

**GRAND PERFECTA, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>July 31, 2016</b>	<b>July 31, 2015</b>
<b>Assets</b>		
Current assets		
Cash	\$ 83,295	\$ 75,778
Accounts receivable, net	738,924	612,553
Due from related parties	—	487,852
Current portion of notes receivable	2,457,846	1,537,869
Deferred tax assets, current portion	112,008	303,024
Prepaid expenses and other current assets	12,660	417,208
Total current assets	<u>3,404,733</u>	<u>3,434,284</u>
Property and equipment, net	<u>242,749</u>	<u>273,263</u>
Other assets		
Long-term notes receivables, net of current portion	644,543	547,372
Long-term portion due from related parties, net of current portion	—	1,471,932
Deferred tax assets, long-term portion	620,347	222,423
Goodwill	7,449,853	6,257,112
Other intangibles, net	126,447	—
Other assets	675,382	496,019
Total other assets	<u>9,516,572</u>	<u>8,994,858</u>
Total assets	<u><u>\$ 13,164,054</u></u>	<u><u>\$ 12,702,405</u></u>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,665,190	\$ 1,458,735
Accounts payable to related party	278,977	—
Deferred revenues	1,424,008	1,189,437
Current portion of notes payable	3,797,916	2,274,541
Notes payable to related parties, net of discount	2,777,069	2,208,918
Convertible note payable	1,078,000	1,620,000
Taxes payable	310,229	612,102
Total current liabilities	<u>12,331,389</u>	<u>9,363,733</u>
Long-term portion of notes payable, net of current portion	<u>2,077,600</u>	<u>1,174,500</u>
Total liabilities	<u>14,408,989</u>	<u>10,538,233</u>
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock, \$0.001 par value, 100,000,000 shares authorized, 100,000 shares issued and outstanding as of July 31, 2016 and 2015	100	100
Common stock, \$0.001 par value, 500,000,000 shares authorized, 30,100,000 and 30,500,000 shares issued and outstanding as of July 31, 2016 and 2015, respectively	30,100	30,500
Additional paid-in capital	4,062,308	4,121,034
Accumulated other comprehensive income	297,999	439,265
Accumulated deficit	<u>(5,855,880)</u>	<u>(2,645,873)</u>
Total GPI stockholders' equity (deficit)	<u>(1,465,373)</u>	<u>1,945,026</u>
Noncontrolling interest	<u>220,438</u>	<u>219,146</u>
Total stockholders' equity (deficit)	<u>(1,244,935)</u>	<u>2,164,172</u>
Total liabilities and stockholders' equity	<u><u>\$ 13,164,054</u></u>	<u><u>\$ 12,702,405</u></u>

See accompanying notes to consolidated financial statements

**GRAND PERFECTA, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Year Ended</b>	
	<b>July 31, 2016</b>	<b>July 31, 2015</b>
Net sales	\$ 14,267,112	\$ 17,736,064
Total revenues	<u>14,267,112</u>	<u>17,736,064</u>
Operating expenses:		
Cost of sales	5,234,575	4,473,096
Depreciation and amortization expense	91,757	110,383
Impairment charge	99,502	—
Advertising	172,983	911,562
Rent expense	898,360	812,747
Salaries and wages	4,906,843	5,151,504
Other general and administrative expenses	4,558,636	4,303,062
Total operating expenses	<u>15,962,656</u>	<u>15,762,354</u>
Income (loss) from operations	<u>(1,695,544)</u>	<u>1,973,710</u>
Other income (expense):		
Loss on settlement of note receivable	(1,312,276)	—
Other income	375,708	131,371
Gain on exchange	10,183	40,275
Interest income	11,501	12,620
Interest expense	(664,196)	(790,427)
Total other income (expense)	<u>(1,579,080)</u>	<u>(606,161)</u>
Net income (loss) before provision for income taxes	(3,274,624)	1,367,549
Provision for (benefit from) income taxes	(64,555)	449,316
Net income (loss)	(3,210,069)	918,233
Less: net loss attributable to noncontrolling interest	(62)	(406)
Net income (loss) attributable to GPI	<u>\$ (3,210,007)</u>	<u>\$ 918,639</u>
Net income (loss) per share, basic and diluted	<u>\$ (0.11)</u>	<u>\$ 0.03</u>
Weighted average number of common shares outstanding, basic and diluted	<u>29,934,973</u>	<u>30,500,000</u>

See accompanying notes to consolidated financial statements

**GRAND PERFECTA, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>For the Year Ended</b>	
	<b>July 31, 2016</b>	<b>July 31, 2015</b>
Net income (loss)	\$ (3,210,069)	\$ 918,233
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(141,266)	(297,091)
Total other comprehensive income, net of tax	(141,266)	(297,091)
Comprehensive income (loss)	(3,351,335)	621,142
Comprehensive income (loss) attributable to noncontrolling interest	44,139	(46,079)
Comprehensive income (loss) attributable to GPI stockholders	\$ (3,307,196)	\$ 575,063

See accompanying notes to consolidated financial statements

**GRAND PERFECTA, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Preferred Stock		Common Stock		Additional	Accumulated			
	Shares	Amount	Shares	Amount	Paid-in	Other	Accumulated	Noncontrolling	Total
					Capital	Comprehensive	Deficit	Interest	
						Income			
<b>Balance, July 31, 2014</b>	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
<b>Balance, July 31, 2015</b>	100,000	\$ 100	30,500,000	\$ 30,500	\$ 4,121,034	\$ 439,265	\$ (2,645,873)	\$ 219,146	2,164,172
Stock issued for services	—	—	1,000,000	1,000	119,000	—	—	—	120,000
Settlement of related party note receivable through exchange of stock	—	—	(1,400,000)	(1,400)	(194,600)	—	—	—	(196,000)
Sale of interest in subsidiary	—	—	—	—	—	—	—	(42,785)	(42,785)
Discount from note payable to related parties	—	—	—	—	16,874	—	—	—	16,874
Foreign currency translation adjustment	—	—	—	—	—	(141,266)	—	44,139	(97,127)
Net loss	—	—	—	—	—	—	(3,210,007)	(62)	(3,210,069)
<b>Balance, July 31, 2016</b>	<u>100,000</u>	<u>\$ 100</u>	<u>30,100,000</u>	<u>\$ 30,100</u>	<u>\$ 4,062,308</u>	<u>\$ 297,999</u>	<u>\$ (5,855,880)</u>	<u>\$ 220,438</u>	<u>\$ (1,244,935)</u>

See accompanying notes to consolidated financial statements

**GRAND PERFECTA, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended</b>	
	<b>July 31, 2016</b>	<b>July 31, 2015</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (3,210,069)	\$ 918,233
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	91,757	110,383
Loss on settlement of note receivable	1,312,276	—
Share-based compensation	120,000	—
Impairment charge	99,502	—
Amortization of debt discount	4,033	—
Loss on disposal of property and equipment	42,174	—
Loss on write-off of notes receivables	7,395	89,188
Gain on forgiveness of note payable	(165,300)	—
Gain on sale of interest in subsidiary	(35,462)	—
Gain on bargain purchase of subsidiary	(84,432)	—
Provision for (benefit from) deferred taxes	(85,782)	558,578
Changes in operating assets and liabilities:		
Accounts receivable	22,700	(93,557)
Prepaid expenses and other current assets	376,477	(383,965)
Other assets	(6,629)	15,578
Accounts payable and accrued expenses	910,296	(786,567)
Accounts payable to related party	247,663	—
Deferred revenue	(74,066)	42,878
Taxes payable	(382,036)	(13,426)
Net cash provided by (used in) operating activities	<u>(809,503)</u>	<u>457,323</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(89,091)	(70,507)
Proceeds from sale of property and equipment	53,391	—
Proceeds from lending to related parties, net	—	274,876
Proceeds from collection of notes receivables	690,070	891,305
Payments for notes receivable lending	(687,935)	(1,163,402)
Proceeds from sale of interest in subsidiary, net	2,371	—
Payments for acquisition of subsidiaries, net of cash received	(175,963)	—
Net cash used in investing activities	<u>(207,157)</u>	<u>(67,728)</u>
<b>Cash flows from financing activities</b>		
Proceeds from notes payable	2,610,457	1,433
Payments on note payable	(920,251)	(3,686,849)
Proceeds from notes payable to related parties, net	104,400	—
Proceeds from convertible note payable	—	1,720,000
Payments on convertible note payable	(783,000)	—
Net cash provided by (used in) financing activities	<u>1,011,606</u>	<u>(1,965,416)</u>
Effect of exchange rate fluctuations on cash	<u>12,571</u>	<u>(230,673)</u>
Net change in cash	7,517	(1,806,494)
Cash, beginning of the period	75,778	1,882,272
<b>Cash, end of the period</b>	<u><u>\$ 83,295</u></u>	<u><u>\$ 75,778</u></u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 660,163	\$ 783,425
Income taxes paid	\$ 403,263	\$ 199,015
<b>Supplemental disclosure of non-cash investing and financing information:</b>		
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)	\$ —
Forgiveness of Basougu note payable in conjunction with acquisition	\$ (12,641)	\$ —
Increase in additional paid in capital and debt discount for imputed interest	\$ 16,874	\$ —
Reclassification of balance from related party notes receivable to notes receivable	\$ 499,898	\$ —



**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, Grand Perfecta completed an Agreement and Plan of Reorganization whereby it acquired 100% of the issued and outstanding shares of Link Bit Consulting Co, Ltd. (“LinkBit”), 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, Grand Perfecta 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 Sdn 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 and Umajin HK. LinkBit currently operates 9, websites through its various subsidiaries, which generate substantially all of the Company’s revenue.

**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, 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.

***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

Based on operating losses and negative cash from operations, there is uncertainty about the Company's ability to continue as a going concern. Management's plan in this regard is to improve sales and further reduce costs, including the shift of its broadcast program from satellite television to web TV. To finance operations while it improves operating results, it has sold \$1 million of common stock in August 2016 (see Note 15) and if necessary will continue financing activity such as taking loans, issuing new stock and asking existing creditors to convert their loans to shares of the Company's common stock.

As of July 31, 2016, we had cash of \$83,295 and a working capital deficit of \$8,926,656 as compared to cash of \$75,778 and a working capital deficit of \$5,929,449 at July 31, 2015.

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.

## 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	
	July 31, 2016	July 31, 2015
Japanese Yen to USD	0.0098	0.0081
Hong Kong Dollars to USD	0.1289	0.1290
Malaysian Ringgit to USD	0.2485	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 Year Ended	
	July 31, 2016	July 31, 2015
Japanese Yen to USD	0.0087	0.0086
Hong Kong Dollars to USD	0.1289	0.1290
Malaysian Ringgit to USD	0.2413	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 July 31, 2016 and 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 July 31, 2016 and 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. As of July 31, 2016, the assessment for impairment found that the goodwill recorded for the acquisition of Umajin HK was impaired due to the ongoing and projected future losses of Umajin HK. As a result, an impairment charge of \$99,502 was recorded during the year ended July 31, 2016. There was no impairment during the year ended July 31, 2015.

### ***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 long-lived assets identified during the year ended July 31, 2016 or 2015.

### ***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, 2016 and 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, Hong Kong, Malaysia and the United States 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 had losses related to the write off of notes receivable during the year ended July 31, 2016 and 2015 of \$7,395 and \$89,188, respectively, in addition to the \$1,312,276 loss on settlement of note receivable that was recorded during the year ended July 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, 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 \$172,983 and \$911,562 for the years ended July 31, 2016 and 2015, 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, 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. As of July 31, 2016 and 2015, the Company had convertible notes convertible into 980,000 and 1,472,727, 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 consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 provides guidance on determining management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The guidance in ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 with early application permitted. Management has adopted ASU 2014-15 during the year ended July 31, 2016.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810). ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities, particularly those that have fee arrangements and related party relationships. The guidance in ASU 2015-02 is effective for annual reporting periods beginning after December 15, 2015 with early application permitted. Management has adopted ASU 2015-02 during the year ended July 31, 2016.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The standard requires that lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU No. 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The standard will take effect for fiscal years and interim periods within those fiscal years beginning after December 15, 2018 with earlier adoption permitted. The Company is assessing the impact of adopting ASU No. 2016-02 on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 (“ASU 2016-09”), *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This ASU simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Company is assessing the impact of adopting ASU No. 2016-09 on the Company’s consolidated financial statements.

### 3. PROPERTY AND EQUIPMENT, NET

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

	July 31, 2016	July 31, 2015
Buildings and fixtures	\$ 317,140	\$ 262,126
Autos and trucks	297,014	294,513
Tools and equipment	538,231	427,469
Computer software	1,553,734	1,284,209
Horses	—	24,454
	2,706,119	2,292,771
Less: accumulated depreciation	(2,463,370)	(2,019,508)
	<u>\$ 242,749</u>	<u>\$ 273,263</u>

Depreciation expense amounted to \$71,530 and \$110,383 for the year ended July 31, 2016 and 2015, respectively.

#### 4. DUE FROM RELATED PARTIES

The total amounts due from related parties amounted to \$0 and \$1,959,784 as of July 31, 2016 and 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 a note 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. The amount was collected in full by the Company on August 1, 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 year ended July 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 July 31, 2016 and 2015, the Company had total outstanding notes receivable of \$3,102,389 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 \$2,457,846 and \$1,537,869 as of July 31, 2016 and 2015, respectively.

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

		<b>Year Ended July 31,</b>
		<u></u>
	2017	\$ 2,457,846
	2018	—
	2019	7,010
	2020	16,122
	2021	14,700
	Thereafter	606,711
	Total	<u>\$ 3,102,389</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 years ended July 31, 2015 and 2016. There were no accumulated impairment losses as of July 31, 2015, and the impairment expense related to Umajin HK of \$99,502 during the year end July 31, 2016 has been the only impairment expense recognized.

Balance as of July 31, 2014	\$ 7,549,434
Foreign currency translation adjustment	(1,292,322)
Balance as of July 31, 2015	<u>6,257,112</u>
Impairment of Umajin HK goodwill	(99,502)
Foreign currency translation adjustment	1,292,243
Balance as of July 31, 2016	<u>\$ 7,449,853</u>

## 7. ACQUISITIONS

On January 7, 2016, Sports Perfecta entered into a Share Purchase Agreement to acquire 100% of the outstanding shares of SPT. The total aggregate purchase price for the outstanding shares of SPT amounted to \$200,000, of which \$120,000 was paid on the closing date and the remaining \$80,000 was paid in April 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)
Total Purchase Price	\$	<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 year ended July 31, 2016 amounted to \$20,227. Estimated future expected amortization of intangible assets as of July 31, 2016 is as follows.

		<b>Year Ended July 31,</b>
	2017	\$ 36,819
	2018	36,819
	2019	36,819
	2020	15,990
	Total	<u>\$ 126,447</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 \$95,980 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 \$79,580, which is reflected as a component of other income on the accompanying statements of operations for the year ended July 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:

	<u>July 31, 2016</u>	<u>July 31, 2015</u>
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 July 23, 2013, due on July 5, 2016, bearing interest at 1.2% per annum due monthly.	—	136,728
Unsecured note payable issued on June 15, 2016, due on December 15, 2016, bearing interest at 15% per annum due monthly.	980,000	—
Unsecured note payable issued on December 20, 2011, due on December 31, 2016, bearing interest at 15% per annum due monthly.	1,862,000	1,539,000
Unsecured note payable issued on June 28, 2013, due on December 31, 2016, bearing interest at 15% per annum due monthly.	196,000	162,000
Unsecured note payable issued on January 20, 2011, due on June 30, 2017, bearing interest at 12% per annum due monthly.	539,000	931,500
Unsecured note payable issued on December 18, 2015, due on February 29, 2019, bearing interest at 12% per annum due monthly.	980,000	—
Unsecured note payable issued on February 5, 2016, due in 23 installments of JPY 3,000,000 beginning in February 2017 and a final installment of JPY 31,000,000 in January 2019, bearing interest at 12% per annum due monthly.	980,000	—
Unsecured note payable resulting from the Company co-signing for debt of a vendor in 2010. The note was due on demand, bearing interest at 18% per annum due monthly.	—	348,300
Unsecured note payable issued on July 20, 2011, due on July 20, 2018, bearing interest at 12% per annum due monthly.	294,000	243,000
Unsecured notes payable, non-interest bearing, due on demand	44,516	48,855
Total notes payable	5,875,516	3,449,041
Less: current portion of notes payable	3,797,916	2,274,541
Long-term portion of notes payable	<u>\$ 2,077,600</u>	<u>\$ 1,174,500</u>

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:

	<u>Year Ended July 31,</u>
2017	\$ 3,797,916
2018	646,800
2019	1,430,800
Total	<u>\$ 5,875,516</u>

## 9. NOTES PAYABLE TO RELATED PARTIES

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

	<b>July 31, 2016</b>	<b>July 31, 2015</b>
Unsecured note payable issued on March 26, 2012, due on demand, bearing interest at 1% per annum due monthly. The balance is due to a related party entity which is owned by one of the directors of the Company.	\$ 980,000	\$ 810,000
Unsecured note payable issued on January 30, 2013, due on demand, bearing interest at 1% per annum due monthly. The balance is due to a related party entity which is owned by one of the directors of the Company.	490,000	405,000
Unsecured note payable issued on June 14, 2016, non-interest bearing and due on December 13, 2016 discounted using an effective interest rate of 12%. The balance is due to a related party entity which is owned by one of the directors of the Company.	294,000	—
Unsecured note payable due to the Company's Chairman and CEO, non-interest bearing and due on demand.	830,118	831,918
Unsecured note payable due to the Company's President, non-interest bearing and due on demand.	196,000	162,000
Total notes payable to related parties	2,790,118	2,208,918
Discount on notes payable to related parties	13,049	—
Notes payable to related parties, net	<u>\$ 2,777,069</u>	<u>\$ 2,208,918</u>

The Company imputed interest on the above note payable received on June 14, 2016 using the effective interest rate of 12%, which approximated the Company's incremental borrowing rate. The total interest imputed amounted to \$16,874, which was recorded as a discount to the note payable and an increase to additional paid-in capital. The amount is being amortized as interest expense through the maturity date of the note of December 13, 2016.

## 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 (\$1,620,000 at July 31, 2015). The amounts were originally 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 JPY130.90 or \$1.10 of outstanding principal and accrued interest. During the year ended July 31, 2016, we made payments of \$783,000 on the outstanding principal of the convertible note payable, and the debt holder agreed to extend the maturity date for an additional 6 months until September 5, 2016. Subsequent to the year ended July 31, 2016, the debt holder agreed to further extend the due date until December 31, 2016. As of July 31, 2016, the remaining outstanding balance amounted to JPY 110,000,000 (\$1,078,000 at July 31, 2016).

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 years ended July 31, 2016 and 2015 were as follows.

	<b>Year Ended July 31, 2016</b>	<b>Year Ended July 31, 2015</b>
Expected life in years	0.09 - 0.35	0.60 - 0.89
Stock price volatility	29.25% - 41.05%	32.0% - 32.4%
Risk-free interest rate	0.19% - 0.23%	0.23% - 0.33%
Expected dividends	None	None
Forfeiture rate	NA	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 July 31, 2016 and 2015.

### *Common Stock Transactions*

Pursuant to the Satisfaction Agreement effective November 2, 2015 (see Note 4), Umajin Japan agreed to sell 1,400,000 shares of the Company's common stock back to the Company, and the Company has agreed to release Umajin Japan from any further obligation due under the promissory note.

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 issued 1,000,000 shares on February 8, 2016, which were fully vested on the date of the agreement. The total value of the shares as of the agreement date amounted to \$120,000, which has been reflected as general and administrative expense during the year ended July 31, 2016.

### *Sale of Interest in Subsidiary*

On July 29, 2016, the Company sold its 50% ownership interest in Ripuran Co., Ltd. ("Ripuran") for a total of JPY 350,000 (approximately \$3,000). The gain on the sale of the interest in Ripuran amounted to \$35,462 and is included as a component of other income for the year ended July 31, 2016 in the accompanying consolidated statements of operations.

### *Stock Options*

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. The options are outstanding as of July 31, 2016.

## 12. 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, 2016 and 2015.

	<b>July 31, 2016</b>	<b>July 31, 2015</b>
<b>Deferred tax assets:</b>		
Commission expenses	\$ 393,890	\$ 273,730
Loss carryforwards	273,144	—
Allowance for doubtful accounts	51,450	40,762
Deposits	—	151,102
Other	70,245	125,491
<b>Deferred tax liabilities:</b>		
Depreciation	(18,461)	(27,465)
Others	(9,689)	(14,331)
<b>Valuation allowance</b>	<b>(28,224)</b>	<b>(23,842)</b>
<b>Net deferred tax assets</b>	<b>\$ 732,355</b>	<b>\$ 525,447</b>



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, 2016 and 2015 due to the following.

	July 31, 2016	July 31, 2015
Income tax expense (benefit) based on book income at Japanese statutory rate	\$ (649,395)	\$ 527,350
Loss on credit recorded	486,383	–
Entertainment expense	90,679	121,904
Additional taxes	5,988	2,487
Tax loss carry-forwards utilized only for local tax	–	(122,837)
Tax rate difference between current tax and deferred tax assets	(14,263)	(42,187)
Others	16,053	(37,401)
Total income tax provision	<u>\$ (64,555)</u>	<u>\$ 449,316</u>

The Company classifies income tax penalties and interest, if any, as part of other general and administrative expenses in the accompanying consolidated statements of operations. There was no accrued interest or penalties as of July 31, 2016 or 2015.

### 13. 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 and SPT in Kuala Lumpur, Malaysia under operating leases extending through April 15, 2019. The Company incurred rent expense of \$898,360 and \$812,747 for the years ended July 31, 2016 and 2015, respectively.

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

	<u>Years ending July 31,</u>	
	2017	\$ 659,492
	2018	128,957
	2019	54,109
Total		<u>\$ 842,558</u>

#### *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.

#### *Other Contingencies*

The Company has received notices from the Internal Revenue Service of potential penalties resulting from the failure to file certain returns for the calendar years December 31, 2013 through 2015. The total maximum potential losses resulting from these penalties amount to approximately \$490,000. Management believes it is reasonably possible the Company will incur losses related to these penalties, but is unable to estimate any range of loss and does not believe it is probable. As a result, the Company has not reflected any expense or accrual related to these penalties in the accompanying consolidated financial statements as of, or for the years ended July 31, 2016 or 2015.

#### **14. RELATED PARTY TRANSACTIONS**

As of July 31, 2016 and 2015, the Company had \$0 and \$1,959,784, respectively, of notes receivable due from related parties (see Note 4).

As of July 31, 2016 and 2015, the Company had \$2,790,118 and \$2,208,918, respectively of notes payable due to related parties (see Note 9).

Concurrently with the Satisfaction Agreement (see Note 4), the Company and Umajin Japan, a related party company owned by one of its directors, modified the service agreement between them effective November 1, 2015, to set the monthly fee payable by the Company to Umajin Japan for providing horserace information at 16 million Yen per month (inclusive of consumption tax), and to set the monthly fee payable for providing a horseracing related email magazine and web page content at 7 million Yen per month (inclusive of consumption tax).

Total fees paid to Umajin Japan for the year ended July 31, 2016 and 2015 amounted to \$2,149,709 and \$1,242,222, respectively. The fees paid to Umajin Japan are included in cost of sales in the accompanying consolidated statements of operations. The Company also subleased office space to Umajin Japan during the year ended July 31, 2016. Total sublease income from Umajin Japan for the year ended July 31, 2016 amounted to \$33,600, and is recorded as a reduction of rent expense in the accompanying consolidated statements of operations. The Company also received payments of \$4,909 during the year ended July 31, 2016 from Umajin Japan as reimbursement of utility expenses under the sublease which have been recorded as a reduction of other general and administrative expenses in the accompanying consolidated statements of operations. As of July 31, 2016, the Company had \$278,977 due to Umajin Japan, which is reflected in accounts payable to related party in the accompanying consolidated balance sheets.

During the year ended July 31, 2016, the Company sold horses to Cheval Attache Co., Ltd., a related party company owned by one its directors, for approximately \$50,000 for a gain of approximately \$14,000. In addition, during the years ended July 31, 2016 and 2015, the Company received consulting services from Cheval Attache Co., Ltd. of approximately \$104,000 and \$103,000, respectively, which are included in cost of sales in the accompanying consolidated statements of operations.

#### **15. SUBSEQUENT EVENTS**

On August 23, 2016, the Company entered into an Offshore Securities Purchase Agreement with an investor whereby the Company sold 1,000,000 shares of common stock for a purchase price of JPY100,000,000 (US \$1,000,000 as of August 23, 2016).