GRAND PERFECTA, INC.

CONSOLIDATED BALANCE SHEETS

	October 31, 2016 (Unaudited)	July 31, 2016
Assets		
Current assets		
Cash	$ 43,698	$ 83,295
Accounts receivable, net	688,229	738,924
Accounts receivable - related party	285,000	–
Current portion of notes receivable	2,322,975	2,457,846
Deferred tax assets, current portion	108,579	112,008
Prepaid expenses and other current assets	13,607	12,660
Total current assets	3,462,088	3,404,733
Property and equipment, net	220,967	242,749
Other assets		
Long-term notes receivables, net of current portion	620,467	644,543
Deferred tax assets, long-term portion	601,356	620,347
Goodwill	7,221,798	7,449,853
Intangible assets, net	112,288	126,447
Other assets	671,679	675,382
Total other assets	9,227,588	9,516,572
Total assets	$ 12,910,643	$ 13,164,054
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable and accrued expenses	$ 2,471,422	$ 2,665,190
Accounts payable to related party	206,324	278,977
Deferred revenues	1,024,081	1,424,008
Current portion of notes payable	3,909,653	3,797,916
Notes payable to related parties, net of discount	3,107,392	2,777,069
Convertible note payable	285,000	1,078,000
Taxes payable	352,988	310,229
Total current liabilities	11,356,860	12,331,389
Long-term portion of notes payable, net of current portion	1,928,500	2,077,600
Total liabilities	13,285,360	14,408,989
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, $0.001 par value, 100,000,000 shares authorized, 100,000 shares issued and outstanding as of October 31, 2016 (unaudited) July 31, 2016	100	100
Common stock, $0.001 par value, 500,000,000 shares authorized, 31,100,000 (unaudited) and 30,100,000 shares issued and outstanding as of October 31, 2016 and July 31, 2016, respectively	31,100	30,100
Additional paid-in capital	5,086,294	4,062,308
Accumulated other comprehensive income	289,455	297,999
Accumulated deficit	(5,995,416)	(5,855,880)
Total GPI stockholders'deficit	(588,467)	(1,465,373)
Noncontrolling interest	213,750	220,438
Total stockholders' deficit	(374,717)	(1,244,935)
Total liabilities and stockholders' deficit	$ 12,910,643	$ 13,164,054

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended	
	October 31, 2016 (Unaudited)	**October 31, 2015** (Unaudited)
Net sales	$ 3,724,502	$ 3,576,312
Total revenues	3,724,502	3,576,312
Operating expenses:		
Cost of sales	1,119,938	1,090,786
Depreciation and amortization expense	23,835	19,870
Advertising	30,143	52,633
Rent expense	242,879	210,107
Salaries and wages	1,227,644	1,245,933
Other general and administrative expenses	1,124,548	1,003,750
Total operating expenses	3,768,987	3,623,079
Loss from operations	(44,485)	(46,767)
Other income (expense):		
Other income	3,648	2,467
Gain on exchange	5,859	1,086
Interest income	3,189	2,792
Interest expense	(200,771)	(148,102)
Total other income (expense)	(188,075)	(141,757)
Loss before provision for income taxes	(232,560)	(188,524)
Provision for (benefit from) income taxes	(93,024)	(94,262)
Net loss	$ (139,536)	$ (94,262)
Net loss per share, basic and diluted	$ (0.00)	$ (0.00)
Weighted average number of common shares outstanding, basic and diluted	30,850,000	30,500,000

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended	
	October 31, 2016 (Unaudited)	October 31, 2015 (Unaudited)
Net loss	$ (139,536)	$ (94,262)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(8,544)	52,822
Total other comprehensive income (loss), net of tax	(8,544)	52,822
Comprehensive loss	(148,080)	(41,440)
Comprehensive income (loss) attributable to noncontrolling interest	(6,688)	5,044
Comprehensive loss attributable to GPI stockholders	$ (154,768)	$ (36,396)

See accompanying notes to consolidated financial statements

GRAND PERFECTA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	October 31, 2016 (Unaudited)	October 31, 2015 (Unaudited)
Cash flows from operating activities		
Net loss	$ (139,536)	$ (94,262)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,835	19,870
Amortization of debt discount	12,437	–
Changes in operating assets and liabilities:		
Accounts receivable	28,752	(765,743)
Accounts receivable - related party	(294,000)	–
Prepaid expenses and other current assets	(1,502)	(47,774)
Other assets	(17,439)	(20,553)
Accounts payable and accrued expenses	(141,527)	675,263
Accounts payable to related party	(66,137)	–
Deferred revenue	(367,588)	(15,820)
Taxes payable	53,907	(125,298)
Net cash used in operating activities	(908,798)	(374,317)
Cash flows from investing activities		
Purchase of property and equipment	–	(4,150)
Proceeds from repayment of related party receivables, net	–	588,085
Proceeds from collection of notes receivables	272,968	139,416
Payments for notes receivable lending	(206,972)	(124,351)
Net cash provided by investing activities	65,996	599,000
Cash flows from financing activities		
Proceeds from notes payable	539,000	436
Payments on notes payable	(392,000)	(254,046)
Payments on convertible note payable	(784,000)	–
Proceeds from related party notes payable	686,000	–
Payments on related party notes payable	(245,000)	–
Proceeds from sale of common stock	1,000,000	–
Net cash provided by (used in) financing activities	804,000	(253,610)
Effect of exchange rate fluctuations on cash	(795)	1,484
Net change in cash	(39,597)	(27,443)
Cash, beginning of the period	83,295	75,778
Cash, end of the period	$ 43,698	$ 48,335
Supplemental disclosure of cash flow information:		
Interest paid	$ 188,334	$ 137,171
Income taxes paid	$ –	$ 31,036
Supplemental disclosure of non-cash investing and financing information:		
Increase in additional paid in capital and debt discount for imputed interest	$ 24,986	$ –

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, 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. On January 7, 2016, Sports Perfecta acquired 100% of the outstanding stock of Just Mobile Sdn. Bhd. ("Just Mobile"), a Malaysian company. 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 (see Note 6).

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. 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 unaudited consolidated financial statements of the Company as of October 31, 2016, and for the three months ended October 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 October 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, 2016 and 2015 included in the Company's Form 10-K filed on November 8, 2016.

Principles of Consolidation

The accompanying 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.

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 October 31, 2016, we had cash of $43,698 and a working capital deficit of $7,894,772 as compared to cash of $83,295 and a working capital deficit of $8,926,656 as at July 31, 2016. The decrease in cash as of October 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 the sale of common stock during the quarter, as well as additional note payable borrowing.

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 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.

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' deficit 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' deficit.

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	
	October 31, 2016	July 31, 2016
Japanese Yen to USD	0.0095	0.0098
Hong Kong Dollars to USD	0.1289	0.1289
Malaysian Ringgit to USD	0.2380	0.2485

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

	For the Three Months Ended	
	October 31, 2016	October 31, 2015
Japanese Yen to USD	0.0098	0.0083
Hong Kong Dollars to USD	0.1289	0.1290
Malaysian Ringgit to USD	0.2438	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 October 31, 2016 (unaudited) or July 31, 2016.

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 October 31, 2016 (unaudited) or July 31, 2016.

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 recorded during the three months ended October 31, 2016 or 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 three months ended October 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 October 31, 2016 (unaudited) and July 31, 2016 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 has not experienced significant losses relating to these concentrations during the three months ended October 31, 2016 or 2015.

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.

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 three months ended October 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 three months ended October 31, 2016 and 2015, the Company had convertible notes convertible into 259,091 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 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.

	October 31, 2016 (Unaudited)	July 31, 2016
Buildings and fixtures	$ 307,432	$ 317,140
Autos and trucks	287,922	297,014
Tools and equipment	521,754	538,231
Computer software	1,506,170	1,553,734
	2,623,278	2,706,119
Less: accumulated depreciation	(2,402,311)	(2,463,370)
	$ 220,967	$ 242,749

Depreciation expense amounted to $14,804 (unaudited) and $19,870 (unaudited) for the three months ended October 31, 2016 and 2015, respectively.

4. 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 October 31, 2016 and July 31, 2016, the Company had total outstanding notes receivable of $2,943,442 (unaudited) and $3,102,389, respectively. The portion of these outstanding notes receivables that were either due on demand or had scheduled due dates within one year amounted to $2,322,975 (unaudited) and $2,457,846 as of October 31, 2016 and July 31, 2016, respectively.

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

	Year Ended July 31,
2017 (remainder of)	$ 2,322,975
2018	–
2019	5,990
2020	14,604
2021	14,250
Thereafter	585,623
Total	$ 2,943,442

5. GOODWILL

The Company has recorded goodwill relating to the purchase of Media 21, Inc. in 2011. The following is a summary of the activity relating to goodwill for the three months ended October 31, 2016.

Balance as of July 31, 2016	$	7,449,853
Foreign currency translation adjustment		(228,055)
Balance as of October 31, 2016 (unaudited)	$	7,221,798

6. 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.

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	$	200,000

Intangible assets acquired represent developed technology which has an estimated useful life of 4 years. Amortization expense for intangible assets for three months ended October 31, 2016 and 2015 amounted to $9,031 and $0, respectively. Estimated future expected amortization of intangible assets as of October 31, 2016 is as follows.

	Year Ended July 31,	
2017 (remainder of)	$	26,448
2018		35,264
2019		35,264
2020		15,312
Total	$	112,288

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). There was no goodwill or other intangible assets acquired in connection with the purchase of Basougu.

7. NOTES PAYABLE

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

		October 31, 2016 (Unaudited)		July 31, 2016
Unsecured note payable issued on June 15, 2016, due on December 15, 2016, bearing interest at 15% per annum due monthly.	$	950,000	$	980,000
Unsecured note payable issued on December 20, 2011, due on December 31, 2016, bearing interest at 15% per annum due monthly.		1,805,000		1,862,000
Unsecured note payable issued on June 28, 2013, due on December 31, 2016, bearing interest at 15% per annum due monthly.		190,000		196,000
Unsecured note payable issued on January 20, 2011, due on June 30, 2017, bearing interest at 12% per annum due monthly.		380,000		539,000
Unsecured note payable issued on December 18, 2015, due on February 29, 2019, bearing interest at 12% per annum due monthly.		950,000		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.		950,000		980,000
Unsecured note payable issued on July 20, 2011, due on July 20, 2018, bearing interest at 12% per annum due monthly.		285,000		294,000
Unsecured note payable issued on August 21, 2016, due on November 20, 2016, including interest of JPY 1,000,000. The amount has been repaid in full during November 2016		285,000		–
Unsecured notes payable, non-interest bearing, due on demand		43,153		44,516
Total notes payable		5,838,153		5,875,516
Less: current portion of notes payable		3,909,653		3,797,916
Long-term portion of notes payable	**$**	**1,928,500**	**$**	**2,077,600**

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,
2017 (remainder of)	$	3,824,153
2018		627,000
2019		1,387,000
Total	$	5,838,153

8. NOTES PAYABLE TO RELATED PARTIES

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

	October 31, 2016 (Unaudited)	July 31, 2016
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.	$ 950,000	$ 980,000
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.	475,000	490,000
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.	285,000	294,000
Unsecured note payable issued on September 21, 2016, due on June 30, 2017 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.	285,000	–
Unsecured note payable due to the Company's Chairman and CEO, non-interest bearing and due on demand.	1,137,207	830,118
Unsecured note payable due to the Company's President, non-interest bearing and due on demand.	–	196,000
Total notes payable to related parties	3,132,207	2,790,118
Discount on notes payable to related parties	24,815	13,049
Notes payable to related parties, net	$ 3,107,392	$ 2,777,069

The Company imputed interest on the above notes payable received on June 14, 2016 and September 21, 2016 using the effective interest rate of 12%, which approximated the Company's incremental borrowing rate. The total interest imputed amounted to $41,860, including $16,874 during the year ended July 31, 2016 and $24,986 during the three months ended October 31, 2016. The imputed interest was recorded as a discount to the note payable and an increase to additional paid-in capital. The amounts are being amortized as interest expense through the maturity dates of the notes, which amounted to $12,437 during the three months ended October 31, 2016.

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 ($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. During the three months ended October 31, 2016, the debt holder agreed to further extend the due date until December 31, 2016. As of October 31, 2016, the remaining outstanding balance amounted to JPY 30,000,000 ($285,000 at October 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 three months ended October 31, 2016 and 2015 were as follows.

	Three Months Ended	
	October 31, 2016 (Unaudited)	October 31, 2015 (Unaudited)
Expected life in years	0.17	0.35
Stock price volatility	27.0%	40.4%
Risk-free interest rate	0.24%	0.23%
Expected dividends	None	None
Forfeiture rate	NA	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 October 31, 2016 and July 31, 2016.

Common Stock Transactions

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).

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 October 31, 2016.

11. RELATED PARTY TRANSACTIONS

As of October 31, 2016 and July 31, 2016, the Company had $3,132,207 (unaudited) and $2,790,118, respectively of notes payable due to related parties (see Note 8).

The Company and Umajin Japan, a related party company owned by one of its directors, revised a 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) for a total of 23 million Yen per month. During the three months ended October 31, 2016, the Company and Umajin Japan agreed to reduce the monthly fees from 23 million Yen to 11 million Yen for October 2016 through December 2016.

Total fees paid to Umajin Japan for the three months ended October 31, 2016 and 2015 amounted to $558,600 and $303,540, respectively. The fees paid to Umajin Japan are included in cost of sales in the accompanying consolidated statements of operations. As of October 31, 2016 and July 31, 2016, the Company had $206,324 (unaudited) and $278,977 due to Umajin Japan, respectively, which is reflected in accounts payable to related party in the accompanying consolidated balance sheets.

During the three months ended October 31, 2016 and 2015, the Company received consulting services from Cheval Attache Co., Ltd., a related party entity owned by one of its directors, of approximately $31,752 and $24,900, respectively, which are included in cost of sales in the accompanying consolidated statements of operations.

On October 17, 2016, the Company entered into an agreement with Clara Ltd., a related party entity owned by one of its directors, allowing Clara Ltd. access to the Company's database containing certain horse racing information owned by the Company for an indefinite period. As compensation, the Company will receive a total of 30,000,000 Yen, payable in 10 monthly installments starting in November 2016. The amount due under this agreement of $285,000 is included in accounts receivable – related party on the accompanying consolidated balance sheet as of October 31, 2016. The revenue related to this transaction of $294,000 is reflected as net sales on the accompanying statement of operations for the three months ended October 31, 2016.

12. 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 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 October 31, 2016 or July 31, 2016.