PCG Entertainment plc

Consolidated Financial Statements

for the year ended 31 December 2013

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Financial Statements
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PCG Entertainment Plc
Company Information

Directors
Alan David Gravett
Richard O'Dell Poulden
Nicholas Bryant (appointed on 9 June 2014)
Clive Hyman (appointed on 9 June 2014)
Kung-Min Lin (appointed on 9 December 2013)
Professor Michael Mainelli (appointed on 14 July 2014)

Secretary
Hawk Secretaries Limited (appointed on 25 June 2014)

Auditors
Benady Cohen & Co Limited
21 Engineer Lane
Gibraltar

Registered office
G1 Haven Court
5 Library Ramp
Gibraltar

Registered number
107915

PCG Entertainment Plc
Directors' Report

The directors present their report and financial statements for the year ended 31 December 2013.

Principal activities
The Company's principal activity during the year was that of a holding company. The business of the Group is activities relating to various forms of accepted and licenced legal gaming in the People's Republic of China.

Incorporation
The Company was incorporated in Gibraltar on 25 May 2012.

Results
The Group's results for the year are shown in the consolidated statement of comprehensive income on page 8.

Business review
On 18 December 2013 the Company allotted and issued 747,314,193 ordinary shares of £0.001 in settlement of set up, corporate finance advice and general investment costs of US$4,875,643 incurred in the creation of the Company's underlying businesses which were acquired shortly before the balance sheet date.

On 21 December 2013 the Company allotted and issued a further 2,685,807 ordinary shares of £0.001 each pursuant to a share sale agreement dated 20 December 2013 between the Company and each member of Hong Kong Strategic Services Limited ("HKSSL"), a company registered in Hong Kong. Each of the members of HKSSL agreed to transfer their interest in HKSSL's shares to the Company in consideration of receiving such number of shares in the Company as is set out in the Share Sale Agreement, amounting in total to 2,685,807 shares in the Company.

Since 31 December 2013, the Company has engaged in the process of applying to list its shares on AIM in the United Kingdom. This will involve raising further capital which will be used to start the businesses for which the licences are held through Group companies in China. In addition, the Company signed a framework agreement to have the option to acquire a stake in two companies in Hainan province in China. One of these companies runs a poker tournament through a brand called China Poker Games ("CPG"). The Group will use its licences in its Beijing Sihaigeju Culteral Media Company Limited subsidiary to develop an online qualification game to enable more people to attend the physical tournament. The other company has a licence for the Sports Lotto in Hainan and it is the Group's intention if the option is exercised to grow this business by utilising our licences.

This all depends on the Company's application to list on AIM being successful. There can be no guarantee of this. However, the Company is actively engaged in the process to prepare the application for consideration by the appointed Nominated Adviser ("NOMAD") and then by AIM.

The Group has incurred losses of US 2,675,709 in setting up the structure to exploit the business licences acquired in China, as set out more fully in notes 11 and 15.

Other than the financial risks set out in notes 5 and 20, the principal risks facing the Group can be summarised as follows:

(1) the success or otherwise of the AIM application;
(2) the business if it starts to succeed may face regulatory changes in China;
(3) the business is a start up with all the attendant risks, including a lack of operational history.

Dividend
The directors do not recommend the payment of a dividend.

Directors
The directors who served during the year were as stated on page 1.

PCG Entertainment Plc
Directors' Report

Directors' responsibilities
The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year and which comply with the Gibraltar Companies Act, the Companies (Accounts) Act and the Companies (Consolidated Accounts) Act.

Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards. In preparing the financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with applicable law. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Previously issued financial statements
The previously issued financial statements prepared from incorporation to 31 October 2013, which were approved by the board of directors on 16 July 2014, have been withdrawn following a decision by the directors to amend the balance sheet date to 31 December in order to be consistent with the remainder of the Group. These financial statements have been reissued in order to present the comparative financial information in these financial statements from incorporation to 31 December 2012.

Auditors
All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to reappoint Benady Cohen & Co Limited as auditors will be put to the members at the Annual General Meeting.

This report was approved by the board on 29 September 2014.

Nicholas Bryant
Director

Independent auditor's report
to the shareholders of PCG Entertainment Plc

We have audited the financial statements of PCG Entertainment Plc for the year ended 31 December 2013 which comprise the consolidated statement of financial position, the company statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of cash flows, the company statement of cash flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 182 of the Companies Act and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of the Company’s and Group'ss affairs as at 31 December 2013 and of the Company’s and Group’s loss and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act, the Companies (Accounts) Act 1999 and the Companies (Consolidated Accounts) Act 1999.

Independent auditor's report
to the shareholders of PCG Entertainment Plc

Emphasis of matter
In forming our opinion on the financial statements we have considered the adequacy of the disclosures made in notes 1, 4, 11 and 13 concerning the carrying value of the group's intangible assets.

The support for the carrying value of intangible assets is dependant upon the future cash flows generated from the activities deriving from these assets. The business to which these assets relate remains in the development stage. The directors have prepared cash flow forecasts for the business unit holding the assets that include significant assumptions regarding cash flows over the next five years. The significance of these assumptions, and uncertainty regarding the future revenues to be generated from the licences, represent material uncertainties which impact the value of the intangible assets in the group balance sheet. The financial statements do not include any adjustments that would result if these assumptions proved to be incorrect and an impairment or revaluation provision was required against the carrying value of these assets.

Opinion on other matter prescribed by the Companies Act
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- if information specified by law regarding directors' remuneration and other transactions is not disclosed; or
- we have not received all the information and explanations we require for our audit.

Other matters
The previously issued consolidated financial statements of the Company for the period from incorporation to 31 October 2013, which were issued 16 July 2014 and included our audit report dated 17 July 2014, have been withdrawn by the directors.

Shaun Cawdery (Statutory Auditor)
On behalf of Benady Cohen & Co Limited
Chartered Accountants
21 Engineer Lane
Gibraltar

1 October 2014

PCG Entertainment Plc
Consolidated Statement of Financial Position
as at 31 December 2013

	Notes	2013 US$	2012 US$
Current assets			
Trade and other receivables	12	77,447	1
Cash and cash equivalents		44,599	-
		122,046	1
Non-current assets			
Intangible assets	13	3,500,000	-
Tangible assets	14	13,091	-
		3,513,091	-
Total assets		3,635,137	1
Current liabilities	16	561,486	2,423
Capital and reserves			
Share capital	17	1,223,292	1
Share premium	18	4,528,491	-
Retained earnings		(2,678,132)	(2,423)
Total liabilities and shareholders' funds		3,635,137	1

Approved by the board on 29 September 2014.

Nicholas Bryant
Director

Clive Hyman
Director

The notes on pages 13 to 27 form part of these financial statements.

PCG Entertainment Plc
Company Statement of Financial Position
as at 31 December 2013

	Notes	2013 US$	2012 US$
Current assets			
Trade and other receivables	12	15,605	1
		15,605	1
Non-current assets			
Investments	15	876,140	-
		876,140	-
Total assets		891,745	1
Current liabilities	16	30,032	2,423
Capital and reserves			
Share capital	17	1,223,292	1
Share premium	18	4,528,491	-
Retained earnings		(4,890,070)	(2,423)
Total liabilities and shareholders' funds		891,745	1

Approved by the board on 29 September 2014.

Nicholas Bryant
Director

Clive Hyman
Director

The notes on pages 13 to 27 form part of these financial statements.

PCG Entertainment Plc
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2013

	Notes	Year ended 31 December 2013 US$	Period from 25 May to 31 December 2012 US$
Revenue	1, 6	-	-
Administrative expenses		(4,886,984)	(2,423)
Operating loss	7	(4,886,984)	(2,423)
Negative goodwill	11	2,211,938	-
Foreign exchange loss		(663)	-
Loss on ordinary activities before taxation		(2,675,709)	(2,423)
Tax on loss on ordinary activities	9	-	-
Retained loss for the financial year		(2,675,709)	(2,423)

Loss per share:		**US$**	**US$**
Basic and diluted	10	(23.37)	(346.14)

There are no recognised gains or losses other than disclosed above and there have been no discontinued activities or acquisitions in the year.

The notes on pages 13 to 27 form part of these financial statements.

PCG Entertainment Plc
Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

	Share Capital US$	Share Premium US$	Retained Earnings US$	Total Equity US$
Shares issued during the period	1	-	-	1
Retained loss for the period	-	-	(2,423)	(2,423)
Balance at 31 December 2012	1	-	(2,423)	(2,422)
Shares issued during the year	1,223,291	4,528,491	-	5,751,782
Retained loss for the year	-	-	(2,675,709)	(2,675,709)
Balance at 31 December 2013	1,223,292	4,528,491	(2,678,132)	3,073,651

The notes on pages 13 to 27 form part of these financial statements.

PCG Entertainment Plc
Company Statement of Changes in Equity
for the year ended 31 December 2013

	Share Capital US$	Share Premium US$	Retained Earnings US$	Total Equity US$
Shares issued during the period	1	-	-	1
Retained loss for the period	-	-	(2,423)	(2,423)
Balance at 31 December 2012	1	-	(2,423)	(2,422)
Shares issued during the year	1,223,291	4,528,491	-	5,751,782
Retained loss for the year	-	-	(4,887,647)	(4,887,647)
Balance at 31 December 2013	1,223,292	4,528,491	(4,890,070)	861,713

The notes on pages 13 to 27 form part of these financial statements.

PCG Entertainment Plc
Consolidated Statement of Cash Flows
for the year ended 31 December 2013

	2013 US$	2012 US$
Cash flows from operating activities		
Operating loss	(4,886,984)	(2,423)
Reconciliation to cash generated from operations:		
Increase in debtors	(15,605)	-
Increase in creditors	27,609	2,423
Non-cash share issue	4,875,643	-
Cash generated from operations	663	-
Cash flows from investing activities		
Acquisition of subsidiairies - cash acquired	44,599	-
Effects of exchange rates on cash and cash equivalents	(663)	-
Net increase in cash	44,599	-

The notes on pages 13 to 27 form part of these financial statements.

PCG Entertainment Plc
Company Statement of Cash Flows
for the year ended 31 December 2013

	2013 US$	2012 US$
Cash flows from operating activities		
Operating loss	(4,886,984)	(2,423)
Reconciliation to cash generated from operations:		
Increase in debtors	(15,605)	-
Increase in creditors	27,609	2,423
Non-cash share issue	4,875,643	-
Net cash flow from operating activities	663	-
Effects of exchange rates on cash and cash equivalents	(663)	-
Net increase in cash	-	-

The notes on pages 13 to 27 form part of these financial statements.

1 Accounting policies

The principal accounting policies adopted by the Group in the preparation of its financial information for the year ended 31 December 2013 with comparatives for the period from incorporation to 31 December 2012. The accounting policies have been consistently applied, unless otherwise stated.

General information

PCG Entertainment Plc ("PCGE") is incorporated in Gibraltar. The registered office is G1 Haven Court, 5 Library Ramp, Gibraltar. PCGE has direct subsidiaries and affiliated companies in China, where its holding is held through the requisite Chinese structure for foreign investors.

PCGE has a direct 100% holding in its subsidiary Hong Kong Strategic Services ("HKSS") which is incorporated in Hong Kong. HKSS has a direct 100% holding in its subsidiary JingtuoShijie Technology Consulting (Beijing) Company Limited ("WOFE") which is a specialized vehicle to enable PCGE to invest via a Variable Interest Entity ("VIE") in Beijing Sihaigeju Culteral Media Company Limited ("SihaiGeju"). The WOFE and SihaiGeju are both incorporated in the People's Republic of China ("PRC" or "China").

PCGE, its subsidiaries and affiliated companies are collectively referred to as the PCGE Group. The business of the group is activities relating to various forms of accepted and licensed legal gaming in the PRC.

PCGE issued shares to Black Swan FZE and Forbidden City on 13 December, 2013. Each party received 373,657,095 shares of a nominal value of £0.001 issued at a price of £0.004 to satisfy the invoices from each part of US$ 1,494,629 for fees and costs incurred in establishing the PCG Entertainment Plc Group.

Basis of consolidation

The consolidated financial statements combine the financial information of the Company and its subsidiary undertakings drawn up to 31 December 2013. In accounting for its subsidiaries, the Group consolidates fully their assets, liabilities and results for the year. All inter-company balances, transactions and unrealised profits and losses are eliminated from the consolidated financial statements.

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanied by a share of more than 50 per cent of the voting rights. All inter-company balances have been eliminated in the consolidated financial statements.

Subsidiaries acquired or disposed of during the year are included from the date of acquisition or to the date of disposal under the acquisition method.

The Company has taken advantage of the exemption available under section 10 of the Companies (Consolidated Accounts) Act not to disclose a separate profit and loss account for the parent company.

The loss recorded by the Company during the year was US$ 4,887,647 (2012: US$ 2,423).

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in accordance with the PCGE Group's principal activities, net of VAT and trade discounts.

1 Accounting policies (continued)

Intangible assets

Intangible assets consist of and is recognised as an intangible asset in accordance with the provision of IAS 38 “Intangible Assets”. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation of these assets is charged to the income statement on a straight-line basis over the expected useful economic life of the asset. Amortisation is charged against assets from the date at which the asset becomes available for use.

Where no intangible asset can be recognised, development expenditure is treated as expenditure in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the pro forma aggregated statements of comprehensive income.

The carrying values of property, plant and equipment are reviewed for impairment annually and when events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is taken direct to the income statement.

Amortisation

Amortisation is charged so as to write off the cost, less estimated residual value on assets other than land, over their estimated useful lives, using the straight line method, on the following bases:

Property, plant and equipment	- Straight line 3-10 years

Impairment of non-financial assets

At each balance sheet date, the directors review the carrying amounts of the Group’s tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Foreign currencies

The presentational currency for the Group’s consolidated financial statements is United States dollars ("US$") and it is this currency in which the Group reports. Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited to the income statement.

On consolidation the assets and liabilities of the subsidiary companies with non-United States Dollars functional currency are translated into the Group’s presentational currency at the exchange rate at the balance sheet date and the income and expenditure account items are translated at the average rate for the year.

For the purpose of foreign currency translation, the net investment in a subsidiary is determined inclusive of foreign currency intercompany balances for which settlement is neither planned nor likely to occur in the foreseeable future.

1 Accounting policies (continued)

Foreign currencies (continued)

In the cash flow statement, cash flows denominated in foreign currencies are translated into the presentational currency of the Group at the average exchange rate for the year or at the prevailing rate at the time of the transaction where more appropriate.

Functional and presentational currencies

The individual financial information of each group entity is measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The financial information of the PCGE Group is presented in United States Dollars (“US$”).

The functional currency of each of the group entities is:

PCGE – US$
HKSS – Hong Kong Dollars ("HK$")
WOFE and VIE – Chinese Renminbi ("RMB")

Financial instruments

Financial assets and financial liabilities are recognised on the pro forma aggregated statement of financial position when the PCGE Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the pro forma aggregated statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

1 Accounting policies (continued)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Equity comprises the following:

• "Share capital" represents amounts subscribed for shares at nominal value.
• "Share premium" represents amounts subscribed for share capital in excess of nominal value.
• "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.

Taxation

The taxation ("tax") expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>

Current tax for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

<u>Deferred tax</u>

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax is determined using tax rates and laws that have been enacted (or substantially enacted) by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Going concern

The Company reported an operating loss for the year to 31 December 2013. The Directors have reviewed subsequent fundraisings and projected cash flows and consider that the Group will have adequate resources to meet its liabilities as they fall due for a period of at least twelve months from the date of approval of these financial statements and indicate that no additional funding is required. Accordingly, they consider it appropriate to continue to prepare the financial statements on a going concern basis.

Comparative financial information

The company was incorporated on 25 May 2012 and these financial statements reflect comparative financial information for the period to 31 December 2012. As a consequence, the comparative financial information is not entirely comparable.

1 Accounting policies (continued)

Accounting policies in relation to the parent company:

Fixed asset investments
Investments in subsidiary undertakings are stated at cost less permanent provision for impairment.

2 Standards, Interpretations & Amendments to Published Standards adopted during the year

The following new standards, amendments and interpretations to existing standards have been adopted by PCG Entertainment Plc during the year.

- Amendments to IAS 19 — Employee Benefits
- Amendments to IFRS 1 — Government Loans
- Amendments to IFRS 7 — Financial Instruments: Disclosures
- IFRS 13 — Fair Value Measurement

These new standards, amendments and interpretations to existing standards have had no impact on the financial statements of PCG Entertainment Plc.

3 Standards, Interpretations & Amendments to Published Standards not yet effective

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as they were not effective for the year 2013 . The Group is currently assessing the impact of these standards and interpretations will have on the presentation of, and recognition in, its consolidated results in future

- IAS 27 – Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2014)
- IAS 28 – Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2014)
- Amendments to IAS 32 — Offsetting Financial Assets and Financial Liabilities (effective for accounting periods beginning on or after 1 January 2014). This amendment has not yet been endorsed for use in the EU.
- IFRS 9 — Financial Instruments (effective for accounting periods beginning on or after 1 January 2015). IFRS 9 has not yet been endorsed for use in the EU.
- IFRS 10 — Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2014).
- IFRS 11 — Joint Arrangements (effective for accounting periods beginning on or after 1 January 2014). It will supersede IAS 31 Interests in Joint Ventures and SIC-13 — Jointly Controlled entities — Non-monetary Contributions by Ventures.
- IFRS 12 — Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2014).

4 Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations uncertainty (see below) that management has made in the process of applying the PCGE Group's accounting policies and which have the significant effect on the amounts recognised in the consolidated financial statements.

4 Critical judgements in applying the entity's accounting policies (continued)

Impairment of financial assets

The PCGE Group follows the guidance of IAS 39 – Financial Instruments: Recognition and Measurement, in determining whether a financial asset is impaired. This determination requires significant judgement, the PCGE Group evaluates, among other factors, the duration and extent to which the fair value of a financial asset is less than its cost and the financial health of and near-term business outlook for the financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that the taxable profit will be available against which the deferred tax asset recognised can be utilised. Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future tax planning strategies. PCGE Group's has not recognised any deductible temporary differences as at 31 December 2012 and 31 December 2013. In the future management will form a view on any deferred tax assets which are to considered to be fully recoverable based on anticipated future profitability of the PCGE Group.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the financial year/period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of intangbile assets

Management review the intangible assets held by the group on inception and at every balance sheet date. The valuation of intangible assets is based on a significant number of variables which require management judgement, as disclosed in note 11.

Allowance for trade and other receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgment as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates.

Where there is objective evidence of impairment, management makes judgment as to whether an impairment in value should be recorded in the income statement. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

The allowance policy for doubtful debts of the PCGE Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the PCGE Group's trade and other receivables as at 31 December 2013 and 31 December 2012 were US$ 77,447 and US$ 1 respectively.

4 Critical judgements in applying the entity's accounting policies (continued)

Depreciation of property, plant and equipment

The PCGE Group depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the PCGE Group intends to derive future economic benefits from the use of the PCGE Group's property, plant and equipment. The residual value reflects management's estimated amount that the PCGE Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's property, plant and equipment as at 31 December 2013 and 31 December 2012 were US$ 13,091 and US$ nil respectively.

5 Financial risks

The PCGE Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow risk), credit risk and liquidity risk. The PCGE Group's overall risk management programme seeks to minimise potential adverse effects on the PCGE Group's financial performance.

(a) Market risk

Foreign exchange risk - The PCGE Group has exposure to foreign exchange risk during the periods under review as its cash flows and financial assets and liabilities are mainly denominated in RMB and ultimately reported in US$.

Fair value interest rate risk and cash flow risk - The fair values of financial assets and financial liabilities approximate the carrying amounts of those assets and liabilities reported in the pro forma aggregated balance sheets.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as committed transactions. Management assess the other factors. Individual risk limits are set based on limits set by the board.

(c) Liquidity risk

The overriding financial risk to the PCGE Group during the year was that of liquidity. At the current stage of the PCGE Group's major source of funds is likely to be through the injection of new equity capital or a debt facility, or a combination of such sources.

6 Operating segments

The PCGE Group is a provider of gaming services in China. The PCGE Group's revenue and profit before taxation will be derived from its principal activity. Revenues will be derived from external customers based in China. The PCGE Group's operations are based in China and its assets and liabilities relate to this single business segment.

7 Operating loss

	2013 US$	2012 US$
This is stated after charging:		
Foreign currency loss	663	-
Auditors' remuneration	11,341	2,423

8 Staff costs

There are no staff costs in the year ended 31 December 2013 or the period ended 31 December 2012.

9 Taxation

	2013 US$	2012 US$
Taxation payable	-	-

The Company is subject to taxation in respect of all income which is deemed to accrue in or be derived from Gibraltar at the standard rate of corporation tax of 10%.

Taxation of the subsidiaries is recognised based on the rules and regulations in their respective countries of incorporation.

Tax reconciliation:	2013 US$	2012 US$
Loss on ordinary activities before taxation	(2,675,709)	(2,423)
Loss on ordinary activities multiplied by the standard rate of corporation tax in Gibraltar of 10%	(267,571)	(242)
Non-deductible expenses	488,765	242
Non-taxable income	(221,194)	-
Total tax expense	-	-

10 Loss per share

	2013 US$	2012 US$
Retained loss attributable to ordinary shareholders	(2,675,709)	(2,423)
Weighted average number of common shares in issue during the year:		
Issued ordinary shares at the beginning of the year	7	-
Effect of share issues	114,482	7
Weighted average number of ordinary shares at 31 December	114,482	7
Basic profit/earnings per share	(23.37)	(346.14)

Basic loss per share have been calculated by dividing the net results attributable to ordinary shareholders by the weighted average number of shares in issue during the year as disclosed in note 17. There are no dilutive potential ordinary shares as at 31 December 2013 and 31 December 2012.

11 Negative Goodwill

In the year ended 31 December 2013, the company aquired 100% of the issued share capital of Hong Kong Strategic Services Limited in consideration for 2,685,807 shares of a nominal value of £0.001 issued at a price of £0.020. This transaction gave rise to the negative goodwill as follows:

	Book values 2013 US$	Adjustments 2013 US$	Fair values 2013 US$
Tangible fixed assets	13,091	-	13,091
Licences	150,282	3,349,718	3,500,000
Trade and other receivables	77,447	-	77,447
Cash and cash equivalents	44,599	-	44,599
Trade and other payables	(547,059)	-	(547,059)
Net assets acquired	(261,640)	3,349,718	3,088,078
Value of shares alotted			(876,140)
Negative goodwill recognised as at 31 December 2013			2,211,938

Goodwill was calculated on acquisition of the direct subsidiaries by considering the fair value of the assets acquired. The valuation of the licences was made by the directors by utilising cash flow forecasts for the cash generating units. Various scenarios were considered by the directors whereby discount factors between 10% and 25% were considered and projected cash flows were reduced by up to 85% from the directors best estimate. Although the directors best estimate shows projected cash flows far in excess of the valuation of the licences recognised, the directors have considered the fair value of US$ 3.5 million based on the worst case scenario reflecting the uncertainty as disclosed in note 4, which is also not significantly different to the costs involved in establishing the relevant Chinese ownership structure.

12 Trade and other receivables

	Group 2013 US$	Group 2012 US$	Company 2013 US$	Company 2012 US$
Amounts owed by group undertakings	-	-	15,605	-
Other receivables	2,074	1	-	1
Prepayments and accrued income	75,373	-	-	-
	77,447	1	15,605	1

Amounts owed by group undertakings relate to amounts receivable from Hong Kong Strategic Services Company Limited.

13 Intangible assets

Investment in licences:

	US$
Cost	
Additions	3,500,000
At 31 December 2013	3,500,000
Amortisation	
At 1 January 2013 and 31 December 2013	-
Net book value	
At 31 December 2013	3,500,000
At 31 December 2012	-

The Directors of PCGE are of the opinion that the licences and group structure which has been put in place are worth US$3,500,000 and accordingly have recognised an asset in the consolidated financial statements.

14 Tangible fixed assets

Property, plant and equipment:

	US$
Cost	
Additions	13,091
At 31 December 2013	13,091
Amortisation	
At 1 January 2013 and 31 December 2013	-
Net book value	
At 31 December 2013	13,091
At 31 December 2012	-

15 Investments

	Group 2013 US$	Group 2012 US$	Company 2013 US$	Company 2012 US$
Shares in group undertakings	-	-	876,140	-

The company holds effective control the following companies:

Company	Country of registration or incorporation	%	Class of shares held
Hong Kong Strategic Services Company Limited	Hong Kong	100	Ordinary
Jingtuo World Technology Consulting (Beijing) Limited	China	100	Ordinary
Beijing Sihaigeju Culteral Media Company Limited	China	100	See below

15 Investments (continued)

The group has no direct control over Beijing Sihaigeju Culteral Media Company Limited, but exercises control via contractual arrangements and therefore Beijing Sihaigeju Culteral Media Company Limited is treated as a 100% subsidiary. The structure used is typical for overseas investment into China and is called a WOFE and VIE structure as disclosed in the general information in note 1.

16 Current liabilities

	Group 2013 US$	Group 2012 US$	Company 2013 US$	Company 2012 US$
Other payables including taxation and social security	544,595	-	15,605	-
Accruals and deferred income	16,891	2,423	14,427	2,423
	561,486	2,423	30,032	2,423

17 Share capital

	2013 US$	2012 US$
Authorised:		
1,000,000,000 Ordinary shares of GBP 0.001 each (USD 0.0016 each)	1,600,000	1,600,000

	2013 No	2012 No	2013 US$	2012 US$
Allotted, called up and fully paid:				
Ordinary shares of GBP 0.001 each	750,000,007	7	1,223,292	1

During the year, the company issued the following shares:
(a) 747,314,193 ordinary shares at a premium of GBP 0.003 per share on 13 December 2013 in consideration of the services provided by Black Swan Plc and Forbidden City Limited as detailed in note 25.

(b) 2,685,807 ordinary shares at a premium of GBP 0.199 per share on 21 December 2013 in consideration of the acquisition of Hong Kong Strategic Services Limited as detailed in note 11.

18 Share premium

	2013 US$	2012 US$
Allotted, called up and fully paid:		
Ordinary shares of GBP 0.001 each	4,528,491	-
	4,528,491	-

The share premium arises during the year as a result of the issue of shares detailed in note 17.

19 Statutory surplus reserve

According to the relevant PRC regulations and the Articles of Association of Jingtuo World Technology Consulting (Beijing) Limited, it is required to transfer 10% of its profit after income tax to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to equity owners. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of equity owners, provided that the balance after such conversion is not less than 25% of the registered capital.

As at 31 December 2013 the statutory surplus reserve was US$ nil (2012: US$ nil).

20 Financial instruments

The PCGE Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. The PCGE Group's accounting policies and methods adopted, including the criteria for recognition, the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are set out in note 1. The PCGE Group does not use financial instruments for speculative purposes.

The principal financial instruments used by the PCGE Group, from which financial instrument risk arises, are as follows:

	2013 US$	2012 US$
Loans and receivables:		
Trade and other receivables	77,447	1
Cash and cash equivalents	44,599	-
Trade and other payables :		
Term loans	(561,486)	(2,423)

Capital risk management
The primary objective of the PCGE Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The PCGE Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the PCGE Group may adjust the retire capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ended 31 December 2012, and the year ended 31 December 2013.

Derivatives, financial instruments and risk management
The PCGE Group does not use derivative instruments or other financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Liquidity Risk
Liquidity risk arises from the PCGE Group's management of working capital. It is the risk that the PCGE Group will encounter difficulty in meeting its financial obligations as they fall due.

The PCGE Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the PCGE Group arise in respect of the ongoing research and development programs, trade and other payables. Trade and other payables are all payable within 12 months.

The Board receives cash flow projections on a regular basis as well as information on cash balances.

Interest Risk
The PCGE Group has interest rate risk with the banks for banking facilities. The PCGE Group has not recognised or undisclosed financial instruments as at balance sheet date.

As at 31 December 2013 and 31 December 2012, there are no significant balances which attract interest or on which interest is payable.

20 Financial instruments (continued)

<u>Foreign currency risk management</u>
The PCGE Group has exposure to foreign exchange risk as its cash flows and financial assets and liabilities are mainly denominated in RMB, HK$ and GBP and reported in US$.

The Group's currency exposure is as follows:

At 31 December 2013:	Chinese Renminbi US$	Hong Kong Dollars US$	Sterling US$	Total US$
Financial assets:				
Trade receivables	77,447	-	-	77,447
Cash and cash equivalents	12,948	41	-	12,989
	90,395	41	-	90,436
Financial liabilities:				
Trade payables and accruals	(458,336)	(73,118)	(14,427)	(545,881)
	(458,336)	(73,118)	(14,427)	(545,881)
Currency exposure	(367,941)	(73,077)	(14,427)	(455,445)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and liabilities denominated in foreign currencies.

At 31 December 2013:	Chinese Renminbi US$	Hong Kong Dollars US$	Sterling US$	Total US$
10% strengthening of US$	(224,893)	(56,668)	(885)	(282,446)
10% weakening of US$	224,893	56,668	885	282,446

As at 31 December 2012, all financial assets and liabilities were denominated in Sterling. The effect of a 10% movement in US$ against Sterling as at 31 December 2012 is immaterial.

<u>Credit risk</u>
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the PCGE Group. The PCGE Group has adopted a policy of only dealing with creditworthy counterparties. The PCGE Group's exposure and the credit ratings of its trading counterparties are monitored by the board of directors to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The PCGE Group's principal financial assets are cash and cash equivalents, trade debtors and other accounts receivables. Cash equivalents include amounts held on deposit with financial institutions.

The PCGE Group has no significant concentrations of credit risk. Cash is placed with established financial institutions. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

21 Commitments

The PCGE Group had no capital commitments as at 31 December 2013 or 31 December 2012.

22 Contingencies

The PCGE Group had no material contingent liabilities as at 31 December 2013 or 31 December 2012.

23 Controlling party

At 31 December 2013 and 31 December 2012, the directors do not believe there to be any single controlling party.

24 Subsequent events

Subsequent to 31 December 2013, the Company raised pre-IPO finance via a Loan Note of US$700,000 from one its shareholders, Kolarmy Technology Inc, at a rate of interest of 1% per month. The Loan note and accrued interest is re-payable on Admission. The directors and Kalarmy Technology Inc are in the process of redrafting the terms of the Loan Note.

The Company and Beijing Sihaigeju Culteral Media Company Limited have entered into a framework agreement relating to the grant of option rights to Beijing Sihaigeju Culteral Media Company Limited in respect of the acquisition of existing shares in two companies in Hainan province, China. The option rights relate to the purchase of 10 per cent. of the existing shares in both Hainan companies. The Directors have confirmed that the consideration will be satisfied either in cash or by the issue of shares in PCGE. This is entirely the Company's choice.

25 Related parties

Certain of the Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

A former member of the management team, Mr Hu Ye, used his own Service vehicle to pay bills on behalf of the group. These amounts are shown within the relevant headings and were at normal arms lengths terms. The company, Advant Gain Limited, whose principal shareholder is Mr Hu Ye, has the following balances with the group : Debtor US$ 59,406 (2012: US$ nil), and Creditor US$ 327,257 (2012: US$ nil). This can be netted to a net position of US$ 267,851 (2012: US$ nil).

During the periods under review consulting payments were made to:

Kolarmy Technology Ventures Inc	HK$ 125,000
Advant Gain	US$ 33,334

Kolarmy Technology Ventures Inc and Advant Gain are shareholders of PCG Entertainment Plc. At 31 December 2013 US$ 70,000 was due to Kolarmy Technology Inc. (2012: US$ nil).

25 Related parties (continued)

Black Swan Plc received 373,657,096 shares and Forbidden City Ltd received 373,657,097 shares of a nominal value of GBP 0.001 issued at a price of GBP 0.004 to satisfy the invoices from each party of GBP 1,494,629 for fees and costs incurred in establishing the Group.

Transactions between group parties have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements.

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