PCG Entertainment Plc

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2014

PCG Entertainment Plc
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Company Information

DIRECTORS	Kung-Min Lin, Chairman (appointed on 9 December 2013) Richard O'Dell Poulden, Deputy Chairman Nicholas Bryant, CEO (appointed on 9 June 2014) Clive Hyman, CFO (appointed on 9 June 2014) Professor Michael Mainelli, Non-Executive (appointed on 14 July 2014) Alan David Gravett, Non-Executive
SECRETARY	Hawk Secretaries Limited (appointed on 25 June 2014)
REGISTERED OFFICE	G1 Haven Court 5 Library Ramp Gibraltar
AUDITORS TO THE GROUP	Nexia Smith & Williamson 25 Moorgate London EC2R 6AY United Kingdom
STATUTORY AUDITOR	Benady Cohen & Co Limited 21 Engineer Lane Gibraltar
LEGAL ADVISORS	Pinsent Masons LLP 30 Crown Place London EC2A 4ES United Kingdom Hassans International Law Firm 57/63 Line Wall Road PO Box 199 Gibraltar Shujin Law Firm 12/F., Taiping Finance Tower Yitian Road 6001 Shenzhen People's Republic of China Morgan & Morgan Trust Corp. (Belize) Ltd. Withfield Tower 3rd Floor 4792 Coney Drive Belize City Belize

PCG Entertainment Plc
Company Information

REGISTRARS	Capita Registrars (Guernsey) Limited Mont Crevelt House Bulwer Avenue St Sampson Guernsey GY2 4LH
DEPOSITARY	Capita IRG Trustees Limited The Registry 34 Beckenham Road Kent BR3 4TU United Kingdom
BANKERS	Bank of China 1 Lothbury London EC2R 7DB United Kingdom
NOMINATED ADVISOR	Sanlam Securities UK Limited 10 King William Street London EC4N 7TW United Kingdom
BROKER	Beaufort Securities Limited 131 Finsbury Pavement London EC2A 1NT United Kingdom
REGISTERED NUMBER	107915

PCG Entertainment Plc
Chairman and Chief Executive Officer's Statement

For PCG Entertainment Plc ("PCG Entertainment" or the "Company") this year has been about the admission of the Company to the AIM.

The admission process has put a spotlight on every aspect of PCG Entertainment's business strategy, requiring us to:

- Refine and sharpen our business plan
- Complete negotiations for shareholdings in two Chinese companies, Hainan Huan'ao Culture Media Co., Ltd.,("HPC") and Hainan Huan'ao Sports Industry Co., Ltd.,("HLC")
- Consolidate our media licenses in the People's Republic of China (the "PRC" or "China") held through our Beijing registered company Beijing Sihaigeju Culture Media Company Ltd., ("Sihai Geju")
- Establish infrastructure and resources in China
- Articulate our vision to potential investors in the UK and worldwide.

We successfully listed on 4th December 2014, raising US$ 5.42 million (GBP 3.41 million) on flotation and establishing a market capitalisation of US$ 97 million (GBP 61 million).

Our principal commercial objectives, as stated in our admission document, are to grow PCG Entertainment's business through the exploitation of our licenses and by acquisition.

Acquisition

As well as the 10% stakes, we negotiated pre-admission in the two Hainan-based companies HPC and HLC we started, in January 2015, negotiations to acquire Center Point Development Corp., ("CPDC"), a Belize-registered distributor of online games management software. Under AIM rule 14 this acquisition, of a company with a turnover which exceeds ours, is classified as a reverse takeover. Consequently, we were suspended on 13 February 2015 and expect to be re-admitted in the summer of 2015.

Exploitation of Licenses

On 4 December 2014, the Company gave notice to exercise its options to acquire 10 per cent stakes in HLC, a sports lottery reseller in Hainan Province, and HPC, an operator of real-world poker tournaments across China. It remains our intention to use the licenses in Sihai Geju to take these businesses online, greatly extending their geographical reach and significantly increasing the revenue potential of both. We expect both businesses to be fully operational before the end of 2015.

The consolidated accounts for year ended December 2014 show a loss of US$ 8.7 million – made up of our flotation costs (US$ 2.22 million), administration and setup costs (US$ 0.83 million) and the costs of various share issues (US$ 0.31 million) as set out in our admission document of 4th December 2014, as well as additional goodwill impairments (US$ 5.24 million).

These costs are higher than originally anticipated due to the delay in gaining admission to AIM which took from July to December 2014, the change of Nomad and the associated additional professional fees.

In conclusion, we believe that actions taken by the Company up to and immediately following our admission to AIM in December 2014 puts us in a position to be able to deliver profitability and greater shareholder value in FY 2015 and beyond.

Kung-Min Lin
Director, Chairman
Date:_11th August 2015_________________.

Nicholas Bryant
Director, CEO
Date:_11th August 2015________________.

The Directors present their report together with audited financial statements of the Company and its subsidiary undertakings (the "PCG Entertainment Group" or the "Group") for the year ended 31 December 2014.

Principal activities

The Company's principal activity during the year was that of a holding company. The business of the Groupcomprises of activities relating to various forms of accepted and licensed legal gaming in the PRC, the distribution of various forms of media utilising our licenses and the acquisition of companies in similar and related businesses.

Results

The Group's results for the year are shown in the Consolidated Statement of Comprehensive Income on page 10.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: US$ nil).

Business review

Please refer to the Chairman and Chief Executive Officer’s Statement on page 3.

Financial risk management policies

Notes 5 and 22 set out the Group's financial risk management policies for its exposure to various risks.

Post balance sheet events

Post balance sheet events are disclosed in note 26.

Directors

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

The remuneration of the Directors during the year was as follows:

	Salaries, allowances and benefits in kind US$
Kung-Min Lin	8,333
Richard O'Dell Poulden (a)	8,333
Nicholas Bryant (b)	63,113
Clive Hyman (c)	32,500
Professor Michael Mainelli (d)	1,667
Alan David Gravett	1,042
	114,988

(a) Pursuant to an agreement dated 28 November 2014 between the Company and Black Swan FZE, a wholly owned subsidiary of Black Swan Plc of which Richard Poulden is chairman, the Company pays director's fees to Black Swan FZE.

(b) Pursuant to an agreement dated 28 November 2014 between the Company and Electric Warrior Limited, a company of which Nicholas Bryant is a shareholder, the Company pays director's fees to Electric Warrior Limited.

(c) Pursuant to an agreement dated 28 November 2014 between the Company and Hyman Capital Services Limited, a company of which Clive Hyman is a shareholder, the Company pays director's fees to Hyman Capital Services Limited.

(d) Pursuant to an agreement dated 28 November 2014 between the Company and Z/Yen Group Limited, a company of which Professor Michael Mainelli is a shareholder, the Company pays director's fees to Z/Yen Group Limited.

Directors (continued)

The Directors have the following interests in the issued share capital of the Company:

	Number of ordinary shares
Kung-Min Lin (a)	150,654,654
Richard O'Dell Poulden (b)	137,282,026
Nicholas Bryant (c)	10,000,000
Clive Hyman	1,000,000
Professor Michael Mainelli (d)	250,000
Alan David Gravett (e)	100,000

(a) Kung Min Lin holds 138,654,654 ordinary shares through Forbidden City Ltd, a company in which Kung Min Lin owns a majority of the shares. Kung-Min Lin's wife, Yu-Ting Lin, holds 12,000,000 ordinary shares in her own name.

(b) Richard Poulden is deemed to be interested in the ordinary shares referred to above as follows (all of such ordinary shares registered in the name of Ashton Nominees Inc other than the 1 ordinary share registered in the name of Black Swan FZE, the 1 ordinary share registered in Richard Poulden's own name and the 15,000,001 ordinary shares registered in the name of Black Swan Plc as referred to below):

(i) 1 ordinary share belongs to Richard Poulden;

(ii) 1 ordinary share belongs to Black Swan FZE which is a wholly owned subsidiary of Black Swan Plc of which Richard Poulden is the chairman and controls a majority of the shares;

(iii) 15,000,001 ordinary shares belong to Black Swan Plc of which Richard Poulden is the chairman and controls a majority of the shares;

(iv) 15,000,000 ordinary shares belong to Richard Poulden's wife and infant children;

(v) 97,282,023 ordinary shares belong to the Malvern Trust, a trust in respect of which Richard Poulden's family can be beneficiaries; and

(vi) 10,000,000 ordinary shares belong to the John Edward Poulden Settlement Trust, a trust for the benefit of Richard Poulden's children.

Black Swan FZE is a wholly owned subsidiary of Black Swan Plc of which Richard Poulden is chairman and controls a majority of the shares. Black Swan FZE holds 1 ordinary share and Black Swan Plc holds 15,000,001 ordinary shares.

(c) Nicholas Bryant is deemed interested in the 10,000,000 ordinary shares referred to above, such ordinary shares belong to Tonsley Trust, a trust for the benefit of Nicholas Bryant's family. All such ordinary shares are registered in the name of Ashton Nominees Inc.

(d) 250,000 ordinary shares are held by Hawksford Jersey Limited. These shares are held for The Z/Yen Employee Benefits Trust. Michael Mainelli is a director of Z/Yen Group Limited and a potential beneficiary of The Z/Yen Employee Benefits Trust.

(e) Alan Gravett and his wife, Kim Gravett, jointly legally and beneficially own 100,000 ordinary shares.

Payments to creditors

The Group's policy on payment practice is to settle the payment with creditors in accordance with the agreed terms of business transactions.

Statement regarding disclosure of information to the Auditors

Each Director of the Company has confirmed that, in fulfilling their duties as a director, they are aware of no relevant audit information of which the Auditors to the Group and the Statutory Auditor (together, the "Auditors") are not aware of and that they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of Gibraltar Companies Act.

Auditors

The Auditors to the Group are Nexia Smith & Williamson. The auditors of the Company for statutory reporting purposes in Gibraltar are Benady Cohen & Co Limited.

A resolution to reappoint Benady Cohen & Co Limited as auditors of the Company will be put to the members at the annual general meeting.

By order of the board

Nicholas Bryant
Director
Date:__11th August 2015__________________.

Registered number: 107915

PCG Entertainment Plc
Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and estimates that are reasonable and prudent;
c. state whether applicable accounting standards have been followed, subject to any material departures;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group and to enable them to ensure that the financial statements comply with the requirements of the Gibraltar Companies Act, the Companies (Accounts) Act 1999 and Companies (Consolidated Accounts) Act 1999. Specifically, pursuant to section 7B of the Companies (Accounts) Act 1999, the Directors have elected to follow International Financial Reporting Standards. The Directors are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate financial statements included on the Company's website. Legislation in Gibraltar governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Nicholas Bryant
Director
Date: 11th August 2015.

PCG Entertainment Plc
Independent Auditor's Report to the Members of PCG Entertainment Plc

We have audited the financial statements of PCG Entertainment Plc for the year ended 31 December 2014, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Gibraltar Companies (Consolidated Accounts) Act 1999.

This report is made solely to the parent Company's members, as a body, in accordance with our engagement letters. Our audit work has been undertaken so that we might state to the parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent Company and the parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. This responsibility includes designing, implementing and maintaining internal controls 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors and the Code of Ethics issued by the International Ethics Standards Board for Accountants, as appropriate.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:
· the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
· the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
· the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Gibraltar Companies (Consolidated Accounts) Act 1999;
· The financial statements have been properly prepared in accordance with the Gibraltar Companies (Consolidated Accounts) Act 1999, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930 (as amended).

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 Gibraltar Companies Act 1930 (as amended) requires us to report to you if, in our opinion:

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

Shaun Cawdery	**Nexia Smith & Williamson**
Statutory Auditor For and on behalf of **Benady Cohen & Co Limited**	Chartered Accountants
21 Engineer Lane Gibraltar	25 Moorgate London EC2R 6AY
11th August 2015	11th August 2015

PCG Entertainment Plc

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2014

	Notes	2014 US$	2013 US$
Revenue	1, 6	4,450	-
Administrative expenses	7	(3,362,658)	(4,886,984)
Operating loss		(3,358,208)	(4,886,984)
(Goodwill impairment) / gain on bargain purchase	11	(5,242,460)	2,211,938
Foreign exchange loss		(89,892)	(663)
Interest payable		(5,492)	-
Loss on ordinary activities before taxation		(8,696,052)	(2,675,709)
Tax on loss on ordinary activities	9	-	-
Retained loss for the financial year/period		(8,696,052)	(2,675,709)
Change in foreign currency		(1,205)	-
Total comprehensive loss for the financial year/period		(8,697,257)	(2,675,709)
Weighted average loss per share:		**US cents**	**Revised** **US cents**
Basic and diluted	10	(1.08)	(7.25)

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

The notes on pages 17 to 34 form part of these financial statements.

PCG Entertainment Plc
Consolidated Statement of Financial Position
as at 31 December 2014

	Notes	2014 US$	2013 US$
Current assets			
Trade and other receivables	12	980,840	77,447
Cash and cash equivalents		3,219,785	44,599
		4,200,625	122,046
Non-current assets			
Intangible assets	13	3,500,000	3,500,000
Property, plant and equipment	14	11,680	13,091
		3,511,680	3,513,091
Total assets		7,712,305	3,635,137
Current liabilities	16	1,728,685	561,486
Non-current liabilities	17	965,080	-
Capital and reserves			
Share capital	18	1,722,684	1,223,292
Share premium	18	17,321,417	4,528,491
Foreign currency translation reserve		(1,205)	-
Share based payment reserve	19	309,408	-
Issued shares reserve	20	(3,000,000)	-
Other reserves		40,420	-
Retained earnings		(11,374,184)	(2,678,132)
Total liabilities and shareholders' funds		7,712,305	3,635,137

Approved by the board on 11th August 2015__.

Nicholas Bryant
Director

Kung-Min Lin
Director

Registered number: 107915

The notes on pages 17 to 34 form part of these financial statements.

PCG Entertainment Plc

Company Statement of Financial Position
as at 31 December 2014

	Notes	2014 US$	2013 US$
Current assets			
Trade and other receivables	12	994,803	15,605
Cash and cash equivalents		3,198,736	-
		4,193,539	15,605
Non-current assets			
Investments	15	876,140	876,140
Total assets		5,069,679	891,745
Current liabilities	16	1,168,580	30,032
Non-current liabilities	17	965,080	-
Capital and reserves			
Share capital	18	1,722,684	1,223,292
Share premium	18	17,321,417	4,528,491
Share based payment reserve	19	309,408	-
Issued shares reserve	20	(3,000,000)	-
Other reserves		40,420	-
Retained earnings		(13,457,910)	(4,890,070)
Total liabilities and shareholders' funds		5,069,679	891,745

Approved by the board on _11th August 2015__.

Nicholas Bryant
Director

Kung-Min Lin
Director

Registered number: 107915

The notes on pages 17 to 34 form part of these financial statements.

PCG Entertainment Plc

Consolidated Statement of Changes in Equity
for the year ended 31 December 2014

	Share Capital US$	Share Premium US$	Foreign Currency Translation Reserve US$	Share based Payment Reserve US$	Issued Shares Reserve US$	Other Reserve US$	Retained Earnings US$	Total Equity US$
Balance at 1 January 2013	1	-	-	-	-	-	(2,423)	(2,422)
Comprehensive loss for the year	-	-	-	-	-	-	(2,675,709)	(2,675,709)
Transactions with owners:								
Shares issued during the year	1,223,291	4,528,491	-	-	-	-	-	5,751,782
Balance at 31 December 2013	1,223,292	4,528,491	-	-	-	-	(2,678,132)	3,073,651
Retained loss for the year	-	-	-	-	-	-	(8,696,052)	(8,696,052)
Foreign currency impact on consolidation	-	-	(1,205)	-	-	-	-	(1,205)
Total comprehensive loss for the year	-	-	(1,205)	-	-	-	(8,696,052)	(8,697,257)
Share based payments	-	-	-	309,408	-	-	-	309,408
Equity element of convertible loan note	-	-	-	-	-	40,420	-	40,420
Issued shares awaiting transaction completion	-	-	-	-	(3,000,000)	-	-	(3,000,000)
Cost of issuing share capital	-	(594,337)	-	-	-	-	-	(594,337)
Transactions with owners:								
Shares issued during the year	499,392	13,387,263	-	-	-	-	-	13,886,655
Balance at 31 December 2014	1,722,684	17,321,417	(1,205)	309,408	(3,000,000)	40,420	(11,374,184)	5,018,540

The notes on pages 17 to 34 form part of these financial statements.

PCG Entertainment Plc

Company Statement of Changes in Equity
for the year ended 31 December 2014

	Share Capital US$	Share Premium US$	Share based Payment Reserve US$	Issued Shares Reserve US$	Other Reserves US$	Retained Earnings US$	Total Equity US$
Balance at 1 January 2013	1	-	-	-	-	(2,423)	(2,422)
Comprehensive loss for the year	-	-	-	-	-	(4,887,647)	(4,887,647)
Transactions with owners:							
Shares issued during the year	1,223,291	4,528,491	-	-	-	-	5,751,782
Balance at 31 December 2013	1,223,292	4,528,491	-	-	-	(4,890,070)	861,713
Comprehensive loss for the year	-	-	-	-	-	(8,567,840)	(8,567,840)
Share based payments	-	-	309,408	-	-	-	309,408
Equity element of convertible loan note	-	-	-	-	40,420	-	40,420
Issued shares awaiting transaction completion	-	-	-	(3,000,000)	-	-	(3,000,000)
Cost of issuing share capital	-	(594,337)	-	-	-	-	(594,337)
Transactions with owners:							
Shares issued during the year	499,392	13,387,263		-	-	-	13,886,655
Balance at 31 December 2014	1,722,684	17,321,417	309,408	(3,000,000)	40,420	(13,457,910)	2,936,019

The notes on pages 17 to 34 form part of these financial statements.

PCG Entertainment Plc
Consolidated Statement of Cash Flows
for the year ended 31 December 2014

	2014 US$	2013 US$
Cash flows from operating activities		
Loss for the year/period	(8,696,052)	(2,675,709)
Reconciliation to cash generated from operations:		
Depreciation	1,411	-
Decrease/(increase) in receivables	15,831	(15,605)
Increase in payables	1,172,699	27,609
Impairment of goodwill / (gain on bargain purchase)	5,242,460	(2,211,938)
Equity instruments issued	-	4,875,643
Share based payment charge	309,408	-
Exchange differences	-	663
Net cash flow from operating activities	(1,954,243)	663
Cash flows from investing activities		
Acquisition of subsidiaries - cash acquired	-	44,599
Cash flows from financing activities		
Issue of shares for cash	4,724,973	-
Issue of convertible loan note	1,000,000	-
Share issue expenses capitalised against share premium account	(594,339)	-
Net cash flow from financing activities	5,130,634	-
Net increase in cash	3,176,391	45,262
Effects of exchange rates on cash and cash equivalents	(1,205)	(663)
	3,175,186	44,599
Cash at bank and in hand at 1 January	44,599	-
Cash at bank and in hand at 31 December	3,219,785	44,599

The notes on pages 17 to 34 form part of these financial statements.

PCG Entertainment Plc
Company Statement of Cash Flows
for the year ended 31 December 2014

	2014 US$	2013 US$
Cash flows from operating activities		
Loss for the year/period	(8,582,268)	(4,887,647)
Reconciliation to cash generated from operations:		
Increase in receivables	(59,974)	(15,605)
Increase in payables	1,158,476	27,609
Impairment of goodwill	5,242,460	-
Equity instruments issued	-	4,875,643
Share based payment charge	309,408	-
Exchange differences	-	663
Net cash flow from operating activities	(1,931,898)	663
Cash flows from financing activities		
Issue of shares for cash	4,724,973	-
Issue of convertible loan note	1,000,000	-
Share issue expenses capitalised against share premium account	(594,339)	-
Net cash flow from financing activities	5,130,634	-
Net increase in cash	3,198,736	663
Effects of exchange rates on cash and cash equivalents	-	(663)
	3,198,736	-
Cash at bank and in hand less overdrafts at 1 January	-	-
Cash at bank and in hand less overdrafts at 31 December	3,198,736	-

The notes on pages 17 to 34 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 2014 with comparatives for the period from incorporation to 31 December 2013. The accounting policies have been consistently applied, unless otherwise stated.

General information

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

PCG Entertainment has a direct 100% holding in its subsidiary PCG Entertainment Limited ("PCGEL") (previously Hong Kong Strategic Services Limited) which is incorporated in Hong Kong. PCGEL has a direct 100% holding in its subsidiary Jingtuo World Technology Consulting (Beijing) Limited ("Jingtuo") which is a Wholly Foreign Owned Enterprise under the laws of the PRC ("WFOE") a specialized vehicle to enable PCG Entertainment to invest via a Variable Interest Entity ("VIE") in Sihai Geju. Jingtuo and Sihai Geju are both incorporated in the PRC.

On 17 March 2015, PCG Entertainment acquired PCG Software Services Limited ("PCGSS"), incorporated in Gibraltar for GBP 2,000.

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

PCG Entertainment was admitted to the AIM market on 4 December 2014. A total of 56,833,334 ordinary shares were allotted in respect of the admission. Gross proceeds of US$ 5.42 million (GBP 3.41 million) were recognised in respect of the admission.

Further share allotments have been made during the year as disclosed in note 18.

Basis of preparation

The financial statements of both the Group and the parent Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union and with those parts of the Companies (Accounts) Act and the Companies (Consolidated Accounts) Act applicable to companies reporting under IFRS. These are the standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Union at the year end. The consolidated financial statements have been prepared under the historical cost convention. The Directors have taken advantage of section 10 of the Companies (Consolidated Accounts) Act and have not prepared an Income Statement or a Statement of Comprehensive Income for the Company alone.

The Group and the parent Company financial statements have been prepared on a going concern basis as explained in the Directors' Report.

1 Accounting policies (continued)

Basis of consolidation

The consolidated financial statements combine the financial information of the Company and its subsidiary undertakings drawn up to 31 December 2014.

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 transactions and unrealised profits and losses have been eliminated in the consolidated financial statements.

Subsidiaries acquired or disposed of during the year are fully consolidated 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$ 8,567,840 (2013: US$ 4,887,647).

Revenue

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

Intangible assets

Intangible assets consist of licences 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.

Depreciation

Depreciation 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:

Fixtures and fittings	- Straight line over 3-10 years

1 Accounting policies (continued)

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-US$ 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.

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 PCG Entertainment Group is presented in US$.

The functional currency of each of the Group entities is:

PCG Entertainment – US$
PCGEL – Hong Kong Dollars ("HK$")
Jingtuo and VIE – Chinese Renminbi ("RMB")

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the PCG Entertainment 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 consolidated 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.

1 Accounting policies (continued)

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.

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.
- "Foreign currency translation reserve" represents exchange differences arising from translation from functional currencies to the Group's presentational currency.
- "Share based payment reserve" represents the equity element of payments to be settled in equity instruments.
- "Issued share reserve" represents shares issued and admitted to trading on AIM, but held by the Company pending fulfilments of contractual obligations of a third party.
- "Other reserves" represents the deemed equity element of a convertible loan note issued below fair value.
- "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.

1 Accounting policies (continued)

Taxation

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

Current tax

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.

Deferred tax

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 Group reported an operating loss for the year to 31 December 2014. In February 2015, the Company announced that it had entered into an option agreement to acquire CPDC at a price of up to US$ 20 million. The acquisition constitutes a reverse takeover under Rule 14 of the AIM Rules for Companies and as such the Company’s shares were suspended from trading.

The Directors have reviewed the current cash position and projected cash flows, including the acquisition cost of CPDC, and it is expected that a further issue of the Company's ordinary shares will be made on re-admission to AIM in the summer of 2015. Based on this, the Directors 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. Accordingly, they consider it appropriate to continue to prepare the financial statements on a going concern basis.

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 the Company during the year.

- IAS 27 — Separate Financial Statements
- IAS 28 — Investments in Associates and Joint Ventures
- Amendments to IAS 32 — Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 — Impairment of Assets
- Amendments to IAS 39 — Novation of Derivatives and continuation of Hedge Accounting
- IFRS 10 — Consolidated Financial Statements
- IFRS 11 — Joint Arrangements
- IFRS 12 — Disclosure of Interests in Other Entities
- IFRIC Interpretation 21 — Levies

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 ended 31 December 2014. 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 periods.

- Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation (effective for accounting periods beginning on or after 1 January 2016).
- Amendments to IAS 19 — Defined Benefit Plans - Employee Contributions (effective for accounting periods beginning on or after 1 July 2014).
- Amendments to IFRS 11 — Accounting for Acquisitions of Interests in Joint Operations (effective for accounting periods beginning on or after 1 January 2016).

In addition to the standards, interpretations and amendments noted above, the Government of Gibraltar passed into law the Companies Act 2014 ("the New Act") on 1 November 2014. The accounting and audit provisions of the New Act come into force for annual periods commencing on or after 1 November 2014. The Company and the Group are continuing to assess the impact of the New Act but this is expected to be negligible.

4 Critical judgements in applying the Group'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 Group's accounting policies and which have the significant effect on the amounts recognised in the consolidated financial statements.

Impairment of financial assets

The 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 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 flow.

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

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. The Group has not recognised any deductible temporary differences as at 31 December 2013 and 31 December 2014. 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 Group.

<u>Key sources of estimation uncertainty</u>

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 intangible 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 13.

Valuation of issued warrants

Management have assessed the fair value of the issued warrants as disclosed in note 19. The valuation is based on the use of the Black Scholes pricing model which utilises a significant number of assumptions, not least the future volatility of the underlying asset and the expected exercise behaviour. Management has assessed that the warrants will be exercised within one year of issue based on discussions with the warrant holders, although the warrants have a life of five years from date of issue. Had management considered a period of 30 months, the assessed fair value of the warrants on issue would have increased by approximately US$ 210,000.

5 Financial risks

The 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 Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Foreign exchange risk - The 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 statements of financial position.

(b) Credit risk

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

(c) Liquidity risk

The overriding financial risk to the PCG Entertainment Group during the year was that of liquidity. At the current stage of the PCG Entertainment 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 PCG Entertainment Group is a provider of gaming services in China. The PCG Entertainment 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 PCG Entertainment Group's operations are based in China and its assets and liabilities relate to this single business segment.

7 Administrative expenses

Administrative expenses are as follows:	**2014 US$**	**2013 US$**
Amortisation of tangible fixed assets	1,411	-
Directors' remuneration	114,988	-
Auditor's remuneration - Auditors to the Group	53,625	-
Auditor's remuneration - non-audit fees (transaction services related to AIM admission)	277,200	-
Auditor's remuneration - Statutory Auditor	14,025	11,341
Travel and subsistence	119,829	-
Warrant issue costs (note 19)	309,408	-
Consultancy fees	14,461	4,875,643
Other legal and professional costs	118,628	-
Other costs	117,730	-
Flotation costs, other than separately disclosed above	2,221,353	-
	3,362,658	4,886,984

8 Staff costs

During the year ended 31 December 2014, excluding Directors, the average number of people employed by the Group was 9. During the year, the Group paid wages and salaries of US$ 52,000.

There are no staff employed by the Group in the year ended 31 December 2013.

9 Taxation

	2014 US$	**2013 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.

9 Taxation (continued)

Tax reconciliation:	**2014 US$**	**2013 US$**
Loss on ordinary activities before taxation	(8,696,052)	(2,675,709)
Loss on ordinary activities multiplied by the standard rate of corporation tax in Gibraltar of 10%	(869,605)	(267,571)
Non-deductible expenses	870,050	488,765
Non-taxable income	(445)	(221,194)
Total tax expense	-	-

10 Weighted average loss per share

	2014 US$	**Revised 2013 US$**
Retained loss attributable to ordinary shareholders	(8,696,052)	(2,675,709)
Weighted average number of common shares in issue during the year:		
Issued ordinary shares at the beginning of the year	750,000,007	7
Effect of share issues	57,732,162	36,927,435
Weighted average number of ordinary shares at 31 December	807,732,169	36,927,442
Basic profit/earnings per share (US cents)	(1.08)	(7.25)

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 18. Due to the Company and the Group being loss making, the warrants and convertible loan notes are anti-dilutive.

The comparative weighted average loss per share has been revised to correct an error identified during the drafting of the 2014 financial statements in the calculation of the weighted average number of shares issued.

11 Goodwill impairment

Pursuant to a supplemental agreement with the vendors of PCGEL, on 10 October 2014 the Company allotted 105,091,436 ordinary shares at a premium of GBP 0.029 per ordinary share, being US$ 5,242,460. These shares were initially recorded as goodwill and immediately written off to the statement of comprehensive income.

12 Trade and other receivables

	Group 2014 US$	Group 2013 US$	Company 2014 US$	Company 2013 US$
Amounts owed by Group undertakings	-	-	75,579	15,605
Proceeds from share allotment not received	919,224	-	919,224	-
Other receivables	61,616	2,074	-	-
Prepayments and accrued income	-	75,373	-	-
	980,840	77,447	994,803	15,605

Amounts owed by Group undertakings relate to amounts receivable from PCGEL.

Substantially all of the receivable in respect of share allotment not received was recovered after the balance sheet date.

13 Intangible assets

Investment in licences:	2014 US$	2013 US$
Cost		
At 1 January 2014	3,500,000	-
Additions	-	3,500,000
At 31 December 2014	3,500,000	3,500,000
Amortisation		
At 1 January 2014 and 31 December 2014	-	-
Net book value		
At 31 December	3,500,000	3,500,000

The Directors of PCG Entertainment 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. The Directors consider that the intangible assets have an indefinite useful life and therefore the intangible assets are subject to an annual impairment review.

The valuation of the licences acquired in 2013 per note 11 was made by the Directors by utilising cash flow forecasts for the cash generating units over a period of five years. 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. This review process is also performed on an annual basis and the Directors remain of the view that the licences are fairly stated and no impairment is necessary as at 31 December 2014.

14 Property, plant and equipment

	Fixtures and fittings 2014 US$	Fixtures and fittings 2013 US$
Cost		
At 1 January 2014 and 31 December 2014	13,091	-
Additions	-	13,091
At 31 December 2014	13,091	13,091
Depreciation		
At 1 January 2014	-	-
Charge for the year	1,411	-
At 31 December 2014	1,411	-
Net book value		
At 31 December	11,680	13,091

15 Investments

	Group 2014 US$	Group 2013 US$	Company 2014 US$	Company 2013 US$
Shares in Group undertakings	-	-	876,140	876,140

The Company holds effective control the following companies:

Company	Country of registration or incorporation	%	Class of shares held
PCGEL	Hong Kong	100	Ordinary
Jingtuo	China	100	Ordinary
Sihai Geju	China	100	See below

Through the VIE Arrangements with Jingtuo (a wholly owned subsidiary of PCGEL), the Group currently has effective control over Sihai Geju which holds the licences (note 13) relating to the internet operation of online games and, via the Framework Agreement, the Group has given notice to exercise its options to acquire 10 per cent stakes in HLC and HPC (note 20). In addition, the Group has arrangements in place to roll out its business strategy in partnership with HPC and HLC pursuant to the Cooperation Agreements.

The Group has no direct control over Sihai Geju, but exercises control via contractual arrangements and therefore Sihai Geju is treated as a 100% subsidiary. The structure used is typical for overseas investment into China and is called a WFOE and VIE structure as disclosed in the general information in note 1.

Following the year end, the company acquired 100% of the issued ordinary share capital of PCGSS, a company incorporated in Gibraltar, on 17 March 2015.

16 Current liabilities

	Group 2014 US$	Group 2013 US$	Company 2014 US$	Company 2013 US$
Other payables including taxation and social security	1,276,749	544,595	725,215	15,605
Accruals and deferred income	451,936	16,891	443,365	14,427
	1,728,685	561,486	1,168,580	30,032

17 Non-current liabilities

	Group 2014 US$	Group 2013 US$	Company 2014 US$	Company 2013 US$
Other payables (note 27)	965,080	-	965,080	-

Included within current and non-current other payables are amounts payable to Kolarmy Technology Inc ("Kolarmy") of US$ 1,855,245 as disclosed in note 27. The amount due to Kolarmy relates to a convertible loan note of US$ 1 million ("the Loan Note") and the remainder relate to short-term payables, including the assignment of balances disclosed in note 27, which were repaid on 16 January 2015.

The Loan Note bears interest at 6% and is repayable by 5 May 2016, or any earlier time at the discretion of the Company. A conversion option allows Kolarmy to demand that the Loan Note be settled by the allotment of ordinary shares, based on the average closing price of the Company's shares in the preceding five days of trading prior to the date of Kolarmy's notice to the Company. As a result, US$ 40,420 of the nominal loan value is held in equity (See note 1; financial liabilities and equity).

18 Share capital

	2014 GBP	2013 GBP
Authorised:		
Ordinary shares of GBP 0.001 each	3,000,000	1,000,000

Allotted and called up:

	2014 Number of shares	2014 Share capital US$	2014 Share premium US$	2013 Number of shares	2013 Share capital US$	2013 Share premium US$
As at 1 January	750,000,007	1,223,292	4,528,491	7	1	-
Issued during the year	312,147,870	499,392	12,792,926	750,000,000	1,223,291	4,528,491
As at 31 December	1,062,147,877	1,722,684	17,321,417	750,000,007	1,223,292	4,528,491

During the year and the comparative year, the Company issued the following shares:

(a) 747,314,193 ordinary shares at a premium of 0.3p per share on 13 December 2013 in consideration of the services provided by Black Swan Plc and Forbidden City Limited as detailed in note 27.

(b) 2,685,807 ordinary shares at a premium of 19.9p per share on 21 December 2013 in consideration of the acquisition of Hong Kong Strategic Services Limited as detailed in note 11.

(c) 10,000,000 ordinary shares at a premium of nil per share on 17 September 2014 in consideration of consultancy services provided by Ashton Nominees Inc.

18 Share capital (continued)

(d) 107,100,000 ordinary shares at a premium of 0.0617p per share on 10 October 2014 in consideration of advisory services provided by Kaitian Investment Company Limited (85,680,000 shares), Jingo Investments Limited (10,710,000 shares) and Zippy Management Limited (10,710,000 shares).

(e) 105,091,436 ordinary shares at a premium of 2.9p per share on 10 October 2014 as additional consideration in respect of the acquisition of Hong Kong Strategic Services Limited as detailed in note 11.

(f) 1,666,667 ordinary shares at a premium of 5.9p per share on 28 November 2014 in consideration of services provided by Yorkville Advisors, LLC in relation to the Company's admission to the AIM market as detailed in note 1.

(g) 56,833,334 ordinary shares at a premium of 5.9p per share on admission to the AIM market on 28 November 2014 in consideration of GBP 3.41 million as detailed in note 1.

(h) 31,456,433 ordinary shares at a premium of 5.9p per share issued to enable the acquisition of 10% of HPC and HLC, both companies incorporated under the laws of the PRC. These shares, while admitted for trading to AIM, remain in the custody of PCG Entertainment until the acquisition of HPC and HLC complete, and therefore have been recorded within issued shares reserve (see note 20).

19 Share based payments

The Company issued warrants to service providers on 28 November 2014 in connection with its admission to AIM ("Service Provider Warrants"). Each warrant is convertible into one new ordinary share at an exercise price of 6p per share and may be exercised between 4 December 2014, being the date of admission to AIM, and 4 December 2019.

The Company also granted two warrants for every ordinary share subscribed for on the date of admission to AIM ("Subscriber Warrants").

Details of the warrants in issue during the year ended 31 December 2014 are as follows:

Outstanding at 31 December 2014:	**Number of warrants**	**Exercise price GBP**
Service Provider Warrants	12,660,248	0.06
Subscriber Warrants	113,666,668	0.06
	126,326,916	

There were no warrants in issue as at 31 December 2013.

Fair value of the Service Provider Warrants is measured by use of the Black & Scholes model with the assumption of 60% future market volatility, future interest rate of 5.6% per annum and no dividend yield It is also assumed that the warrants will be exercised within one year of issue. The fair value of the Service Provider Warrants granted was US$ 309,408. (2013 : US$ nil).

The issue of Subscriber Warrants do not fall under the scope of IFRS 2 'Share Based Payments' and therefore no fair value exercise has been undertaken.

20 Issued shares reserve

The Group entered into an agreement ("Framework Agreement") which grants Sihai Geju an option to purchase 10 per cent. of the equity of each of HPC and HLC for US$ 3,000,000 payable in cash and/or shares (the “Option Right”). Sihai Geju despatched notice to exercise the Option Right in December 2014, with 31,456,433 new ordinary shares issued at a premium of 5.9p per share and admitted for trading on AIM pursuant to the terms of the Framework Agreement.

These shares, while admitted for trading to AIM, remain in the custody of PCG Entertainment until the acquisition of the 10 per cent of the equity of each of HPC and HLC completes, and therefore have been recorded within issued shares reserve.

21 Statutory surplus reserve

According to the relevant PRC regulations and the Articles of Association of Jingtuo, 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 2014 the statutory surplus reserve was US$ nil (2013: US$ nil).

22 Financial instruments

The PCG Entertainment Group’s principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. The PCG Entertainment 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 PCG Entertainment Group does not use financial instruments for speculative purposes.

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

	2014	**2013**
	US$	**US$**
Loans and receivables:		
Trade and other receivables	980,840	77,447
Cash and cash equivalents	3,219,785	44,599
Trade and other payables :		
Term loans	(965,080)	-
Other creditors	(1,276,749)	(544,595)
Accruals and deferred income	(451,936)	(16,891)

22 Financial instruments (continued)

Capital risk management

The primary objective of the 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 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 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 2013, nor the year ended 31 December 2014.

Derivatives, financial instruments and risk management

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

The 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 Group arise in respect of the ongoing development programs, trade and other payables. Trade and other payables are all payable within 12 months other than those disclosed in note 17.

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

Capital management

The Group's objective when managing capital is to ensure that adequate funding and resources are obtained to enable it to develop its projects through to profitability, while in the meantime safeguarding the Group's ability to continue as a going concern. This is aimed at enabling it, once the projects come to fruition, to provide appropriate returns for shareholders and benefits for other stakeholders. Capital is sourced from equity and from borrowings, as appropriate.

Interest Risk

The Group has interest rate risk with the banks for banking facilities, as well as the interest bearing term loan as disclosed in note 17.

Except for cash at bank and the Loan Note identified in note 17, as at 31 December 2014 and 31 December 2013, there are no significant balances which attract interest or on which interest is payable.

Foreign currency risk management

The 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 are reported in US$.

22 Financial instruments (continued)

Foreign currency risk management (continued)

The Group's currency exposure is as follows:

At 31 December 2014:	**Chinese Renminbi US$**	**Hong Kong Dollars US$**	**Sterling US$**	**Total US$**
Financial assets:				
Trade and other receivables	61,617	-	919,224	980,841
Cash and cash equivalents	12,898	8,151	3,198,736	3,219,785
	74,515	8,151	4,117,960	4,200,626
Financial liabilities:				
Trade payables and accruals	(456,727)	(103,378)	(933,660)	(1,493,765)
Currency exposure	(382,212)	(95,227)	3,184,300	2,706,861

At 31 December 2013:	**Chinese Renminbi US$**	**Hong Kong Dollars US$**	**Sterling US$**	**Total US$**
Financial assets:				
Trade and other 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)
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 2014:	**Chinese Renminbi US$**	**Hong Kong Dollars US$**	**Sterling US$**	**Total US$**
10% strengthening of US$	(38,221)	(9,523)	318,429	270,685
10% weakening of US$	38,221	9,523	(318,429)	(270,685)

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

22 Financial instruments (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The 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 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 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.

23 Commitments

The Group had no capital commitments as at 31 December 2014 or 31 December 2013.

24 Contingencies

The PCG Entertainment Group had no material contingent liabilities as at 31 December 2014 or 31 December 2013.

25 Controlling party

At 31 December 2014 and 31 December 2013, the Directors do not believe there to be any single controlling party.

26 Subsequent events

In January 2015, the Group commenced negotiations to acquire CPDC, a Belize-registered distributor of online games management software from Kolarmy (note 27). The Group acquired a call option in February 2015 to acquire CPDC at a price of up to US$20 million. The option is proposed to be exercised only through the issue of ordinary shares of the Company.

Under AIM rule 14 this acquisition is classified as a reverse takeover since the turnover of CPDC exceeds that of the Group. Consequently the ordinary shares of the Company were suspended on 13 February 2015. The Directors expect the shares to be readmitted in the summer of 2015.

In March 2015, the Company acquired the entire share capital of PCGSS (note 15).

27 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$ nil (2013: US$ 59,406), and Creditor US$ nil (2013: US$ 327,257). This can be netted to a net position of US$ nil (2013: US$ 267,851).

All monies due to Mr Hu Ye and Advant Gain Limited were assigned to Kolarmy on 31 December 2014. The total amount assigned was US$ 553,665.

During the periods under review consulting payments were made to:

	2014	**2013**
Kolarmy	HK$ nil	HK$ 125,000
Advant Gain Limited	US$ nil	US$ 33,334

Kolarmy holds its shareholding in the Company via depository interests. At 31 December 2014, US$ 1,895,665 was due to Kolarmy (2013: US$ 70,000), including the Loan Note of US$ 1 million (2013: US$ nil). Due to the convertible nature of the Loan Note, US$ 40,420 is held in equity (see note 1; financial liabilities and equity). Amounts due to Kolarmy included in current and non-current liabilities are therefore US$ 1,855,245, as disclosed in note 17.

During the year ended 31 December 2013, 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 with related parties in respect to directors' fees have been disclosed in the Directors Report.

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