$ 400,905 | \$ (1,592,220) | \$ 490,781 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 16,418 | (21,463) | 69,240 | (158,682) |
| Total other comprehensive income (loss), net of tax | 16,418 | (21,463) | 69,240 | (158,682) |
| Comprehensive income (loss) | (1,481,540) | 379,442 | (1,522,980) | 332,099 |
| Comprehensive income (loss) attributable to noncontrolling interest | (31) | (18,974) | 5,013 | (35,237) |
| Comprehensive income (loss) attributable to GPI stockholders | <u>\$ (1,481,571)</u> | <u>\$ 360,468</u> | <u>\$ (1,517,967)</u> | <u>\$ 296,862</u> |

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Six Months Ended | |
|---|---------------------------------|-----------------------------|
| | January 31, 2016 | January 31, 2015 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities | | |
| Net income (loss) | \$ (1,592,220) | \$ 490,781 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 38,565 | 56,645 |
| Loss on settlement of note receivable | 1,312,276 | — |
| Gain on bargain purchase of subsidiary | (10,830) | — |
| Share-based compensation | 3,956 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (711,335) | (533,577) |
| Prepaid expenses and other current assets | 34,781 | (15,995) |
| Other assets | (29,104) | (5,002) |
| Accounts payable and accrued expenses | 902,591 | (830,696) |
| Deferred revenue | (106,294) | 55,282 |
| Taxes payable | (504,958) | 336,949 |
| Net cash used in operating activities | (662,572) | (445,613) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (65,971) | (10,800) |
| Proceeds from related party loans, net | 563,185 | 380,903 |
| Proceeds from collection of notes receivables | 178,288 | 111,800 |
| Acquisition of subsidiaries, net of cash acquired | (96,983) | — |
| Payments for notes receivable lending | (260,129) | (188,836) |
| Net cash provided by investing activities | 318,390 | 293,067 |
| Cash flows from financing activities | | |
| Proceeds from notes payable | 830,436 | — |
| Payments on note payable | (507,761) | (1,473,232) |
| Net cash provided by (used in) financing activities | 322,675 | (1,473,232) |
| Effect of exchange rate fluctuations on cash | 2,786 | (155,255) |
| Net change in cash | (18,721) | (1,781,033) |
| Cash, beginning of the period | 75,778 | 1,882,272 |
| Cash, end of the period | \$ 57,057 | \$ 101,239 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 290,263 | \$ 456,387 |
| Income taxes paid | \$ 225,014 | \$ 153,833 |
| Supplemental disclosure of non-cash investing and financing information: | | |
| Settlement of related party note receivable through exchange of stock | \$ (1,508,276) | \$ — |
| Decrease in common stock, par value, from settlement of related party note receivable | \$ (1,400) | \$ — |
| Decrease in additional paid-in capital from settlement of related party note receivable | \$ (194,600) | \$ — |

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") 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, Grand Perfecta formed Sports Perfecta, Inc. ("Sports Perfecta"), as a California subsidiary to pursue development of a fantasy sports offering to horse racing fans. The operations of Grand Perfecta, LinkBit, Umajin HK, and Sports Perfecta are collectively referred to as the "Company."

On December 16, 2015, LinkBit acquired 100% of the outstanding shares of Basougu Shokuninkai Co., Ltd. ("Basougu"), a Japanese corporation (See Note 7). On January 7, 2016, Sports Perfecta acquired 100% of the outstanding stock of Just Mobile Sdn. Bhd. ("Just Mobile"), a Malaysian company (see Note 7). On January 20, 2016, Just Mobile changed its name to Sports Perfecta Technologies Sbn Bhd ("SPT"). The operations of Just Mobile are referred to as SPT after the acquisition date of January 7, 2016.

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, Umajin HK and Sports Perfecta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company as of January 31, 2016, and for the three and six months ended January 31, 2016 and 2015, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. In the opinion of management, such financial information includes all adjustments considered necessary for a fair presentation of the Company's financial position at such date and the operating results and cash flows for such periods. Operating results for the interim period ended January 31, 2016 are not necessarily indicative of the results that may be expected for the entire year.

Certain information and footnote disclosure normally included in financial statements in accordance with GAAP have been omitted pursuant to the rules of the United States Securities and Exchange Commission ("SEC"). These unaudited financial statements should be read in conjunction with our audited financial statements and accompanying notes for the years ended July 31, 2015 and 2014 included in the Company's Form 10-K filed on November 13, 2015.

Principals of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Grand Perfecta and its wholly-owned subsidiaries LinkBit, Umajin HK, and Sports Perfecta. All intercompany balances and transactions have been eliminated in consolidation. 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.

Financial Statement Reclassification

Certain account balances from prior periods have been reclassified in these consolidated financial statements to conform to current period classifications.

Liquidity and Capital Resources

As of January 31, 2016, we had cash of \$57,057 and a working capital deficit of \$5,880,851 as compared to cash of \$75,778 and a working capital deficit of \$5,985,832 as at July 31, 2015. The decrease in cash as of January 31, 2016 was primarily the result of cash used in operations and to pay down outstanding notes payable during the period, offset by an increase in cash due to collection of notes receivable and amounts due from related parties, as well as additional note payable borrowing.

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 service opportunities for potential customers. 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 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 customers 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.

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.

Foreign Exchange

The Company's primary operations are conducted in Japan and performed by its wholly owned subsidiaries LinkBit and Umajin HK. The Company also conducts operations through Sports Perfecta, and its Malaysian subsidiary SPT. LinkBit's functional currency is the Japanese Yen and Umajin HK's functional currency is the Hong Kong Dollar. SPT's functional currency is the Malaysian Ringgit.

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, Umajin HK and SPT into USD at the following balance sheet dates.

| | Balance Sheet Dates | |
|--------------------------|-----------------------------|--------------------------|
| | January 31, 2016 | July 31, 2015 |
| Japanese Yen to USD | 0.0083 | 0.0081 |
| Hong Kong Dollars to USD | 0.1285 | 0.1290 |
| Malaysian Ringgit to USD | 0.2413 | NA |

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

| | For the Six Months Ended | |
|--------------------------|---------------------------------|-----------------------------|
| | January 31, 2016 | January 31, 2015 |
| Japanese Yen to USD | 0.0083 | 0.0090 |
| Hong Kong Dollars to USD | 0.1289 | 0.1290 |
| Malaysian Ringgit to USD | 0.2347 | NA |

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 January 31, 2016 (unaudited) or July 31, 2015.

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 January 31, 2016 (unaudited) and July 31, 2015.

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 |

Goodwill

The Company's goodwill 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. As of July 31, 2015, 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 year ended July 31, 2015 or during the six months ended January 31, 2016 (unaudited).

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 January 31, 2016 (unaudited) and July 31, 2015 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, other than the \$1,312,276 loss on settlement of note receivable that was recorded during the six months ended January 31, 2016 (See Note 4).

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 each 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.

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. During the six months ended January 31, 2016 and 2015, 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. During the six months ended January 31, 2016 and 2015, the Company had convertible notes convertible into 1,472,727 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.

| | January 31, 2016 | July 31, 2015 |
|--------------------------------|-----------------------------|--------------------------|
| | (Unaudited) | |
| Buildings and fixtures | \$ 268,598 | \$ 262,126 |
| Autos and trucks | 301,785 | 294,513 |
| Tools and equipment | 453,108 | 427,469 |
| Computer software | 1,315,917 | 1,284,209 |
| Construction in progress | 51,875 | – |
| Horses | 24,070 | 24,454 |
| | 2,415,353 | 2,292,771 |
| Less: accumulated depreciation | (2,105,689) | (2,019,508) |
| | <u>\$ 309,664</u> | <u>\$ 273,263</u> |

Depreciation expense amounted to \$16,448 and \$27,064 for the three months ended January 31, 2016 and 2015, respectively. Depreciation amounted to \$36,318 and \$56,645 for the six months ended January 31, 2016 and 2015, respectively.

4. DUE FROM RELATED PARTIES

The total amounts due from related parties amounted to \$0 (unaudited) and \$1,959,784 as of January 31, 2016 and July 31, 2015, respectively, which represented borrowings made to Umajin Co., Ltd. ("Umajin Japan"), a related party entity owned by one of the directors of the Company. Effective October 30, 2015, the Company entered into a Receivables Transfer Agreement with Europlus International ("EI"), in which the Company transferred \$499,898 (JPY 60,228,650) of outstanding receivables due from Umajin Japan to EI in exchange for an account receivable of \$494,899 (JPY 59,626,363) to be paid in three quarterly installments starting on January 31, 2016 and finishing on July 31, 2016.

Effective November 2, 2015, the Company entered into a Note Payable and Satisfaction Agreement (the "Satisfaction Agreement") with Umajin Japan in order to settle the remaining receivable balance outstanding. The Company was the holder of a promissory note made by Umajin Japan in the principal amount of JPY 181,720,000 (\$1,508,276 as of November 2, 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 Satisfaction 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. The fair value of the common stock sold to the Company amounted to \$196,000. The difference between the fair value of the common stock and the outstanding balance of the note receivable amounted to \$1,312,276, which was recorded as loss from settlement of note receivable in the accompanying consolidated statement of operations for the three and six months ended January 31, 2016.

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 January 31, 2016 and July 31, 2015, the Company had total outstanding notes receivable of \$2,218,569 (unaudited) and \$2,085,241, respectively. The portion of these outstanding notes receivables that were either due on demand or had scheduled due dates within one year amounted to \$1,665,102 (unaudited) and \$1,537,869 as of January 31, 2016 and July 31, 2015, respectively.

The future scheduled maturities of outstanding notes receivables as of January 31, 2016 based on contractual due dates are as follows.

| | Year Ended July 31, | |
|---------------------|--------------------------------|------------------|
| 2016 (remainder of) | \$ | 1,665,102 |
| 2017 | | — |
| 2018 | | — |
| 2019 | | 7,330 |
| 2020 | | 15,426 |
| Thereafter | | 530,711 |
| Total | \$ | <u>2,218,569</u> |

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 six months ended January 31, 2016 (unaudited):

| | | |
|--|----|------------------|
| Balance as of July 31, 2015 | \$ | 6,257,112 |
| Foreign currency translation adjustment | | 151,652 |
| Balance as of January 31, 2016 (unaudited) | \$ | <u>6,408,764</u> |

7. ACQUISITIONS

On January 7, 2016, Sports Perfecta entered into a Share Purchase Agreement to acquire 100% of the outstanding shares of Just Mobile. The total aggregate purchase price for the outstanding shares of Just Mobile amounted to \$200,000, of which \$120,000 was paid on the closing date and the remaining \$80,000 is due three months after the date of the agreement on April 7, 2016. The amount due to the sellers of Just Mobile is recorded as a component of accounts payable and accrued expenses in the accompanying consolidated balance sheet at January 31, 2016.

Assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The fair values of identifiable intangible assets were based on valuations using the income approach.

The purchase price was allocated as follows as of the acquisition date:

| | | |
|----------------------|----|----------------|
| Cash | \$ | 38,908 |
| Accounts receivable | | 20,960 |
| Other current assets | | 6,751 |
| Intangible assets | | 134,476 |
| Current liabilities | | (1,095) |
| | \$ | <u>200,000</u> |

Intangible assets acquired represent developed technology which has an estimated useful life of 4 years. Amortization expense for intangible assets for the three and six months ended January 31, 2016 amounted to \$2,247. Estimated future amortization of intangible assets as of January 31, 2016 is as follows.

| | Year Ended July 31, | |
|---------------------|--------------------------------|----------------|
| 2016 (remainder of) | \$ | 17,876 |
| 2017 | | 35,753 |
| 2018 | | 35,753 |
| 2019 | | 35,753 |
| 2020 | | 15,525 |
| Total | \$ | <u>140,660</u> |

On December 16, 2015, the Company entered into a purchase agreement to acquire 100% of the outstanding shares of Basougu. The total purchase price for the outstanding shares of Basougu amounted to 2 million Japanese Yen (\$16,400 on the purchase date). The fair value of the net assets acquired from Basougu amounted to \$27,100 as of the acquisition date. As the fair value of the net assets was greater than the purchase price, the Company recorded a gain on the acquisition of Basougu of \$10,700, which is reflected as a component of other income on the accompanying statements of operations for the three and six months ended January 31, 2016. There was no goodwill or other intangible assets acquired in connection with the purchase of Basougu.

8. NOTES PAYABLE

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

| | January 31, 2016 | July 31, 2015 |
|--|-----------------------------|--------------------------|
| | (Unaudited) | |
| Unsecured notes payable originally issued on September 30, 2009 and November 30, 2010, due in full on November 30, 2015, bearing interest at 3.5% per annum due monthly. | \$ — | \$ 39,658 |
| Unsecured note payable issued on March 26, 2012, due on demand, bearing interest at 1% per annum due monthly. | 830,000 | 810,000 |
| Unsecured note payable issued on January 30, 2013, due on demand, bearing interest at 1% per annum due monthly. | 415,000 | 405,000 |
| Unsecured note payable issued on July 23, 2013, due on July 5, 2016, bearing interest at 1.2% per annum due monthly. | 71,380 | 136,728 |
| Unsecured note payable issued on December 20, 2011, due on October 31, 2015, bearing interest at 15% per annum due monthly. | 1,577,000 | 1,539,000 |
| Unsecured note payable issued on June 28, 2013, due on October 31, 2015, bearing interest at 15% per annum due monthly. | 166,000 | 162,000 |
| Unsecured note payable issued on January 20, 2011, due on June 30, 2017, bearing interest at 12% per annum due monthly. | 705,500 | 931,500 |
| Unsecured note payable issued on December 18, 2015, due on February 29, 2019, bearing interest at 12% per annum due monthly. | 830,000 | — |
| 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. | 207,500 | 348,300 |
| Unsecured note payable issued on July 20, 2011, due on July 20, 2018, bearing interest at 12% per annum due monthly. | 249,000 | 243,000 |
| Unsecured notes payable, non-interest bearing, due on demand | 37,702 | 48,855 |
| Total notes payable | 5,089,082 | 4,664,041 |
| Less: current portion of notes payable | 3,304,582 | 3,489,541 |
| Long-term portion of notes payable | \$ 1,784,500 | \$ 1,174,500 |

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 (remainder of) | \$ 3,304,582 |
| 2017 | 705,500 |
| 2018 | 249,000 |
| 2019 | 830,000 |
| Total | \$ 5,089,082 |

9. NOTES PAYABLE TO RELATED PARTIES

As of January 31, 2016, the Company had an outstanding note payable balance due to its Chairman and CEO amounting to \$910,559 and an outstanding note payable balance due to its President amounting to \$171,188. The note payable balances are non-interest bearing and are due on demand.

10. CONVERTIBLE NOTE PAYABLE

On March 5, 2015, the Company entered into a convertible note agreement for total principal borrowings of JPY 200,000,000 (\$1,660,000 (unaudited) at January 31, 2016 and \$1,620,000 at July 31, 2015). The amounts are due on March 5, 2016 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 JPY 130.90 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 each subsequent reporting period 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 three months ended January 31, 2016 were as follows.

| | Six Months Ended January 31, 2016 |
|-------------------------|--|
| Expected life in years | 0.09 |
| Stock price volatility | 41.1% |
| Risk-free interest rate | 0.22% |
| Expected dividends | None |
| Forfeiture rate | NA |

11. 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 January 31, 2016 and July 31, 2015.

Common Stock Issuable

Effective January 25, 2016, the Company entered into a consulting agreement with an investor relations firm for a term of six months. Per the terms of the agreement, as compensation for the services to be provided, the Company is to issue 1,000,000 shares of its common stock within 14 days of the date of the agreement, which were fully vested on the date of the agreement. The Company issued the shares in connection with the agreement in February 2016. The total value of the shares as of the agreement date amounted to \$120,000, which has been reflected as common stock issuable in the accompanying consolidated balance sheet as of January 31, 2016. The total value has been recorded as a component of prepaid expenses and other current assets in the accompanying consolidated balance sheet and is being amortized over the life of the agreement.