

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark one)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR  
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR  
 SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report:

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-35016.

SGOCO Group, Ltd.

(Exact name of the Registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each Class</u>	<u>Name of each exchange on which registered</u>
Ordinary shares, par value \$0.001 per share	The NASDAQ Stock Market, LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Warrants, each to purchase one ordinary share  
Title of Class

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The registrant had 17,414,861 ordinary shares issued and outstanding as of December 31, 2014.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting  
Standards as issued by the International  
Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an Annual Report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking statements” that represent our beliefs, projections and predictions about future events. All statements other than statements of historical fact are “forward-looking statements,” including any projections of financial items, any statements of the plans, strategies and objectives of management for future operations, any statements concerning proposed new projects or other developments, any statements regarding future economic conditions or performance, any statements of management’s beliefs, goals, strategies, intentions and objectives, and any statements of assumptions underlying any of the foregoing. These forward-looking statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates” and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These statements are subjective. Therefore, they involve known and unknown risks.

They are based largely on our current expectations and projections about future events and financial trends, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, for reasons connected with measuring future developments, including:

1. the correct measurement and identification of factors affecting our business;
2. the extent of their likely impact; and/or
3. the accuracy and completeness of the publicly available information regarding the factors upon which our business strategy is based.

Forward-looking statements should not be read as a guarantee of future performance or results. They will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management’s belief as of that time regarding future events. Consequently, they are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements.

Important factors that could cause actual performance or results to differ materially from those contained in forward-looking statements include, but are not limited to, those factors discussed under Item 3.D. “Risk Factors” herein, including, among others:

1. Sale of SGOCO (Fujian) may not produce the benefits the Company anticipated and may raise uncertainty about our future direction;
2. Competition in our industry is intense and we may lose customers;
3. Decreased selling prices for display products, regardless of cyclical fluctuations in the industry, would adversely impact our margins if prices decrease faster than we are able to reduce our costs;
4. We sell most of our products through a few large distributors with which we do not have long-term agreements and, accordingly, we may have risks from our level of customer concentration;
5. We may not be able to generate any growth and our sales may continue to decrease in the future;
6. Our ability to maintain effective internal control over financial reporting;
7. China’s overall economic conditions and local market economic conditions;

8. Possibility of securing loans and other financing without sufficient fixed assets as collateral; and

9. Legislation or regulatory environments.

The forward-looking statements made in this Annual Report relate only to events or information as of the date on which the statements are made in this Annual Report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

## DEFINITIONS

Unless otherwise indicated and except where the context otherwise requires, the following definitions are used in this Annual Report:

1. “Acquisition” means the business combination transaction consummated on March 12, 2010, as provided by the Share Exchange Agreement, dated as of February 12, 2010, by and among our company, Honesty Group and each of the shareholders signatory thereto, as amended by Amendment No. 1 to Share Exchange Agreement, dated March 11, 2010;

2. “Apex” or “Apex Flourish Group Limited” means the British Virgin Islands Company that purchased Honesty Holdings Group Limited and SGOCO (Fujian) Electronic Co., Ltd. from SGOCO in 2011 and 2014, in what is referred to, depending on the context, as the “Sale of Honesty Group” and or the “Sale of SGOCO (Fujian)”, respectively;

3. “Beijing SGOCO” means Beijing SGOCO Image Technology Co., Ltd., a company with limited liability incorporated in China and a wholly owned subsidiary of SGOCO International;

4. “Guancheng” means Guancheng (Fujian) Electron Technological Co. Limited, a company with limited liability incorporated in China and a wholly owned subsidiary of Honesty Group;

5. “Guanke” means Guanke (Fujian) Electron Technological Industry Co. Ltd., a company with limited liability incorporated in China and a wholly owned subsidiary of Honesty Group;

6. “Guanwei” means Guanwei (Fujian) Electron Technological Co. Limited, a company with limited liability incorporated in China and a wholly owned subsidiary of Honesty Group;

7. “Honesty Group” means Honesty Group Holdings Limited, a Hong Kong limited company and a former wholly owned subsidiary of SGOCO, which was acquired in the Acquisition and was sold to Apex Flourish Group Limited in the Sale of Honesty Group transaction described below;

8. “Jinjiang Guanke” means Jinjiang Guanke Electron Co., Ltd., a company with limited liability incorporated in China and a wholly owned subsidiary of Guanke (Fujian) Electron Technological Industry Co. Ltd.;

9. “PRC” or “China” means the People’s Republic of China;

10. “Sale of Honesty Group” means the transaction consummated as provided by the Sale and Purchase Agreement dated November 15, 2011, by and between our company and Apex Flourish Group Limited pursuant to which we sold our 100% ownership interest in Honesty Group to Apex Flourish Group Limited;

11. “Sale of SGOCO (Fujian)” means the transaction consummated as provided by the Sale and Purchase Agreement dated December 24, 2014, by and between our company and Apex Flourish Group Limited pursuant to which we sold our 100% ownership interest in SGOCO (Fujian) Electronic Co., Ltd. to Apex Flourish Group Limited;

12. “SGO” means SGO Corporation, a Delaware corporation and a wholly owned subsidiary of SGOCO International;

13. “SGOCO”, “we,” “us,” “our,” “the company,” or “our company” means SGOCO Group, Ltd., a company organized under the laws of the Cayman Islands, and its consolidated subsidiaries. SGOCO Group, Ltd. was previously named SGOCO Technology, Ltd., and prior to the Acquisition described below; our predecessor was named Hambrecht Asia Acquisition Corp;
14. “SGOCO (Fujian)” means SGOCO (Fujian) Electronic Co., Ltd., a company with limited liability incorporated in China and a former wholly owned subsidiary of SGOCO International; which was sold to Apex Flourish Group Limited in the Sale of SCOGO (Fujian) transaction described above;
15. “SGOCO International” means SGOCO International (HK) Limited, a Hong Kong limited company and wholly owned subsidiary of SGOCO;
16. “SGOCO Shenzhen” means SGOCO (Shenzhen) Technology Co., Ltd., a company with limited liability incorporated in China and a wholly owned subsidiary of SGOCO International;
17. “Tier 3 cities” means middle-scale or prefecture level cities in China; and “Tier 4 cities” means small or county level cities in China;
18. “U.S. Dollars,” “dollars,” “US\$,” or “\$” means the legal currency of the United States. “RMB” or “Renminbi” means the legal currency of China;
19. “Shareholders”: means the owner of the equivalent of common stock in a typical corporation organized under state and federal US law. Based on Cayman Islands’ law and our current Amended and Restated Memorandum of Association and Articles of Association we are authorized to issue ordinary shares. Holders of our ordinary shares are referred to as “members” under Cayman Islands’ law, rather than “shareholders.” In this Annual Report, however, references that would otherwise be to “members” are made to “shareholders,” which term is more familiar to investors on the NASDAQ Capital Market.

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

### **ITEM 3. KEY INFORMATION**

#### **A. Selected Financial Data.**

On March 12, 2010, we completed a share-exchange transaction with Honesty Group and its shareholders, and Honesty Group became our wholly-owned subsidiary. The share-exchange transaction was accounted for as a reorganization and recapitalization of Honesty Group. As a result, SGOCO’s (the legal acquirer) consolidated financial statements were previously, in substance, those of Honesty Group (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of SGOCO being included effective from the date of the Share-Exchange Transaction. There was no gain or loss recognized on the transaction. The historical financial statements for periods prior to March 12, 2010 are those of Honesty Group, except that the equity section and earnings per share have been retroactively restated to reflect the reorganization and recapitalization.

On November 15, 2011, we entered into a Sale and Purchase Agreement to sell our 100% ownership interest in Honesty Group to Apex for \$76.0 million in total consideration (referred to hereinafter as “Sale of Honesty Group”). Honesty Group and its subsidiaries controlled our core manufacturing facility, including the land, buildings and production equipment. The Sale of Honesty Group allowed SGOCO to transition to a “light-asset” business model with greater flexibility and scalability and focus its operations on developing, branding, marketing and distributing LCD/LED products in China. Honesty Group’s operations are reflected in our Fiscal Year 2011 financial statements through November 30, 2011.

On December 24, 2014, we entered into a Sale and Purchase Agreement to sell our 100% ownership interest in SGOCO (Fujian) to Apex for \$11.0 million in total consideration (referred to hereinafter as “Sale of SGOCO (Fujian)”). SGOCO (Fujian)’s operations are reflected in our Fiscal Year 2014 financial statements through December 31, 2014.

The selected consolidated statement of operations data presented below for the years ended December 31, 2014, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated statement of operations data for the years ended December 31, 2011 and 2010 and the selected consolidated balance sheet data as of December 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements that have not been included herein and were prepared according to U.S. GAAP.

Our historical operation results for any prior period are not necessarily indicative of results to be expected in any future period, particularly in light of the Sale of SGOCO (Fujian) on December 31, 2014. See “Key Information — Risk Factors” included elsewhere in this Annual Report. The selected consolidated financial information for the years ended December 31, 2014, 2013 and 2012 should be read together with those consolidated financial statements and the accompanying notes and “Operating and Financial Review and Prospects - Operating Results” included elsewhere in this Annual Report.

### Consolidated Statement of Income

(In thousands of U.S. Dollars, except per share amounts)

	For the Years Ended				
	December 31,				
	2014	2013	2012	2011	2010
Net revenues	43,230	200,974	166,701	313,136	217,301
Cost of goods sold	(41,213)	(185,045)	(154,221)	(279,399)	(184,602)
Gross profit	2,017	15,929	12,480	33,737	32,699
Selling expenses	(297)	(1,073)	(670)	(1,706)	(700)
General and administrative expenses	(3,069)	(3,802)	(5,322)	(5,779)	(6,443)
Total operating expenses	(3,366)	(4,875)	(5,992)	(7,485)	(7,143)
(Loss) Income from operations	(1,349)	11,054	6,488	26,252	25,556
Interest income	338	12	8	288	90
Interest expense	(304)	(260)	(61)	(2,074)	(1,021)
Other income (expense), net	319	192	(130)	(248)	(892)
Change in fair value of warrant derivative liability	19	(3)	75	(925)	(287)
Gain from disposal of subsidiaries	-	-	-	127	-
(Loss) Income before provision for income taxes	(977)	10,995	6,380	25,270	23,446
Provision for income taxes	(1,311)	(2,551)	(2,167)	(8,651)	(3,514)
Net (Loss) income	(2,288)	8,444	4,213	16,619	19,932
(Loss) Income per share:					
Basic-ordinary share	(0.13)	0.49	0.25	1.03	2.13
Diluted-ordinary share	(0.13)	0.49	0.25	1.02	1.86
Weighted average shares used in calculating earnings per share:					
Basic	17,406,069	17,193,189	17,059,575	16,086,598	9,354,186
Diluted	17,406,069	17,193,189	17,059,575	16,288,242	10,705,957



**Consolidated Balance Sheet Data**

(In thousands of U.S. Dollars, except per share amounts)

	<b>As of December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Total assets	92,553	104,735	105,647	85,201	152,621
Total liabilities	7,356	16,946	27,332	11,313	91,993
Total shareholders' equity	85,197	87,789	78,315	73,888	60,628

**B. Capitalization and Indebtedness.**

Not applicable.

**C. Reason for the Offer and Use of Proceeds.**

Not applicable.

#### **D. Risk Factors.**

*You should carefully consider all the information in this Annual Report, including various changing regulatory, competitive, economic, political and social risks and conditions described below, before making an investment in our ordinary shares. One or more of a combination of these risks could materially impact our business, results of operations and financial condition. In any such case, the market price of our ordinary shares could decline, and you may lose all or part of your investments.*

#### **Risks Relating to Our Business and Industry**

***The sale of SGOCO (Fujian) may not produce the benefits the Company anticipated and it may raise uncertainty about our future direction***

SGOCO (Fujian) engaged in sales of traditional flat panel LED and LCD monitors and other application specific products. On December 24, 2014, we entered into the Sale of SGOCO (Fujian) to sell our 100% ownership interest in SGOCO (Fujian) to Apex for \$11.0 million in total consideration. This transaction was completed on December 31, 2014. Our intension was to reduce the reliance on sales of traditional flat panel LED and LCD monitor products, which enables us to focus on finding new business acquisition opportunities and exploring new products.

However, we can neither guarantee the success of the business restructuring nor predict how long will take to complete the business restructuring. We may also not be able to find potential target companies for acquisition or negotiate a favorable terms for potential acquisition. If we failed to do so, we may raise uncertainty about our future direction.

Following the Sale of SGOCO (Fujian), we discontinued consolidating the financial statements of SGOCO (Fujian). If SGOCO (Fujian) were to be deemed a variable interest entity under U.S. GAAP, we would be required to consolidate its financial statements with ours. If that occurred, we may lose the benefit of the business transformation, which would substantially change our financial condition.

***Competition in our industry is intense and, if we are not able to compete effectively, we may lose customers and our financial results will be negatively affected.***

The LCD/LED products industry in China is highly competitive, and we expect competition to persist and intensify. Due to the increasing popularity of mobile device, the contraction of personal computer market demand continued and it adversely impacted the market demand of our major products, flat panel LCD and LED monitors. We face competition from distributors and LCD/LED manufacturers that use their extensive brand-name value, manufacturing and marketing size, and in-house sales forces and exclusive sales agents to distribute their products. We compete for customers on the basis of, among other things, our product offerings, customer service and reputation. Some of our competitors have greater financial, research and development, design, marketing, distribution, management or other resources.

Our results of operations could be affected by several competitive factors, including entry by new competitors into our current markets, expansion by existing competitors, better marketing and advertising leading to stronger brand equity for our competitors, and competition with other companies for the production capacity of contract manufacturers. Our results of operations and market position may be adversely impacted by these competitive factors.

There can be no assurance that our strategies will remain competitive or that we will succeed in the future. Increased competition could result in a loss of market share. In particular, if our competitors adopt aggressive pricing policies, we may be forced to adjust the pricing of our products to improve our competitiveness. This could adversely affect our margins, profitability and financial results.

***Our industry has experienced declines in the average selling prices of display products irrespective of cyclical fluctuations in the industry, and our margins would be adversely impacted if prices decrease faster than we are able to reduce our costs.***

The average selling prices of display products have generally declined and are expected to continually decline with time regardless of industry-wide cyclical fluctuations because of, among other factors, technological advancements and cost reductions. We may be able to take advantage of the higher selling prices typically associated with new products and technologies when they are first introduced in the market. But, such prices decline over time and, in certain cases, very rapidly, because of market competition or otherwise.

We may not be able to effectively anticipate and counter the price erosion that accompanies our products. In addition, the average selling prices of our display products may decrease faster than the speed at which we are able to reduce our purchasing costs. If those events occur, our gross margins would decrease and our results of operations and financial condition would be materially and adversely affected.

***We sell most of our products through a few large distributors with whom we do not have long-term agreement, and, accordingly, we may have risks from our level of customer concentration.***

We derive a significant portion of our sales from several large independent, non-exclusive distributors. For 2014, 2013 and 2012, sales to our top two distributors accounted for 51.7%, 36.5% and 27.4%, respectively, of our total revenue. Following the sale of SGOCO (Fujian), we may lose the sales orders from these large independent, non-exclusive distributors.

Our largest customers have generally changed from period-to-period. There were two, two and three customers each with more than 10% of our revenue for the years ended December 31, 2014, 2013 and 2012, respectively.

***We are exposed to the credit risks of our customers.***

Our financial position and profitability is dependent on our customers' creditworthiness. Thus, we are exposed to our customers' credit risks, especially for larger orders. There is no assurance that we will not encounter doubtful or bad debts in the future. Due to economic conditions in China, in particular the risk of monetary and fiscal policies to address inflation, businesses in China are generally conserving cash or under increased financial and credit stress. As a result, we could experience slower payments from our customers, an increase in accounts receivable aging and/or an increase in bad debts. If we were to experience any unexpected delay or difficulty in collections from our customers, our cash flows and financial results would be adversely affected.

***We may not be able to retain, recruit and train adequate management, sales and marketing personnel, and our inability to attract and retain qualified personnel may limit our development.***

Our future success significantly depends on our ability to retain the services of our executive management personnel, who have contributed to our prior growth and expansion and also to recruit talented executives to lead new initiatives. The industry experience, entrepreneurial skills and contributions of our executive directors and other members of our senior management are essential to our success. Our future success will depend on the continued service of our senior management team, including our new Chief Executive officer ("CEO"), Mr. Shi-bin Xie, and Vice President of Product Development, Mr. Jin-feng Li, as all of them have extensive knowledge of the PC monitor and TV industry. Our CEO is responsible for the overall corporate strategy, planning and business development of SGOCO. His experience and leadership are critical to our operations and financial performance.

If we lose their services and cannot replace them in a timely manner, it would reduce our competitiveness. That would adversely affect our financial condition, operating results and future prospects.

***We may not be able to generate any growth and our sales may continue to decrease in the future.***

We expanded our business rapidly during the years between 2006 and 2013. Our revenues, however, dropped significantly in 2014 primarily attributable to our significant reduction in businesses, weak industry growth and increased competition in China's flat panel display market, which was our primary market. This led to our decision to further restructure our business by disposing SGOCO (Fujian) in December 2014 and reducing our reliance on sales of our flat panel LED/LCD products in future

In the future, we may expand either through organic growth or through acquisitions and investments in electronic related businesses. Such expansion may place a significant strain on our managerial, operational and financial resources. We will need to effectively manage future growth, which will entail devising and implementing business plans, training and managing a growing workforce, managing costs and implementing adequate controls and reporting systems in a timely manner. There can be no assurance that our personnel, procedures and controls will be managed effectively to adequately support future growth. Failure to effectively manage expansion would probably prevent us from executing our business plan and adversely affect our business, financial condition and results of operations. In addition, we may not be able to generate any growth in the future. Accordingly, you should not rely on our historic growth rate as an indicator for our future growth rate.

***As the majority of our operations are in China, we may face risks related to health problems, including epidemics in China, which could adversely affect our operations.***

Our business could be materially and adversely affected by the outbreak of avian flu, severe acute respiratory syndrome, other public health problems, or even an epidemic. From time-to-time, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian flu, severe acute respiratory syndrome or other adverse public health developments in China or elsewhere in Asia would have a material and adverse effect on our business operations.

***We depend on product manufacturing provided by outsourcing partners including Honesty Group.***

The majority of our manufacturing is performed by a few suppliers including Honesty Group and its subsidiaries, which are now independent of the Company. SGOCO has also sourced products from other manufacturers. While these arrangements may lower costs, they also reduce our direct control over production. As a result, it is not certain that the quality or quantity of products or our ability to respond to changing conditions will be the same as it was when SGOCO controlled manufacturing.

There are no long-term contracts with the suppliers or manufacturers except for the contract with Apex, described below in Item 4.A., in the Sales and Purchase Agreement for Honesty Group. This contract expired in November 2014 and we are evaluating the renewal. If manufacturers determine not to continue business with us, or if manufacturing by Honesty Group or other suppliers is disrupted for any reason, including extreme weather conditions, landslides, earthquakes, fires, natural catastrophes, raw material supply disruptions, equipment and system failures, labor force shortages, energy shortages, workforce actions, environmental issues, bankruptcy, or change of control, our business, financial condition or results of operations could be materially adversely affected due to concentration on a few key manufacturers or finished-goods suppliers.

***Problems with product quality, including defects, in our LCD/LED products could result in fewer customers and decreased sales, and unexpected expenses.***

Except for OEM products, our products are mainly designed by our product development teams and are outsourced for production using advanced and often new technology and must meet stringent quality requirements. Products manufactured using advanced and new technology may contain undetected errors or defects, especially when first introduced. For example, our LCD/LED products may contain defects that are not detected until after they are shipped or installed, because we cannot test for all possible problems or defects. Such defects could cause us to incur significant re-design costs, divert the attention of our technology personnel from product development efforts and significantly affect our customer relations and business reputation.

In addition, future product failures could cause our suppliers or manufacturers to incur substantial expense to repair or replace defective products. Our products, including custom systems, are subject to warranty obligations. Generally, these requirements obligate our outsourced manufacturers to provide a minimum of a one-year repair or replacement obligation. If the product cannot be repaired after two attempts during the one-year warranty period, the manufacturers or suppliers must offer the end-customer a replacement. If we deliver LCD/LED products with errors or defects, or if there is a perception that our LCD/LED products contain errors or defects, our credibility and the market acceptance and sales of our products would be harmed. Widespread product failures would increase our warranty costs, damage our market reputation and cause our sales to decline.

Although our warranty obligations to our customers are essentially borne by our manufacturers with a warranty period of one to three years, the product failures could increase the warranty costs to our manufacturers who may then transfer their costs to us and ultimately to end users.

***SGOCO International has unfulfilled registered capital obligations for its subsidiaries.***

SGOCO International's subsidiary, SGOCO Shenzhen, was formed on November 14, 2013, with a registered capital of \$5.0 million. Under PRC law, a company's registered capital is treated as corporate property, and it is each shareholder's obligation to fulfill its registered capital contribution according to PRC law and the Company's charter documents. The charter document for each PRC company, which consists of the Company's articles of association, states the amount of registered capital required to be paid. SGOCO International has the obligation to fulfill the registered capital obligations of SGOCO Shenzhen.

Initially, SGOCO International was required to pay \$1.0 million and the remaining \$4.0 million within 3 months and within two years, respectively, of the date of issuance of the subsidiary's business license according to PRC registration capital management rules. According to the revised PRC Companies Law which became effective on March 1, 2014, the time requirement of the registered capital contribution has been abolished. As such, SGOCO International has its own discretion to consider the timing of the registered capital contributions. SGOCO International is in the process of amending the charter to adopt the requirement of the revised PRC Companies Law. If it fails to amend the charter or fail to contribute the required capital, it will have to apply for a reduction in the remaining registered capital, which may not be granted. Also, if SGOCO International fails to contribute the registered capital, it may be penalized with fines of 5–15% of the amount of unpaid capital. In addition, in certain cases, the business license for SGOCO Shenzhen may be revoked, preventing them from conducting business in China.

If SGOCO International is required to fund the remaining registered capital, it may need to raise external funds. But, there is no assurance that sufficient external funds could be raised to pay the registered capital amount.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, which is a notice regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. SAFE Circular 142 requires that RMB converted from the foreign currency denominated registered capital of a foreign-invested company may only be used for purposes within the Company's business scope approved by the applicable governmental authority. It may not be used for equity investments within the PRC, unless specifically provided for otherwise in its business scope. In addition, SAFE strengthened its oversight of the flow and use of RMB funds converted from the foreign currency denominated registered capital of a foreign-invested company.

***Material advances for finished goods purchases may increase risk of loss resulting from non-delivery of goods by our suppliers.***

We periodically make prepayments to a few suppliers. Material prepayments we make for finished goods increases our exposure to loss resulting from potential non-delivery of goods by suppliers or refund of prepayments by suppliers.

***Our market is subject to rapidly changing consumer preferences and we may not be able to predict or meet consumer preferences or demand accurately.***

We derive a significant amount of revenue from the LCD/LED products that are subject to rapidly changing consumer preferences. Our sales and profits are sensitive to these changing preferences. Our success depends on our ability to identify, originate and define product trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that we cannot predict with certainty. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences, we could experience lower sales, excess inventories and lower profit margins, any of which would have an adverse effect on our results of operations and financial condition.

***Unauthorized use of our brand names by third parties may adversely affect our business.***

We consider our brand names critical to our success. Due to the nature of our business, we do not have administrative protection from patents, copyrights, trademarks or trade secrets covering branding, distributing and marketing of LCD/LED products. Our continued ability to differentiate ourselves from other LCD/LED products distributors and other potential new entrants depends substantially on our ability to preserve the value of our brand names.

We rely on trademark law, company brand name protection policies, and agreements with our employees and business partners to protect the value of our brand names. In particular, “SGOCO,” and “POVISON” marks are registered in the PRC and are approved by the State Trademark Bureau of the PRC to be transferred to SGOCO International in Hong Kong. However, there can be no assurance that the measures we take in this regard are adequate to prevent or deter infringement or other misappropriation of our brand names. For example, we may not be able to detect unauthorized use of our brand names in a timely manner because our ability to determine whether other parties have infringed our brand names is generally limited to information from publicly available sources.

To preserve the value of our brand names, we may need to take legal actions against third parties. Nonetheless, because the validity, enforceability and scope of trademark protection in the PRC are not certain and still evolving, legal action may not be successful. Further, future litigation could also result in substantially increasing our costs, diverting our resources and disrupting our business.

***We may not be able to secure financing needed for future operating needs on favorable terms, or on any terms at all.***

Although we have received most of the proceeds and intercompany payables from Sale of SGOCO (Fujian), we may seek additional financing to provide the capital required for future acquisitions and to expand our business, if cash flow from operations is not sufficient to do so. We cannot predict with certainty the timing or amount of any such capital requirements. If such financing is not available on satisfactory terms, we may not be able to expand our business or to develop new business at the rate desired. Consequently, our results of operations may be adversely affected.

If we are able to incur debt, lenders may impose certain restrictions. In addition, repaying such debt may limit our cash flow and our ability to grow. If we are not able to incur debt, we may be forced to issue additional equity, which would have a dilutive effect on our shares.

***We may not be able to collect the payment of the proceeds from the Sale of SGOCO (Fujian) and settlement of the payables due to the Company.***

On December 24, 2014, we entered into a Sale and Purchase Agreement (“SPA”) to sell our 100% ownership interest in SGOCO (Fujian) to Apex for \$11.0 million in total consideration (“Sale Equity”). In addition, according to the SPA, Apex agreed to assume the advances and loans due by SGOCO (Fujian) to the Company, that amounted to \$80.4 million.

As of May 10, 2015, we have received \$75.9 million from Apex, and the remaining \$15.5 million is due in June 2015 according to the payment schedule of the SPA. Payment of the sales consideration and advances and loans due by SGOCO (Fujian) to us are secured by a pledge of the Sale Equity and the assets of SGOCO (Fujian). In the event that Apex does not make the installment payments, we will have the right to take back ownership of the Sale Equity or force the Apex to liquidate the cash, accounts receivable and advances to suppliers of SGOCO (Fujian) to have sufficient funds to make the payments to us.

If Apex does not settle the remaining balance of \$15.5 million prior to June 30, 2015, it may adversely affect the expansion and development of our new business. Consequently, our results of operations may be adversely affected.

***We may be treated as a passive foreign investment company, or “PFIC,” which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ordinary shares and warrants.***

In general, we will be treated as a PFIC for any taxable year in which either:

1. at least 75% of our gross income (looking through certain 25% or more-owned corporate subsidiaries) is passive income; or

2. at least 50% of the average value of our assets (looking through certain 25% or more-owned corporate subsidiaries) are attributable to assets that produce, or are held for the production of, passive income.

Passive income generally includes, without limitation, dividends, interest, rents, royalties, and gains from the disposition of passive assets. If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. Holder of our ordinary shares, the U.S. Holder may be subject to increased U.S. federal income tax liability and may be subject to additional reporting requirements. Our actual PFIC status for any taxable year will not be determinable until after the end of such taxable year. Accordingly, there can be no assurance as to our status as a PFIC for any taxable year. U.S. Holders of our ordinary shares are urged to consult their own tax advisors regarding the possible application of the PFIC rules.

***Being a foreign private issuer exempts us from certain SEC requirements that provide shareholders the protection of information that must be made available to shareholders of U.S. public companies.***

We are a foreign private issuer within the meaning of the rules promulgated under the Securities Exchange Act of 1934, or Exchange Act. As such, we are exempt from certain provisions applicable to U.S. public companies including:

1. the rules requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
2. the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations regarding a security registered under the Exchange Act;
3. provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and
4. the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short swing" trading transactions ( *i.e.* , a purchase and sale, or a sale and purchase, of the issuer's equity securities within less than six months).

Because of these exemptions, our shareholders will not be provided with the same protections or information generally available to investors holding shares in public companies organized in the U.S.

***Expansion of our business may increase pressure on our management, which may impede our ability to meet any increased demand for our products and adversely affect our results of operations.***

Our business plan is to grow our operations profitably and focus on new investments and exploring new products, including but not limited to acquiring equities of potential target companies related to electronic and internet-related businesses and enriching our product range. Growth in our business may place a significant strain on our personnel, management, financial systems and other resources. The evolution of our business also presents numerous risks and challenges, including:

1. customers continuing to accept our LCD/LED products;
2. our ability to successfully and rapidly expand our marketing program to reach potential customers in response to potentially increasing demand;
3. the costs associated with such growth, which are difficult to quantify, but could be significant;
4. the competition from larger, better capitalized and well-known competitors and the effect of rapid technological change;
5. the highly competitive nature of our industry;
6. the continued availability and favorable pricing of the raw materials and components used in our products; and

7. the availability and favorable terms of potential acquisition targets for developing new business.

If we are successful growing our marketing program, we may be required to provide various support and deliver LCD/LED products to our customers. In addition, we may not be able to meet the needs of our customers, which could adversely affect our relationships with our customers and results of operations.

***Under the Enterprise Income Taxes Law, SGOCO may be classified as a “resident enterprise” of the PRC. Such classification could result in adverse tax consequences to SGOCO and its non-PRC resident shareholders.***

Under the Enterprise Income Taxes (EIT) Law and the Implementing Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered as a resident enterprise and will be subject to PRC income tax on its global income. According to the Implementing Rules, “de facto management bodies” refer to “establishments that carry out substantial and overall management and control over the business operations, personnel, accounting, properties, etc. of an enterprise.” Accordingly, our holding company, SGOCO Group, Ltd., may be considered a resident enterprise and may therefore be subject to PRC income tax on our global income.

The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China.

Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those invested in by individuals or foreign enterprises like SGOCO. But, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or controlled by or invested in by individuals or foreign enterprises. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, such PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Since the EIT Law became effective in 2008, SGOCO has not been treated as a “resident enterprise.”

If the PRC tax authorities determine that SGOCO is a “resident enterprise” for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. First, SGOCO may be subject to enterprise income tax at a rate of 25% on SGOCO’s worldwide taxable income, as well as PRC enterprise income tax reporting obligations. Second, under the EIT Law and its implementing rules, dividends paid between “qualified resident enterprises” are exempt from enterprise income tax. As a result, if both SGOCO and SGOCO International are treated as PRC “resident enterprises,” all dividends from the PRC operating subsidiaries to SGOCO International and from SGOCO International to SGOCO would be exempt from PRC tax.

If SGOCO were treated as a PRC “non-resident enterprise” under the EIT Law, then dividends that SGOCO receives from its PRC operating subsidiaries (assuming such dividends were considered sourced within the PRC):

1. may be subject to a 5% PRC withholding tax, if the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion regarding Taxes on Income (the “PRC-Hong Kong Tax Treaty”) is applicable; or
2. may be subject to a 10% PRC withholding tax, if such treaty does not apply ( *i.e.* , because the PRC tax authorities may deem SGOCO International to be a conduit not entitled to treaty benefits).

Any such taxes on dividends could materially reduce the amount of dividends, if any, SGOCO could pay to its shareholders.

Finally, the “resident enterprise” classification could result in a 10% PRC tax being imposed on dividends SGOCO pays to its non-PRC shareholders that are not PRC tax “resident enterprises” and gains derived by them from transferring SGOCO’s ordinary shares, if such income is considered PRC-sourced income by the relevant PRC authorities. In such event, SGOCO may be required to withhold the 10% PRC tax on any dividends paid to its non-PRC resident shareholders. SGOCO’s non-PRC resident shareholders also may be responsible for paying PRC tax at a rate of 10% on any gain realized from the sale or transfer of ordinary shares in certain circumstances. SGOCO would not, however, have an obligation to withhold PRC tax regarding such gain.



If any such PRC taxes apply, a non-PRC resident shareholder may be entitled to a reduced rate of PRC taxes under an applicable income tax treaty and/or a foreign tax credit against such shareholder's domestic income tax liability (subject to applicable conditions and limitations). According to the Notice of the Provisional Regulation of Non-PRC Residents' Enjoyment of the Preferential Treatment of Tax Treaty, Circular 124, on August 24, 2009, issued by the State Administration of Taxation, the non-PRC shareholders located in countries which have income tax treaties with China may be taxed at a reduced rate lower than 10%. Prospective investors should consult with their own tax advisors regarding the applicability of any such taxes, the effects of any applicable income tax treaties, and any available foreign tax credits.

***Intercompany loans from SGOCO to its operating subsidiaries must comply with PRC law.***

Any loans we make to our Chinese subsidiaries, which are treated as foreign-invested enterprises under Chinese law, cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or SAFE, or its local counterparts. Under applicable Chinese law, the Chinese regulators must approve the amount of a foreign-invested enterprise's registered capital, which represents shareholders' equity investments over a defined period of time, and the foreign-invested enterprise's total investment, which represents the total of the Company's registered capital plus permitted loans. The ratio of registered capital to total investment cannot be lower than the minimum statutory requirement and the excess of the total investment over the registered capital represents the maximum amount of borrowings that a foreign invested enterprise is permitted to have under Chinese law.

If we lend money to our Chinese subsidiaries and such funds exceed the permitted amount of borrowings of the subsidiary, we would have to apply to the relevant government authorities to increase the permitted total investment amounts. The various applications could be time consuming and their outcomes would be uncertain. Concurrently with the loans, we might have to make capital contributions to the subsidiaries in order to maintain the statutory minimum registered capital/total investment ratio, and such capital contributions involve uncertainties of their own, as discussed below. Furthermore, even if we make loans to our Chinese subsidiaries that do not exceed their current permitted amount of borrowings, we will have to register each loan with SAFE or its local counterpart within 15 days after signing the relevant loan agreement.

Subject to SAFE's stipulated conditions, SAFE or its local counterpart is supposed to issue a registration certificate of foreign debts within 20 days after reviewing and accepting its application. In practice, it may take longer to complete such SAFE registration process.

We cannot be sure that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, regarding future loans by us to our Chinese subsidiaries or affiliated entities or regarding future capital contributions by us to our Chinese subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use such future loans or capital contributions to capitalize or otherwise fund our Chinese operations may be negatively affected, which would adversely and materially affect our liquidity and our ability to fund and expand our business.

***A severe or prolonged downturn in the global economy could materially and adversely affect our business and results of operations.***

The global market and economic conditions during the years 2008 through 2012 were unprecedented and challenging, with recessions occurring in most major economies. Continued concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, sovereign debt issues, and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook has negatively affected businesses and consumer confidence and contributed to significant volatility.

There is continuing uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest in the Middle East and Africa, which may result in significant market volatility. Economic conditions in China are sensitive to global economic conditions. Any prolonged slowdown in the global and/or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

***While we believe that we currently have adequate internal control procedures in place, we are still exposed to potential risks from legislation requiring companies to evaluate internal controls under Section 404 of the Sarbanes-Oxley Act of 2002.***

We are subject to the reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in their respective annual reports. This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting because we are currently a non-accelerated filer and therefore, not required to obtain such report.

Our management has concluded that our internal controls over financial reporting as of December 31, 2014 were effective. We have in the past and may in the future discover material weakness in our internal controls. For example, we identified material weaknesses related to the lack of sufficient qualified accounting personnel with appropriate understanding of U.S. GAAP and SEC reporting requirements commensurate with our financial reporting requirements as described under Item 15 of our annual report in form 20-F for fiscal year ended December 31, 2012, which were subsequently remediated in fiscal year 2013 as described under Item 15 of the 2013 annual report. However, there is no guarantee that these remedies will continue to be effective. Failure to achieve and maintain an effective internal control environment could result in us not being able to accurately report our financial results, prevent or detect fraud or provide timely and reliable financial and other information pursuant to the reporting obligations we have as a public company, which could have a material adverse effect on our business, financial condition and results of operations. This could reduce investors' confidence in our reported financial information, which in turn could result in lawsuits being filed against us by our shareholders, otherwise harm our reputation or negatively impact the trading price of our common stock.

***We have granted shares to our PRC employees, which may require registration with SAFE. We may also face regulatory uncertainties that could restrict our ability to issue equity compensation to our directors and employees and other parties who are PRC citizens or residents under PRC law.***

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE in March 2007. Under these rules, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We have adopted an equity compensation plan and have begun to make option grants to some of our key employees, three of whom are PRC citizens. If we or our PRC recipients of such options fail to comply with these regulations, we or our PRC option grantees may be subject to fines and other legal or administrative sanctions. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected.

***PRC SAFE Regulations regarding offshore financing activities by PRC residents have undertaken continuous changes which may increase the administrative burden we face and create regulatory uncertainties that could adversely affect our business.***

Recent regulations promulgated by SAFE regarding offshore financing activities by PRC residents have undergone a number of changes which may increase the administrative burden we face. The failure by our shareholders and affiliates who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

In 2005, SAFE promulgated regulations in the form of public notices, which require registrations with, and approval from, SAFE on direct or indirect offshore investment activities by PRC resident individuals. The SAFE regulations require that if an offshore company directly or indirectly formed by or controlled by PRC resident individuals, known as “SPC,” intends to acquire a PRC company, such acquisition will be subject to strict examination by the SAFE. Without registration, the PRC entity cannot remit any of its profits out of the PRC as dividends or otherwise. This could have a material adverse effect on us given that we are a publicly listed company in the U.S.

#### **Risks Related to Doing Business in China**

***Adverse changes in political and economic policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and adversely affect our competitive position.***

Our development and sales operations will continue to be focused on and conducted in China, and a substantial portion of our sales will continue to be made in China. Accordingly, our business, financial condition, results of operations and prospects will be affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including:

1. the amount of government involvement;
2. the level of development;
3. the growth rate;
4. the control of foreign exchange; and
5. the allocation of resources.

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a positive or negative effect on us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. But, the Chinese government still owns a substantial portion of the productive assets in China. The continued control of these assets and other aspects of the national economy by the Chinese government could adversely affect our business.

The Chinese government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The Chinese government has implemented certain measures to control the pace of economic growth. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on overall economic growth in China, which in turn could lead to reduced demand for our products.

***Investors may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on U.S. judgments against us or our subsidiaries, affiliates, officers, directors and shareholders.***

A majority of our assets are located outside of the U.S. and most of our directors and executive officers reside outside of the U.S. As a result, it may not be possible for investors in the U.S. to effect service of process within the U.S. or elsewhere outside China on us, our subsidiaries, officers, directors and shareholders, and others. This can be particularly important regarding matters arising under U.S. federal or state securities laws.

China does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with the U.S. and many other countries. As a result, recognition and enforcement in China of these judgments in relation to any matter, including U.S. securities laws and the laws of the Cayman Islands, may be difficult or impossible. Furthermore, an original action may be brought in China against our assets or our subsidiaries, officers, directors, shareholders and advisors only if:

1. the actions are not required to be arbitrated by Chinese law;
2. the facts alleged in the complaint give rise to a cause of action under Chinese law; and
3. the actions satisfy certain prerequisite conditions prescribed by Chinese law.

Connected with such an original action, a Chinese court may award civil remedies, including monetary damages. Notwithstanding the ability to bring original actions, we do not believe it is likely that the courts in China would entertain original actions brought in China against us or our directors or officers predicated upon the securities laws of the U.S. or any state or territory within the U.S.

***Our auditor, like other independent registered public accounting firms operating in China and to the extent their audit clients have operations in China and Hong Kong, is not permitted to be inspected by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm issues the audit report included in this Annual Report filed with the SEC. As auditors of companies that are traded publicly in the U.S., our public accounting firm is registered with the U.S. Public Company Accounting Oversight Board (United States) (the "PCAOB"). It is required by U.S. laws to be regularly inspected by the PCAOB to assess its compliance with the U.S. laws and professional standards.

Our operations, however, are mainly located in the PRC, a jurisdiction where PCAOB is currently not able to conduct inspections without the approval of PRC authorities. Our auditor, like other independent registered public accounting firms operating in China and Hong Kong (to the extent their audit clients have operations in China), is currently not subject to inspection by the PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

Inspections of some other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures. Certain deficiencies revealed in the inspection process can be addressed to improve future audit quality. The inability of the PCAOB to conduct inspections of auditors operating in China makes it difficult to evaluate our auditor's audit procedures and quality control procedures. As a result, our investors may not receive the benefits of the PCAOB inspections.

***We face uncertainties regarding indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.***

In connection with the EIT Law, the Ministry of Finance of the PRC and the SAT jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the SAT issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 became effective retrospectively on January 1, 2008. By promulgating and implementing these circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-resident enterprise. For example, Circular 698 specifies that the SAT is entitled to redefine the nature of an equity transfer where offshore vehicles are interposed by abusing corporate structures for tax-avoidance purposes and without reasonable commercial intention. We may pursue acquisitions as one of our growth strategies, and may conduct acquisitions involving complex corporate structures. We cannot be assured that the PRC tax authorities will not, at their discretion, adjust the taxable capital gains of the seller, which may indirectly increase acquisition costs.

On February 3, 2015, the State Administration of Tax issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Public Notice 7. Public Notice 7 has introduced a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets, may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10%, for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions, under Circular 698 and Public Notice 7. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Circular 698 and Public Notice 7. As a result, we may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises in our group should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 698 and Public Notice 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

As a result, we and our non-resident investors in such transactions may be at risk of being taxed under SAT Circular 698. We have accrued \$5.4 million in the income tax expense for the year ended December 31, 2011 on the Sale of Honesty Group and \$0.9 million in the income tax expense for the year ended December 31, 2014 on the Sale of SGOCO (Fujian). Both amounts remained unpaid as of the date of this Annual Report. We have already submitted relevant documents to the PRC tax bureau regarding the Sales of Honesty Group and SGOCO (Fujian). We may be required to expend valuable resources to comply with SAT Circular 698. This may have a material adverse effect on our cash flow, financial condition and results of operations.

***Future changes in laws, regulations or enforcement policies in China could adversely affect our business.***

Laws, regulations or enforcement policies in China are evolving and subject to future changes. Future changes in laws, regulations or administrative interpretations, or stricter enforcement policies by the Chinese government, could impose more stringent requirements on us, including fines or other penalties. Changes in applicable laws and regulations may also affect our operating costs. Compliance with these requirements could impose substantial additional costs or otherwise adversely affect our future growth. These changes may relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. In addition, any litigation or governmental investigation or enforcement proceedings in China may be protracted and result in substantial costs and diversion of resources and management attention.

***Uncertainties regarding the Chinese legal system could have a material adverse effect on us.***

The Chinese legal system is a civil law system based on statutes. Unlike the common-law system, prior court decisions may be cited for reference, but have limited precedential authority in China. Since 1979, Chinese legislation and regulations have significantly enhanced the protections provided to various forms of foreign investments in China. We conduct the majority of our business through our subsidiaries, SGOCO (Fujian), Beijing SGOCO and SGOCO Shenzhen, which were established in China. As a result, we will be subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises.

But, since the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform. In addition, enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to file administrative and court proceedings to enforce the legal protection that we or our subsidiaries enjoy either by law or contract. Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms. Consequently, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection that we would enjoy compared to more developed legal systems.

These uncertainties may impede our ability to enforce contracts or other rights. Furthermore, intellectual property rights and confidentiality protections in China may be less effective than in the U.S. or other countries. Accordingly, we cannot predict the effect of future developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of these laws, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and our shareholders. In addition, any litigation in China may be protracted, substantially increase our costs and divert our resources and management's attention.

***If China imposes restrictions to reduce inflation, China's future economic growth could be curtailed which could adversely affect our business and results of operation.***

China's economy has experienced rapid growth. But, this growth has varied among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the supply of money and rising inflation. To control inflation, the Chinese government may impose controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. If similar restrictions are imposed, it may lead to a slowing of economic growth and decrease the interest in our LCD/LED products leading to a decline in our profitability.

***Changes in foreign exchange regulations in China may affect our operating subsidiaries' ability to pay dividends in foreign currency or conduct other foreign exchange business.***

RMB is not a freely convertible currency currently, and the restrictions on currency exchanges may limit our ability to use revenues generated in RMB to fund our business activities outside China or to make dividends or other payments in U.S. Dollars. In China, SAFE regulates the conversion of RMB into foreign currencies. Over the years, foreign exchange regulations in China have significantly reduced the government's control over routine foreign exchange transactions under current accounts (remittance of foreign currencies for payment of dividends, etc.).

Conversion of RMB for capital account items, such as direct investment, loan, security investment and repatriation of investment, is still subject to the approval of the SAFE. Under China's existing foreign exchange regulations, SGOCO International's Chinese primary operating subsidiaries, Beijing SGOCO and SGOCO Shenzhen, are able to pay dividends in foreign currencies, without prior approval from the SAFE, by complying with certain procedural requirements. However, the Chinese government subsequently may restrict access to foreign currencies for current account transactions.

***Fluctuating value of the Renminbi may reduce our profitability.***

The change in value of the RMB against U.S. Dollars, and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the RMB has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market. On March 17, 2014, the People's Bank of China announced that the RMB exchange rate flexibility increased to 2% in order to proceed further with reform of the RMB exchange rate regime. These could result in a further and more significant floatation in the RMB's value against the U.S. Dollars.

The international reaction to the RMB revaluation has generally been positive. But, international pressure continues to be placed on the Chinese government to adopt an even more flexible currency policy, which could result in significant fluctuation of the RMB against the U.S. Dollars. Any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition. For example, to the extent that we need to convert U.S. Dollars we receive into RMB for our operations, appreciation of the RMB against the U.S. Dollars would reduce the RMB amount we receive from the conversion. Conversely, if we decide to convert our RMB into U.S. Dollars to make payments for dividends on our shares or for other business purposes, appreciation of the U.S. Dollars against the RMB would reduce the U.S. Dollars amount available to us.

***Exchange controls that exist in China may limit our ability to use our cash flows effectively.***

Most of our revenues and expenses are denominated in RMB. We may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payment of dividends, if any, regarding our shares. Under China's existing foreign exchange regulations, we are able to purchase foreign exchange for settlement of current account transactions, including payment of dividends in foreign currencies, without prior approval from SAFE by complying with certain procedural requirements.

But, the Chinese government may take further measures to restrict access to foreign currencies for current account transactions. Any future restrictions on currency exchanges may limit our ability to use cash flows for distributing dividends to our shareholders or to fund operations we have outside of China.

Foreign exchange transactions continue to be subject to significant foreign exchange controls and require the approval of or registration with the Chinese governmental authorities, including SAFE. In particular, if SGOCO International receives foreign currency loans from us or other foreign lenders, these loans must be registered with SAFE. In addition, if we finance SGOCO International by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce or its local counterparts. These potential restrictions could affect the ability of SGOCO International to obtain additional foreign exchange through debt or equity financing.

***Proceedings instituted by the SEC against five PRC-based accounting firms could result in adverse impact on our business and price of our stock.***

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the PRC-based units of five accounting firms. The Rule 102(e) proceedings initiated by the SEC relate to these firms' failure to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in the PRC are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the China Securities Regulatory Commission ("CSRC"). The issues raised by the proceedings are not specific to our auditors or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States.

In January 2014, the administrative judge reached an Initial Decision that the PRC-based units of the "big four" accounting firms should be barred from practicing before the SEC for six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. In February 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, public companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which may result in SEC's revocation of the registration of their shares under the Exchange Act, including possible delisting. Moreover, although our independent registered public accounting firm was not named as a defendant in the above SEC administrative proceedings, any negative news about the proceedings against these audit firms may erode investor confidence in China-based, US public companies, including us, and the market price of our shares may be adversely affected.

### **Risks Relating to Our Shares**

***We failed to meet continued listing requirements on the NASDAQ Capital Market***

On February 10, 2015, we received a letter (the "Notification Letter") from The NASDAQ Stock Market LLC ("NASDAQ") notifying the Company that it is not in compliance with the minimum bid price requirement set forth in NASDAQ Rules for continued listing on The NASDAQ Capital Market. NASDAQ Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of \$1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the closing bid price of the Company's common stock for the 30 consecutive business days from December 22, 2014 to February 9, 2015, the Company no longer meets the minimum bid price requirement.

The Notification Letter does not impact our listing on The NASDAQ Capital Market at this time. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we have been provided 180 calendar days, or until August 10, 2015, to regain compliance with NASDAQ Listing Rule 5550(a)(2). To regain compliance, our common stock must have a closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. In the event we do not regain compliance by August 10, 2015, we may be eligible for additional time to regain compliance.

We intend to seek stockholder approval of amendments to our Amended and Restated Articles of Association to effect a reverse stock split. If the proposal is approved by our shareholders, it will be implemented by our board of directors if the board of directors determines that a reverse stock split is in the best interests of the Company and its shareholders. There can be no assurance that the proposal will be approved by shareholders, or that the proposal, if approved, would be sufficient to permit us to regain compliance with the minimum bid price requirement.

If our ordinary shares are delisted from the NASDAQ, such securities may be shifted to the OTC market or the pink sheets. The alternative market, however, is generally considered to be less efficient than, and not as broad as, the NASDAQ. Accordingly, delisting of our ordinary shares from the NASDAQ could have a significant negative effect on the value and liquidity of our securities. In addition, the delisting of such ordinary shares could adversely affect our ability to raise capital on terms acceptable to us or at all, and may preclude us from using exemptions from certain state and federal securities regulations, including the SEC's "penny stock" rules.



***The market price for our ordinary shares may be volatile.***

The market price for our ordinary shares is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

1. actual or anticipated fluctuations in our annual and quarterly operating results and changes or revisions in our expected results;
2. changes in financial estimates by securities research analysts;
3. market conditions for LCD/LED products marketing and distribution;
4. changes in the economic performance or market valuations of companies specializing in LCD/LED product marketing and distribution;
5. announcements by us and our affiliates or our competitors of new products, acquisitions, strategic relationships, joint ventures or capital commitments;
6. addition or departure of our senior management and key research and development personnel;
7. fluctuations of exchange rates between the RMB and the U.S. Dollars;
8. litigation related to our intellectual property;
9. changes in investors' perception toward U.S.-listed Chinese companies;
10. release or expiry of transfer restrictions on our outstanding ordinary shares; and
11. sales or perceived potential sales of our ordinary shares.

In addition, the securities market has from time-to-time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ordinary shares.

***Approximately 51.9% of our ordinary shares are held by one shareholder. This voting control may limit your ability to influence the outcome of matters requiring shareholder approval, including the election of our directors.***

Sun Zone Investments Limited ("Sun Zone") is owned by our Chairman, Mr. Tin Man Or. It currently owns approximately 51.9% of our voting shares. This shareholder can control substantially all matters requiring approval by our shareholders, including electing directors and the approval of other business transactions. This concentration of ownership could delay or prevent a change in control of our Company or discourage a potential acquirer from attempting to obtain control of the Company, which could prevent our shareholders from realizing a premium over the market price for their ordinary shares.

***We do not expect to pay dividends, so our shareholders will only benefit from an investment in our shares if such shares appreciate in value.***

Currently, we do not expect to pay dividends to our shareholders. The Board of Directors may determine to pay dividends in the future, depending upon results of operations, financial condition, contractual restrictions, including restrictions in credit agreements, imposed by applicable law, and the laws of China governing dividend payments, currency conversion and loans, and other factors our Board of Directors deems relevant. Accordingly, realizing a gain on shareholders' investments currently depends on whether the price of our shares appreciates in the securities exchange on which our shares trade. There is no guarantee that our shares will appreciate in value or even maintain the price at which shareholders purchased their shares.

***Shares to be potentially issued may have an adverse effect on the market price of our shares.***

As of December 31, 2014, we had 17,414,861 ordinary shares outstanding. There are also issued and outstanding warrants to purchase 13,571 ordinary shares at \$6.00 per share to the underwriters of our December 2010 offering.

In November 2010, our shareholders approved the adoption of a stock incentive plan that provides for the issuance of stock options, restricted stock or other awards up to 7% of the fully diluted outstanding shares to the employees, directors and consultants of SGOCO and its subsidiaries.

In addition, we have authorized capital stock under our charter of 50,000,000 ordinary shares and 1,000,000 preferred shares. Subject to any restrictions under NASDAQ rules, these shares may be issued without shareholder approval.

The sale or even the possibility of sale of the foregoing shares could have an adverse effect on the market price for our securities or on our ability to obtain future public financing. Upon the issuance of the additional shares, you would probably experience dilution to your holdings.

***Due to the lack of unrestricted ordinary shares available to be sold, liquidity for our ordinary shares is limited.***

As of March 31, 2015, we had 17,594,861 ordinary shares outstanding. Of these shares, approximately 5.6 million ordinary shares are held by persons not affiliated with us currently and are freely eligible to be resold in the public market. The remaining shares are either being held in escrow or are “restricted” securities not eligible to be resold in the public market. As a result of the lack of unrestricted securities available to be resold in the public market, there is limited liquidity in our ordinary shares, which may limit your ability to sell your ordinary shares of SGOCO or reduce the price at which the shares may be sold. In addition, the lack of a liquid market in our shares may make the listed market price of our shares less meaningful and more volatile.

***Volatility in the price of our ordinary shares may result in shareholder litigation that could in turn result in substantial costs and a diversion of our management’s attention and resources.***

The financial markets in the U.S. and other countries have experienced significant price and volume fluctuations. Volatility in the price of our ordinary shares may be caused by factors outside of our control, which may not be related or may be disproportionate to our results of operations. In the past, following periods of volatility in the market price of a public company’s securities, shareholders have frequently instituted securities class action litigation against various companies. Such litigation could result in substantial costs and a diversion of our management’s attention and resources.

***If we become directly subject to the recent scrutiny involving U.S. listed Chinese companies, we may have to expend significant resources to investigate and/or defend the matter, which could harm our business operations, stock price and reputation.***

During the last several years, U.S. public companies that have substantially all of their operations in China have been the subject of intense scrutiny by investors, financial commentators and regulatory agencies. Much of the scrutiny has centered on financial and accounting irregularities and mistakes, lacks of effective internal controls over financial reporting and, in many cases, allegations of fraud. As a result of the scrutiny, the publicly traded stock of many U.S. listed Chinese companies that have been the subject of such scrutiny has sharply decreased in value. Many of these companies are now subject to shareholder lawsuits and/or SEC enforcement actions that are conducting internal and/or external investigations into the allegations.

If we become the subject of any such scrutiny, whether any allegations are true or not, we may have to expend significant resources to investigate such allegations and/or defend the Company. Such investigations or allegations will be costly and time-consuming and distract our management from our normal business and could result in our reputation being harmed. Our stock price could decline because of such allegations, even if the allegations are false.

***You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.***

We are an exempt company incorporated under Cayman Islands' laws. Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and Cayman Islands' common law. Shareholders' rights to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands' law are largely governed by Cayman Islands' common law. It is derived in part from comparatively limited judicial precedent in the Cayman Islands and from England's common law. English court decisions, however, are not binding on a Cayman Islands' court.

Our shareholders' rights and our directors' fiduciary responsibilities under Cayman Islands law are not as clearly established as they would be under the statutes or case law in most U.S. jurisdictions. In particular, the Cayman Islands has a less developed body of securities laws than the U.S. Many U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

The Cayman Islands' courts are also not likely:

1. to recognize or enforce against us judgments of courts of the U.S. based on civil liability provisions of U.S. securities laws; and
2. to impose liabilities against us, in original actions brought in the Cayman Islands, based on civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the U.S., But, the Cayman Islands' courts will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Based on the above, shareholders may have more difficulty in protecting their interests against actions taken by management, members of the Board of Directors or controlling shareholders than they would as public shareholders of a company incorporated in the U.S.

***As a company incorporated in the Cayman Islands, we can adopt certain home country practices regarding corporate governance matters that differ significantly from the NASDAQ Stock Market corporate governance listing standards. These practices may provide less protection to shareholders than they would enjoy if we complied fully with the NASDAQ Stock Market corporate governance listing standards.***

As a Cayman Islands company listed on the NASDAQ Stock Market, we are subject to the NASDAQ Stock Market corporate governance listing standards. But, NASDAQ Stock Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Stock Market corporate governance listing standards.

For example, the Companies Law of the Cayman Islands does not require a majority of our directors to be independent. Therefore, we could include non-independent directors as members of our compensation committee and (if we chose to have one) our nominating committee. Finally, our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present.

In addition, while NASDAQ Stock Market rules require that an issuer listing common stock hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end, the Companies Law of the Cayman Islands does not require it. If we choose to follow home country practice, our shareholders may receive less protection than they otherwise would under the NASDAQ Stock Market corporate governance listing standards applicable to U.S. domestic issuers.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company.

#### *Historical Structure and Acquisition of Honesty Group*

SGOCO Group, Ltd. was organized under Cayman Islands' laws on July 18, 2007. It was previously named SGOCO Technology, Ltd. and prior to the Acquisition was named Hambrecht Asia Acquisition Corp. The Company was formed as a blank check company to acquire one or more operating businesses in the PRC through a merger, stock exchange, asset acquisition or similar business combination or control through contractual agreements. The Company completed its initial public offering ("IPO") of units consisting of one ordinary share and one warrant to purchase one ordinary share on March 12, 2008.

Pursuant to our charter documents, we were required to enter into a business combination transaction to acquire control of a business with its primary operation in the PRC with a fair market value of at least 80% of the trust account established at the time of our IPO, or the Trust Account, (excluding certain deferred underwriting commissions) prior to March 12, 2010, or dissolve and liquidate. The approval of the business combination transaction required the approval of a majority of the outstanding shares. It was conditioned on, among other matters, not more than 30% of the outstanding shares being properly tendered for redemption under our charter documents. Each ordinary share issued in our IPO was entitled to be redeemed if it was voted against the business combination transaction at a price equal to the amount in the Trust Account divided by the number of shares issued in the IPO outstanding at the time, estimated to be approximately \$8.0 million as of February 17, 2010.

On March 12, 2010, we acquired all of the outstanding shares of Honesty Group (the "Acquisition"). In addition, at the meeting to approve the acquisition, the Holders of our outstanding warrants approved an amendment to the warrant agreement under which the warrants were issued to increase the exercise price per share of the warrants from \$5.00 to \$8.00. The Amendment also extended by one year the exercise period, or until March 7, 2014, and provided for redeeming the publicly-held warrants, at the Holder's option, for \$0.50 per warrant when the Acquisition closes. We may redeem the warrants at a price of \$0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if the last sale price of our ordinary shares equals or exceeds \$11.50 per share (subject to adjustment for splits, dividends, recapitalization and other similar events) for any 20 trading days within a 30-trading day period ending three business days before we send the notice of redemption.

The Acquisition resulted in issuing

1. 8,500,000 ordinary shares to the former shareholders of Honesty Group; and
2. 5,800,000 additional ordinary shares to the former shareholders of Honesty Group to be held in escrow and released if the following milestones were met by the combined Company:
  - (a) If "Income from Existing Operations" for the year ended December 31, 2010 exceeded \$15,000,000 (the "First Earn-Out Milestone"), the escrow agent would release 5,000,000 shares to the former shareholders of Honesty Group. The First Earn-Out Milestone was met during the year ended December 31, 2010. The shares were not released in 2011 but were released in 2012 to the former shareholders of Honesty Group; and
  - (b) If "Income from Existing Operations" for the year ended December 31, 2011 exceeded \$20,000,000 (the "Second Earn-Out Milestone"), the escrow agent would release the remaining 800,000 shares to the former shareholders of Honesty Group. Those 800,000 shares were released in 2012.

In addition, 766,823 shares held by the original shareholders of the Company were placed in escrow pending satisfaction of certain conditions.

Those conditions included our reaching the earn-out milestones discussed above, as well as:

1. Messrs. Robert Eu and John Wang providing the Company with 30 hours per month in services connected with investor relations, listing on the NASDAQ Global Stock Market or NASDAQ Global Select Stock Market, introducing investors and advisors;

2. listing of our shares on such stock markets if we act in good faith to obtain such a listing once the listing criteria are met; and
3. providing the opportunity for us to raise an additional \$15 million in equity, subject to meeting certain prescribed pricing criteria.

Connected with the issuing of the 5,800,000 escrowed shares and the 766,823 escrowed shares, we, the original shareholders of the Company, and the Honesty Shareholders entered into an escrow agreement with Grand Pacific Investment Limited as escrow agent. Pursuant to that escrow agreement, the escrow agent agreed to hold the foregoing shares pending satisfaction of certain conditions within the applicable time periods. If the conditions were not met, some or all of the foregoing shares, would have been cancelled and returned to the status of authorized and unissued ordinary shares.

As stated above, the First and Second Earn-Out Milestones were met during the years ended December 31, 2011 and 2010 and a total of 5,800,000 shares were released to the former shareholders of Honesty Group.

In addition, of the 766,823 escrowed shares, 340,810 and 20,517 shares were earned in 2010 and 2011, respectively, but are not currently eligible to be released. The last measurement date to determine whether the conditions were met for the release of the 766,823 escrowed shares was December 31, 2011. However, on April 17, 2012, the escrow agreement was amended to provide additional time for the conditions to be met. Pursuant to the amendment, holders of the escrowed shares had until December 31, 2012 to meet the conditions for release. The escrow share agreement was further extended to December 31, 2013. Upon the expiry of the remaining 405,496 escrow share as of December 31, 2013, we are in the process of cancelling these shares.

We entered into various forward-purchase agreements with various hedge funds and other institutions for us to repurchase a total of 2,147,493 shares for an aggregate purchase price of \$17,285,811 immediately after the closing of the Acquisition. After paying various fees and expenses, the redemption prices of shares and warrants and the forward-purchase contracts, the balance of approximately \$5.4 million in the Trust Account was released to us when the Acquisition of Honesty Group was closed. After the closing of the Acquisition and the settlement of related transactions, we had outstanding 16,094,756 ordinary shares, of which 859,668 shares were initially issued in our IPO, and warrants to purchase 1,816,027 shares at a price of \$8.00 per share, of which 1,566,027 were initially issued in our IPO.

After the Acquisition closed, Honesty Group became a wholly-owned subsidiary of SGOCO. Honesty Group is a limited liability company registered in Hong Kong on September 13, 2005. Honesty Group owns 100% of Guanke Electron Technological Industry Co., Ltd. (“Guanke”), Guanwei Electron Technological Industry Co., Ltd. (“Guanwei”) and Guancheng Electron Technological Co., Ltd. (“Guancheng”). Guanke, Guanwei and Guancheng are limited liability companies established under the corporate laws of the PRC. Honesty Group and its subsidiaries represented our core manufacturing facility along with land, buildings and production equipment. Honesty Group and its subsidiaries are now independent of the Company.

On July 26, 2010, SGOCO formed SGOCO International (HK) Limited, or SGOCO International, a limited liability company registered in Hong Kong (“SGOCO International”). SGOCO International and its subsidiaries were established for the purposes of conducting LCD/LED display product development, branding, marketing and distribution.

On February 22, 2011, SGO Corporation was established in Delaware USA. On March 14, 2011, SGOCO International purchased 100% of the outstanding shares of common stock of SGO. SGO was founded to market, sell and distribute SGOCO’s high quality products in the U.S. markets. SGO was not operating during 2011 and started to operate in the first quarter of 2012.

SGOCO International directly owns 100% of SGOCO (Fujian) Electronic Co., Ltd. SGOCO (Fujian) is a limited liability company established under the corporate laws of the PRC on July 28, 2011 for the purposes of conducting LCD/LED display product development, branding, marketing and distribution.

On December 26, 2011, SGOCO International established another wholly owned subsidiary Beijing SGOCO Image Technology Co. Ltd., a limited liability company under the laws of the PRC to conduct LCD/LED monitor, TV product-related and application-specific product design, brand development and distribution. Beijing SGOCO has operated as a cost center and commenced sales in the third quarter of 2013.

On November 14, 2013, SGOCO International established a wholly owned subsidiary, SGOCO (Shenzhen) Technology Co., Ltd., a limited liability company under the laws of the PRC for the purpose of conducting LCD/LED monitor, TV product-related and application-specific product design, brand development and distribution.

### ***Sale of Honesty Group***

On November 15, 2011, we entered into a Sale and Purchase Agreement (“Honesty SPA”) to sell our 100% ownership interest in Honesty Group to Apex, a British Virgin Islands company, for \$76.0 million in total consideration. Honesty Group directly owns 100% of Guanke, Guanwei and Guancheng. The agreement was signed by both the Seller and the Purchaser; shareholder ownership was transferred; and the director of Honesty Group was changed the same day. The Company’s management considers November 30, 2011 as the disposal effective date. Operational and management control over Honesty Group was shifted from SGOCO to Apex on November 30, 2011.

According to the Honesty SPA, the \$76.0 million in total consideration was to be paid in installments. As of May 31, 2012, we received the full amount of the consideration, of which:

- cash of \$1 million was received before December 31, 2011;
- cash of \$19 million was received in 2012;
- purchase deposits paid to Honesty Group of \$1 million and payables to Honesty Group of \$10 million at the time of disposal were offset;
- goods of \$9 million were received before December 31, 2011; and
- goods of \$38 million were received in 2012.

Pursuant to the Honesty SPA, Apex assumed our obligations to pay up the remaining capital of \$8.8 million in Guanwei and to pay the remaining balance of approximately \$14.0 million of the commitment to the Fujian Jinjiang government to invest in the Guanke Technology Park. In addition, the Honesty SPA required that for three years from the date of sale, Honesty Group must continue to provide SGOCO with products and services in the same or substantially similar manner as it did immediately prior to the completion of the transaction unless otherwise directed by SGOCO. The Honesty SPA also provided SGOCO with a right of first refusal for a period of five years from the date of sale to purchase from Apex any material rights or interests in Honesty Group’s shares or assets before Apex offered to transfer such rights or interests to a third party.

Connected with the Sale of Honesty Group, Honesty Group transferred to SGOCO certain contracts and assets that are related to design and distribution of SGOCO’s products, including research and development equipment, sales contracts with customers, contracts with retail sales sources, and trademarks and pending trademark applications.

The Sale of Honesty Group allowed SGOCO to transition to a “light-asset” business model with greater flexibility and scalability and focus its operations on designing, branding, marketing and distributing LCD/LED products in China. Through the transaction, the Company retained part of its customers, brand names, and the nationwide distribution network while substantially reducing its interest bearing liabilities.

Mr. Tin Man Or owns 100% of Sun Zone. As of the date of this Annual Report, Sun Zone owned approximately 51.9% of the outstanding ordinary shares of SGOCO. Ms. Shuk Yu Wong is the spouse of Mr. Tin Man Or. Ms. Ming Suen Jorine Or is the daughter of Mr. Tin Man Or. Mr. Tin Man Or is also Chairman of SGOCO and Sun Zone.

Prior to the Sale of Honesty Group, including its manufacturing assets, to Apex, Apex was an independent third party. It had no relationships with any of SGOCO's board members or management in 2011 (including former Chairman and CEO, Mr. Burnette Or, Chairman, Mr. Tin Man Or, and CEO, Mr. Shi-bin Xie); Ms. Shuk Yu Wong; and Ms. Ming Suen Jorine Or. In addition, Apex had no relationship with Sun Zone.

### **Sale of SGOCO (Fujian)**

On December 24, 2014, we entered into a Sale and Purchase Agreement ("SPA") to sell our 100% equity ownership interest in SGOCO (Fujian) to Apex, which is an independent third party with interests in real estate and forestry products and previously purchased Honesty Group in November 2011. Our management considers December 31, 2014 as the disposal effective date. Operational and management control over SGOCO (Fujian) was shifted from SGOCO to Apex on December 31, 2014.

The sales price for all the equity of SGOCO (Fujian) was equivalent to the net asset value of SGOCO (Fujian) on December 31, 2014 calculated on the basis of Chinese Accounting Standards. The final amount is \$11.0 million (the "Sale Price").

In addition, Apex agreed to assume the advances and loans due by SGOCO (Fujian) to us, amounted to \$80.4 million by installments prior to June 30, 2015.

Apex also agreed to assume responsibility to settle the entire balance of intercompany accounts payable and other payables (the "Payables") due by SGOCO (Fujian) to us and our affiliates, which amounted to \$80.4 million. Under the SPA, payments shall be made in several installments upon and after completion of the Sale. Each installment will be 10% of the Sale Price and Payables of \$91.4 million. The first installment was due 14 days after the completion of the transaction, and the last installment (approximately 10% of the sale price) will be settled prior to June 30, 2015. The transfer of the Sale Equity was effective on December 31, 2014. As of April 30, 2015, Apex has paid the aggregated amount of \$75.9 million to the Company as installment payments of the Sale Price and settlement of the Payables.

Payment of the Sale Price and Payables is secured by a pledge of the Sale Equity and the assets of SGOCO (Fujian). There shall be imposed upon Apex a 2% per month liquidated damage charge for any late payment computed upon the amount of any outstanding principal and accrued interest whose payment to us is overdue for more than 30 days under this Agreement. In the event that Apex does not make the installment payments, we will have the right to take back ownership of the Sale Equity or force the Apex to liquidate the cash, accounts receivable and advances to suppliers of SGOCO (Fujian) to have sufficient funds to make the payments to us.

The SPA also states that SGOCO has a right of first refusal for a period of five years that prohibits Apex from selling, assigning or otherwise transferring any material interests, ownership or rights in or related to SGOCO (Fujian) including any equity, leases, businesses and equipment to a third party, without first offering to sell or transfer to SGOCO.

The Sale of SGOCO (Fujian) allowed SGOCO to restructure its business and reduce the reliance on traditional flat panel LED and LCD monitor products. It also provided greater flexibility and scalability for our business model, which enables us to focus on finding new business acquisition opportunities and exploring new products.

### **Warrant Repurchase and Retirement**

To reduce the potential for future EPS dilution, in 2011, the Company repurchased and retired a total of 1,217,177 warrants that had a strike price of \$8.00. Those warrants included 967,177 publicly-traded warrants for an aggregate purchase price of \$360,610 (or \$0.37 per warrant), and 250,000 sponsor warrants for an aggregate purchase price of \$125,000 (or \$0.50 per warrant), in private transactions. On March 7, 2014, the remaining 598,850 publicly-traded warrants were lapsed upon expiry. There were no outstanding sponsor and publicly-traded warrants as of December 31, 2014.

Additionally, the Company, in private transactions, repurchased and retired a total of 53,096 of the warrants that had a strike price of \$6.00 issued to its underwriters in the December 2010 offering for an aggregate purchase price of \$26,548 (or \$0.50 per warrant). All of the terms of the remaining 13,571 warrants issued to its underwriters in the December 2010 offering remain unchanged.

Through the repurchase and retirement of these warrants, the Company decreased the long-term risks of dilution that may occur if these warrants were exercised.

### ***SGOCO's Offices***

SGOCO's principal executive office is located Suite 1503, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. Under our Amended and Restated Memorandum and Articles of Association, our Registered Office is at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, telephone: (345) 949 1040, or at such other place as the directors may from time-to-time decide. Our agent for service of process in the U.S. is Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808.

## **B. Business overview.**

### ***Our Business***

As of December 31, 2014, our primary business operations were conducted through SGOCO International and its wholly-owned PRC subsidiary, SGOCO Shenzhen. Our main focus is developing our own brands and quality products for sale to the Chinese display market in Tier 3 and Tier 4 cities.

Currently, LCD/LED monitors form the core of our product portfolio. Our mission is to offer our consumers high quality LCD/LED products under brands that we control and license such as "SGOCO," and "POVIZON".

We are also developing and selling All-in-One ("AIO") and Part-in-One ("PIO") computers through our distribution network. The majority of our product sales are made to large, well-established, electronics distributors and trading companies, which then sell our products through their own sales channels.

We do not sell our products directly to retailers. Rather, by providing signage, marketing materials and sales support to the distributors and their retailers under the marketing program, we raise the profile of our products and the awareness of our brands at the retail level. Selling to these distributors helps us to diversify our customer base. Additionally, selling directly to distributors which then sell directly to retailers can reduce the layers in the distribution chain potentially leading to greater margins for us, the distributors, or the retailers.

Following the Sale of Honesty Group and SGOCO (Fujian), we operate on a "light-asset" business model which is marketing-driven with multiple brands all under the marketing program. Our business model consists of the following three key elements:

1. an actively-managed portfolio of brands that have strong local appeal;
2. a world-class quality, design engineering, and product development capability; and
3. a "light-asset" model that provides the flexibility to source from low-cost suppliers meeting our high quality standards.

We have integrated these three elements through a distinct distribution channel in the form of a national network of distributors and retail sales sources operating under the "SGOCO Image" name. Consequently, we believe we are able to leverage opportunities across the entire value chain and create a competitive advantage for SGOCO. We may use the proceeds and intercompany payables received from the Sale of SGOCO (Fujian) to perform business acquisitions and develop new products.



## ***Our Industry***

### ***China's Economy***

Large, Fast Growing Chinese Economy. China is the world's most populous country. It had a population of 1.4 billion as of the end of 2014 according to the Census Bureau of China. China's National Bureau of Statistics reports that gross domestic product, or GDP, grew from \$5.0 trillion in 2009 to \$10.4 trillion in 2014, representing a compound annual growth rate, or CAGR, of 13.3%.

Increasing Consumption. China has overtaken Japan to become the world's second largest economy behind the U.S. Despite average saving rates of one-third of individual income, a joint report from the American Chamber of Commerce and Booz & Co. predict that China is likely to become the second-largest consumer market in the world by 2015 trailing only the U.S.

According to a June 2012 report released by International Data Corporation (IDC), China's consumers who own terminal products are expected to exceed 150 million by 2015, China's PC shipments should continue to grow at a double-digit rate until 2016. Lower tier cities are driving China's PC market growth.

Urbanization Trend. China has witnessed a growing trend toward urbanization in the past decade. According to the 2014 annual statistic report issued by National Bureau of Statistics of China, the urban population was 749.2 million, representing 54.8% of the overall population in China as of December 31, 2014 compared to approximately 20% in the early 1980s. China's urbanization strategy will be further enhanced as a state policy to increase internal demand and consumption.

### ***Global LCD/LED Industry***

The recovery of sovereign debt crisis in Europe did not lead to strong demand. The U.S. has continued to recover modestly. The growth momentum in emerging economies was less than expected due to reduced demand for exports, and disappointing domestic consumption as consumers restrained their spending in an uncertain environment. In addition, the credit tightening and economic slowdown in PRC also reduced the growth momentum in the overall environment. As a result, the demand for PC and monitors was sluggish in 2014.

Sales of computer monitors are often correlated with the sale of personal computers. In January and March 2015, IDC reported that the global unit shipments in 2014 declined by 2.1 percent compared with 2013. IDC also expected the global unit shipments will have a further decline of 4.9% in 2015. On the other hand, there has been increasing demand for mobile devices, including tablet computers. With the change of users' behavior, it led to the contraction of the traditional computer monitor market.

### ***China's LCD/LED Industry***

China is now the world's largest market for PCs.

According to the IDC expectation on China PC market in 2015, IDC expects that the China PC market would continue to decline as the anti-corruption campaign continues to suppress commercial spending ..

We believe the demand for PCs and LCD/LED monitors in China will continue to decrease due to increasing popularity of mobile devices. According to a governmental report released by the China Internet Network Information Center (CNNIC), as of June 30, 2014, the population of China's internet users climbed to 632.0 million, 14.0 million more than the end of 2013. The internet penetration rate in China has reached 46.2%, an increase of 0.4% from 2013.

The Chinese Ministry of Industry and Information Technology estimated that China's Internet population will reach roughly 800 million users by 2015. Mobile Internet access is expected to further drive internet penetration in order to reach this goal. On June 30, 2014, the mobile internet users in China reached 527.0 million, an annual growth rate of 13.6% compared with June 2013.

## ***SGOCO Products***

We offer LCD/LED products with a full set of features designed to appeal to a wide range of retail and commercial customers. Our current product lines on sale include:

1. LCD/LED monitors with screen sizes up to 40 inches;
2. AIO and PIO computers; and
3. Application-specific LCD/LED display products, such as tablet PCs for commercial and consumer use, all-in-one e-reader notebooks, cell phone devices, mobile internet devices, e-boards that integrate software and hardware functionalities, rotating screens, CCTV monitors for security systems, billboard monitors for advertising and public notice systems, as well as touch screens for non-keyed entries.

Our products including custom systems are subject to statutory warranty obligations. Generally, these requirements obligate our outsourced manufacturers to a one-year repair or replace obligation. If the product cannot be repaired after two attempts during the one-year warranty period, the manufacturers or suppliers must offer the end customer a replacement.

In addition, the display panel manufacturers offer us a one-year warranty. Although our warranty obligations to our customers for the display panels are essentially borne by our manufacturers, the product failures could increase the warranty costs of our display panel manufacturers who may then transfer their costs to us and ultimately to the end-customers.

## ***Research and Development***

SGOCO has its own research and development capabilities with its in-house R&D team. In a rapidly changing market such as LCD/LED displays, the Company believes the ability to design products with the latest technical features is important to its competitive success. Introducing new features for which customers are willing to pay a premium price is an important part of the Company's strategy regarding its product mix. SGOCO believes its research and development capabilities are an important advantage as it looks to expand into the higher-margin, customized application-specific product market.

Because of our internal product development, we have developed a focused and compact line of high-quality LCD/LED products. We focus our research and development on appearance, design, utility, and major components such as mother-boards and high voltage switchboards.

To achieve a more cost efficient R&D process, we currently also outsource certain non-core R&D projects.

## ***Marketing and Distribution***

We have three primary brands that we own. These brands are:

1. SGOCO, our flagship brand;
2. POVIZON; and
3. No. 10.

For the year ended December 31, 2014, sales of our own-brand and licensed products represented all of our total sales. Following the adoption of our "light-asset" business model in 2011, the percentage of our own-brand sales increased while OEM sales were de-emphasized since 2012 and became nil in year ended December 31, 2014. We may use the proceeds and intercompany payables received from the Sale of SGOCO Fujian to perform business acquisition and develop new products,

The Chinese retail computer market is still dominated by small, do-it-yourself (DIY) or custom-made PC retailers operating out of small stores or kiosks in large “Computer City” malls. To penetrate this market, we concentrated our own-brand sales through large, financially strong, electronics distributors. We believe these distributors are the best way to profitably reach the fragmented Chinese market. The distributors have the geographical customer coverage, logistical support facilities and effective credit controls necessary to properly service this market. While large consumer electronics retail chains exist in China, these chains have only recently begun to penetrate China’s large Tier 3 and Tier 4 cities. Moreover, sales to China’s large retail chains often have low margins and long payment terms.

As part of our brand-building strategy, we sell to distributors rather than selling directly to retailers. By providing signage, marketing materials and sales support to distributors and their retailers, we raise the profile of our products and the awareness of our brands at the retail level. Selling to these distributors helps us to diversify our customer base. Additionally, selling directly to distributors who then sell directly to retailers can reduce the layers in the distribution chain. That potentially leads to greater margins for us, the distributors, or the retailers.

Our key target markets are China’s rapidly growing Tier 3 and Tier 4 cities. China classifies its cities based upon population size, income and GDP. While Tier 1 cities include metropolitan cities like Beijing, Shanghai, Guangzhou and Shenzhen, we believe the market opportunities and sales growth potential in Tier 3 and Tier 4 cities are significant. We believe most of our competitors in Tier 3 and Tier 4 cities are relatively unsophisticated “shanzhai” or “knock-off” manufacturers offering generic brands that lack the international quality standard and significant set of features of SGOCO products.

International brands in China’s Tier 3 and Tier 4 cities typically have a more layered distribution chain that results in less attractive pricing or margins for end distributors and retailers. Moreover, customers in Tier 3 and Tier 4 cities are less brand conscious and more value oriented.

Our goal is to establish a significant market position in selected Tier 3 and Tier 4 cities. As such, we have focused our marketing and sales efforts on those portions of the Chinese market and plan to grow our international presence in the future.

### **Competition**


The LCD/LED industry has evolved through rapid innovation and evolved over the last decade to enable the commercialization of LCD/LED products.

We compete in this increasingly dynamic and demanding market along with international players and numerous Chinese LCD/LED products companies. Many of those companies are panel makers, equipment vendors, application developers, and product distributors. Companies that directly compete with us would be system integrators that have their own distribution channels and focus on providing quality branded products.


Most Chinese companies such as the largest LCD/LED display company, TPV Technology Ltd. with its flagship brand AOC, are more focused on producing high-volume OEM products. Those products have lower margins, higher fixed costs and are more vulnerable to fluctuations in key-material cost changes.

Our current major competitors include but are not limited to AOC, Samsung, Apple, Phillips, Great Wall, LG, HKC, Viewsonic, and BenQ.

### **Intellectual Property**

Prior to the Sale of Honesty Group, Guanke submitted applications to transfer three trademarks to SGOCO International: “SGOCO”, “Shangwei” (Chinese name for SGOCO) and “POVIZON;” and Guanwei submitted an application to transfer one trademark  to SGOCO International.

The State Trademark Bureau examined and approved the “SGOCO” trademark transfer on July 31, 2012 and the remaining trademark transfers were approved on May 20, 2012.

Since March 1, 2013, SGOCO owns the following trademarks: “SGOCO”, “Shangwei” (Chinese name for SGOCO),  and “POVIZON”

There are no legal disputes pending or threatened against us for any claimed intellectual property infringement as of the date of this Annual Report.

#### ***Brand-Usage Agreement***

In June 2010, we entered into a three-year brand usage agreement with TCL Business System Technology (Huizhou) Co. Ltd., a Chinese television manufacturer and distributor, pursuant to which the Company will design and sell TCL branded LCD/LED monitors from July 1, 2010 to June 30, 2013. There are no minimum purchase requirements in the agreement.

On April 1, 2012, the Company contracted with TCL Business System Technology (Huizhou) Co. Ltd. (“TCL Huizhou”) to be the exclusive distributor in China for TCL brand display products. This agreement effectively replaces the June 2010 agreement signed with TCL Huizhou. The agreement was terminated in November 2013 and we did not sell any products under the TCL brand throughout the fiscal year 2014.

#### **C. Regulations.**

##### ***Chinese government subsidies***

We are entitled to receive grants from the PRC municipal government under various local government programs. For the years ended December 31, 2014, 2013 and 2012, we received grants of \$0.3 million, \$0.3 million, and nil, respectively, from the PRC municipal government. The grants that we received in 2014 and 2013 did not have specific requirements of usage or other condition, and they were recorded as other income upon receipt.

##### ***Environmental***

After the Sale of Honesty Group, SGOCO was not subject to environmental impact evaluations by the local Environmental Protection Bureau.

##### ***Foreign Exchange Control and Administration***

Foreign exchange in China is primarily regulated by the Foreign Currency Administration Rules (1996) and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996).

Under the Foreign Currency Administration Rules, the RMB is convertible for current account items, including distributing dividends, making interest payments, and engaging in trade and service-related foreign exchange transactions. Conversion of RMB into foreign currency for capital account items, such as direct investment, loans, investment in securities and repatriation of funds, however, is still subject to SAFE’s approval. Under the Administration Rules, foreign-invested enterprises may only buy, sell and remit foreign currencies at banks authorized to conduct foreign exchange transactions after providing valid commercial documents and, in the case of capital account item transactions, only after obtaining approval from SAFE.

Under the Foreign Currency Administration Rules, foreign invested enterprises must complete the foreign exchange registration and obtain the registration certificate. SGOCO (Fujian), Beijing SGOCO and SGOCO Shenzhen have complied with these requirements. The profit repatriated to us from SGOCO (Fujian), Beijing SGOCO and SGOCO Shenzhen, however, are not subject to the approval of the foreign exchange authority, because it is a current account item transaction.

The value of the RMB against the U.S. Dollars and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. Historically, the conversion of RMB into foreign currencies, including U.S. Dollars, has been based on rates set by the People’s Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. Dollars. Under the new policy, the RMB is permitted to fluctuate within a band against a basket of certain foreign currencies.

On June 19, 2010, the People’s Bank of China released a statement indicating that it would “proceed further with reform of the RMB exchange rate regime and increase the RMB exchange rate flexibility.” There remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the RMB’s value against the U.S. Dollars.

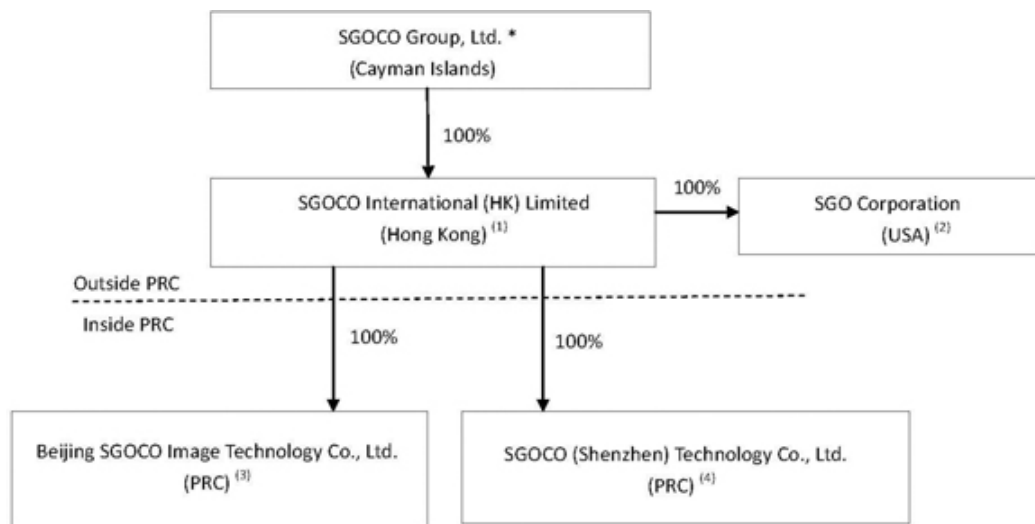
On March 17, 2014, the People’s Bank of China announced that the RMB exchange rate flexibility increased to 2% in order to proceed further with reform of the RMB exchange rate regime. These could result in a further and more significant floatation in the RMB’s value against the U.S. Dollars.

**Regulation on PRC Resident’s Participation of Share Option Plan Offered by an Offshore Company**

The regulations governing foreign exchange matters of PRC residents promulgated by the People’s Bank of China require an employee share option plan or restricted share unit scheme offered by an offshore listed company to be filed with and approved by SAFE. A special bank account must be opened in the PRC to receive, and subsequently allocate to the participating PRC residents, the proceeds or dividends derived from such share option plan.

**D. Organizational structure.**

The following diagram sets forth our corporate structure as of the date of this Annual Report:



- (1) The director of SGOCO International is Mr. Tin Man Or and Mr. Shi-bin Xie is the officer of SGOCO International.
- (2) SGO is SGOCO’s operational subsidiary in the U.S. The sole officer and director of SGO is Mr. Shi-bin Xie.
- (3) Beijing SGOCO is one of SGOCO’s operational subsidiaries in the PRC. The officer of Beijing SGOCO is Mr. Shi-bin Xie. The legal representative of Beijing SGOCO is Mr. Qing-hong Deng.
- (4) SGOCO Shenzhen is one of SGOCO’s operational subsidiaries in the PRC. The officer of SGOCO Shenzhen is Mr. Shi-bin Xie. The legal representative of SGOCO Shenzhen is Mr. Wen-li Hong.

## **E. Property, plant and equipment.**

After the Sale of SGOCO (Fujian) and Honesty Group in December 2014 and November 2011, respectively, SGOCO has no production facility but owns equipment used for research and development. It also owns office equipment. Its principal office is located in Hong Kong. Its operating companies are located in Beijing, Shenzhen, China.

## **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### **A. Operating results.**

*The following discussion should be read in conjunction with the audited consolidated financial statements and related notes which appear elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed elsewhere in this Annual Report, including those set forth under “Item 3. Key Information — D. Risk Factors.”*

Our financial statements are prepared in U.S. \$ and according to accounting principles generally accepted in the U.S. See “Foreign Exchange Risk” below for information concerning the exchange rates at which RMB were translated into U.S. Dollars at on various pertinent dates and for pertinent periods.

#### **Overview**

We are a Cayman Islands company that is focused on developing our own-brands and distributing our branded products in the Chinese flat-panel display market. Our main products are LCD/LED monitors, All-in-One (“AIO”) and Part-in-One (“PIO”) computers and other application-specific products.

As of December 31, 2014, our primary business operations were conducted through SGOCO International, and its wholly owned PRC subsidiary, SGOCO Shenzhen. Our main focus is on developing branded LCD/LED products for sale to the display market.

Currently, LCD/LED monitors form the core of our product portfolio. Our mission is to offer high quality LCD/LED products under brands that we control and license such as “SGOCO,” “No. 10,” and “POVIZON” to consumers residing in China’s Tier 3 and Tier 4 cities.

We are also developing and selling AIO and PIO computer through our distribution network.

Currently, the majority of our product sales are made to large, well-established, electronics distributors and trading companies, which then sell our products through their own sales channels.

We do not sell our products directly to retailers. However, by providing signage, marketing materials and sales support to distributors and their retailers under the marketing program, we raise the profile of our products and the awareness of our brands at the retail level. Selling to these distributors helps us to diversify our customer base. Additionally, selling directly to distributors who then sell directly to retailers can reduce the layers in the distribution chain potentially leading to greater margins for us, the distributors, or the retailers.

Following the Sale of Honesty Group and SGOCO (Fujian), we operate on a “light-asset” business model, which is marketing-driven with multiple brands. Our business model consists of the following three key elements:

1. an actively-managed portfolio of brands that have strong, local appeal;

2. a world-class quality, design engineering, and product development capability that supports our distribution channels and brand portfolio; and
3. a “light-asset” model that provides the flexibility to source from low-cost suppliers that meet our high quality standards.

By integrating these three elements, we are able to leverage opportunities across the entire value chain and create a competitive advantage for SGOCO.

In evaluating our financial condition and results of operations, attention should be drawn to the following areas:

1. *Sale of SGOCO (Fujian).*

On December 24, 2014, the Company entered into a Sale and Purchase Agreement (“SPA”) to sell its 100% equity ownership interest in SGOCO (Fujian) to Apex, which is an independent third party with interests in real estate and forestry products. Apex previously purchased Honesty Group, SGOCO’s prior manufacturing business, on November 15, 2011. The Company considers December 31, 2014 as the disposal effective date since the operational and management control over SGOCO (Fujian) was shifted from SGOCO to Apex on December 31, 2014.

The sales price for all the equity of SGOCO (Fujian) is equivalent to the net asset value of SGOCO (Fujian) on December 31, 2014 calculated on the basis of Chinese Accounting Standards. The final amount is \$11.0 million (the “Sale Price”). The Sale of SGOCO (Fujian) allowed SGOCO to restructure the business and reduce the reliance of traditional flat panel LED and LCD monitor products. It provided greater flexibility and scalability for the Company’s business model, which enables the Company to focus on finding new business acquisition opportunities and exploring new products.

The operations of SGOCO (Fujian) are reflected in our 2014 financial statements through December 31, 2014, which was the completion date of the sale of SGOCO (Fujian). As a result, past performance may not be indicative of future performance.

2. *Sale of Honesty Group.*

On November 15, 2011, the Company entered into a Sales and Purchase Agreement to sell its 100% ownership interest in Honesty Group to Apex for \$76.0 million in total consideration. The Agreement was signed by both the Seller and the Purchaser; shareholder ownership was transferred; and the director of Honesty Group was changed the same day.

The Company’s management considers November 30, 2011 as the disposal effective date since the operational and management control over Honesty Group was shifted from SGOCO to Apex on November 30, 2011.

The consideration was paid in installments and was paid in full in May 2012.

Mr. Tin Man Or owns 100% of Sun Zone. As of the date of this Annual Report, Sun Zone owned approximately 51.9% of the outstanding ordinary shares of SGOCO. Ms. Shuk Yu Wong is the spouse of Mr. Tin Man Or. Ms. Ming Suen Jorine Or is the daughter of Mr. Tin Man Or. Mr. Tin Man Or is also Chairman of our company and Sun Zone.

Prior to the Sale of Honesty Group, including its manufacturing assets, to Apex, Apex was an independent third party. It had no relationships with any of SGOCO’s Board members or management in 2011 and 2014 (including former Chairman and CEO, Mr. Burnette Or, Chairman Mr. Tin Man O); Ms. Shuk Yu Wong; and Ms. Ming Suen Jorine Or. In addition, Apex had no relationship with Sun Zone.

Honesty Group and its subsidiaries represented our core manufacturing facility along with land, buildings and production equipment. The Sale of Honesty Group allowed us to transition to a “light-asset” business model with greater flexibility and scalability. This model allows us to focus our operations on designing, branding, marketing and distributing LCD/LED products in China. Following the Sale of Honesty Group, the Company outsourced its manufacturing operations to Honesty Group.

The operations of Honesty Group are reflected in our 2011 financial statements through November 30, 2011, which was the completion date of the sale of Honesty. As a result, past performance may not be indicative of future performance;

3. *Limited operating history.* We have a limited operating history, and our future prospects are subject to risks and uncertainties beyond our control. Honesty Group commenced its business in 2005 and expanded its operations in recent years. In addition, we changed our strategic marketing, distribution, and business model in recent years; and
4. *Currency Conversions.* Our former PRC subsidiary, SGOCO (Fujian), and our current PRC subsidiaries, Beijing SGOCO and SGOCO Shenzhen, maintain their books and records in RMB, the lawful currency of China. In general, for consolidation purposes, we translate the subsidiaries' assets and liabilities using the applicable closing exchange rates prevailing at the balance sheet date, and the statements of income and cash flows are translated at the applicable average exchange rates during the reporting period. Adjustments resulting from the translation of the subsidiaries' financial statements are recorded as accumulated other comprehensive income.

The balance sheet amounts with the exception of equity were translated using RMB6.12 and RMB6.10 to \$1.00 at December 31, 2014 and 2013, respectively. The equity accounts were stated at their historical exchange rates. The average translation rates applied to the income and cash flow statement amounts for the years ended December 31, 2014, 2013, and 2012 were RMB6.14, RMB6.20 and RMB6.31 to \$1.00, respectively.

### ***Critical Accounting Estimates***

Our management’s discussion and analysis of our financial condition and results of operations is based on our audited consolidated financial statements included with this Annual Report which have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Preparing financial statements in accordance with U.S. GAAP requires that our management make estimates and assumptions affecting:

1. the reported amounts of assets and liabilities, including the recoverability of tangible and intangible assets;
2. disclosure of contingent assets and liabilities as of the date of the financial statements; and
3. the reported amounts of expenses during the periods covered.

A summary of accounting policies that have been applied to the historical financial statements can be found in the Notes to the Consolidated Financial Statements.

Our management evaluates our estimates on an on-going basis. The most significant estimates relate to collectability of receivables and the fair value and accounting treatment of financial instruments. We based our estimates on our historical and industry experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those estimates.

The following is a brief discussion of these critical accounting policies and methods, and the judgments and estimates used by us in their application:



### *Accounts receivable and other receivables*

Our management reviews the composition of receivables and analyzes historical bad debts, customer concentration, customer credit worthiness, current economic trends and changes in customer payment patterns to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Delinquent account balances are written-off after management has determined that the likelihood of collection is not probable. In addition, known bad debts are written off against the allowance for doubtful accounts when identified.

While we loosen credit terms for customers that have had long-term relationships with us, we also perform credit checks on new customers to determine their financial strength. Further, as a part of the allowance assessment process, our management reviews payment history.

The aforementioned procedures all rely on historical performance. However, historical results are not indicative of future collection performance, which may expose us to adjustments with a material impact on our financial performance.

Certain of our accounts receivable are sold with recourse to banks in Hong Kong. The sales of these receivables have been accounted for as short-term loans, as we have not met the criteria for sale treatment in accordance with Accounting Standards Codification (ASC) 860-30, Transfers and Servicing - Secured Borrowing and Collateral. The principal amount of the accounts receivable sold with recourse is included in both accounts receivable, net and short-term loan until the underlying obligations are ultimately satisfied through payment by the customers to the banks. As of December 31, 2014 and 2013, the principal amount of such factored receivable included in accounts receivable, net and short-term loan in the accompanying consolidated balance sheets totaled nil and \$2.6 million, respectively.

### *Fair value of financial instruments*

We generally do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks. However, certain financial instruments, such as warrants, which are denominated in U.S. Dollars, a currency other than RMB, our functional currency and therefore not considered as indexed to our own stock, are classified as derivative liabilities. Determining the fair value of derivative financial instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest-rate risk, credit risk, and equivalent volatility. The use of different assumptions could have a material effect on the estimated fair values.

### *Share-based compensation*

We account for equity instruments issued in exchange for the receipt of goods or services from consultants in accordance with the accounting standards regarding accounting for stock-based compensation and accounting for equity instruments that are issued to other than employees for acquiring or in conjunction with selling goods or services. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably determinable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services as defined by these accounting standards. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement if there is a term.

We account for equity instruments issued in exchange for the receipt of services from employees in the financial statements based on their fair values at the date of grant. The fair value of awards is amortized over the requisite service period.

## Analysis of Results of Operations

### Comparison of Fiscal Years Ended December 31, 2014 and 2013

#### Revenue

Our sales were \$43.2 million for the year ended December 31, 2014, which decreased by \$157.8 million, or 78.5% from \$201.0 million in the year ended December 31, 2013. The decrease in sales revenue was primarily attributable to the decrease in sales volume on weak industry growth of the traditional computer monitor market resulting from the customers' change of consumption preference to the mobile device.

Sales revenue from our top ten customers was approximately \$35.4 million, or 82.0% of the total sales for the year ended December 31, 2014, which compared with \$143.4 million, or 71.3% of total sales generated from our top ten customers for the year ended December 31, 2013. The top two customers accounted for 51.7% and 36.5% of total sales in 2014 and 2013, respectively. We concentrate our sales efforts in the Tier 3 and Tier 4 cities to large local distributors that include state-owned enterprises, listed companies, and overseas trading companies. We choose our distributors based on selection criteria, which includes their local presence, distribution channels, working capital conditions, and the feasibility of building long-term relationships with the ones with which we are able to negotiate the most favorable terms.

The percentage of revenues from SGOCO Brand and Licensed Brands, Key Accounts sales and others for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
SGOCO Brand and Licensed Brands	100.0%	69.2%
Key Accounts sales	-	24.6
Others	-	6.2
	<u>100.0%</u>	<u>100.0%</u>

#### Cost of goods sold

For the year ended December 31, 2014, cost of goods sold decreased by \$143.8 million, or 77.7%, to \$41.2 million from \$185.0 million for the year ended December 31, 2013. The decrease in the cost of goods sold was in line with the decrease in sales.

After the Sales of Honesty Group in 2011, our cost of goods sold consisted of the cost of finished products purchased from outsourced manufacturers, including Honesty Group and its subsidiaries and other suppliers. The amount of finished products purchased from Honesty Group and its subsidiaries for the fiscal years ended December 31, 2014 and 2013 is shown below:

	2014	2013
	(In thousands)	(In thousands)
Purchases from Guancheng	\$ 5,286	\$ 5,104
Purchases from Guanke	6,938	125
Purchases from Guanwei	-	705
Purchases from Honesty Group	7,076	72,583
Total purchases from Honesty Group and its subsidiaries	<u>\$ 19,300</u>	<u>\$ 78,517</u>

#### Gross margin

Gross profit for the fiscal year ended December 31, 2014 was \$2.0 million, a decrease of \$13.9 million, or 87.3% from \$15.9 million for the prior fiscal year. As a percentage of total sales, our overall gross margin was 4.7% for the year ended December 31, 2014 as compared to 7.9% for the previous fiscal year. The decrease in gross margin was mainly due to the increased price competition in China.

#### Selling expenses

During the year ended December 31, 2014, selling expenses were approximately \$0.3 million, a decrease of \$0.8 million, or 72.3%, from \$1.1 million compared with the prior fiscal year.

The year-over-year decrease in selling expenses was primarily due to the decrease in sales volume. Selling expenses include sales staff's salary and benefits, transportation and marketing program expenses, etc. Selling expenses for the fiscal year ended December 31, 2014 were 0.7% of total revenues, as compared with 0.5% of total revenues for the prior fiscal year.

#### *General and administrative expenses*

General and administrative expenses amounted to approximately \$3.1 million for the year ended December 31, 2014, \$0.7 million or 19.3% lower than \$3.8 million for the previous fiscal year.

General and administrative expenses include office staff salary and benefits, legal, auditors' and consultants' fees, office expenses, travel expenses, entertainment, research and development and similar costs. The decrease in general and administrative expenses was mainly due to reduction in staff costs and tightened cost control. However, the proportion of decrease in general and administrative expenses was slower than the decrease in revenues as most of the general and administrative expenses, including the professional expenses and listing related expenses, were fixed costs .

#### *Interest expense*

Interest expense was approximately \$304,000 for the fiscal year ended December 31, 2014, an increase of \$44,000, or 16.9%, from \$260,000 in the previous fiscal year.

#### *(Loss) Income before provision for income taxes*

As a result of the foregoing factors including the significant decrease in sales and gross profit, loss before provision for income taxes became \$1.0 million for the year ended December 31, 2014, an increase in loss of \$12.0 million, from a income position of \$11.0 million for fiscal year of 2013.

#### *Provision for income taxes*

Provision for income tax was \$1.3 million in the fiscal year of 2014 as compared with \$2.6 million for the fiscal year of 2013.

There were no significant income tax rate changes for any of the Company's legal entities in 2014. Our PRC entities in 2014 and 2013 were subject to the statutory PRC enterprise income tax rate of 25%. Our subsidiary in Hong Kong is subject to Hong Kong taxation on income deriving from its activities conducted in Hong Kong at a rate of 16.5%.

Included in the income taxes for the year ended 31 December 2014 was a \$0.9 million provision related to the Sale of SGOCO (Fujian). According to the Circular on the State Administration of Taxation on Strengthening the Management of EIT Collection of Proceeds from Equity Transfers by Non-Resident Enterprises (Guoshuihan [2009] No. 698) and the State Administration of Taxation Notice [2015] No. 7, a non-PRC Tax Resident Enterprise is subject to the PRC EIT on the taxable gain arising from a sale or transfer of any intermediate offshore company that directly or indirectly holds an interest, including any assets, subsidiaries, or other forms of business operations, in the PRC at a rate of 10%, or otherwise stipulated rate in an applicable tax treaty or arrangement. Circular No. 698 applies to all such transactions conducted on or after January 1, 2008. Any late payment of this tax will be subject to interest at 0.05 percent per day.

#### *Net (loss) income*

As a result of the various factors described above, net loss for the year ended December 31, 2014 was \$2.3 million, as compared to net income of \$8.4 million for 2013. The net margin experienced a loss of 5.3% for the year ended December 31, 2014, as compared to 4.2% net profit margin during the same period of 2013. The loss margin in 2014 was primarily attributable to drop of revenues and decrease in gross margin of our products sold.

## Comparison of Fiscal Years Ended December 31, 2013 and 2012

### Revenue

Our sales were \$201.0 million for the year ended December 31, 2013, which increased by \$34.3 million, or 20.6% from \$166.7 million in the year ended December 31, 2012. The increase in sales revenue was primarily attributable to the increase in sales volumes for our display products which offset the decrease in the average selling price and additional revenue contribution from new products launched.

Sales revenue from our top ten customers was approximately \$143.4 million, or 71.3% of the total sales for the year ended December 31, 2013, which compared with \$117.9 million, or 70.7% of total sales generated from our top-ten customers for the year ended December 31, 2012. The top two customers accounted for 36.5% of total sales in 2013. We concentrate our sales efforts in the Tier 3 and Tier 4 cities to large local distributors that include state-owned enterprises, listed companies, and overseas trading companies. We choose our distributors based on selection criteria, which includes their local presence, distribution channels, working capital conditions, and the feasibility of building long-term relationships with the ones with which we are able to negotiate the most favorable terms.

The percentage of revenues from SGOCO Brand and Licensed Brands, Key Accounts sales and others for the years ended December 31, 2013 and 2012 are as follows:

	For the years ended December 31,	
	2013	2012
SGOCO Brand and Licensed Brands	69.2%	70.6%
Key Accounts sales	24.6	29.4
Others	6.2	-
	<u>100.0%</u>	<u>100.0%</u>

### Cost of goods sold

For the year ended December 31, 2013, cost of goods sold increased by \$30.8 million, or 20.0%, to \$185.0 million from \$154.2 million for the year ended December 31, 2012. The increase in the cost of goods sold was in line with the increase in sales.

After the Sales of Honesty Group, our cost of goods sold consisted of the cost of finished products purchased from outsourced manufacturers, including Honesty Group and its subsidiaries and other suppliers. The amount of finished products purchased from Honesty Group and its subsidiaries for the fiscal year ended December 31, 2013 was \$78.5 million as shown below:

	(In thousands)
Purchases from Guancheng	\$ 5,104
Purchases from Guanke	125
Purchases from Guanwei	705
Purchases from Honesty Group	72,583
Total purchases from Honesty Group and its subsidiaries	<u>\$ 78,517</u>

### Gross margin

Gross profit for the fiscal year ended December 31, 2013 was \$15.9 million, an increase of \$3.4 million, or 27.6% from \$12.5 million for the prior fiscal year. As a percentage of total sales, our overall gross margin was 7.9% for the year ended December 31, 2013 as compared to 7.5% for the previous fiscal year. The increase in gross margin was mainly due to the Company's efforts in securing businesses with higher gross profit margins and better cost efficiency gained through sourcing from suppliers offering lower product costs during the year.

### *Selling expenses*

During the year ended December 31, 2013, selling expenses were approximately \$1.1 million, an increase of \$0.4 million, or 60.1%, from \$0.7 million compared with the fiscal year.

The year-over-year increase in selling expenses was primarily due to the increase in sales volume and the establishment of our new sales office in Shenzhen. Selling expenses include sales staff's salary and benefits, transportation and marketing program expenses, etc.

### *General and administrative expenses*

General and administrative expenses amounted to approximately \$3.8 million for the year ended December 31, 2013, \$1.5 million or 28.6% lower than \$5.3 million for the previous fiscal year.

General and administrative expenses include office staff salary and benefits, legal, auditors' and consultants' fees, office expenses, travel expenses, entertainment, research and development and similar costs. The decrease in general and administrative expenses was mainly due to reduction in professional fees by \$1.7 million related to the Company's NASDAQ trading halt and changing auditors in 2012.

Selling, general and administrative expenses for the fiscal year ended December 31, 2013 were \$4.9 million, or 2.4% of total revenues, as compared with \$6.0 million, or 3.6% of total revenues for the prior fiscal year.

### *Interest expense*

Interest expense was approximately \$0.3 million for the fiscal year ended December 31, 2013, an increase of \$0.2 million, or 329.6%, from \$0.1 million in the previous fiscal year. The increase in interest expense was due to the addition of a one-year bank loan of \$4.1 million from China Everbright Bank and the increase of discounting of accounts receivable with recourse to banks in order to generate faster cash flows in 2013 as compared to 2012.

### *Income before provision for income taxes*

As a result of the foregoing factors including increased sales and gross profit, income before provision for income taxes was \$11.0 million for the year ended December 31, 2013, an increase of \$4.6 million, or 72.3% from \$6.4 million for fiscal year of 2012.

### *Provision for income taxes*

Provision for income tax was \$2.6 million in the fiscal year of 2013 as compared with \$2.2 million for the fiscal year of 2012.

There were no significant income tax rate changes for any of the Company's legal entities in 2013. Our PRC entities in 2013 and 2012 were subject to the statutory PRC enterprise income tax rate of 25%. Our subsidiary in Hong Kong is subject to Hong Kong taxation on income deriving from its activities conducted in Hong Kong at a rate of 16.5%. Excluding the tax effect of the non-taxable fair value change in warrant derivative liability and the loss incurred by certain of our PRC subsidiaries and our holding company incorporated in the Cayman Islands, effective income tax rates were 20.7% and 23.6% in 2013 and 2012, respectively.

### *Net income*

As a result of the various factors described above, net income for the year ended December 31, 2013 was \$8.4 million, as compared to \$4.2 million for 2012. The net income margins were 4.2% and 2.5% for the years ended December 31, 2013 and 2012, respectively. The higher margin in 2013 was primarily attributable to improvement on gross margins of our products sold and reduction in professional fees.

### *Inflation*

According to the National Bureau of Statistics of China [www.stats.gov.cn](http://www.stats.gov.cn), the annual average percent changes in the consumer price index in China for 2014, 2013 and 2012 were an increase of 2.0%, an increase of 2.6%, and an increase of 2.6%, respectively.

We have not been materially affected by inflation in the past. But, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

### ***Analysis of Financial Condition***

#### **Comparison as of December 31, 2014 and December 31, 2013**

##### *Accounts Receivable*

Accounts receivable decreased to \$0.9 million as of December 31, 2014, from \$48.1 million as of December 31, 2013. The decrease in accounts receivable was primarily impacted by the Sale of SGOCO (Fujian) as the accounts receivables were part of the assets sold with SGOCO (Fujian). Accounts receivable on December 31, 2014 primarily represented the receivables of both SGOCO International and SGOCO Shenzhen.

Our major customers are large well-established distributors and trading companies with relatively strong financial strength and credits. Careful monitoring of the credit quality of our customers enabled us to avoid experiencing any major losses in our accounts receivable.

##### *Concentration of risks*

Our operations are carried out in the PRC and its operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. Our results may be adversely affected by changes in government policies regarding laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments that subject us to a concentration of credit risk consist of cash and accounts receivable. We maintain balances at financial institutions located in Hong Kong, China and the U.S. From time-to-time, balances in Hong Kong and the U.S. may exceed the Hong Kong Deposit Protection Board insured limits for the banks located in Hong Kong and FDIC deposit insurance limits for banks located in the U.S. Balances at financial institutions or state owned banks within the PRC are not insured. As of December 31, 2014 and 2013, we had deposits, in excess of insured limits totaling \$0.1 million and \$13.3 million, respectively. We have not experienced any losses in such accounts and believe we are not exposed to any significant risks to the cash in our bank accounts.

We provide unsecured credit terms for sales to certain customers. As a result, there are credit risks with the accounts receivable balances. We constantly re-evaluate the credit worthiness of customers buying on credit and maintain an allowance for doubtful accounts.

Sales revenue from two major customers was \$22.3 million, or approximately 51.7% of the Company's total sales for the year ended December 31, 2014, with each customer individually accounting for 37.8% and 13.9% of revenue, respectively. No other single customer accounted for more than 10% of the Company's total revenues in 2014. The Company's accounts receivable from these customers was approximately \$0.7 million as of December 31, 2014.

Sales revenue from two major customers was \$73.5 million, or approximately 36.5% of our total sales for the year ended December 31, 2013, with each customer individually accounting for 22.3% and 14.2% of revenue, respectively. No other single customer accounted for more than 10% of our total revenues in 2013. Our accounts receivable from these customers was approximately \$15.9 million as of December 31, 2013.

Sales revenue from three major customers was \$61.5 million, or approximately 36.9% of our total sales for the year ended December 31, 2012, with each customer individually accounting for 17.3%, 9.5% and 10.1% of revenue, respectively. No other single customer accounted for more than 10% of our total revenues in 2012. Our accounts receivable from these customers was approximately \$19.4 million as of December 31, 2012.

Two major vendors provided approximately 64.3% of total purchases (including 46.9% of purchases from Honesty Group) by the Company during the year ended December 31, 2014. The Company had no accounts payable due to these vendors as of December 31, 2014.

Two major vendors provided approximately 71.0% of total purchases (including 42.4% of purchases from Honesty Group) by the Company during the year ended December 31, 2013. The Company had made advances of \$32.8 million and a rental deposit of \$10,000 to these vendors as of December 31, 2013.

One major vendor (Honesty Group) provided approximately 77.4% of total purchases by us during the year ended December 31, 2012. We had made advances of \$9.4 million, rental deposit of \$10,000 and owed accounts payable to this vendor of \$2.0 million as of December 31, 2012.

#### *Inventory*

Inventory decreased to a minimal balance as of December 31, 2014 from \$7.0 million as of December 31, 2013. The significant decrease in inventory was primarily due to the Sale of SGOCO (Fujian) as the inventory was part of the assets sold with SGOCO (Fujian).

#### *Advances to suppliers*

Advances to suppliers decreased to \$0.1 million as of December 31, 2014 from \$33.8 million as of December 31, 2013. The significant decrease in advance to supplier was primarily due to the Sale of SGOCO (Fujian) as the advance to supplier was part of the assets sold with SGOCO (Fujian).

#### *Cash and cash equivalents*

As of December 31, 2014, the Company held \$0.1 million in cash and cash equivalents and \$85.2 million in working capital. As of December 31, 2013, we had \$13.5 million in cash and cash equivalents and \$87.6 million in working capital. The current ratios were 12.6 and 6.2 as of December 31, 2014 and 2013, respectively.

### **B. Liquidity and capital resources.**

After the Sale of SGOCO (Fujian), SGOCO's current asset position decreased while its capital expenditures and liabilities were reduced to a lower level with the "light-asset" business model. The liquidity ratios of the Company continue to improve and capital requirements continue to decrease.

Revenue in 2014 decreased 78.5%. After the Sale of SGOCO (Fujian), accounts receivable turnover was 1.76x (or a 207-day average collection period, or ACP) for the fiscal year of 2014, which compares with an accounts receivable turnover of 3.7x (or a 98-day average collection period, or ACP) from the prior fiscal year. The longer payment terms granted to customers were due largely to the Company's efforts in retaining quality distributors in the face of increased competition in China's general display markets.

Our 2014 inventory turnover rate slowed down to 11.7x (or 31 days on hand) from 29.0x (or 13 days on hand) in 2013. The slowdown in inventory turnover was primarily due to the reduction of inventory purchases to respond to the decrease of revenues.

We will monitor the market situation closely and may continue the strategy of prepaying our suppliers to ensure the supply of products at relatively lower cost levels. As of December 31, 2014, we had 1 supplier as compared to 9 suppliers as of December 31, 2013 that we had made advances to secure our products needs and to obtain favorable pricing. We will continue to closely manage these advances to balance the need for lower products cost and sufficient cash flow.

Costs of goods sold decreased in 2014 by 77.7%. However, at the same time we accelerated our accounts payable turnover to 31.0x (or 12 days average payment period) from 26.3x (or 14 days average payment period) in 2013. The speed with which we pay our vendors is balanced against our desire to maintain a continued, timely access to quality supplies of products.

Our principal source of liquidity in 2014 has been cash generated by our operations and borrowings. As of December 31, 2014, we held \$0.1 million in cash and cash equivalents and had working capital of \$85.2 million. Our cash and cash equivalents consist of cash on hand and demand deposits in accounts maintained with financial institutions or state owned banks within the PRC, Hong Kong and the U.S. As of the date of the Annual Report, we have received \$75.9 million from Apex in relation to the sale of SGOCO (Fujian), and the remaining \$15.5 million is due in June 2015 according to the payment schedule of the SPA. The capital will be used for new investments and exploring new products, including but not limited to acquiring equities of potential target companies related to electronic and internet-related businesses and enriching the Company's product range.

If we need to raise additional financing, we may sell additional equity or debt securities or borrow from lending institutions. Financing may be unavailable in the amounts we need or on terms acceptable to us. The sale of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash from working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and ability to pay dividends to shareholders, among other restrictions. If we cannot obtain additional equity or debt financing as required, we will, among other things, be required to tighten credit terms, hold less inventory, reduce advances to suppliers and slow down investment in capital expenditures, which would result in slower growth in revenues and profits.

#### *Debt*

During the year ended December 31, 2014, Sun Zone, a shareholder of the Company which is 100% owned by our Chairman, Mr. Tin Man Or, advanced \$0.6 million to the Company. As of December 31, 2014, \$0.5 million was repaid and the outstanding amount due to Sun Zone was \$0.1 million. The amount was non-interest bearing, unsecured and repayable on demand.

Pursuant to the SPA, Apex assumed all debt of SGOCO (Fujian). After the Sale of SGOCO (Fujian), SGOCO did not have any short-term loans or other loans from banks.

At December 31, 2014, we had agreements with banks in Hong Kong under which we sell trade receivables with recourse, but there is nil balance outstanding.

At December 31, 2013, we had agreements with banks in Hong Kong under which we sell trade receivables with recourse and a credit facility with China Everbright Bank in the PRC, as follows:

<u>Description</u>	<u>Principal Amount Outstanding (In thousands)</u>	<u>Interest Rate(s)</u>	<u>Expiration Date(s)</u>
Agreements for sale of receivables	\$ 2,633	1.6%-1.7%	January 21, 2014
Credit facility	\$ 4,101	7.2%	September 25, 2014

#### *Intercompany Loans and Capital Contributions*

We may make loans or additional capital contributions to our PRC subsidiaries to finance their operations. Any loans or capital contributions to our PRC operating subsidiaries are subject to restrictions or approvals under PRC laws, rules and regulations. For example, loans by us to our operating subsidiaries in China, which are foreign-invested enterprises, to finance their activities may not exceed statutory limits and must be registered with the local SAFE branch. We may also decide to finance our PRC operating subsidiaries by making additional capital contributions to such entities. The PRC Ministry of Commerce or its local counterparts must approve these capital contributions. We have been able to obtain these government approvals in the past. But, we cannot be sure that we will be able to obtain these government approvals on a timely basis, if at all, regarding any such loans or capital contributions. If we fail to receive such approvals, our ability to use the proceeds of any equity or debt offerings to capitalize our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.



## Related Party Transactions

During the year ended December 31, 2014, Sun Zone, a shareholder of the Company which is 100% owned by our Chairman, Mr. Tin Man Or, advanced \$0.6 million to the Company. As of December 31, 2014, \$0.5 million was repaid and the outstanding amount due to Sun Zone was \$0.1 million. The amount was non-interest bearing, unsecured and repayable on demand.

## C. Research and development, patents and licenses, etc.

### Product Development

Starting in 2009, we initiated several product development initiatives aimed at meeting evolving market demand and at strengthening our position as a value-priced producer of branded LCD/LED products.

We are designing, engineering and testing several new products for future introduction based on market demand: e-Boards; AIO; PIO; mobile internet devices such as tablet PCs; multi-touch screen monitors; 3D LCD/LED TVs; LED-backlit monitors; and large-scale, multi-screen display systems for advertising, public announcement and other institutional uses.

We are also creating prototypes of our own LED backlight module to replace conventional CFL backlights in a new family of thin LCD/LED monitors. We have historically outsourced a significant portion of our product development to third-party design houses working on a project basis. This has allowed us to control engineering expenses and increase revenues on a larger base. Going forward, we anticipate bringing more of these critical engineering functions in-house.

Research and development costs are expensed as incurred and are included in general and administrative expenses. The costs of material and equipment that are acquired or constructed for research and development activities and have alternative future uses are classified as plant and equipment and depreciated over their estimated useful lives. Research and development costs for the years ended December 31, 2014, 2013 and 2012 amounted to \$0.1 million, \$0.2 million and \$0.2 million, respectively.

## D. Trend information.

Other than as disclosed elsewhere in this document, we are not aware of any trends, uncertainties, demands, commitments or events since December 31, 2014 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

## E. Off-balance sheet arrangements.

We do not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements for other contractually narrow or limited purposes.

## F. Tabular disclosure of contractual obligations.

Our contractual obligations primarily consist of operating lease obligations and capital commitments. The following table sets forth a breakdown of our contractual obligations as of December 31, 2014, and their maturity profile:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Capital contributions <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -
Operating lease obligations <sup>(2)</sup>	334	254	80	-	-
Total	<u>\$ 334</u>	<u>\$ 254</u>	<u>\$ 80</u>	<u>\$ -</u>	<u>\$ -</u>

- (1) The registered capital of SGOCO Shenzhen is \$5.0 million. As of December 31, 2014, SGOCO International had not injected capital to SGOCO Shenzhen. Initially, SGOCO International is required to pay \$1.0 million and the remaining \$4.0 million within 3 months and within two years, respectively, of the date of issuance of the subsidiary's business license according to PRC registration capital management rules. According to the revised PRC company law which became effective on March 1, 2014, it has abolished the time requirement of the registered capital contributions. SGOCO International has its own discretion to consider the timing of the registered capital contributions. SGOCO International is in the process of amending the charter to adopt the requirement of the revised PRC company law.
- (2) Lease obligations for our office premises, warehouses, computer and other hardware.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and senior management.

Our directors and executive officers are set forth in the table below followed by a brief biography.

Name	Age <sup>1</sup>	Position
Tin Man Or	72	Chairman and Director
Frank Wu	43	Director
Pruby He	32	Director
John Chen	42	Director
Helen Hsu	44	Director
Shi-bin Xie	38	Chief Executive Officer and President
Johnson Lau	41	Chief Financial Officer
Tony Zhong	31	Vice President of Finance
Jin-feng Li	39	Vice President of Product Development

<sup>1</sup> As of March 31, 2015

*Tin Man Or, Chairman and Director.* Mr. Tin Man Or has been a director since April 1, 2010. Mr. Or has over 35 years of experience in the investment and marketing of the display and trading industries throughout Greater China. Mr. Or also owns Sun Zone, which is the major shareholder of SGOCO Group, Ltd. From 2005 to 2011, he served as General Manager of Honesty Group before SGOCO's sale of Honesty Group and transformation into a light-asset business model. Mr. Tin Man Or was appointed Chairman of the Board effective January 1, 2014. Before 2005, he served as General Manager in various private companies incorporated in Hong Kong that were engaged in investments and general trading businesses.

*Frank Wu, Director.* Mr. Frank Wu has been a director since April 1, 2010. He is currently Assistant General Manager of the Hubei Branch for Yingda Taihe Life Insurance Co. Prior to joining Yingda Taihe Life Insurance Co., Massachusetts Mutual Life Insurance's joint venture in China, Mr. Wu served as General Manager and Financial Supervisor for Northern China for the Beijing Branch of Anbang Insurance Co. from 2006-2007, when he was responsible for financial affairs in the Beijing area. Mr. Wu holds a Bachelor of Arts degree in business management from Beifang Technology University.

*Pruby He, Director.* Mr. Pruby He has been a director since June 30, 2014. Mr. He, aged 32, is an expert in internet industry and has ten years of experience in IT product development, media strategy and marketing. In the early 2014, he set up Bequ.com, a China based travel service platform which is designed to provide professional travel consultancy and extensive product line for individual needs. As the founder and CEO of Bequ.com, Mr. He operated the business and successfully raised funding from various private equity and venture capitals. Prior to that, he served as General Manager of Micromega Technology, Ltd and Product Manager of Arrow Electronics, ST microelectronics and QQ.com from 2004 to 2012. He holds a Bachelor degree in Electronic Engineering from the Chengdu University of Technology, China.

*John Chen, Director.* Mr. John Chen has been a director since November 16, 2010. Since May 2004, Mr. Chen has served as the Chief Financial Officer and Director of General Steel Holdings, Inc., a NYSE listed company. From October 1997 until May 2003, Mr. Chen served as a Senior Accountant at Moore Stephens Frazer and Torbet, LLP. Mr. Chen is a California Certified Public Accountant and holds a Bachelor of Science degree in business administration and accounting from California State Polytechnic University, Pomona, California, USA.

*Helen Hsu, Director.* Ms. Helen Hsu has been a director since April 26, 2013. She has over 20 years' experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a bachelor degree in business administration. Ms. Hsu had been working with Ernst & Young for 18 years and was a partner of Ernst & Young before she retired from the firm in February 2011. Ms. Hsu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu is currently an independent non-executive director of Perfect Shape (PRC) Holdings Limited (stock code: 1830), China Forestry Holdings Co. Ltd. (stock code: 930), Branding China Group Limited (stock code: 8219), Fujian Nuoqi Co., Ltd (stock code: 1353) and Richly Field China Development Limited (stock code: 313).

*Shi-bin Xie, Chief Executive Officer and President.* Mr. Xie has been appointed as Chief Executive Officer and President since November 1, 2014. He joined SGOCO in July 2012 as Vice President of Sales. He has over 15 years of experience in sales and marketing, specializing in Chinese display products. From 2010 to 2012, Mr. Xie served as Vice President of Sales in Shenzhen Dongqiao Huahan Technology Co., Ltd. From 2005 to 2010, Mr. Xie served as the General Manager of Shenzhen Qinghua Ziguang Technology Co., Ltd. Prior to that, Mr. Xie served sales and marketing manager roles in various companies in China from 1997 to 2005. Mr. Xie holds a Bachelor of Science in Engineering from the East China Institute of Technology.

*Johnson Lau, Chief Financial Officer.* Mr. Lau is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lau has over 17 years of experience in the accounting profession. Mr. Lau started his career in Deloitte in Hong Kong and Beijing from 1997 to 2004. Prior to joining SGOCO on July 2, 2013, Mr. Lau worked in various public companies in the United States and England as Director of Finance and CFO for ten years. He holds a bachelor degree in commerce from Monash University, Australia. Mr. Lau is currently an independent non-executive director of Sky People Juice, Inc. (NASDAQ: SPU).

*Tony Zhong, Vice President of Finance.* Mr. Zhong joined SGOCO in September 2011 as Finance Manager. Prior to joining SGOCO, Mr. Zhong was a Financial Manager of China Hydroelectric Corporation, an NYSE listed company, from 2007 to 2011. Mr. Zhong started his career in KPMG in Beijing from 2005 to 2006. He holds a Bachelor of Arts in Finance, Accounting and Management from Nottingham University, UK, and a Bachelor of Science in Applied Accounting from Oxford Brooks University, UK.

*Jin-feng Li, Vice President of Product Development.* Mr. Li joined SGOCO in October 2013. Mr. Li has over 15 years of experience in the design and engineering of electronic products. From 2010 to 2013, Mr. Li served as Vice President of the Research and Development Centre in Shenzhen Dongqiao Huahan Technology Co., Ltd. Mr. Li served several engineer and product development manager roles in various companies in China from 1997 to 2010. Mr. Li holds a Diploma in Applied Electronics Technology from Central South University.

## **B. Compensation.**

The primary objectives of our compensation policies regarding executive compensation are to attract and retain the best possible executives to lead us and to properly motivate these executives to perform at the highest levels of which they are capable. Compensation levels established for our executives are designed to promote loyalty, long-term commitment and the achievement of its goals, to motivate the best possible performance and to award achievement of budgetary goals to the extent such responsibility is within the executive's job description. Compensation decisions regarding our named executive officers have historically focused on attracting and retaining individuals who could help us to meet and exceed our financial and operational goals. Our Board of Directors considers the growth of the Company, individual performance and market trends when setting individual compensation levels.

For the year ended December 31, 2014, the aggregate cash compensation paid to our executive officers was approximately \$422,000. There were 80,000 ordinary shares and stock options granted to executive officers in March 2015 for their service rendered.

Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits for our Chinese employees. Some of our directors and executive officers are Chinese citizens and we have provided the pension and retirement benefits in accordance to the statutory requirement in PRC. The remaining executives and directors are non-Chinese citizens and there are no mandatory requirements for the above-mentioned contributions, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors.

### ***Base salary***

We believe that the base salary element is required in order to provide executive officers with a stable income stream that is commensurate with their responsibilities and competitive market conditions. Our Board of Directors established base salaries payable to executive officers with the goal of providing a fixed component of compensation, reflecting the executive officer's skill set, experience, role and responsibilities. The determination of our Board of Directors and compensation committee of whether any of the executive officers merited an increase in base salary during any particular year depended on the individual's performance during the prior fiscal year, our performance during the prior fiscal year and competitive market practices. In establishing the current base salary levels, our Board of Directors and compensation committee did not engage in any particular benchmarking activities or engage any outside compensation advisors.

### ***Annual bonus***

Bonus for any of executive officers are discretionary and are generally linked to his or her individual performances for the year, including contribution to our strategic and corporate operating plans, with individual performance and providing executive officers performance incentives for attaining specific goals.

### ***2010 Equity Incentive Plan***

On September 27, 2010, our Board of Directors approved the 2010 Equity Incentive Plan, or 2010 Plan, subject to shareholder approval which occurred on November 17, 2010.

Purpose . The purpose of the 2010 Plan is to promote our success and to increase shareholder value by providing an additional means through the grant of equity compensation awards to attract, motivate, retain and reward selected employees and other eligible persons of SGOCO.

Shares Subject to 2010 Plan . Subject to adjustments under certain conditions, the maximum number of shares that may be delivered pursuant to awards under the 2010 Plan is equal to 7% of the aggregate number of shares outstanding from time-to-time.

Administration . The 2010 Plan shall be administered by, and all equity compensation awards under the 2010 Plan shall be authorized by the Board or one or more committees appointed by the Board (the "Administrator"). Any committee of the Board that serves as the Administrator shall be comprised solely of one or more directors or such number of directors as may be required under applicable laws and may delegate some or all of its authority to another committee so constituted. Unless otherwise provided in our Memorandum and Articles of Association or the applicable charter of any Administrator:

1. a majority of the members of the acting Administrator shall constitute a quorum; and
2. the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

Eligibility . The Administrator may grant equity compensation awards under the 2010 Plan only to those persons that the Administrator determines to be either an officer, employee, director of SGOCO or a consultant or advisor of SGOCO (each of the foregoing, an “Eligible Person”); provided , however , that incentive stock options may only be granted to an Eligible Person who is an employee of SGOCO. Notwithstanding the foregoing, a person who is otherwise an Eligible Person may participate in the 2010 Plan only if such participation would not compromise our ability to comply with applicable laws (including securities laws). A participant may, if otherwise eligible, be granted additional equity compensation awards if the Administrator so determines.

Type and Form of Awards . The Administrator shall determine the type or types of equity compensation award(s) to be made to each selected Eligible Person. Under the 2010 Plan, the Administrator may grant options to purchase ordinary shares, share appreciation rights, restricted shares, and restricted share units. Such awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of SGOCO.

Performance-Based Awards . The Administrator may grant equity compensation awards as performance-based shares under the 2010 Plan. Each such equity compensation award will have an initial value that is established by the Administrator on or before the date of grant. The grant, vesting, exercisability or payment of performance-based equity compensation awards may depend on the degree of achievement of one or more performance goals relative to a pre-established targeted level or a level using one or more of the business criteria (on an absolute or relative basis) for SGOCO on a consolidated basis or for one or more of SGOCO’s subsidiaries, segments, divisions or business units, or any combination of the foregoing.

Transfer Restrictions . Except as specifically provided in the 2010 Plan:

1. all equity compensation awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge;
2. equity compensation awards shall be exercised only by the relevant participant; and
3. amounts payable or shares issuable pursuant to any equity compensation award shall be delivered only to (or for the account of) the relevant participant.

The 2010 Plan provides that incentive share options may not be transferred except by will or the laws of descent and distribution. The Administrator has discretion to permit transfers of other awards where it concludes such transferability is appropriate and desirable.

Amendment and Termination . The 2010 Plan will continue in effect until the 10th anniversary of its approval by the shareholders, unless earlier terminated by our Board. Our Board may amend, suspend or terminate the 2010 Plan as it shall deem advisable, except that no amendment may adversely affect a grantee regarding awards previously granted unless such amendments are in connection with compliance with applicable laws; provided that the Board may not make any amendment in the 2010 Plan that would, if such amendment were not approved by the shareholders, cause the 2010 Plan to fail to comply with any requirement of applicable laws, unless and until shareholder approval is obtained. No award may be granted during any suspension of the 2010 Plan or after termination of the 2010 Plan. No amendment, suspension or termination of the 2010 Plan or change affecting any outstanding equity compensation award shall, without written consent of the relevant participant, affect in any manner materially adverse to the relevant participant any rights or benefits of the relevant participant or obligations of SGOCO under any equity compensation award granted under the 2010 Plan prior to the effective date of such change.

There were no awards granted under the 2010 Plan during the years ended December 31, 2014 and 2013, however, 207,000 ordinary shares were awarded in January 2012 to our independent directors, consultants and employees, 80,000 ordinary shares were issued in March 2013 to our independent directors and 115,000 ordinary shares were issued in July 2013 to our independent directors, consultants and employees. In January 2014, 160,000 ordinary shares were issued to our independent directors and employees (including certain executive officers). In January 2015, 180,000 ordinary shares were issued to our independent directors, consultants and employees (including certain executive officers).

## ***Employment Agreements***

We have entered into employment agreements with each of our senior executive officers. We may terminate a senior executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a conviction or plea of guilty to a felony, negligent or dishonest acts to our detriment or misconduct or a failure to perform agreed duties. A senior executive officer may, upon advance written notice, terminate his or her employment if there is a material and substantial reduction in his or her authority and responsibilities and such resignation is approved by our Board of Directors. Furthermore, we may, upon advance written notice, terminate a senior executive officer's employment at any time without cause.

Each senior executive officer is entitled to certain benefits upon termination, including severance pay, if we terminate the employment without cause or if he or she resigns upon the approval of our Board of Directors.

We will indemnify a senior executive officer for his or her losses based on or related to his or her acts and omissions made in the course of his or her performance of duties within the scope of his or her employment.

Each senior executive officer has agreed to hold in strict confidence any trade secrets or confidential information of our company. Each officer also agrees to faithfully and diligently serve the Company according to the employment agreement and the guidelines, policies and procedures of our Company approved periodically by our Board of Directors.

## **C. Board Practices.**

### ***Board of Directors***

Our Board of Directors currently has five directors. Under our amended and restated memorandum and articles of association, our Board of Directors may not consist of less than two directors with no maximum number. Our directors shall hold office until their successors are elected or appointed, which will be at the Company's next annual meeting of shareholders. We do not have service contracts with our directors and do not provide our directors with any benefits upon termination of their service.

Subject to any provision to the contrary in the Articles, a director may be removed by:

1. an ordinary resolution of the Members at any time before the expiration of his or her period of office notwithstanding anything in the Articles or in any agreement between the Company and such director (but without prejudice to any claim for damages under any such agreement); or
2. a two-thirds vote of the Board of Directors, if such removal is for cause at any time before the expiration of his or her period of office notwithstanding anything in the Articles or in any agreement between the Company and such director (but without prejudice to any claim for damages under any such agreement).

The office of a director shall be vacated if the director:

1. resigns his or her office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board;
2. becomes of unsound mind or dies;
3. without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months and the Board resolves that his or her office be vacated;
4. becomes bankrupt or has a receiving order made against him or her, or suspends payment to or settle with his or her creditors;

5. is prohibited by law from being a director; or
6. ceases to be a director by virtue of any provision of law of the Cayman Islands or is removed from office pursuant to the Company's Articles.

No contract or transaction between the Company and one or more of its directors or officers, or between the Company and any other corporation, partnership, association, or other organization in which one or more of its directors or officers, are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee which authorizes the contract or transaction, or solely because any such director's or officer's votes are counted for such purpose, if:

1. the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or
2. the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or
3. the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified, by the Board, a committee or the shareholders.

The Board of Directors may exercise all the powers of the Company to borrow money, mortgage its undertakings, property and uncalled capital, and issue debentures, debenture stock and other securities whenever money is borrowed or pledged as security for any obligation of the Company or of any third party.

#### ***NASDAQ Requirements for Director Independence***

Under the NASDAQ Stock Market Marketplace Rules, or the NASDAQ rules, a majority of our directors must meet the definition of "independent" contained in those rules. Our Board has determined that Ms. Hsu and Messrs. Wu, Chen and He meet the independence standards contained in the NASDAQ rules. We do not believe that any of these directors have any relationships that would preclude a finding of independence under these rules. In reaching its determination, our Board determined that any other relationships that these directors have with us do not and would not impair their ability to exercise independent judgment.

#### ***Committees of Our Board of Directors***

We have established three primary committees of the Board of Directors: an audit committee, a compensation committee and a nominating committee. We have adopted a charter for each of the committees. Each committee's members and functions are described below. The Board also created an Equity Plan Committee consisting of Tin Man Or and Frank Wu to administer the Company's 2010 Plan.

***Audit Committee.*** Our audit committee consists of Mr. Chen (Chairperson), Mr. Wu and Ms Hsu. Our Board of Directors has determined that all of the audit committee members satisfy the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Rule 5605 of NASDAQ rules. In addition, our Board of Directors has determined that Mr. Chen is an "audit committee financial expert," as defined under SEC Regulations. The audit committee is responsible for, among other things:

1. selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
2. reviewing with the independent auditors any accounting, internal accounting control or audit problems or difficulties and management's response thereto;

3. meeting with general counsel or outside counsel to discuss legal matters that may have a significant impact on the financial statements;
4. reviewing and approving all proposed related party transactions;
5. discussing the annual audited financial statements with management and the independent auditors;
6. reviewing major issues as to the adequacy of internal controls; and
7. meeting separately and periodically with management and the independent auditors.

*Compensation Committee.* Our compensation committee consists of Mr. Wu (Chairperson), Mr. Chen and Mr. He. We have determined that all of the compensation committee members satisfy the “independence” requirements of Rule 5605 of NASDAQ rules. The purpose of the compensation committee is, among other things, to discharge the responsibilities of our Board of Directors relating to compensation of our directors, executive officers and other key employees, including reviewing and evaluating and, if necessary, revising the compensation plans, policies and programs of the Company adopted by the management. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

1. reviewing and approving the total compensation package for our chief executive officer;
2. reviewing and recommending to the Board regarding the compensation of our directors, principal executives and other key employees; and
3. reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements.

*Nominating Committee.* Our nominating committee consists of Ms. Hsu (Chairperson), Mr. Wu and Mr. He. We have determined that all of the nominating committee members satisfy the “independence” requirements of Rule 5605 of NASDAQ rules. The nominating committee assists our Board in selecting individuals qualified to become members of our Board and in determining the composition of our Board and its committees. The corporate governance and nominating committee is responsible for, among other things:

1. identifying and recommending to the Board qualified candidates to be nominated for the election or re-election to the Board of Directors and committees of the Board of Directors, or for appointment to fill any vacancy;
2. develop and recommend to the Board of Directors a set of Corporate Governance Guidelines such as Code of Ethics and Conduct, and periodically review and reassess the adequacy of such guidelines;
3. reviewing annually with the Board of Directors the current composition of the Board of Directors with regards to characteristics such as independence, age, skills, experience and availability of service to us; and
4. advising the Board of Directors periodically regarding significant developments in the law and practice of corporate governance as well as our compliance with these laws and practices, and making recommendations to the Board of Directors on all matters of corporate governance and on any remedial actions to be taken, if needed.

#### **D. Employees.**

Following the Sale of SGOCO (Fujian), only a limited number of employees that are essential to our R&D, accounting, marketing and distribution were retained by the Company. As a result, the number of our full-time employees decreased from 76 as of December 31, 2013 to 22 as of December 31, 2014. The change in the number and composition of our employees is consistent with the management’s strategy to transition the Company to a business that focuses on designing, branding and distributing products.



We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. Our employees have not entered into any collective bargaining agreements.

#### E. Share Ownership.

The following table sets forth information, as of March 31, 2015, regarding the beneficial ownership of our ordinary shares by:

1. each director and executive officer; and
2. each person known by us to own beneficially more than 5.0% of our outstanding ordinary shares.

Beneficial ownership is determined according to the SEC’s rules and includes voting or investment power regarding the securities. For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group and the number of ordinary shares such person or group has the right to acquire within 60 days after as of March 31, 2015 by the sum of 17,594,861, being the number of ordinary shares issued and outstanding as of as of March 31, 2015 , plus the number of ordinary shares such person or group has the right to acquire within 60 days after as of March 31, 2015 . Except as indicated in the footnotes to the table, the persons named in the table have sole voting and investment power regarding all shares of ordinary shares shown as beneficially owned by them.

Name	Number	Percent
Tin Man Or (1)	9,140,000	51.9%
Frank Wu	20,000	*
John Chen	20,000	*
Helen Hsu	40,000	*
Pruby He	20,000	*
Shi-bin Xie	20,000	*
Jin-feng Li	20,000	*
David Xu	20,000	*
Johnson Lau	40,000	*
Tony Zhong	25,000	*
<b>Principal Shareholders</b>		
Sze Kit Ting	2,260,231	12.8%
Shuk Yu Wong (2)	383,024	2.2%

“\*” Indicates less than 1%

- (1) The shares listed in the table are held by Sun Zone Investments Limited (“Sun Zone”), a British Virgin Islands corporation, formed for the purpose of holding stock in Honesty Group by our Chairman Mr. Tin Man Or, in connection with the Acquisition, both are directors of Sun Zone.
- (2) Ms. Wong is the spouse of Mr. Tin Man Or.

Our major shareholders do not have different voting rights than any other shareholder. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of March 31, 2015, we had 17,594,861 ordinary shares issued and outstanding. To our knowledge, as of such date, we had at least three (3) record holders of our shares located in the U.S. that held an aggregate of 41,431 ordinary shares. The number of beneficial owners of our ordinary shares in the U.S. is likely to be much larger than the number of Holders of record of our ordinary shares in the U.S.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders.

Please refer to “Item 6. Directors, Senior Management and Employees — E. Share Ownership.”

### B. Related Party Transactions.

Mr. Tin Man Or owns Sun Zone, a British Virgin Islands corporation.

During the year ended December 31, 2014, Sun Zone, a shareholder of the Company which is 100% owned by our Chairman, Mr. Tin Man Or, advanced \$0.6 million to the Company. As of December 31, 2014, \$0.5 million was repaid and the outstanding amount due to Sun Zone is \$0.1 million. The amount was non-interest bearing, unsecured and repayable on demand.

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information.

Please see “Item 18. Financial Statements” for our audited consolidated financial statements.

#### *Legal Proceedings*

Neither we nor any of our subsidiaries are currently parties to any pending legal proceedings that are expected to have a significant effect on our business, financial position, results of operations or liquidity, nor are we or any of our subsidiaries aware of any proceedings that are pending or threatened which may have a significant effect on our business, financial position and results of operations or liquidity.

#### *Dividend Policy*

We do not currently have any plans to pay any cash dividends in the foreseeable future on our ordinary shares. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely on dividends paid by our Hong Kong and Chinese subsidiaries for our cash needs. The payment of dividends by entities organized in China is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits based on PRC accounting standards and regulations. Our Chinese subsidiaries, Beijing SGOCO and SGOCO Shenzhen, are also required to withhold at least 10% of their after-tax profit based on China’s accounting standards each year as their general reserves until the cumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends.

The Board of Directors of our PRC subsidiary, which is a wholly foreign owned enterprise, has the discretion to allocate a portion of its after-tax profits to its staff welfare and bonus funds, which is likewise not distributable to its equity owners except in the event of a liquidation of the foreign-invested enterprise. If the Board decides to pay dividends in the future, these restrictions may impede our ability to pay dividends and/or the amount of dividends we could pay. In addition, if the Chinese subsidiary incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Our Board of Directors has discretion to pay dividends. Even if our Board of Directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant.

## B. Significant Changes.

Except as disclosed elsewhere in this Annual Report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this Annual Report.

## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details.

Our ordinary shares were listed on the NASDAQ Global Market under the symbol "SGOC" from December 20, 2010 until February 17, 2012. On February 21, 2012, our ordinary shares began trading on the NASDAQ Capital Market. On May 16, 2012, NASDAQ halted trading in our ordinary shares. On June 1, 2012, we received a deficiency letter from NASDAQ stating that we were not in compliance with the continued listing requirement that we timely file periodic reports with the SEC. On September 11, 2012, our ordinary shares resumed trading on the NASDAQ Capital Market.

On February 10, 2015, we received another letter (the "Notification Letter") from NASDAQ notifying us that it is not in compliance with the minimum bid price requirement set forth in NASDAQ Rules for continued listing on The NASDAQ Capital Market. NASDAQ Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of \$1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the closing bid price of the Company's ordinary shares for the 30 consecutive business days from December 22, 2014 to February 9, 2015, the Company no longer meets the minimum bid price requirement.

The Notification Letter does not impact our listing on The NASDAQ Capital Market at this time. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we have been provided 180 calendar days, or until August 10, 2015, to regain compliance with NASDAQ Listing Rule 5550(a)(2). To regain compliance, our ordinary shares must have a closing bid price of at least \$1.00 for a minimum of 10 consecutive business days. In the event we do not regain compliance by August 10, 2015, we may be eligible for additional time to regain compliance.

Our warrants were quoted on the OTC Bulletin Board under the symbol SGTWF through June 1, 2012 and thereafter were quoted on the OTC Pink Market. FINRA delisted our warrants from the OTC Bulletin Board effective June 1, 2012 due to our failure to timely file the prior Annual Report. Our ordinary shares, warrants, and units were previously traded on the OTC Bulletin Board under the symbols HMAQF.OB, HMAWF.OB, and HMAUF.OB, respectively. Each unit consisted of one ordinary share and one warrant. Our ordinary shares and warrants commenced to trade separately on April 9, 2008. These warrants expired on March 7, 2014.

The following table sets forth, for the calendar months, quarters and years indicated, the monthly, quarterly and annual high and low market prices for our ordinary shares, warrants and units as reported on the NASDAQ Stock Market or OTC Bulletin Board, as applicable. Over-the-counter market quotations on the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Annual Highs and Lows	Units		Ordinary Shares		Warrants	
	High	Low	High	Low	High	Low
2014	\$ N/A	\$ N/A	\$ 4.34	\$ 0.59	\$ 0.05	\$ 0.05
2013	\$ N/A	\$ N/A	\$ 8.33	\$ 0.70	\$ 1.25	\$ 0.02
2012	\$ N/A	\$ N/A	\$ 3.78	\$ 0.61	\$ 0.20	\$ 0.01
2011	\$ N/A	\$ N/A	\$ 6.88	\$ 1.25	\$ 0.75	\$ 0.10
2010	\$ 9.25	\$ 7.00	\$ 8.00	\$ 4.50	\$ 1.15	\$ 0.18

<b>Quarterly Highs and Lows</b>	<b>High</b>		<b>Low</b>		<b>High</b>		<b>Low</b>		<b>High</b>		<b>Low</b>	
<b>2015</b>												
Second Quarter (through April 30, 2015)	\$	N/A	\$	N/A	\$	0.70	\$	0.46	\$	N/A	\$	N/A
First Quarter	\$	N/A	\$	N/A	\$	0.95	\$	0.38	\$	N/A	\$	N/A
<b>2014</b>												
Fourth Quarter	\$	N/A	\$	N/A	\$	1.87	\$	0.51	\$	N/A	\$	N/A
Third Quarter	\$	N/A	\$	N/A	\$	4.34	\$	1.27	\$	N/A	\$	N/A
Second Quarter	\$	N/A	\$	N/A	\$	4.02	\$	1.88	\$	N/A	\$	N/A
First Quarter	\$	N/A	\$	N/A	\$	4.29	\$	2.98	\$	0.05	\$	0.05
<b>2013</b>												
Fourth Quarter	\$	N/A	\$	N/A	\$	8.33	\$	2.67	\$	1.25	\$	0.02
Third Quarter	\$	N/A	\$	N/A	\$	4.57	\$	1.51	\$	0.05	\$	0.03
Second Quarter	\$	N/A	\$	N/A	\$	3.40	\$	0.70	\$	0.05	\$	0.02
First Quarter	\$	N/A	\$	N/A	\$	1.46	\$	1.00	\$	0.03	\$	0.02

<b>Monthly Highs and Lows</b>	<b>High</b>		<b>Low</b>		<b>High</b>		<b>Low</b>		<b>High</b>		<b>Low</b>	
April 2015	\$	N/A	\$	N/A	\$	0.70	\$	0.46	\$	N/A	\$	N/A
March 2015	\$	N/A	\$	N/A	\$	0.94	\$	0.42	\$	N/A	\$	N/A
February 2015	\$	N/A	\$	N/A	\$	0.60	\$	0.38	\$	N/A	\$	N/A
January 2015	\$	N/A	\$	N/A	\$	0.95	\$	0.52	\$	N/A	\$	N/A
December 2014	\$	N/A	\$	N/A	\$	1.66	\$	0.51	\$	N/A	\$	N/A
November 2014	\$	N/A	\$	N/A	\$	1.75	\$	1.44	\$	N/A	\$	N/A

The Company's warrants were quoted on the OTC Pink Market and lapsed on March 7, 2014 upon expiry.

**B. Plan of Distribution.**

Not applicable.

**C. Markets.**

See "Item 9. The Offer and Listing - A. Offer and Listing Details" above.

**D. Selling Shareholders.**

Not applicable.

**E. Dilution.**

Not applicable.

**F. Expenses of the Issue.**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital.**

Not applicable.

**B. Memorandum and Articles of Association.**

We incorporate by reference into this Annual Report the description of our amended and restated memorandum and articles of association contained in our registration statement on Form F-1 (File No. 333-170674) originally filed with the Securities and Exchange Commission on November 18, 2010, as amended.

**C. Material Contracts.**

Except for the following, we have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, or elsewhere in this Annual Report.

On September 26, 2013, we entered into a credit facility agreement with China Everbright Bank of RMB50 million and borrowed a short term bank loan of RMB25 million (approximately equivalent to \$ 4.1 million) on the same day. The credit facility agreement was guaranteed by Guanke with a fee of \$19,000. The loan borne interest at 7.2% per annum and was repaid on September 25, 2014 upon maturity.

#### **D. Exchange controls.**

Under Cayman Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to nonresident holders of our shares.

#### **E. Taxation.**

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in or ownership of our ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this Annual Report, all of which are subject to change. This summary does not deal with all possible tax consequences regarding investing investment in our ordinary shares, such as the tax consequences under state, local and other tax laws.

##### ***Cayman Islands Taxation***

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company or its shareholders levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within Cayman Islands. The Cayman Islands is not party to any double-tax treaties that are applicable to any payments made to or by the Company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

##### ***Material PRC Income Tax Considerations***

Under the new EIT Law and the Implementing Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered as a “resident enterprise” and will be subject to a PRC income tax on its global income. According to the Implementing Rules, “de facto management bodies” refer to “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” Accordingly, our holding company, SGOCO Group, Ltd., may be considered a resident enterprise and may therefore be subject to a PRC income tax on our global income. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009.

Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore enterprise is located in China. Circular 82 only applies to offshore enterprises controlled by PRC enterprises and not those invested in by individuals or foreign enterprises like SGOCO. But, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or controlled by or invested in by individuals or foreign enterprises.

If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiary, such PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Since the EIT Law became effective in 2008, SGOCO has not been treated as a “resident enterprise.”

If the PRC tax authorities determine that SGOCO is a “resident enterprise” for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. First, SGOCO may be subject to enterprise income tax at a rate of 25% on SGOCO’s worldwide taxable income and PRC enterprise income tax reporting obligations. Second, under the EIT Law and its implementing rules, dividends paid between “qualified resident enterprises” are exempt from enterprise income tax. As a result, if both SGOCO and SGOCO International are treated as PRC “resident enterprises,” all dividends from the PRC operating subsidiary to SGOCO International and from SGOCO International to SGOCO would be exempt from PRC tax.

If SGOCO were treated as a PRC “non-resident enterprise” under the EIT Law, then dividends that SGOCO receives from its PRC operating subsidiary (assuming such dividends were considered sourced within the PRC):

1. may be subject to a 5% PRC withholding tax, if the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion regarding Taxes on Income (the “PRC — Hong Kong Tax Treaty”) were applicable; or
2. if such treaty does not apply ( *i.e.* , because the PRC tax authorities may deem SGOCO International to be a conduit not entitled to treaty benefits), may be subject to a 10% PRC withholding tax. Any such taxes on dividends could materially reduce the amount of dividends, if any, SGOCO could pay to its shareholders.

Finally, the new “resident enterprise” classification could result in a situation in which a 10% PRC tax is imposed on dividends SGOCO pays to its non-PRC shareholders that are not PRC tax “resident enterprises” and gains derived by them from transferring SGOCO’s ordinary shares or warrants, if such income is considered PRC sourced income by the relevant PRC authorities. In such event, SGOCO may be required to withhold the 10% PRC tax on any dividends paid to its non-PRC resident shareholders. SGOCO’s non-PRC resident shareholders also may be responsible for paying PRC tax at a rate of 10% on any gain realized from the sale or transfer of ordinary shares or warrants in certain circumstances. SGOCO would not, however, have an obligation to withhold PRC tax regarding such gain. If any such PRC taxes apply, a non-PRC resident shareholder may be entitled to a reduced rate of PRC taxes under an applicable income tax treaty and/or a foreign tax credit against such shareholder’s domestic income tax liability (subject to applicable conditions and limitations). Shareholders or prospective investors should consult with their own tax advisors regarding the applicability of any such taxes, the effects of any applicable income tax treaties, and any available foreign tax credits.

## ***U.S. Federal Income Taxation***

### ***General***

The following is a summary of the material U.S. federal income tax consequences of owning and disposing of our ordinary shares. The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to a beneficial owner of our shares that is for U.S. federal income tax purposes:

1. an individual citizen or resident of the U.S.;
2. a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the U.S., any state thereof or the District of Columbia;
3. an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
4. a trust if:
  - a) a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or
  - b) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a beneficial owner of our shares is not described as a U.S. Holder and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such owner will be considered a “Non-U.S. Holder.” The U.S. federal income tax consequences applicable specifically to non-U.S. Holders is described below under the heading “Tax Consequences to Non-U.S. Holders of Ordinary Shares.”

This summary is based on the Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or different interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to us or to any particular Holder of our shares based on such Holder's individual circumstances. In particular, this discussion considers only Holders that own our shares as capital assets within the meaning of Section 1221 of the Code. This discussion also does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to Holders that are subject to special rules, including:

1. financial institutions or financial services entities;
2. broker-dealers;
3. taxpayers who have elected mark-to-market accounting;
4. tax-exempt entities;
5. governments or agencies or instrumentalities thereof;
6. insurance companies;
7. regulated investment companies;
8. real estate investment trusts;
9. certain expatriates or former long-term residents of the U.S.;
10. persons that actually or constructively own 5% or more of our voting shares;
11. persons that acquired our shares pursuant to the exercise of employee stock options, in connection with employee stock incentive plans or otherwise as compensation;
12. persons that hold our shares as part of a straddle, constructive sale, hedging, conversion or other integrated transaction; or
13. persons whose functional currency is not the U.S. Dollars.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our securities through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. This discussion also assumes that any distribution made (or deemed made) regarding our shares and any consideration received (or deemed received) by a Holder connected with selling or other disposition of such shares will be in U.S. Dollars.

We have not sought, and will not seek, a ruling from the Internal Revenue Service (the "IRS"), or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with one or more aspects of the discussion herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulations, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

BECAUSE OF THE COMPLEXITY OF THE TAX LAWS AND BECAUSE THE TAX CONSEQUENCES TO SGOCO OR TO ANY PARTICULAR HOLDER OF OUR SECURITIES MAY BE AFFECTED BY MATTERS NOT DISCUSSED HEREIN, EACH HOLDER OF OUR SECURITIES IS URGED TO CONSULT WITH ITS TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS AND APPLICABLE TAX TREATIES.

### ***Tax Consequences to U.S. Holders of Ordinary Shares***

#### **Taxation of Distributions Paid on Ordinary Shares**

Subject to the passive foreign investment company, or PFIC, rules discussed below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any cash dividend paid on our ordinary shares. A cash distribution on such shares will be treated as a dividend for U.S. federal income tax purposes to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Such dividend will not be eligible for the dividends-received deduction generally allowed to domestic corporations regarding dividends received from other domestic corporations. Any distributions in excess of such earnings and profits generally will be applied against and reduce the U.S. Holder's basis in its ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of such ordinary shares.

Regarding non-corporate U.S. Holders for taxable years beginning before January 1, 2013, dividends may be taxed at the lower applicable long-term capital gains rate (see "— Taxation on the Disposition of Ordinary Shares" below) provided that:

1. our ordinary shares are readily tradable on an established securities market in the U.S. or, in the event we are deemed to be a Chinese "resident enterprise" under the EIT Law, we are eligible for the benefits of the Agreement between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion regarding Taxes on Income, or the "U.S.-PRC Tax Treaty;"
2. we are not a PFIC, as discussed below, for either the taxable year in which the dividend was paid or the preceding taxable year; and
3. certain holding period requirements are met. Under published IRS authority, shares are considered for purposes of clause (1) above to be readily tradable on an established securities market in the U.S. only if they are listed on certain exchanges, which presently include the NASDAQ Stock Market but do not include the OTC Bulletin Board.

We were listed on the NASDAQ Stock Market in December 2010. If we are not able to maintain such a listing, it is anticipated that our ordinary shares will be quoted and traded only on the OTC Bulletin Board. In that case, any dividends paid on our ordinary shares would not qualify for the lower rate unless we are deemed to be a Chinese "resident enterprise" under the EIT Law and are eligible for the benefits of the U.S.-PRC Tax Treaty.

Unless the special provisions described above, dealing with the taxation of qualified dividend income at the lower long-term capital gains rate, are extended, this favorable treatment will not apply to dividends in taxable years beginning on or after January 1, 2013. U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for any dividends paid regarding our ordinary shares.

If PRC taxes apply to dividends paid to a U.S. Holder on our ordinary shares, such U.S. Holder may be entitled to a reduced rate of PRC tax under the U.S.-PRC Tax Treaty. In addition, such PRC taxes may be treated as foreign taxes eligible for credit against such Holder's U.S. federal income tax liability (subject to certain limitations). U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.



## **Taxation on the Disposition of Ordinary Shares**

Upon a sale or other taxable disposition of our ordinary shares, and subject to the PFIC rules discussed below, a U.S. Holder should recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the ordinary shares.

Capital gains recognized by U.S. Holders generally are subject to U.S. federal income tax at the same rate as ordinary income, except that long-term capital gains recognized by non-corporate U.S. Holders are generally subject to U.S. federal income tax at a maximum rate of 15% for taxable years beginning before January 1, 2013 (and 20% thereafter). Capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder's holding period for the ordinary shares exceeds one year. The deductibility of capital losses is subject to various limitations.

If PRC taxes would otherwise apply to any gain from the disposition of our ordinary shares by a U.S. Holder, such U.S. Holder may be entitled to a reduction in or elimination of such taxes under the U.S.-PRC Tax Treaty. Any PRC taxes that are paid by a U.S. Holder regarding such gain may be treated as foreign taxes eligible for credit against such Holder's U.S. federal income tax liability (subject to certain limitations which could reduce or eliminate the available tax credit). U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

## **Additional Taxes After 2012**

For taxable years beginning after December 31, 2012, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, among other things, cash dividends on, and capital gains from the sale or other taxable disposition of, our ordinary shares, subject to certain limitations and exceptions. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our ordinary shares.

## **Passive Foreign Investment Company Rules**

A foreign (*i.e.*, non-U.S.) corporation will be a PFIC if at least 75% of its gross income in a taxable year of the foreign corporation, including its pro rata share of the gross income of any corporation in which it is considered to own at least 25% of the shares by value, is passive income. Alternatively, a foreign corporation will be a PFIC if at least 50% of its assets in a taxable year of the foreign corporation, ordinarily determined based on fair market value and averaged quarterly over the year, including its pro rata share of the assets of any corporation in which it is considered to own at least 25% of the shares by value, are held for the production of, or produce, passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents or royalties derived from the active conduct of a trade or business) and gains from the disposition of passive assets.

The composition of our passive assets during 2008 and 2009, largely consisted of cash and other investment assets. The composition of our passive income in such periods largely consisted of interest. Therefore, it is likely that we qualified as a PFIC regarding our 2008 and 2009 taxable years.

Based on the composition of our assets and the nature of the Company's income and subsidiaries' income for our taxable year ended December 31, 2014, we do not expect to be treated as a PFIC for such year under the tax laws as enacted and construed at the present time. But, this conclusion is based in part on our treating the "other receivable" on our balance sheet not as a passive asset for PFIC purposes on the ground that it is an installment note on the sale of stock of an affiliate company that held assets that had been actively used in our manufacturing business.

We believe this conclusion is proper. But, because the matter is not certain, there is no guarantee that the IRS in an audit would agree. If the IRS did not agree, we would likely be treated as a PFIC for both 2014 and 2013.

In addition, our actual PFIC status for our 2014 taxable year or any subsequent taxable year will not be determinable until after the end of such taxable year. Accordingly, there can be no assurance regarding our status as a PFIC for our current taxable year or any future taxable year.

If we are determined to be a PFIC and a U.S. Holder did not make either a timely qualified electing fund, or QEF, election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) ordinary shares, or a mark-to-market election, as described below, such Holder generally will be subject to special rules regarding:

1. any gain recognized by the U.S. Holder on the sale or other disposition of its ordinary shares; and
2. any “excess distribution” made to the U.S. Holder (generally, any distributions to such U.S. Holder during a taxable year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder regarding the ordinary shares during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder’s holding period for the ordinary shares).

Under these rules:

1. the U.S. Holder’s gain or excess distribution will be allocated ratably over the U.S. Holder’s holding period for the ordinary shares;
2. the amount allocated to the U.S. Holder’s taxable year in which the U.S. Holder recognized the gain or received the excess distribution, or to the period in the U.S. Holder’s holding period before the first day of our first taxable year in which we are a PFIC, will be taxed as ordinary income;
3. the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year and applicable to the U.S. Holder; and
4. the interest charge generally applicable to underpayments of tax will be imposed regarding the tax attributable to each such year of the U.S. Holder.

In general, a U.S. Holder may avoid the PFIC tax consequences described above in respect to our ordinary shares by making a timely QEF election to include in income its pro rata share of our net capital gains (as long-term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends. There can be no assurance, however, that we will pay current dividends or make other distributions sufficient for a U.S. Holder who makes a QEF election to satisfy the tax liability attributable to income inclusions under the QEF rules, and the U.S. Holder may have to pay the resulting tax from its other assets. A U.S. Holder may make a separate election to defer the payment of taxes on undistributed income inclusions under the QEF rules, but if deferred, any such taxes will be subject to an interest charge.

The QEF election is made on a shareholder-by-shareholder basis and, once made, can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), including the information provided in a PFIC annual information statement, to a timely filed U.S. federal income tax return for the tax year to which the election relates.

Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS. To comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Upon request from a U.S. Holder, we will endeavor to provide to the U.S. Holder no later than 90 days after the request such information as the IRS may require, including a PFIC annual information statement, in order to enable the U.S. Holder to make and maintain a QEF election. However, there is no assurance that we will have timely knowledge of our status as a PFIC in the future or of the required information to be provided.

If a U.S. Holder has made a QEF election regarding our ordinary shares, and the special tax and interest charge rules do not apply to such shares (because of a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) such shares), any gain recognized on the appreciation of our ordinary shares generally will be taxable as capital gain and no interest charge will be imposed. As discussed above, U.S. Holders of a QEF are currently taxed on their pro rata shares of its earnings and profits, whether or not distributed. In such case, a subsequent distribution of such earnings and profits that were previously included in income generally should not be taxable as a dividend to those U.S. Holders who made a QEF election. The tax basis of a U.S. Holder’s shares in a QEF will be increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends, under the above rules. Similar basis adjustments apply to property if by reason of holding such property the U.S. Holder is treated under the applicable attribution rules as owning shares in a QEF.

A determination as to our PFIC status will be made annually. But, an initial determination that our company is a PFIC will generally apply for subsequent years to a U.S. Holder who held ordinary shares while we were a PFIC, whether or not we meet the test for PFIC status in those years. A U.S. Holder who makes the QEF election discussed above for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) our ordinary shares, however, will not be subject to the PFIC tax and interest charge rules discussed above in respect to such shares. In addition, such U.S. Holder will not be subject to the QEF inclusion regime regarding such shares for any taxable year of ours that ends within or with a taxable year of the U.S. Holder and in which we are not a PFIC. But, if the QEF election is not effective for each of our taxable years in which we are a PFIC and the U.S. Holder holds (or is deemed to hold) our ordinary shares, the PFIC rules discussed above will continue to apply to such shares unless the Holder makes a purging election, and pays the tax and interest charge regarding the gain inherent in such shares attributable to the pre-QEF election period.

Alternatively, if a U.S. Holder, at the close of its taxable year, owns shares in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election regarding such shares for such taxable year. If the U.S. Holder makes a valid mark-to-market election for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) shares in us and for which we are determined to be a PFIC, such Holder generally will not be subject to the PFIC rules described above in respect to its ordinary shares. Instead, in general, the U.S. Holder will include as ordinary income each year the excess, if any, of the fair market value of its ordinary shares at the end of its taxable year over the adjusted basis in its ordinary shares. The U.S. Holder also will be allowed to take an ordinary loss regarding the excess, if any, of the adjusted basis of its ordinary shares over the fair market value of its ordinary shares at the end of its taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder's basis in its ordinary shares will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the ordinary shares will be treated as ordinary income.

The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the SEC, or on a foreign exchange or market that the IRS determines has rules sufficient to establish that the market price represents a legitimate and sound fair market value. Although we became listed on the NASDAQ Stock Market in December 2010, if we are not able to maintain such a listing, it is anticipated that our ordinary shares would continue to be quoted and traded only on the OTC Bulletin Board. If our ordinary shares were to be quoted and traded only on the OTC Bulletin Board, such shares may not currently qualify as marketable stock for purposes of the election. U.S. Holders should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election in respect to our ordinary shares under their particular circumstances.

If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, U.S. Holders generally would be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, the lower-tier PFIC. Upon request, we will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder no later than 90 days after the request the information that may be required to make or maintain a QEF election regarding the lower-tier PFIC. However, there is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC or will be able to cause the lower-tier PFIC to provide the required information. U.S. Holders are urged to consult their own tax advisors regarding the tax issues raised by lower-tier PFICs.

If a U.S. Holder owns (or is deemed to own) shares during any year in a PFIC, such Holder may have to file an IRS Form 8621 (whether or not a QEF election or mark-to-market election is made).

The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of our ordinary shares should consult their own tax advisors concerning the application of the PFIC rules to our ordinary shares under their particular circumstances.

### ***Tax Consequences to Non-U.S. Holders of Ordinary Shares***

Dividends paid to a non-U.S. Holder in respect to its ordinary shares generally will not be subject to U.S. federal income tax, unless the dividends are effectively in connection with the non-U.S. Holder's conduct of a trade or business within the U.S. (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such Holder maintains in the U.S.).

In addition, a non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other disposition of our ordinary shares, unless such gain is effectively in connection with its conduct of a trade or business in the U.S. (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such Holder maintains in the U.S.) or the non-U.S. Holder is an individual who is present in the U.S. for 183 days or more in the taxable year of sale or other disposition and certain other conditions are met (in which case, such gain from U.S. sources generally is subject to tax at a 30% rate or a lower applicable tax treaty rate).

Dividends and gains that are effectively in connection with the non-U.S. Holder's conduct of a trade or business in the U.S. (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base in the U.S.) generally will be subject to tax in the same manner as for a U.S. Holder and, in the case of a non-U.S. Holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

### ***Backup Withholding and Information Reporting***

In general, information reporting for U.S. federal income tax purposes should apply to distributions made on our ordinary shares within the U.S. to a non-corporate U.S. Holder and to the proceeds from sales and other dispositions of our ordinary shares by a non-corporate U.S. Holder to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the U.S. will be subject to information reporting in limited circumstances. In addition, backup withholding of United States federal income tax, currently at a rate of 28%, generally will apply to dividends paid on our ordinary shares to a non-corporate U.S. Holder and the proceeds from sales and other dispositions of shares by a non-corporate U.S. Holder, in each case who:

1. fails to provide an accurate taxpayer identification number;
2. is notified by the IRS that backup withholding is required; or
3. in certain circumstances, fails to comply with applicable certification requirements.

Unless current individual income tax rates are extended, the backup withholding rate will increase to 31% for payments made on or after January 1, 2013. A non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a non-U.S. Holder's U.S. federal income tax liability and may entitle such Holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedure for obtaining an exemption from backup withholding in their particular circumstances.

For taxable years beginning after March 18, 2010, individual U.S. Holders may be required to report ownership of our ordinary shares and certain related information on their individual federal income tax returns in certain circumstances. Generally, this reporting requirement will apply if: (1) the ordinary shares are held in an account of the individual U.S. Holder maintained with a "foreign financial institution"; or (2) the ordinary shares are not held in an account maintained with a "financial institution," as such terms are defined in the Code. The reporting obligation will not apply to an individual, however, unless the total aggregate value of the individual's foreign financial assets exceeds \$50,000 during a taxable year.

For clarification, this reporting requirement should not apply to ordinary shares held in an account with a U.S. brokerage firm. Not complying with this reporting requirement, if it applies, will result in substantial penalties. In certain circumstances, additional tax and other reporting requirements may apply. U.S. Holders of our ordinary shares are advised to consult with their own tax advisors concerning all such reporting requirements.

**F. Dividends and paying agents.**

Not applicable.

**G. Statement by experts.**

Not applicable.

**H. Documents on display.**

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year and submit other information under cover of Form 6-K. Annual Reports and other information we file with the SEC may be inspected at the public reference facilities maintained by the SEC at Room 1024, 100 F. Street, N.E., Washington, D.C. 20549, and copies of all or any part thereof may be obtained from such offices upon payment of the prescribed fees. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms and you can request copies of the documents upon payment of a duplicating fee, by writing to the SEC. In addition, the SEC maintains a web site that contains reports and other information regarding registrants (including us) that file electronically with the SEC which can be accessed at [www.sec.gov](http://www.sec.gov).

Our Internet website is [www.sgocogroup.com](http://www.sgocogroup.com). We make our Annual Reports on Form 20-F and any amendments to such reports available free of charge on our website as soon as reasonably practicable following the electronic filing of each report with the SEC. In addition, we provide copies of our filings free of charge upon request. The information contained on our website is not part of this or any other report filed with or furnished to the SEC.

As a foreign private issuer, we are exempt from the proxy requirements of Section 14 of the Exchange Act and our officers, directors and principal shareholders will be exempt from the insider short-swing disclosure and profit recovery rules of Section 16 of the Exchange Act.

**I. Subsidiary Information**

Not required.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK*****Foreign Exchange Risk***

The value of the RMB against the U.S. Dollars and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the RMB has no longer been pegged to the dollar. Although the People's Bank of China, China's central bank, regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. Dollars in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market. On March 17, 2014, the People's Bank of China announced that the RMB exchange rate flexibility increased to 2% in order to proceed further with reform of the RMB exchange rate regime. These could result in a further and more significant floatation in the RMB's value against the U.S. Dollars.

Because substantially all of our earnings and majority of cash assets are denominated in RMB, but our reporting currency is the U.S. Dollars, fluctuations in the exchange rate between the U.S. Dollars and the RMB will affect our balance sheet and our earnings per share in U.S. Dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. Dollars would affect our financial results reported in U.S. Dollars terms without giving effect to any underlying change in our business or results of operations.

Very limited hedging transactions are available in China to reduce exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in order to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge its exposure at all. In addition, foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

#### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

#### **PART II**

#### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

We have not had a default of any indebtedness, and there has not been any arrearage in the payment of dividends.

#### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

In connection with the approval of the Acquisition and the subsequent amendments of the Escrow Agreement our warrant holders agreed to amend the Warrant Agreement governing our outstanding registered warrants to provide that:

1. the exercise price per share of the warrants be increased from \$5.00 to \$8.00;
2. the term of each outstanding warrant be extended to expire on the earlier of March 7, 2014 or the redemption of the warrant; and
3. Holders of the warrants may redeem their warrants for \$0.50 at the time of the Acquisition.

The amendment to the Warrant Agreement is set forth as Exhibit 4.1 to our Current Report on Form 6-K filed March 16, 2010.

The amendment to the Escrow Agreement is set forth the as Exhibit 2.9 to our Annual Report on Form 20-F filed April 19, 2013.

#### **ITEM 15. CONTROLS AND PROCEDURES**

##### ***Disclosure Controls and Procedures***

Our management, with the participation of our CEO, Mr. Shi-bin Xie and Chief Financial Officer, Mr. Johnson Lau, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this Annual Report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in the reports that we file with, or submit to, the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in by the SEC's rules and regulations.

##### ***Management's Annual Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria established in the updated framework in the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 and updated in May 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.. Based on our assessment, as of December 31, 2014, our internal control over financial reporting is effective.

### **Attestation report of the registered public accounting firm**

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the rules of the SEC.

### **Changes in internal control over financial reporting**

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that Mr. John Chen is an audit committee financial expert, and is independent for the purposes of the NASDAQ Listing Rules and Rule 10A-3 under the Exchange Act.

### **ITEM 16B. CODE OF ETHICS**

We have adopted a Code of Ethics that applies to our directors, officers and employees. The Code of Ethics is designed to deter wrongdoing and to promote ethical conduct and full, fair, accurate, timely and understandable reports that the Company files or submits to the SEC and others. We have filed our Code of Ethics and Conduct as an exhibit to this Annual Report.

### **ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our principal external independent registered public accountant firms in 2014 and 2013.

	<b>2014</b>	<b>2013</b>
Audit Fee	\$ 222,107	\$ 290,890
Audit-Related Fees	-	-
<b>Total</b>	<b>\$ 222,107</b>	<b>\$ 290,890</b>

#### Audit Fees

Audit fees represent the aggregate fees billed for the audit of our annual financial statements, review of our interim financial statements, review of registration statements or services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years. The 2014 fees include the Company's 2013 annual audit. The 2013 fees include the Company's 2012 annual audit and interim review fee of 2013.

#### Audit-Related Fees

There were no other audit-related fees billed by the principal accountant during the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit not reported under "Audit Fees" above.

### **Audit Committee Pre-Approval Policies and Procedures**

The Board of Directors on an annual basis reviews audit and non-audit services performed by the independent auditors. All audit and non-audit services are pre-approved by the Board of Directors, which considers, among other things, the possible effect of the performance of such services on the auditors' independence.

### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

### **ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

### **ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

There were no changes in certifying accountant for the period beginning on January 1, 2013 and ending on the date of filing of this Annual Report.

### **ITEM 16G. CORPORATE GOVERNANCE**

There are no material differences in our corporate governance practices from those of U.S. domestic companies under the listing standards of NASDAQ.

### **ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

## **PART III**

### **ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

### **ITEM 18. FINANCIAL STATEMENTS**

Our consolidated financial statements are included at the end of this Annual Report.

### **ITEM 19. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
1.1	Amended and Restated Memorandum and Articles of Association of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form F-1 (file no. 333-170674) filed on December 15, 2010)
2.1	Warrant Agreement by and between the Company and the warrant agent (incorporated by reference to Exhibit 4.1 of the Company's Form 6-K filed on February 18, 2010)
2.2	Amendment No. 1 to the Warrant Agreement (incorporated by reference to Exhibit 4.1 of the Company's Form 6-K filed on March 16, 2010)
2.3	Unit Purchase Option issued to the underwriter in the Company's initial public offering (incorporated by reference to Exhibit 4.6 to the Company's Form S-1 (file no. 333-146147) filed February 1, 2008)
2.4	Escrow Agreement by and among escrow agent, the shareholders of Honesty Group and the initial sponsors of the Company (incorporated by reference to Exhibit 4.6 to the Company's Form F-1 (file no. 333-146147) filed August 5, 2010)



- 2.5 Amendment No 1 to Escrow Agreement dated April 17, 2012 among escrow agent, the former shareholder of Honesty Group, the initial sponsors of the Company and SGOCO Group, Ltd. (incorporated by reference to Exhibit 2.5 to the Company's Form 20-F (file no. 001-35016) filed August 30, 2012)
- 2.6 Sponsors Agreement, dated as of February 12, 2010, among Sun Zone Investments Limited, Sze Kit Ting, Robert Eu, W.R. Hambrecht + Co., LLC, Hambrecht 1980 Revocable Trust, AEX Enterprises Limited, John Wang, Marbella Capital Partners LLC., Cannon Family Irrevocable Trust and Shea Ventures LLC., and Hambrecht Asia Acquisition Corp. (incorporated by reference to Exhibit 10.16 to the Company's Form F-1 (file no. 333-146147) filed August 5, 2010)
- 2.7 Amendment No. 1 to Sponsors Agreement, dated as of March 11, 2010, among Sun Zone Investments Limited, Sze Kit Ting, Robert Eu, W.R. Hambrecht + Co., LLC, Hambrecht 1980 Revocable Trust, AEX Enterprises Limited, John Wang, Marbella Capital Partners LLC., Cannon Family Irrevocable Trust and Shea Ventures LLC (incorporated by reference to Exhibit 10.17 to the Company's Form F-1 (file no. 333-146147) filed August 5, 2010)
- 2.8 Amendment No 2 to Sponsor Agreement dated April 17, 2012 among Sun Zone Investments Limited, Sze Kit Ting Robert Eu, W.R. Hambrecht + Co., LLC, Hambrecht 1980 Revocable Trust, AEX Enterprises Limited, John Wang, Marbella Capital Partners LLC., Cannon Family Irrevocable Trust and Shea Ventures LLC., and SGOCO Group, Ltd. (incorporated by reference to Exhibit 2.8 to the Company's Form 20-F (file no. 001-35016) filed August 30, 2012)
- 2.9 Amendment No 2 to Escrow Agreement dated February 26, 2013 among escrow agent, the former shareholder of Honesty Group, the initial sponsors of the Company and SGOCO Group, Ltd. (incorporated by reference to Exhibit 2.9 to the Company's Form 20-F (file no. 001-35016) filed April 19, 2013)
- 2.10 Amendment No 3 to Sponsor Agreement dated February 26, 2013 among Sun Zone Investments Limited, Sze Kit Ting Robert Eu, W.R. Hambrecht + Co., LLC, Hambrecht 1980 Revocable Trust, AEX Enterprises Limited, John Wang, Marbella Capital Partners LLC., Cannon Family Irrevocable Trust and Shea Ventures LLC., and SGOCO Group, Ltd. (incorporated by reference to Exhibit 2.10 to the Company's Form 20-F (file no. 001-35016) filed April 19, 2013)
- 4.1 Amended and Restated Employment Letter, effective as of April 1, 2010, between Mr. Burnette Or and the Company (incorporated by reference to Exhibit 4.1 of the Company's Form 6-K filed on May 18, 2010)
- 4.2 Employment Agreement between David Xu and SGOCO Group, Ltd. dated April 24, 2011 (incorporated by reference to Exhibit 4.3 to the Company's Form 20-F (file no. 001-35016) filed August 30, 2012)
- 4.3 Employment Agreement between Burnette Or and SGOCO International (HK) Ltd. dated April 1, 2013 (incorporated by reference to Exhibit 4.3 to the Company's Form 20-F (file no. 001-35016) filed April 22, 2014)
- 4.4 Employment Agreement between Johnson Lau and SGOCO International (HK) Ltd. dated July 1, 2013 (incorporated by reference to Exhibit 4.4 to the Company's Form 20-F (file no. 001-35016) filed April 22, 2014)
- 4.5 English Translation of Business License for SGOCO (Fujian) Electronic Co., Ltd. (incorporated by reference to Exhibit 4.5 to the Company's Form 20-F (file no. 001-35016) filed August 30, 2012)

- 4.6 English Translation of Business License for Beijing SGOCO Image Technology Co., Ltd. (incorporated by reference to Exhibit 4.6 to the Company's Form 20-F (file no. 001-35016) filed August 30, 2012)
- 4.7 English Translation of Business License for SGOCO (Shenzhen) Technology Co., Ltd. (incorporated by reference to Exhibit 4.7 to the Company's Form 20-F (file no. 001-35016) filed April 22, 2014)
- 4.8 Sale and Purchase Agreement dated November 15, 2011, by and between Apex Flourish Group Limited and SGOCO Group, Ltd. (incorporated by reference to Exhibit 4.7 to the Company's Form 20-F (file no. 001-35016) filed August 30, 2012)
- 4.9 Summary of Credit facility agreement and loan agreement with China Everbright Bank (incorporated by reference to Exhibit 4.9 to the Company's Form 20-F (file no. 001-35016) filed April 22, 2014)
- 4.10\* English Translation of Sale and Purchase Agreement dated December 24, 2014, by and between Apex Flourish Group Limited and SGOCO Group, Ltd in respect of the transfer of share equity of SGOCO (Fujian) Electronic Co., Ltd.
- 8.1\* List of Subsidiaries
- 11.1 SGOCO Group, Ltd.'s Code of Ethics and Conduct (incorporated by reference to Exhibit 99.1 to the Company's Form F-1 (file no. 333-170674) filed December 15, 2010)
- 12.1\* Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2\* Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1\* Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 15.1\* Consent of Crowe Horwath (HK) CPA Limited
- 101\* The following financial information from the Annual Report on Form 20-F for the fiscal year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income and Comprehensive Income; (iii) the Consolidated Statements of Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.

\* Filed herewith

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

SGOCO Group, Ltd.

Date: May 15, 2015

By: /s/ Shi-bin Xie

Name: Shi-bin Xie

Title: President and Chief Executive Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
SGOCO Group, Ltd.

We have audited the accompanying consolidated balance sheets of SGOCO Group, Ltd. (“Company”) and subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of income and comprehensive income (loss), shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 2014 and 2013 and the consolidated results of their operations and cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath (HK) CPA Limited  
Crowe Horwath (HK) CPA Limited  
Hong Kong, China  
May 15, 2015

**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2014 AND 2013**  
(In thousands of U.S. dollars except share and per share data)

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	92	13,497
Accounts receivable, net of provision for doubtful accounts of nil and \$98, respectively	910	48,063
Notes receivable	-	1,316
Other receivables and prepayments	51	744
Receivable from sale of a subsidiary	91,379	-
Inventories	1	7,017
Advances to suppliers	33	33,824
Prepaid income taxes	17	-
Other current assets	56	51
Total current assets	<u>92,539</u>	<u>104,512</u>
<b>PLANT AND EQUIPMENT, NET</b>	<u>14</u>	<u>223</u>
Total assets	<u><u>92,553</u></u>	<u><u>104,735</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term loans	-	6,734
Accounts payable, trade	606	2,052
Loan from a shareholder	100	-
Other payables and accrued liabilities	209	695
Customer deposits	198	999
Taxes payable	6,241	6,126
Warrant derivative liability	2	21
Deferred tax liabilities	-	319
Total liabilities	<u>7,356</u>	<u>16,946</u>
<b>Commitment and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, nil issued and outstanding as of December 31, 2014 and 2013	-	-
Common stock, \$0.001 par value, 50,000,000 shares authorized, 17,414,861 and 17,660,356 shares issued and outstanding as of December 31, 2014 and 2013, respectively	18	18
Paid-in-capital	25,589	25,052
Statutory reserves	-	809
Retained earnings	59,601	61,080
Accumulated other comprehensive (loss) income	(11)	830
Total shareholders' equity	<u>85,197</u>	<u>87,789</u>
Total liabilities and shareholders' equity	<u><u>92,553</u></u>	<u><u>104,735</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(In thousands of U.S. dollars except share and per share data)

	2014	2013	2012
REVENUES	43,230	200,974	166,701
COST OF GOODS SOLD	41,213	185,045	154,221
GROSS PROFIT	2,017	15,929	12,480
OPERATING EXPENSES:			
Selling expenses	297	1,073	670
General and administrative expenses	3,069	3,802	5,322
Total operating expenses	3,366	4,875	5,992
(LOSS) INCOME FROM OPERATIONS	(1,349)	11,054	6,488
OTHER INCOME (EXPENSES):			
Interest income	338	12	8
Interest expense	(304)	(260)	(61)
Other income (expense), net	319	192	(130)
Change in fair value of warrant derivative liability	19	(3)	75
Total other income (expenses), net	372	(59)	(108)
(LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES	(977)	10,995	6,380
PROVISION FOR INCOME TAXES	1,311	2,551	2,167
NET (LOSS) INCOME	(2,288)	8,444	4,213
OTHER COMPREHENSIVE INCOME:			
Foreign currency translation adjustment	(36)	805	(59)
Realization of foreign currency translation gain relating to disposal of a subsidiary	(805)	-	-
COMPREHENSIVE (LOSS) INCOME	(3,129)	9,249	4,154
(LOSS) INCOME PER SHARE:			
Basic	(0.13)	0.49	0.25
Diluted	(0.13)	0.49	0.25
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	17,406,069	17,193,189	17,059,575
Diluted	17,406,069	17,193,189	17,059,575

The accompanying notes are an integral part of these consolidated financial statements.

**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands of U.S. dollars except share data)

	Ordinary Shares		Paid-in Capital	Retained Earnings		Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Par Value		Statutory Reserves	Unrestricted		
BALANCE, January 1, 2012	17,258,356	17	24,555	54	49,178	84	73,888
Shares issued for equity compensation plan	207,000	-	273	-	-	-	273
Net income	-	-	-	-	4,213	-	4,213
Appropriations to statutory reserves	-	-	-	347	(347)	-	-
Foreign currency translation adjustment	-	-	-	-	-	(59)	(59)
BALANCE, December 31, 2012	17,465,356	17	24,828	401	53,044	25	78,315
Shares issued for equity compensation plan	195,000	1	224	-	-	-	225
Net income	-	-	-	-	8,444	-	8,444
Appropriations to statutory reserves	-	-	-	408	(408)	-	-
Foreign currency translation adjustment	-	-	-	-	-	805	805
BALANCE, December 31, 2013	17,660,356	18	25,052	809	61,080	830	87,789
Shares issued for equity compensation plan	160,000	1	537	-	-	-	538
Escrow shares cancelled	(405,495)	(1)	-	-	-	-	(1)
Net loss	-	-	-	-	(2,288)	-	(2,288)
Foreign currency translation adjustment	-	-	-	-	-	(36)	(36)
Realization of foreign currency translation gain relating to disposal of a subsidiary	-	-	-	-	-	(805)	(805)
Reclassification of statutory reserves upon disposal of a subsidiary	-	-	-	(809)	809	-	-
BALANCE, December 31, 2014	17,414,861	18	25,589	-	59,601	(11)	85,197

The accompanying notes are an integral part of these consolidated financial statements.

**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(In thousands of U.S. dollars)

	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss) income	(2,288)	8,444	4,213
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation	19	76	69
Bad debt provision	-	98	-
Change in fair value of warrant derivative liability	(19)	3	(75)
Share-based compensation expenses	538	225	273
Deferred income taxes	-	314	-
Change in operating assets			
Accounts receivable, trade	14,275	10,953	(39,496)
Notes receivable	1,316	(1,294)	-
Other receivables and prepayments	521	(561)	587
Inventories	2,009	(1,093)	34,557
Prepaid income tax	(17)	-	-
Advances to suppliers	(42,814)	(4,344)	(23,797)
Other current assets	53	31	(16)
Change in operating liabilities			
Accounts payable, trade	13,495	(10,195)	7,390
Other payables and accrued liabilities	1,943	141	(164)
Customer deposits	(200)	(189)	997
Taxes payable	385	(1,225)	1,575
Net cash (used in) provided by operating activities	<u>(10,784)</u>	<u>1,384</u>	<u>(13,887)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from disposal of a subsidiary, net of cash disposed of \$25	(25)	-	18,734
Purchase of equipment and construction-in-progress	-	(32)	(106)
Net cash (used in) provided by investing activities	<u>(25)</u>	<u>(32)</u>	<u>18,628</u>



**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012 - Continued**  
(In thousands of U.S. dollars)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from short-term loan	-	6,668	6,230
Payments on short-term loan	(2,599)	(6,230)	-
Proceeds from loan from a shareholder	600	-	-
Payments on loan from a shareholder	(500)	(209)	-
Net cash (used in) provided by financing activities	<u>(2,499)</u>	<u>229</u>	<u>6,230</u>
<b>EFFECT OF EXCHANGE RATE ON CASH</b>			
	<u>(97)</u>	<u>368</u>	<u>42</u>
<b>INCREASE (DECREASE) IN CASH</b>	<u>(13,405)</u>	<u>1,949</u>	<u>11,013</u>
<b>CASH, beginning of year</b>	<u>13,497</u>	<u>11,548</u>	<u>535</u>
<b>CASH, end of year</b>	<u><u>92</u></u>	<u><u>13,497</u></u>	<u><u>11,548</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid for interest	<u>304</u>	<u>260</u>	<u>61</u>
Cash paid for income taxes	<u>963</u>	<u>3,205</u>	<u>575</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Receivable from the sale of a subsidiary	<u>91,379</u>	<u>-</u>	<u>-</u>
Settlement of consideration receivable – received in finished goods	<u>-</u>	<u>-</u>	<u>38,397</u>

The accompanying notes are an integral part of these consolidated financial statements.

**SGOCO GROUP, LTD AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(In thousands of U.S. dollars, except for shares and per share data)

**Note 1 - Organization and description of business**

SGOCO Group, Ltd., formerly known as Hambrecht Asia Acquisition Corp. (the “Company” or “SGOCO” or “we”, “our” or “us”) was incorporated under Cayman Islands’ law on July 18, 2007. The Company was formed as a blank check company for the purpose of acquiring one or more operating businesses in the Peoples Republic of China (the “PRC”) through a merger, stock exchange, asset acquisition or similar business combination or control through contractual arrangements.

The Company completed its initial public offering (“IPO”) of units consisting of one ordinary share and one warrant to purchase one ordinary share in March 12, 2008. On March 12, 2010, the Company completed a share-exchange transaction with Honesty Group Holdings Limited (“Honesty Group”) and its shareholders, and Honesty Group became a wholly-owned subsidiary of the Company (the “Acquisition”). On the closing date, the Company issued 14,300,000 of its ordinary shares to Honesty Group in exchange for 100% of the capital stock of Honesty Group. Prior to the share-exchange transaction, the Company had 5,299,126 ordinary shares issued and outstanding. After the share-exchange transaction, the Company had 16,094,756 ordinary shares issued and outstanding.

The share-exchange transaction was accounted for as reorganization and recapitalization of Honesty Group. As a result, the consolidated financial statements of the Company (the legal acquirer) were, in substance, those of Honesty Group (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the share-exchange transaction. There was no gain or loss recognized based on the transaction. The historical financial statements for periods prior to March 12, 2010 are those of Honesty Group, except that the equity section and earnings per share have been retroactively restated to reflect the reorganization and recapitalization.

SGOCO International (HK) Limited, a limited liability company registered in Hong Kong, or “SGOCO International,” is a wholly owned subsidiary of SGOCO.

On February 22, 2011, SGO Corporation (“SGO”) was established in Delaware USA. On March 14, 2011, SGOCO International purchased 100% of the outstanding shares of common stock of SGO. SGO was founded for the purpose of marketing, sales and distribution of SGOCO’s high quality LCD/LED products in America. SGO commenced sales in June 2012.

On July 28, 2011, SGOCO (Fujian) Electronic Co., Ltd. (“SGOCO (Fujian)”), a limited liability company under the laws of the PRC was established by SGOCO International for the purpose of conducting LCD/LED monitor and TV product-related design, brand development and distribution.

On December 26, 2011, SGOCO International established a wholly owned subsidiary, Beijing SGOCO Image Technology Co. Ltd. (“Beijing SGOCO”), a limited liability company under the laws of the PRC for the purpose of conducting LCD/LED monitor, TV product-related and application-specific product design, brand development and distribution.

On November 14, 2013, SGOCO International established a wholly owned subsidiary, SGOCO (Shenzhen) Technology Co., Ltd. (“SGOCO Shenzhen”), a limited liability company under the laws of the PRC for the purpose of conducting LCD/LED monitor and TV product-related and application-specific product design, brand development and distribution.

In April 2014, the Company relocated its corporate headquarters from Beijing, China to Hong Kong, China.

The Company is focused on designing innovative products and developing its own-brands for sale in the Chinese flat-panel display market. Its main products are LCD/LED monitors, TVs and other application-specific products. The Company intends to offer high quality LCD/LED products under brands that it controls and licenses such as “SGOCO”, “No. 10” and “POVIZON” to consumers residing in China’s Tier 3 and Tier 4 cities. The Company is also distributing the LCD/LED products to the international markets.

On April 1, 2012, the Company contracted with TCL Business System Technology (Huizhou) Co. Ltd. (“TCL Huizhou”) to be the exclusive distributor in China for TCL brand display products. This agreement effectively replaces the June 2010 agreement signed with TCL Huizhou. The agreement was terminated in November 2013. During the years ended December, 31, 2014, 2013 and 2012, the Company derived net revenue of nil, \$2,762 and \$3,588 from sales of TCL brand products.

### Sale of SGOCO (Fujian)

On December 24, 2014, the Company entered into a Sale and Purchase Agreement (“SPA”) to sell its 100% equity ownership interest in SGOCO (Fujian) to Apex Flourish Group Limited (“Apex”), which is an independent third party with interests in real estate and forestry products. It previously purchased Honesty Group Holdings Limited, SGOCO’s prior manufacturing business, in November 15, 2011. The Company considers December 31, 2014 as the disposal effective date since the operational and management control over SGOCO (Fujian) was shifted from SGOCO to Apex on December 31, 2014. The Sale of SGOCO (Fujian) allowed SGOCO to reform the business and reduce the reliance of traditional flat panel LED and LCD monitor products. It provided greater flexibility and scalability for the Company’s business model, which enables the Company to focus on finding new business acquisition opportunities and exploring new products.

The sales price for all the equity of SGOCO (Fujian) is equivalent to the net asset value of SGOCO (Fujian) on December 31, 2014 calculated on the basis of Chinese Accounting Standards. The final amount is \$11.0 million (the “Sale Price”).

Net assets of SGOCO (Fujian) as of December 31, 2014 (date of disposal):

	Book amount
Cash	25
Accounts receivable, trade	32,340
Other receivables	168
Inventories	4,955
Advances to suppliers	75,554
Other current assets	2,108
Plant and equipment, net	132
Short-term loan	(4,086)
Accounts payable, trade	(16,259)
Amounts due to SGOCO and other group entities	(80,404)
Other payables and accrued liabilities	(2,397)
Customer deposits	(595)
Taxes payable	(249)
Deferred tax liabilities	(317)
Net assets as of December 31, 2014 (date of disposal)	<u>10,975</u>
Consideration receivable	10,975
Amounts due to SGOCO and other group entities	<u>80,404</u>
Receivable from sale of a subsidiary	<u><u>91,379</u></u>

Income statement of SGOCO (Fujian) from January 1, 2014 to December 31, 2014 (date of disposal):

Revenues	34,696
Cost of goods sold	(33,515)
Total operating expenses	(589)
Total other income (expenses), net	403
Provision for income taxes	(249)
Net income	<u><u>746</u></u>

According to the SPA, Apex also agreed to assume responsibility to settle the entire balance of intercompany accounts payable and other payables (the “Payables”) due by SGOCO (Fujian) to SGOCO and its affiliates, which amounted to \$80.4 million. Under the SPA, payments shall be made in several installments upon and after completion of the Sale. Each installment will be 10% of the Sale Price and Payables (totaling \$91.4 million). The first installment was due 14 days after the completion of the transaction, which was timely made, and the last installment (approximately 10% of the sale price) will be settled prior to June 30, 2015. The transfer of the Sale Equity was effective on December 31, 2014. As of April 30, 2015, Apex has paid the aggregated amount of \$75.9 million to the Company as installment payments of the Sale Price and settlement of the Payables.

Payment of the Sale Price and Payables are secured by a pledge of the Sale Equity and the assets of SGOCO (Fujian). There shall be imposed upon Apex a 2% per month liquidated damage charge for any late payment computed upon the amount of any outstanding principal and accrued interest whose payment to the Company is overdue for more than 30 days under this Agreement. In the event that Apex does not make the installment payments, the Company will have the right to take back ownership of the Sale Equity or force the Apex to liquidate the cash, accounts receivable and advances to suppliers of SGOCO (Fujian) to have sufficient funds to make the payments to the Company.

The SPA also states that SGOCO has a right of first refusal for a period of five years that prohibits Apex from selling, assigning or otherwise transferring any material interests, ownership or rights in or related to SGOCO (Fujian) including any equity, leases, businesses and equipment to a third party, without first offering to sell or transfer to SGOCO.

The accounting gain from the disposal of SGOCO (Fujian) was nil based on the disposal date of December 31, 2014 when management deemed SGOCO to have ceded operating control over SGOCO (Fujian).

The operations of SGOCO (Fujian) are reflected in our 2014 financial statements through December 31, 2014, which was the completion date of the sale of SGOCO (Fujian). As a result, past performance may not be indicative of future performance.

## Note 2 - Accounting policies

### Basis of presentation and principle of consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), and include the financial statements of the Company and all its majority-owned subsidiaries that require consolidation. Intercompany transactions and balances have been eliminated in the consolidation. The following entities were consolidated as of December 31, 2014 and up to the date of disposal of SGOCO (Fujian):

	<b>Place incorporated</b>	<b>Ownership percentage</b>
SGOCO	Cayman Islands	Parent Company
SGOCO International	Hong Kong	100%
SGOCO (Fujian)	Jinjiang City, China	100%
Beijing SGOCO	Beijing, China	100%
SGO	Delaware, USA	100%
SGOCO Shenzhen	Shenzhen, China	100%

### Use of estimates

Preparing consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management’s estimates and assumptions relate to the collectability of its receivables and the fair value and accounting treatment of certain financial instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates. In addition, different assumptions or circumstances could reasonably be expected to yield different results.

## Cash and cash equivalents

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. Cash includes cash on hand and demand deposits in accounts maintained with financial institutions or state owned banks within the PRC, Hong Kong and the U.S.

## Accounts receivable, note receivables and other receivables

Receivables include trade accounts due from customers and other receivables such as cash advances to employees, related parties and third parties and advances to suppliers. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentration, customer credit worthiness, current economic trends and changes in customer payment patterns to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Delinquent account balances are written-off after management has determined that the likelihood of collection is not probable and known bad debts are written off against the allowance for doubtful accounts when identified. As of December 31, 2014 and 2013, there was nil and \$98 allowance for uncollectible accounts receivable respectively. Management believes that the remaining accounts receivable are collectable.

Notes receivable are promissory notes issued by the banks to make payment on behalf of trade debtors. The Group does not provide allowance for notes receivable in the absence of bad debt experience and the high credit quality of the banks.

Certain of the Company's accounts receivable are sold with recourse to banks in Hong Kong. The sales of these receivables have been accounted for as short-term loans, as the Company has not met the criteria for sale treatment in accordance with Accounting Standards Codification (ASC) 860-30, Transfers and Servicing - Secured Borrowing and Collateral. The principal amount of the accounts receivable sold with recourse is included in both accounts receivable, net and short-term loan until the underlying obligations are ultimately satisfied through payment by the customers to the banks. As of December 31, 2014 and 2013, the principal amount of such factored receivable included in accounts receivable, net and short term loans in the accompanying consolidated balance sheets totaled nil and \$2,633, respectively.

## Inventories

Inventory is composed of raw materials, mainly parts for assembly of LCD /LED products and finished goods. Inventory is valued at the lower of cost or market value using the weighted average method. Management reviews inventories for obsolescence and compares the cost of inventory with the market value at least once a year. An allowance is made for writing down the inventory to its market value, if it is lower than cost.

## Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Expenditures for maintenance and repairs are charged to earnings as incurred. Major additions are capitalized. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of plant and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

	<b>Estimated Useful Life</b>
Leasehold improvements	Over the lease term
Machinery equipment	5-10 years
Vehicles and office equipment	5 years

## Impairment of long-lived assets

The Company evaluates long lived assets, including equipment, for impairment at least once per year and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Based on the existence of one or more indicators of impairment, the Company measures any impairment of long-lived assets by comparing the asset's estimated fair value with its carrying value, based on cash flow methodology. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired and an impairment loss equal to an amount by which the carrying value exceeds the fair value of the asset is recognized. As of December 31, 2014 and 2013, management believes there was no impairment of long-lived assets.

## Derivative liability

Derivative liabilities, which include public and private warrants, a put option and underwriter options, are recorded on the consolidated balance sheet as a liability at their fair value. The Company accounts for derivative liabilities in accordance with an accounting standard regarding “Instruments that are Indexed to an Entity’s Own Stock”. This accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in shareholders’ equity in the statement of financial position would not be considered a derivative financial instrument. It provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the scope exception within the standards.

Prior to the Acquisition, warrants issued were treated as equity. As a result of the Acquisition, the derivative was no longer provided equity treatment because the strike price of the warrants is denominated in U.S. Dollars, a currency other than the Company’s functional currency which is the Chinese Renminbi (“RMB”). Therefore, warrants are not considered indexed to the Company’s own stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire. The Company reclassified the fair value of these warrants, which have the dual-indexed feature, from equity to liability.

The Company accounts for the put option agreement in accordance with the accounting standards regarding certain financial instruments with characteristics of both liabilities and equity. The put option agreement obligated the Company to purchase such shares. As the result, the Company treated the put option as a liability.

## Fair value of financial instruments

The Company’s financial instruments primarily consist of cash and cash equivalents, accounts receivable, accounts payable, other receivables, other payables and accrued liabilities, advances to suppliers, short-term loans and customer deposits.

As of the balance sheet dates, the estimated fair value of these financial instruments were not materially different from their carrying values as presented due to the short maturities of these instruments and that the interest rates on the borrowings approximate those that would have been available for loans for similar remaining maturity and risk profile at the respective reporting periods.

The fair value measurement accounting standard defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- *Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- *Level 3* inputs to the valuation methodology are unobservable and significant to the fair value.

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis:

	Carrying Value at December 31, 2014	Fair Value Measurement at December 31, 2014		
		Level 1	Level 2	Level 3
Warrant derivative liability	\$ 2	\$ -	\$ 2	\$ -

	Carrying Value at December 31, 2013	Fair Value Measurement at December 31, 2013		
		Level 1	Level 2	Level 3
Warrant derivative liability	\$ 21	\$ 12	\$ 9	\$ -

As of December 31, 2014 and 2013, there was no asset or liability measured at fair value on a non-recurring basis.

### **Comprehensive income**

U.S. GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income or loss. Although certain changes in assets and liabilities are reported as separate components of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income or loss. The components of other comprehensive income or loss consist of foreign currency translation adjustments net of realization of foreign currency translation gain relating to disposal of subsidiaries.

### **Revenue recognition**

The Company's revenue recognition policies are consistent with the accounting standards. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. For products that are required to be examined by customers, sales revenue is recognized after the customer examination is completed. Payments received before all of the relevant criteria for revenue recognition are met are recorded as customer deposits. Generally, our outsourced manufacturers are obligated to provide at least one-year repair or replacement obligation. Management did not estimate future warranty liabilities as historical warranty expenses were minimal.

Sales revenue is recognized net of value-added taxes, sales discounts and returns. There were no sales returns during the years ended December 31, 2014, 2013 and 2012.

### **Government grants**

The Company was entitled to receive grants from the PRC municipal government under various local government programs. For the years ended December 31, 2014, 2013 and 2012, the Company received grants of \$358, \$302, and nil, respectively, from the PRC municipal government. The grants that the Company received in 2014 and 2013 did not have specific requirement of usage or other condition, and they were recorded as other income upon receipt.

### **Income taxes**

The Company accounts for income taxes in accordance with the accounting standard issued by the Financial Accounting Standard Board ("FASB") for income taxes. Under the asset and liability method as required by this accounting standard, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The charge for taxation is based on the results for the reporting period as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

Under the accounting standard regarding accounting for uncertainty in income taxes, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. During the year ended December 31, 2014 and 2013, the Company incurred \$24 and \$71 of interest related to income taxes. No material penalties or interest relating to income taxes were incurred during the year ended December 31, 2012. U.S. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

According to the Circular on the State Administration of Taxation on Strengthening the Management of EIT Collection of Proceeds from Equity Transfers by Non-Resident Enterprises (Guoshuihan [2009] No. 698) (“Circular 698”) and the State Administration of Taxation Notice [2015] No. 7, a non-PRC Tax Resident Enterprise is subject to the PRC EIT on the taxable gain arising from a sale of transfer of any intermediate offshore company which directly or indirectly holds an interest, including any assets, subsidiaries, or other forms of business operations, in the PRC, or otherwise stipulated in an applicable tax treaty or arrangement. Circular 698 applies to all transactions conducted on or after January 1, 2008.

In addition to the above, after the EIT Law and its Implementing Rules were promulgated, the State Administration of Taxation released several regulations to stipulate more details for carrying out the EIT Law and its Implementing Rules. These regulations include:

1. Notice of the State Administration of Taxation on the Issues Concerning the Administration of Enterprise Income Tax Deduction and Exemption (2008);
2. Notice of the State Administration of Taxation on Intensifying the Withholding of Enterprise Income Tax on Non-resident Enterprises’ Interest Income Sourcing from China (2008);
3. Notice of the State Administration of Taxation on Several Issues Concerning the Recognition of Incomes Subject to the Enterprise Income Tax (2008);
4. Opinion of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax (2008);
5. Notice of the Ministry of Finance and State Administration of Taxation on Several Preferential Policies regarding Enterprise Income Tax (2008);
6. Interim Measures for the Administration of Collection of Enterprise Income Tax on the Basis of Consolidation of Trans-regional Business Operations (2008); and
7. Several Issues Concerning the Enterprise Income Tax Treatment on Enterprise Reorganization (2009).

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the statements of income on a straight-line basis over the lease periods.

#### **Advertising costs**

The Company expenses the cost of advertising as incurred in selling products. The Company had no advertising costs incurred for the years ended December 31, 2014, 2013 and 2012.

#### **Shipping and handling**

Shipping and handling cost incurred to ship finished products to customers are included in selling expenses. Shipping and handling expenses for the years ended December 31, 2014, 2013 and 2012, amounted to \$86, \$536 and \$327, respectively.

#### **Research and development costs**

Research and development costs are expensed as incurred and are included in general and administrative expenses. The costs of material and equipment that are acquired or constructed for research and development activities and have alternative future uses are classified as plant and equipment and depreciated over their estimated useful lives. Research and development costs for the years ended December 31, 2014, 2013 and 2012 amounted to \$56, \$175 and \$244, respectively.



## **Earnings per share**

The Company reports earnings per share in accordance with the provisions of FASB's related accounting standard. This standard requires presentation of basic and diluted earnings per share and disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Dilution is computed by applying the treasury stock method. Under this method, option and warrants were assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

## **Share-based compensation**

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from consultants in accordance with the accounting standards regarding accounting for stock-based compensation and accounting for equity instruments that are issued to other than employees for acquiring or in conjunction with selling goods or services. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably determinable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services as defined by these accounting standards. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement if there is a term.

The Company accounts for equity instruments issued in exchange for the receipt of services from employees in the financial statements based on their fair values at the date of grant. The fair value of awards is amortized over the requisite service period.

## **Foreign currency translation**

The reporting currency of the Company is the U.S. Dollar. The functional currency of the Company and its PRC subsidiaries is the RMB. The functional currency of its Hong Kong subsidiary SGOCO International is the U.S. Dollar. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Capital accounts are translated at their historical exchange rates when the capital transaction occurred. Translation adjustments resulting from this process are included in accumulated other comprehensive income. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

The balance sheet amounts with the exception of equity were translated at RMB6.12 and RMB6.10 to \$1.00 at December 31, 2014 and 2013, respectively. The equity accounts were stated at their historical exchange rates. The average translation rates applied to the income and cash flow statement amounts for the years ended December 31, 2014, 2013 and 2012 were RMB6.14, RMB6.20 and RMB6.31 to \$1.00, respectively.

## **Recent accounting pronouncements**

In April 2014, the FASB issued ASU 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Entities may "early adopt" the guidance for new disposals. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" which clarifies and improves the principles for recognizing revenue and develops a common revenue standard for United States generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) that among other things, improves comparability of revenue recognition practices and provides more useful information to users of financial statements through improved disclosure requirements. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In April 2015, the FASB proposed a one-year delay in the effective date and companies will be allowed to early adopt as of the original effective date. The Company is currently reviewing the effect of ASU 2014-09 on its revenue recognition.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718)" which provides explicit guidance on the treatment of awards with performance targets that could be achieved after the requisite service period. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guideline is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis", which provides guidance for reporting entities that are required to evaluate whether they should consolidate certain legal entities. In accordance with ASU 2015-02, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

### Note 3 - Accounts receivable, trade

Accounts receivable as of December 31, 2014 and 2013 consisted of the following:

	December 31,	
	2014	2013
Accounts receivable	\$ 910	\$ 48,161
Allowance for doubtful accounts	-	(98)
	<u>\$ 910</u>	<u>\$ 48,063</u>

The movements in allowance for doubtful accounts are as follows:

	2014	2013
Balance at the beginning of the year	\$ 98	\$ -
Addition	-	98
Disposal of a subsidiary	(98)	-
Balance at the end of the year	<u>\$ -</u>	<u>\$ 98</u>

All of the Company's customers are located in the PRC and Hong Kong. The Company provides credit in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information.

**Note 4 - Other receivables and prepayments**

Other receivables and prepayments as of December 31, 2014 and 2013 consisted of the following:

	December 31,	
	2014	2013
Value added tax and miscellaneous tax recoverable	\$ -	\$ 490
Other prepayments	51	254
Other receivables and prepayments	<u>\$ 51</u>	<u>\$ 744</u>

**Note 5 - Inventories**

Inventories consisted of the following as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Finished goods	<u>\$ 1</u>	<u>\$ 7,017</u>

**Note 6 - Advances to suppliers**

Advances to suppliers as of December 31, 2014 and 2013 consisted of the following:

	December 31,	
	2014	2013
Advances to Honesty Group	\$ -	\$ 16,888
Advances to other suppliers	33	16,936
Advances to suppliers	<u>\$ 33</u>	<u>\$ 33,824</u>

The Company makes advances to Honesty Group and other vendors for inventory purchases.

**Note 7 - Plant and equipment, net**

Plant and equipment consisted of the following as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Leasehold improvements	\$ 36	\$ 36
Machinery and equipment	1	447
Vehicles and office equipment	19	112
Total	56	595
Less: accumulated depreciation	(42)	(372)
Plant and equipment, net	<u>\$ 14</u>	<u>\$ 223</u>

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 amounted to \$19, \$76 and \$69, respectively.

**Note 8 - Debt and credit facilities**

Total interest incurred amounted to \$304, \$260 and \$61 for the years ended December 31, 2014, 2013 and 2012, respectively.

On December 31, 2013, the Company had short-term bank borrowings consisting of an unsecured bank loan of \$4,101 (RMB25 million) drawn from a credit facility granted of RMB50 million by a local bank in the PRC. The loan was repaid in September 2014. The credit facility was guaranteed by Guanke (Fujian) Electron Technological Industry Co., Ltd. ("Guanke"), a former subsidiary of the Company, with an annual guarantee fee of \$19. The remaining borrowings are accounts receivable sold with recourse to banks in Hong Kong, and fully settled prior to December 2014. The effective interest rates and the amounts outstanding under these lines of credit and agreements at December 31, 2014 and 2013 are presented in the following table. Such amounts are included in short-term loans in the accompanying consolidated balance sheets.

Total short-term loans were as follows:

	Interest Rate(s)	December 31,	
		2014	2013
Short-term bank loan	7.2%	\$ -	\$ 4,101
Agreements for sale of receivables	1.6%-1.7%	-	2,633
<b>Total short-term loans</b>		<b>\$ -</b>	<b>\$ 6,734</b>

#### Note 9 - Employee pension

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for all permanent employees. The PRC government is responsible for the pension liability to these retired employees. The Company is required to make monthly contributions to the state retirement plan at 20% of the base requirement for all permanent employees. Different geographic locations have different base requirements.

The Company's subsidiary incorporated in Hong Kong manages a defined contribution Mandatory Provident Fund (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Company is required to contribute 5% of the monthly salaries for all Hong Kong based employees to the MPF Scheme (subject to a cap). Total pension expense incurred by the Company was \$73, \$135 and \$74 for the years ended December 31, 2014, 2013 and 2012, respectively.

#### Note 10 - Warrant derivative liability

##### Public Warrants

In March 2008, the Company, then a special purpose acquisition corporation ("SPAC"), completed its IPO, in which it sold 4,239,300 units (consisting of one ordinary share and one warrant) at \$8.00 per unit. Those warrants ("Public Warrants") issued in the IPO are publicly traded. Of the 4,239,300 Public Warrants outstanding prior to the consummation of the Acquisition, holders of 2,673,273 Public Warrants elected to redeem the warrants for cash of \$0.50 per warrant.

During the year of 2011, the Company bought back 967,177 public warrants through private negotiations for total consideration of \$361 with an average price \$0.37 per warrant. In the event that the last sale price of an ordinary share exceeds \$11.50 per share for any 20 trading days within a 30-trading day period, the Company has the option to redeem Public Warrants at a price of \$0.01 per warrant. These warrants were publicly traded and valued at the quoted market price of \$0.02 per warrant as of December 31, 2013, and expired on March 7, 2014. As a result, nil and 598,850 Public Warrants were outstanding at December 31, 2014 and 2013, respectively.

##### Unit Options

Connected with the IPO in March 2008, the Company issued an option ("Unit Options") on a total of 280,000 units with each unit consisting of one ordinary share and one ordinary share warrant ("Representative Warrants") to the underwriters, Broadband Capital Management LLC. The Unit Option permits the acquisition of 280,000 Units at \$10.00 per unit. Those Representative Warrants were excisable at \$8.00 per share. The Unit Options included the Representative Warrants expired on March 7, 2014. As a result, nil and 280,000 Unit Options were outstanding at December 31, 2014 and 2013, respectively.

The Company utilized the American Binomial Option Valuation Model to estimate the value of the Unit Options as of December 31, 2013 at \$0, with an exercise price of \$9.98 (being \$10.00 minus the portion of the exercise price of \$0.02 allocated as the value of the warrant component), market price of \$3.39, expected remaining term of 0.25 years, expected volatility of 30%, and risk free rate of 0.05%. The warrant component of the Unit Options was valued based on the public market price of the publicly traded warrants of \$0.02 per warrants, or \$6 in total, as of December 31, 2013.

## Underwriter Warrants

Connected with a secondary public offering of the Company's ordinary shares on December 23, 2010, the Company issued to its underwriter an option for \$1 to purchase up to a total of 66,667 shares of ordinary shares (5% of the shares sold in the secondary offering) at \$6.00 per share (120% of the price of the shares sold in the secondary offering). The option is exercisable commencing on June 12, 2012 and expires on December 20, 2015.

During 2011, the Company bought back 53,096 warrants from the underwriters for \$27 with a price \$0.50 per warrant. As a result, there were 13,571 outstanding underwriter warrants as of December 31, 2014 and 2013. The Company utilized the American Binomial Option Valuation Model to estimate the value of the underwriter warrants as of December 31, 2014 at \$2 with an exercise price of \$6.00, market price of \$0.62, expected remaining term of one year, expected volatility of 176%, and a risk free rate of 0.11%.

The Company utilized the Cox-Ross Rubinstein Binomial Model to estimate the value of the underwriter warrants as of December 31, 2014 at \$2, with an exercise price of \$6.00, market price of \$0.62, expected remaining term of one year, expected volatility of 176%, and a risk free rate of 0.11%.

As of December 31, 2014, the fair value of the underwriter warrants was \$2. The amount of \$19 was recognized as "Change in fair value of warrant derivative liability" in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2014.

As of December 31, 2013, the fair values of the public warrants, underwriter warrants and Unit Option were \$12, \$3 and \$6 respectively. The amount of \$3 was recognized as "Change in fair value of warrant derivative liability" in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2013.

A summary of changes in warrant activity is presented as follows as of December 31, 2014:

	Public Warrants	Unit Options *	Underwriter Warrants
Outstanding, January 1 and December 31, 2013	598,850	280,000	13,571
Expired	(598,850)	(280,000)	-
Outstanding, December 31, 2014	<u>-</u>	<u>-</u>	<u>13,571</u>

\* Each unit option included one ordinary share and one ordinary share warrant.

## Note 11 - Other payables and accrued liabilities

Other payables as of December 31, 2014 and 2013 consisted of the following:

	December 31,	
	2014	2013
Accrued professional fees	\$ 130	\$ 89
Accrued staff costs and staff benefits	27	181
Accrued transportation expenses	-	222
Accrued miscellaneous purchases	-	98
Other taxes payable	50	11
Others	2	94
Other payables and accrued liabilities	<u>\$ 209</u>	<u>\$ 695</u>

## **Note 12 - Capital transactions**

### **Preferred stock**

On January 29, 2008, the Company amended its articles of association and authorized 1,000,000 preferred shares. No preferred shares were issued or registered in the IPO. There were no preferred shares issued and outstanding as of December 31, 2014 and 2013.

### **Issuance of capital stock**

On January 21, 2014, a total of 160,000 ordinary shares were issued to the Company's directors and certain employees, which vested immediately. The grant date fair value was \$3.36 per share. Share-based compensation expense of \$538 was recognized in the consolidated statements of comprehensive income (loss) in 2014.

On March 1, 2013 and June 3, 2013, a total of 195,000 ordinary shares were issued to the Company's employees, directors and consultants. Share-based compensation expense of \$225 was recognized in the consolidated statements of comprehensive income (loss) in 2013.

On January 1, 2012, a total of 207,000 ordinary shares were issued to our employees, directors and consultants. Share-based compensation expense of \$273 was recognized in the consolidated statements of comprehensive income (loss) in 2012.

## **Note 13 - Statutory reserves**

### Statutory reserves

The laws and regulations of the PRC require that before an enterprise distributes profits to its owners, it must first satisfy all tax liabilities, provide for losses in previous years, and make allocations in proportions determined at the discretion of the Board of Directors after the statutory reserves.

### Surplus reserve fund

As stipulated by the Company Law of the PRC, as applicable to Chinese companies with foreign ownership, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

1. Making up cumulative prior years' losses, if any;
2. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the company's registered capital; and
3. Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any. It may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

For the years ended December 31, 2014, 2013 and 2012, the Company made appropriations of nil, \$408 and \$347 to the statutory reserves, respectively.

## **Note 14 - Income taxes**

Income is subject to tax in the various countries in which the Company operates.

The Company is a tax-exempted company incorporated in the Cayman Islands.

SGO is incorporated in the State of Delaware and is subject to U.S. federal taxes at United States federal income tax rate of 34%.

SGOCO International is incorporated in Hong Kong and is subject to Hong Kong taxation on income derived from their activities conducted in Hong Kong. Hong Kong Profits Tax has been calculated at 16.5% of the estimated assessable profit for the years ended December 31, 2014, 2013 and 2012.

The Company mainly conducts its operating business through its subsidiaries in China. These subsidiaries are governed by the Income Tax Law of the PRC concerning foreign invested enterprises and foreign enterprises and various local income tax laws (the Income Tax Laws), and do not have any deferred tax assets or deferred tax liabilities under the income tax laws of the PRC because there are no temporary differences between financial statement carrying amounts and the tax bases of existing assets and liabilities.

All subsidiaries in China are subject to 25% EIT tax rate throughout the periods presented.

The Income Tax Laws also imposes a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China for distribution of earnings generated after January 1, 2008. Under the Income Tax Laws, the distribution of earnings generated prior to January 1, 2008 is exempt from the withholding tax. As our subsidiaries in the PRC will not be distributing earnings to the Company for the years ended December 31, 2014, 2013 and 2012, no deferred tax liability has been recognized for the undistributed earnings of these PRC subsidiaries at December 31, 2014, 2013 and 2012. Total undistributed earnings of the Company's PRC subsidiaries at December 31, 2014 were nil (2013: \$7,219).

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the years ended December 31, 2014, 2013 and 2012:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
U.S. Statutory rates	34.0%	34.0%	34.0%
Foreign income not recognized in USA	(34.0)	(34.0)	(34.0)
China income taxes	25.0	25.0	25.0
Impact of tax rate in other jurisdiction	(5.8)	(5.6)	(3.0)
Valuation allowance	(37.5)	2.1	1.0
Tax on disposal of SGOCO (Fujian) (a)	(89.9)	-	-
Other (b)	(26.0)	1.7	11.0
Effective income taxes	<u>(134.2)%</u>	<u>23.2%</u>	<u>34.0%</u>

Notes:

- (a) According to the Circular on the State Administration of Taxation on Strengthening the Management of EIT Collection of Proceeds from Equity Transfers by Non-Resident Enterprises (Guoshuihan [2009] No. 698) ("Circular 698") and the State Administration of Taxation Notice [2015] No. 7, a non-PRC Tax Resident Enterprise is subject to the PRC EIT on the taxable gain arising from a sale of transfer of any intermediate offshore company which directly or indirectly holds an interest, including any assets, subsidiaries, or other forms of business operations, in the PRC at a rate of 10%, or otherwise stipulated in an applicable tax treaty or arrangement. Circular 698 applies to all transactions conducted on or after January 1, 2008.

As such, included in the income tax expense for the year ended December 31, 2014 was an amount of \$877 on the Sale of SGOCO (Fujian).

Included in income tax payable as of December 31, 2014 were payables made for the Sale of Honesty Group and Sale of SGOCO (Fujian) of \$6,240 (2013: payables made for the Sale of Honesty Group of \$5,363). The amounts remained unpaid as of the date of this Annual Report. The Company has already submitted relevant documents to the PRC tax bureau regarding the Sale of Honesty Group and the Sale of SGOCO (Fujian).

- (b) There were no other material items affecting the effective income tax for the years ended December 31, 2014, 2013 and 2012 except for (i) the expense incurred by holding company incorporated in the Cayman Islands where there is no tax. The other 15.8%, 1.7% and 11.0% for the years ended December 31, 2014, 2013 and 2012 included losses incurred by SGOCO of approximately \$0.5 million, \$0.4 million and \$2.8 million, respectively and (ii) under-provision of Hong Kong profits tax and as a result of certain non-deductible expenses in prior year.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred income tax assets and liabilities are as follows:

	December 31,	
	2014	2013
<b>Deferred income tax assets:</b>		
Net operating loss carry-forward	\$ 745	\$ 465
Less: Valuation allowance	(745)	(465)
	<u>\$ -</u>	<u>\$ -</u>
	December 31,	
	2014	2013
<b>Deferred income tax liabilities:</b>		
Unrealized exchange gain	\$ -	\$ 319

The deferred income tax assets wholly relates to net tax loss carry forwards. The net operating loss carry forwards derived from the Company's PRC entities and U.S. entity.

The net tax loss attributable to those PRC entities can only be carried forward for a maximum period of five years. As of December 31, 2014 and 2013, the Company had \$2,091 and \$1,137, respectively, of deductible tax loss carry forwards that expire through December 31, 2019. The net tax loss of the Hong Kong entity of \$111 and nil as of December 31, 2014 and 2013, respectively, available for offset against future profits may be carried forward indefinitely. Management believes that the Company will not realize these potential tax benefits as the Company's operations in these PRC and Hong Kong entities will not generate any operating profits in the foreseeable future. As a result, the full amount of the valuation allowance was provided against the potential tax benefits.

As of December 31, 2014 and 2013, the Company's U.S. entity, SGO, had net tax loss carry-forwards of \$599 and \$531, respectively, available to reduce future taxable income which will expire in various years through 2030. Management believes that the Company will not realize these potential tax benefits as the Company's U.S. operations will not generate any operating profits in the foreseeable future. As a result, the full amount of the valuation allowance was provided against the potential tax benefits.

#### **Note 15 - Enterprise-wide geographic reporting**

The Company designs and sells LCD/LED products. The designing process, selling practice and distribution process are similar for all products. Based on qualitative and quantitative criteria established by the FASB's accounting standard regarding disclosures about segments of an enterprise and related information, the Company considers itself to be operating within one reportable segment.

The Company does not have material long-lived assets located in foreign countries other than PRC. Geographic area data is based on product shipment destination. In accordance with the enterprise-wide disclosure requirements of the accounting standard, the Company's net revenue from external customers by geographic areas is as follows:

	Year ended December 31,		
	2014	2013	2012
China	\$ 41,321	\$ 177,836	\$ 143,877
International	1,909	23,138	22,824
Total	<u>\$ 43,230</u>	<u>\$ 200,974</u>	<u>\$ 166,701</u>

During the years ended December 31, 2014, 2013 and 2012, 100%, 100% and 99.9% of international sales were made to customers in Hong Kong, while nil, nil and 0.1% of international sales were made to customers in the U.S.



## Note 16 - Related party and shareholder transactions

During the year ended December 31, 2014, Sun Zone Investments Limited (“Sun Zone”), a shareholder of the Company which is 100% owned by the Company’s Chairman, Mr. Tin Man Or, loaned \$600 to the Company. As of December 31, 2014, \$500 was repaid and the outstanding amount due to Sun Zone is \$100. The amount was non-interest bearing, unsecured and repayable on demand.

## Note 17 - Earnings per share

The following is a reconciliation of the basic and diluted earnings per share computation:

	For the year ended December 31,		
	2014	2013	2012
Net (loss) income for earnings per share	\$ (2,288)	\$ 8,444	\$ 4,213
Weighted average shares used in diluted computation - basic and diluted	17,406,069	17,193,189	17,059,575
Earnings per share – basic and diluted	\$ (0.13)	\$ 0.49	\$ 0.25

In accordance with the U.S. GAAP, outstanding ordinary shares that are contingently returnable are treated in the same manner as contingently issuable shares.

A total of 361,327 ordinary shares owned by the Sponsors that were no longer subject to cancellation were used to calculate basic earnings per share upon provision of services. The remaining 405,495 ordinary shares in escrow which would be released contingent on financial advisory and certain other services to be provided by the Sponsors are excluded from basic and diluted earnings per share computation for 2013 and 2014. These escrow shares expired on December 31, 2013 and were cancelled on April 14, 2014. As of December 31, 2014 and 2013, all the Company’s warrants and unit options were excluded from the diluted earnings per share calculation as they were anti-dilutive.

## Note 18 - Commitments and contingencies

The management is not currently aware of any threatened or pending litigation or legal matters, which would have a significant effect on the Company’s consolidated financial statements as of December 31, 2014 and 2013.

Our contractual obligations primarily consist of operating lease obligations and capital commitments. The following table sets forth a breakdown of our contractual obligations as of December 31, 2014, and their maturity profile:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Capital contributions <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -
Operating lease obligations	334	254	80	-	-
Total	\$ 334	\$ 254	\$ 80	\$ -	\$ -

- (1) The registered capital of SGOCO Shenzhen is \$5,000. As of December 31, 2014, SGOCO International had not injected capital to SGOCO Shenzhen. Initially, SGOCO International was required to pay \$1,000 and the remaining \$4,000 within 3 months and within one year, respectively, of the date of issuance of the subsidiary’s business license according to PRC registration capital management rules. According to the revised PRC company law which became effective on March 1, 2014, it has abolished the time requirement of the registered capital contributions. SGOCO International has its own discretion to consider the timing of the registered capital contributions. SGOCO International is in the process of amending the charter to adopt the requirement of the revised PRC company law.

#### **Note 19 - Concentration of risks**

The Company's operations are carried out in the PRC and its operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in government policies regarding laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments that subject the Company to a concentration of credit risk consist of cash, accounts receivable and advances to suppliers. The Company maintains balances at financial institutions located in Hong Kong, China and the U.S. From time-to-time, balances in Hong Kong and the U.S. may exceed the Hong Kong Deposit Protection Board insured limits for the banks located in Hong Kong and FDIC deposit insurance limits for banks located in the U.S. Balances at financial institutions or state owned banks within the PRC are not insured. As of December 31, 2014 and 2013, the Company had deposits, in excess of insured limits totaling nil and \$13,342, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks to the cash in its bank accounts.

The Company provides unsecured credit terms for sales to certain customers. As a result, there are credit risks with the accounts receivable balances. The Company constantly re-evaluates the credit worthiness of customers buying on credit and maintains an allowance for doubtful accounts.

Sales revenue from two major customers was \$22,334, or approximately 51.7% of the Company's total sales for the year ended December 31, 2014, with each customer individually accounting for 37.8% and 13.9% of revenue, respectively. No other single customer accounted for more than 10% of the Company's total revenues in 2014. The Company's accounts receivable from these customers was approximately \$22,334 as of December 31, 2014.

Sales revenue from two major customers was \$73,452, or approximately 36.5% of the Company's total sales for the year ended December 31, 2013, with each customer individually accounting for 22.3% and 14.2% of revenue, respectively. No other single customer accounted for more than 10% of the Company's total revenues in 2013. The Company's accounts receivable from these customers was approximately \$15,948 as of December 31, 2013.

Sales revenue from three major customers was \$61,547, or approximately 36.9% of the Company's total sales for the year ended December 31, 2012, with each customer individually accounting for 17.3%, 9.5% and 10.1% of revenue, respectively. No other single customer accounted for more than 10% of the Company's total revenues in 2012. The Company's accounts receivable from these customers was approximately \$19,406 as of December 31, 2012.

Two major vendors provided approximately 64.3% of total purchases (including 46.9% of purchases from Honesty Group) by the Company during the year ended December 31, 2014. The Company had no accounts payable due to these vendors as of December 31, 2014.

Two major vendors provided approximately 71.0% of total purchases (including 42.4% of purchases from Honesty Group) by the Company during the year ended December 31, 2013. The Company had made advances of \$32,803 and rental deposits of \$10 to these vendors as of December 31, 2013.

One major vendor (Honesty Group) provided approximately 77.4% of total purchases by the Company during the year ended December 31, 2012. The Company had made advances of \$9,408, rental deposits of \$10 and owed accounts payable of \$1,961 to this vendor as of December 31, 2012.

#### **Note 20 - Subsequent events**

On March 5, 2015, a total of 180,000 ordinary shares were issued to the Company's independent directors and certain employees, which vested immediately. The grant date fair value was \$0.70 per share. Compensation expense of \$126,000 will be recorded in the statement comprehensive income (loss) during first quarter of 2015.

**DATED December 24, 2014**

**SGOCO International (HK) Limited  
as Seller**

**and**

**APEX Flourish Group Limited  
as Purchaser**

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**AGREEMENT  
FOR SALE AND PURCHASE  
OF ALL OF THE EQUITY OF  
Sgoco (Fujian) Electronic Co., Ltd**

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### Annex

A. The Financial Statements as of November 30, 2014 (draft)	
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**AGREEMENT dated December 24, 2014**

**PARTIES**

1. **SGOCO INTERNATIONAL (HK) LIMITED**, a company incorporated in Cayman Islands whose correspondence address is at Suite 1503, 15/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong (the "Seller"); and
2. **APEX FLOURISH GROUP LIMITED**, a company incorporated in British Virgin Islands whose correspondence address is at Office A, 22/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong (the "Purchaser").

**WHEREAS:**

- (A) **Sgoco (Fujian) Electronic Co., Ltd** ("Company") is a private company incorporated in Hong Kong the particulars of which are set out in Schedule 1.
- (B) The Seller is the legal and beneficial owner of the entire Sale Equity (as defined below) and all those Sale Equity constitute the entire registered share capital of the Company.
- (C) The Purchaser wishes to purchase and the Seller wishes to sell, the Sale Equity subject to and upon the terms and conditions of this Agreement.

**AGREEMENT**

**1. INTERPRETATION**

- 1.1 Definitions: In this Agreement, the following expressions shall have the following meanings except where the context otherwise requires:

**"Accounts"**

the un-audited balance sheet, as at the Last Accounts Date, and un-audited profit and loss account for the twelve months ended on the Last Accounts Date, of the Company.

**"Business Day"**

a day (excluding Saturdays) on which commercial banks are generally open for banking business in China;

**"Companies Ordinance"**

Company Law of the People's Republic of China, Contract Law of the People's Republic of China and related laws and regulations;

**"Completion"**

completion of the sale and purchase of the Sale Equity in accordance with the provisions of Clause 5;

**"Completion Date"**

the date on which Completion takes place;

**"Director"**

the director of the Company;

**"Encumbrance"**

a mortgage, charge, pledge, lien, option, restriction, hypothecation, assignment, right to acquire or of pre-emption, third-party right or interest, other encumbrance, priority or security interest of any kind, or any other type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect, and any agreement or obligation to create or grant any of the aforesaid;

**"Guarantee"**

any guarantee, indemnity, surety ship, letter of comfort or other assurance, security or right of set-off or financial or other obligation given or undertaken by a person to secure or support or incur a financial or other obligation with respect to an obligation or liability (actual or contingent) of any third party and whether given directly or by way of counter-indemnity to any third party who has provided a guarantee;

**"Last Accounts Date"**

December 31, 2014;

**"Material Breach"**

Delay of more than 60 days in paying the Purchase Price in accordance with Clause 5.3;

**"Purchase Price"**

the total purchase price payable by the Purchaser for all the Sale Equity pursuant to this Agreement, as set out in Clause 3.1;

**"Records"**

records and information of the Company (including, without limitation, all accounts, books, ledgers, minutes books, registers, financial and other records of whatsoever kind, returns and filings made or filed pursuant to Companies Ordinance or Inland Revenue Ordinance, and all other statutory books and records);

**"Relevant Interests"**

material interests, ownership or rights in or related to the Company, including any equity, leases, businesses, equipments;

**"Sale Equity"**

all shares or equity interest in the Company to be sold by the Seller to the Purchaser pursuant to this Agreement;

**"Warranty"**

a representation, warranty and undertaking contained in Clause 6.1 and Schedule 4 and "Warranties" means all of those statements.

1.2 **References:** In this Agreement, a reference to:

- (a) a Clause, Recital, Schedule or an Annex is, unless the context otherwise requires, a reference to a clause or sub-clause of, or the recital or a schedule or an annex to this Agreement;
- (b) any Ordinance, regulation or other statutory provision or enactment is a reference to such Ordinance, regulation, statutory provision or enactment as amended, modified, consolidated, codified, re-enacted, or extended or applied by a court of competent jurisdiction, from time to time and includes subsidiary legislation made thereunder;
- (c) this Agreement (or any specific provision hereof) or any other document shall be construed as references to this Agreement, that provision or that other document as amended, varied or modified from time to time;
- (d) "China" is to the People's Republic of China.
- (e) "RMB" is to China dollars, the lawful currency for the time being of China;
- (f) "Hong Kong" is to the Hong Kong Special Administrative Region of the People's Republic of China;
- (g) "US\$" is to the United States dollars, the lawful currency for the time being of the United States of America; and

1.3 **Headings:** Headings in this Agreement are for ease of reference only and shall not affect the interpretation or construction of this Agreement.

1.4 **Recitals, Schedules and Annexes:** The Recitals, Schedules and Annexes form part of this Agreement.

1.5 **Construction:** Words denoting the singular include the plural and vice versa and words denoting one gender include all genders.

## 2. **SALE AND PURCHASE**

The Seller as beneficial owner shall sell and the Purchaser shall purchase the Sale Equity on and subject to the terms and conditions of this Agreement and free from any Encumbrance other than any Encumbrance created pursuant to this Agreement and with all rights now and hereafter attaching thereto.

## 3. **PURCHASE PRICE**

3.1 **Purchase Price:** The Purchase Price for all the Sale Equity shall be equivalent to the net asset value of the Company on December 31, 2014 calculated on the basis of Chinese accounting standards.

As of November 30, 2014, the net asset value of the Company is RMB 63,352,699. Any change of the net asset value during the period till December 31, 2014 will affect the final purchase price. The purchase price shall be paid by installments in accordance with Clause 5.3 and Schedule 2.

3.2 **Form of payment:** Each of the payments due to the Seller under this Clause 3 shall be made by way of telegraphic transfer or other means, at the time and in the manner as set out in Schedule 2.

#### 4. **Securities**

4.1 In order to secure the payment of the Purchase Price and the performance of the obligations of the Purchaser under this Agreement, the Purchaser agrees to (a) pledge 100% of the Sale Equity back to the Seller and/or its assignee(s) (the "Pledge"), of which the terms and conditions are prescribed in the Deed of Share Charge dated the date hereof and (b) grant to the Seller and/or its assignee(s) a security interest in the Accounts Receivable, Cash and Advances to Suppliers in the account of the Company (the "Security Interest") as of the Last Accounts Date, with a total sum equals to the Purchase Price (the "Secured Amount"), of which the Purchaser undertakes to procure the its subsidiaries to establish escrow accounts in China with and in such manner as requested by Seller's subsidiary, SGOCO (Shenzhen) Technology Co. Ltd., with the total sum of the escrow accounts equals to the Secured Amount and (c) undertakes to procure the Company to liquidate its Accounts Receivable, Cash and Advances to Suppliers to enable the Purchaser to have sufficient funds for making the payments to the Seller in whatever manner available.

As part of this Pledge and Security Interest provided by the Purchaser to the Seller, the Purchaser agrees that it will not dispose of any material assets without the Seller's prior written consent until full payment of the Purchase Price as set out in Clause 3.1.

4.2 The Purchaser agrees to procure the Company to settle the entire balance of Accounts Payable and Other Payables (the "Payables") due to the Seller or its affiliates prior to June 30, 2015. The Purchaser shall assume responsibility to pay such Payables. As of November 30, 2014, the balance of the Payables due to the Seller or its affiliates is RMB 513,273,562. The Payables shall be paid by way of telegraphic transfer or other means, at the time and in the manner as set out in Schedule 2.

#### 5. **COMPLETION**

5.1 **Completion:** Completion shall take place at the offices of the Seller upon execution of this Agreement.

5.2 **Seller's obligations:** At or before Completion, the Seller shall procure the satisfaction of the conditions and the delivery to the Purchaser of those documents and other items set out in Schedule 3.

5.3 **Purchaser's obligations:** Against due performance of the provisions of Clause 5.2, the Purchaser shall pay the Purchase Price to the Seller by way of telegraphic transfer or other means at the time and in the manner as set out in Schedule 2.



## 6. WARRANTIES AND INDEMNITIES

6.1 **Warranties:** Subject to the matters which are expressly provided for under the terms of this Agreement and the Accounts, the Seller represents, warrants and undertakes to the Purchaser and its successors in title that to the best of its knowledge and belief after reasonable investigation on its part each statement contained in Schedule 4 is true, accurate and complete in all respects and not misleading at the date of this Agreement. The Seller acknowledges that the Purchaser is entering into this Agreement in reliance upon each Warranty.

6.2 **Separate Warranties:** Each Warranty is separate and independent and without prejudice to any other Warranty and, except where expressly stated otherwise, is not limited by any provision of this Agreement or another Warranty.

6.3 **Purchaser's rights:** In the event of any Relevant Breach, the Purchaser shall, without prejudice to the Purchaser's other rights in respect thereof, be entitled by notice given to the Seller at any time to require the Seller to make good the resultant loss by the payment in cash to the Purchaser of an amount equal to the amount by which in consequence of the Relevant Breach the value of the Sale Equity falls short of the value they would have had if the relevant Warranty had been true and accurate and not misleading and otherwise had been complied with.

**"Relevant Breach"** means any event, matter or circumstance which, to the knowledge and belief of the Seller after reasonable investigation on its part, is inconsistent with, contrary to or otherwise a material breach of any of the Seller's Warranties and includes any matter or thing which in any material respect renders any of the Seller's Warranties untrue or misleading.

6.4 **Limitation of Seller's liability:** Notwithstanding any provisions of this Agreement to the contrary, the maximum amount of liability of the Seller in relation to any and all breaches of the Warranties whatsoever (including the legal fees and fees of arbitrators that the Purchaser may incur) shall not exceed RMB\$2 million. In addition, the Seller shall not bear any liabilities whatsoever in relation to its obligations under this Agreement, the Warranties or the activities or conduct or omission of the Group unless the Purchaser commences legal proceedings against the Seller with specific references to such obligation, the Warranties or activities or conduct or omission of the Group mentioned above within two years from the date of the Completion.

6.5 **Purchaser's responsibility:** The Purchaser hereby agrees for itself, its successors and assigns to indemnify, defend and hold the Seller, their legal representatives, officers, directors, employees, agents, successors and assigns (the "Seller Indemnified Parties"), free and harmless from any and all actions, suits, and proceedings and from and against any and all losses, claims, damages, costs, charges, counsel fees, payments, expenses and liabilities whatsoever which any of them may sustain or incur by reason of any matter or thing arising out of or relating to the Responsibility and the Commitment, except in the event that such actions, suits, proceedings, losses, claims, damages, costs, charges, counsel fees, payments, expenses and liabilities arise as results of gross negligence of the Seller Indemnified Parties who not having acted in good faith.

**7. Further assurances:**

7.1 The Seller shall execute and deliver such further documents and perform and procure such acts and things as the Purchaser may reasonably require effectively to vest the beneficial and registered ownership of the Sale Equity in the Purchaser free from any Encumbrances other than any Encumbrances created pursuant to this Agreement and to give full effect to the Seller's obligations under this Agreement.

7.2 The Purchaser shall execute and deliver such further documents and perform and procure such acts and things to give full effect to the Purchaser's obligations under this Agreement. The Purchaser shall procure that the Seller has full access to the Company's accounts, including, but not limited to, the balance sheet and profit and loss accounts, until January 31, 2015.

**8. TERMINATION**

8.1 **Seller's right:** The Seller may terminate this Agreement in whole or in part with a full reservation of all accrued rights and remedies immediately upon written notice to the Purchaser if (a) the Purchaser is found to be in Material Breach of Clause 5.3, or (b) the Purchaser becomes insolvent, or a petition in bankruptcy is filed by or against the Purchaser.

8.2 **Purchaser's right:** The Purchaser may terminate this Agreement if there shall be a material breach by the Seller of any representation or warranty, or any covenant or agreement contained in this Agreement and which breach cannot be cured or has not been within twenty business days of receiving written notice of the breach from the Purchaser.

**9. Force Majeure**

9.1 **Force Majeure :** "Force Majeure" shall mean events, such as acts of God (including fire, flood, earthquake, storm, hurricane or other natural disaster), war, invasion, act of foreign enemies, hostilities (regardless of whether war is declared), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation, terrorist activities, nationalization, government sanction, blockage, embargo, labor dispute, strike, lockout or interruption or failure of electricity or telephone service (each a "Force Majeure Event").

**9.2 Effect of Force Majeure:**

- (a) If a party suffers a Force Majeure Event, such party shall promptly notify the other party by written notice within 24 hours of the occurrence of the Force Majeure Event, and, so long as such condition shall persist, such party shall not be liable for the delay in performance of, or the failure to perform, its obligations (other than obligations for payment of amounts due as set out in Schedule 2) under this Agreement. Within fifteen days after giving notice of the Force Majeure Event, the claiming party shall give the other party an estimate of the Force Majeure Event's expected duration and probable impact. The claiming party shall continue to furnish the other party with timely regular reports and updates during the continuation of the Force Majeure Event. Each party shall immediately exercise commercially reasonable efforts to mitigate or limit the impact of the Force Majeure Event on its operations.

- (b) Notwithstanding the foregoing, no party is entitled to terminate this Agreement without the other party's written consent as a result of the occurrence of a Force Majeure Event.
- (c) If a party asserts Force Majeure as an excuse for the delay in performance of, or the failure to perform the party's obligation, then the nonperforming party must prove that the party has fulfilled the obligations set out in Clause 9.2 (a) and that the party substantially fulfilled all non-excused obligations under this Agreement.

## **10. Non-competition**

- 10.1 During the Non-Compete Period, the Purchaser shall not (and shall procure that none of its subsidiaries shall) induce or attempt to induce any employee of the Seller to leave their employment.
- 10.2 The Purchaser agrees that the non-competition undertakings and covenants set out in Clauses 10.1 and 10.2 are reasonable in nature. If a court or arbitrator of competent jurisdiction determines that any of the non-competition undertakings and covenants set out in Clauses 10.1 and 10.2 is unenforceable in nature, the Purchaser agrees that such court or arbitrator shall reform such undertaking and restrictive covenant so that it is enforceable to the maximum extent permitted by law for an undertaking or restrictive covenant of that nature, and such court or arbitrator shall enforce the undertaking or restrictive covenant to that extent. Such remedies shall not be exclusive, but rather shall be in addition to any other remedies available at law or in equity for violation of this Agreement.

## **11. Right of First Refusal**

- 11.1 For a period of five years from the Completion, the Purchaser shall not sell, assign, transfer or otherwise voluntarily alienate or dispose of any of the Relevant Interest to a third party without first offering to sell, assign or transfer the Relevant Interest to the Seller and/or its assignee(s).
- 11.2 If the Purchaser receives from a third party a valid and binding offer to purchase any of the Relevant Interests which is acceptable to the Purchaser (the "Interest Holder"), it shall give the Seller a written notice (the "Notice") stating: (a) the Interest Holder's bona fide intention to sell or otherwise transfer the Relevant Interests at issue (the "Offered Relevant Interests"); (b) the name and address of each proposed purchaser or other transferee (the "Proposed Transferee"); (c) the details of the Relevant Interests to be transferred to each Proposed Transferee; (d) the bona fide cash price or other consideration for which the Interest Holder proposes to transfer the Offered Relevant Interests (the "Offered Price"); and (e) that the Interest Holder acknowledges this Notice is an offer to sell the Offered Relevant Interests to the Seller and/or its assignee(s) pursuant to the Seller's right of first refusal at the Offered Price as provided for in this Agreement.
- 11.3 At any time within thirty days after the date of the Notice, the Seller and/or its assignee(s) may, by giving written notice to the Interest Holder, elect to purchase all (or, with the consent of the Interest Holder, less than all) the Offered Relevant Interests proposed to be sold, assigned or transferred to any one or more of the Proposed Transferees named in the Notice, at the purchase price determined as specified below.

- 11.4 The purchase price for the Offered Relevant Interests purchased under this Clause will be the Offered Price. If the Offered Price includes consideration other than cash, then the value of the non-cash consideration, as determined in good faith by the Seller's Board of Directors, will conclusively be deemed to be the cash equivalent value of such non-cash consideration.
- 11.5 If all of the Offered Relevant Interests proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Seller and/or its assignee(s) as provided in this Clause, then the Interest Holder may sell, assign or otherwise transfer such Offered Relevant Interest to each Proposed Transferee at the Offered Price or at a higher price, provided that (a) such sale, assign or other transfer is consummated within one hundred and twenty days after the date of the Notice, (b) any such sale or other transfer is effected in compliance with all applicable laws, and (c) each Proposed Transferee agrees in writing that the provisions of this Clause will continue to apply to the Offered Relevant Interests in the hands of such Proposed Transferee. If the Offered Relevant Interests described in the Notice are not transferred to each Proposed Transferee within such one hundred twenty day period, then a new Notice subject to the provisions of this Clause must be given to the Seller, pursuant to which the Seller will again be offered the right of first refusal before any Relevant Interests held by the Interest Holder may be sold or otherwise transferred.

## 12. CONFIDENTIALITY

**Confidentiality:** Each party shall at all times keep confidential, treat as privileged, and not directly or indirectly make or allow to be made any disclosure or use of any oral or written information relating to any other party or the existence or subject matter of this Agreement (“Confidential Information”), except to the extent:

- (a) required by applicable laws or regulations or rules of any stock exchange (where the securities of a party or its holding company are listed), and after providing notice to the other relevant party or parties of the proposed disclosure and taking into account the reasonable requirements of the other party or parties;
- (b) necessary to obtain the benefit of, or to carry out obligations under, this Agreement, which shall include the ability to disclose Confidential Information to any government authorities, employees or advisers who need to have it for purposes directly connected with the transactions provided for in this Agreement, provided that the relevant disclosing party shall advise such employees or advisers of the confidential nature of the Confidential Information and shall use all reasonable endeavors to procure that such persons keep the relevant Confidential Information strictly confidential and shall indemnify the other relevant party in respect of all costs, claims, actions, proceedings, losses and liabilities in connection with any unauthorized disclosure or use of the Confidential Information by such persons; or

(c) that the information is or becomes available in the public domain without breach by a party of its confidentiality obligations under this clause or at law.

Each party shall, on request by any other party at any time, return to the other party any Confidential Information which it holds (in whatever form) in respect of that other party.

### 13. INCOME TAX AND RELEVANT TAX

All or any income tax payable and relevant tax expenses on the instruments of transfer and bought and sold notes relative to the sale and purchase of the Sale Equity shall be borne by the Purchaser.

### 14. GENERAL

14.1 **No prejudice to rights/waiver:** No failure to exercise, or delay in exercising, any right or remedy under this Agreement will operate as a release or waiver of such right or remedy or any other right or remedy, nor will any single or partial exercise of any right or remedy under this Agreement or provided by law preclude any other or further exercise of it or the exercise of any other right or remedy or prejudice or affect any right or remedy against others under the same liability whether joint, several or otherwise. A waiver of any breach of this Agreement or any right of remedy under this Agreement shall not be effective, or implied, unless that waiver is in writing and is signed by the party giving the waiver.

14.2 **Status:** Nothing in this Agreement is intended or shall be deemed to constitute a partner, agency, employer-employee, variable interest entity or joint venture relationship between the parties.

14.3 **Entire agreement:** This Agreement (together with the documents referred to herein and the Schedules hereto) contains the entire agreement between the parties hereto relating to the transactions contemplated herein and supersedes any previous agreement (oral or written) between the parties in relation thereto.

14.4 **Variations in writing:** Any variation to this Agreement shall be binding only if it is in writing and signed by or on behalf of each party.

14.5 **Severability:** If any term in or provision of this Agreement shall be held to be illegal or unenforceable, in whole or in part, under any enactment or rule of law, the term or provision shall to that extent be deemed not to form part of this Agreement and the enforceability of the remainder of this Agreement shall not be affected.

14.6 **Rights cumulative:** The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

14.7 **Survival:** The rights and obligations contained in this Agreement remain in force after Completion, except to the extent that they have been fully performed or where this Agreement provides otherwise. The rights and remedies of each party in respect of this Agreement shall not be affected by Completion.

14.8 **Counterparts:** This Agreement may be executed in any number of counterparts each of which when executed and delivered is an original, but all the counterparts together constitute the same document.

**15. NOTICES**

15.1 **Addresses:** Any notice or other communication under or in connection with this Agreement shall be in writing and shall be left at or sent by pre-paid registered post (if posted from and to an address in Hong Kong and Macau), pre-paid registered airmail (if posted from or to an address outside Hong Kong and Macau) or facsimile transmission to the party due to receive the notice or communication at its respective address or facsimile number set out below or to such other address and/or number(s) as may have been last specified by such party by written notice to each of the other parties hereto.

To the Seller:

Address: Suite 1503, 15/F, Sino Plaza,  
255-257 Gloucester Road, Causeway Bay, Hong Kong  
Attention: Or Tin Man  
Facsimile: (852) 2838 5200

To the Purchaser:

Address: Office A, 22/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong  
Attention: Wei Xiang

15.2 **Delivery:** In the absence of evidence of earlier receipt, a notice or other communication is deemed given:

- (a) if delivered personally, when left at the address referred to in Clause 15.1;
- (b) if sent by mail except air mail, two days after posting; and
- (c) if sent by air mail, six days after posting;
- (d) if sent by fax, on completion of its transmission.

In proving the giving of a notice by mail it shall be sufficient to prove that the envelope containing such notice was properly addressed and posted.

**16. GOVERNING LAW AND JURISDICTION**

16.1 **Hong Kong law:** This Agreement is governed by, and shall be construed in accordance with, the laws of Hong Kong.

16.2 **Arbitration:** The parties agree that they shall use their best efforts to resolve amicably any dispute or difference arising from or in connection with this Agreement. If the parties are unable to settle the dispute or difference within 30 days from the delivery by any party of a notice confirming the existence of the dispute, any party may refer the dispute to arbitration in Hong Kong under the Hong Kong International Arbitration Centre Administered Arbitration Rules in force when the valid notice of arbitration is submitted in accordance with these rules. The arbitration shall be conducted in the Chinese language. The award of the arbitration shall be final and binding on the parties, and the costs of arbitration shall be borne by the losing party, unless otherwise determined by the relevant arbitration authority. During arbitration, except for the matters under dispute, the parties shall continue to perform this Agreement.

**SCHEDULE 1**

**PARTICULARS OF THE COMPANY**

**Sgoco (Fujian) Electronic Co., Ltd**

<b>Company number:</b>	350500400057587
<b>Place of incorporation:</b>	Haolin District, Luoshan, Jinjiang City, Fujian Province, China
<b>Date of incorporation:</b>	July 28, 2011
<b>Registered Capital:</b>	USD 2,200,000
<b>Contributed Capital:</b>	USD 2,200,000
<b>Shareholders:</b>	SGOCO International (HK) Limited
<b>Registered office:</b>	Guanke Technology Park, Luoshan, Jinjiang City, Fujian Province, China
<b>Postal Code:</b>	362200

**SCHEDULE 2**

**Payment Schedule**

1. The Purchase Price as set forth in Clause 3.1 and the Payables as set forth in Clause 4.2 shall be paid by way of telegraphic transfer or other means in the manner as directed by the Seller in writing.
2. The Purchase Price shall be paid in installments according to the following schedule:

Payment Date	Amount
14 days after the Completion Date	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
By February 15, 2015	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
By March 15, 2015	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
By March 31, 2015	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
By April 15, 2015	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
By April 30, 2015	20% of Purchase Price and Payables or RMB116,000,000 or its equivalent
By May 15, 2015	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
By May 31, 2015	10% of Purchase Price and Payables or RMB58,000,000 or its equivalent
Before June 30, 2015	The remaining amount in cash or equivalent asset

3. There shall be imposed upon the Purchaser a 2% per month liquidated damage for any late payment computed upon the amount of any outstanding principal and accrued interest whose payment to the Seller is overdue for more than 30 days under this Agreement.



### SCHEDULE 3

#### SELLER'S COMPLETION OBLIGATIONS

#### ACTIONS

The following actions:

##### 1.1 **Meetings:**

Holding of a Board of Directors' meeting, or signing written resolutions, of the Directors of the Company at or in which resolutions shall be passed:

approving the transfer of the Sale Equity to the Purchaser and the registration of the same subject to its being duly stamped and presented for registration in accordance with the Company's articles of association;

noting the resignation of Cheng Hong as Director of Sgoco (Fujian) and approving the representative appointed by the Purchaser as Director;

noting the resignation of Cheng Hong as legal representative of the Company and approving the representative appointed by the Purchaser as legal representative in its place;

noting the resignation of Deng Qing Hong as supervisor of the Company and approving the representative appointed by the Purchaser as supervisor in its place;

revoking or varying all existing authorities in respect of the operation of the bank accounts of the Company as the Purchaser shall designate in writing in advance.

#### DELIVERY OBLIGATIONS

Delivery of the following documents and things:

- 2.1 **Change of Equity Registration:** The Seller is required to present the receipt issued by relevant government bureau to the Purchaser, in respect of the application for changing the registration of the equity holder in official record. .
- 2.2 **Equity transfers:** Duly prepare, execute and valid documents of transfer in relation to the Sale Equity, such transfers to be in favor of the Purchaser, and paid the stamp duties for the transfer of equity as required by relevant laws and regulations.
- 2.3 **Resignations of Director and Supervisor:** Written resignations of Cheng Hung as Director and Deng Qing Hung as Supervisor of the Company, confirming that they have no claims against the Company or the Subsidiaries (as this case may be) in their capacity as director or Supervisor whatsoever whether by way of compensation, remuneration, severance payments, pensions, expenses or otherwise.
- 2.4 **Corporate records:** To the extent that the same are not already in the possession of the Company or its agents all Records, complete and up to date, and the certificates of incorporation, deeds, documents and correspondence relating to the business, affairs, assets and liabilities (including documents of title relating to the assets of the Company).

2.5 **The Accounts**

2.6 **Check books:** All the current check book of the Company together with current bank statements of the Company in respect of its checking account.

2.7 **Resolutions:** Original written resolutions of the Directors of the Company referred to in paragraph 1.1 of this Schedule 3 shall have been passed.

**SCHEDULE 4**

**WARRANTIES**

**1. AUTHORITY AND INFORMATION**

1.1 **Authority:** The Seller has full right, power and legal capacity to validly and duly execute and deliver, and to perform, this Agreement and all other documents which are to be executed by it at or before Completion, and this Agreement constitutes, and the documents which are to be executed by it at or before Completion when executed will constitute, legal, valid and binding agreements or obligations of the Seller enforceable in accordance with their respective terms.

**2. SHARES**

2.1 **Sale Equity:** The Seller is the sole legal and beneficial owner of, and has full right, power and authority to sell and transfer the full legal and beneficial ownership of the Sale Equity free from all Encumbrances (of which there are none in existence) and with all rights now and hereafter attaching thereto.

2.2 **Registered capital of the Company:** The registered capital of the Company is set out in Schedule 1.

2.3 **No other interests:** The Company does not have:

- (a) any subsidiary or is or has ever been the holder or beneficial owner of, or has agreed to acquire, any share or loan capital of any company, other than the Subsidiaries; and/or
- (b) any branch, agency or place of business, or any permanent establishment.

**3. ACCOUNTS AND RECORDS**

3.1 **Accounts:** The Accounts:

- (a) give a true and fair view of the assets, liabilities, state of affairs and financial position of the Company at the Last Accounts Date and its profits/loss for the financial period ended on that date;
- (b) comply with the requirements of the Company Law and other relevant laws; and
- (c) have been prepared in accordance with Chinese Accounting Standards.

3.2 **No material adverse change:** There has been no material and adverse effect on the financial position, business, and results of operations and prospects of the Company since the Last Accounts Date.

3.3 **Liabilities:** No material liabilities have been assumed or incurred by the Company since the Last Accounts Date.

4. **TAXATION**

4.1 The Company has duly filed all tax returns and paid all applicable taxes in accordance with all relevant and applicable laws, and was not and is not involved in any dispute with any tax authority and there are no factual circumstances existing which would result in any such dispute in the future.

4.2 All information supplied by or on behalf of the Company for the purposes of taxation was when supplied and remains complete and accurate in all material respects.

5. **LEGAL STATUS AND COMPLIANCE**

5.1 **Due incorporation:** The Company has been duly incorporated and is legally subsisting under the law of Hong Kong, and there has been no resolution, petition or order for the winding-up of the Company, nor are any such resolutions, petitions or orders imminent or likely.

5.2 **No breach of laws:** Neither the Company nor any of its officers, agents or employees (during the course of their duties in relation to it), has committed, or omitted to do, any act or thing which is in contravention of any applicable laws or regulation, giving rise to any fine, penalty, default proceedings or other liability on its part or other adverse consequences.

6. **BUSINESS**

6.1 **Since the Last Accounts Date:** Since the Last Accounts Date, the business of the Company has been continued in the ordinary and normal course and in the same manner as previously.

7. **REAL PROPERTY**

7.1 **No real property:** The Company does not own any real property or lease interest in China or elsewhere.

8. **AGREEMENTS**

8.1 **Material/unusual contracts:** The Company has not entered into any agreements, instruments and arrangements, whether written or oral, as at the date of this Agreement which are material to the Company and its business, relationships and financial position and prospects, or is otherwise a contract of an unusual or abnormal nature, or outside the ordinary and proper course of its business.

9. **LITIGATION**

9.1 **No litigation:** Except for the written disclosure made to the Seller, the Company is not involved in any litigation, arbitration, administrative or criminal or other proceedings, whether as plaintiff, defendant or otherwise; there are no such proceedings pending or threatened, either by or against the Company; and there is no fact or circumstance which is likely to give rise to any such proceedings involving the Company.

**SCHEDULE 5**

**ACTIVITIES PENDING COMPLETION**

Save with the Clauses expressly provided in this Agreement, the Seller shall procure that the Company will:

1. **Ordinary business:** carry on its business and activities in the ordinary and usual course without interruption, in the usual manner so as to maintain its business as a going concern, and not make any change or material decision regarding its business (including its terms of business), affairs, assets and liabilities;
2. **Acquire or dispose of assets:** not acquire for or dispose of any assets of the Company otherwise than in the ordinary and usual course of its business;
3. **Capital expenditures:** not make, or agree to make, any capital expenditure;
4. **Dividends:** not declare, pay or make any dividend or distribution;
5. **Encumbrances:** not to create any Encumbrance in respect of the Company or its assets;
6. **Guarantees and loans:** not give, or agree to give, any Guarantee or loan of any money to any person;
7. **Payments in ordinary course:** not make any payment out of the Company's bank account except where the payment is in the ordinary and usual course of its business;
8. **Onerous agreements:** not to enter into any agreement, arrangement or obligation which exceeds one year in term or is onerous or unusual in nature
9. **Comply with laws and regulations:** conduct its business in accordance with and in compliance with all applicable laws and regulations;
10. **Co-operation to Purchaser:** give all reasonable co-operations to the Purchaser so as to ensure a smooth transition of management and control of the Company after Completion.

EXECUTED AS AN AGREEMENT

**SIGNED BY** ) SIGNED  
 )  
for and on behalf of )  
**SGOCO INTERNATIONAL (HK) LIMITED** )  
in the presence of: )

Signature of Witness:

Name:

Address:

**SIGNED BY** ) SIGNED  
 )  
for and on behalf of )  
**APEX FLOURISH GROUP LIMITED** )  
in the presence of: )

Signature of Witness:

Name:

Address:

## A. The Financial Statements as of November 30, 2014 (Draft)

INCOME STATEMENT  
(In RMB)

		11 Months ended November 30, 2014
REVENUES		209,764,717.89
COST OF GOODS SOLD		202,053,285.01
Sales Taxes		152,744.59
Selling Expenses		1,192,468.02
G&A Expenses		2,313,600.77
Finance Expenses		-409,582.74
INCOME FROM OPERATIONS		4,462,202.24
Other income (expense), net		2,200,001.00
INCOME BEFORE PROVISION FOR INCOME TAXES		6,662,203.24
PROVISION FOR INCOME TAXES		357,841.95
NET INCOME		6,304,361.29

## BALANCE SHEET as of November 30, 2014

(In RMB)

ASSETS	Nov 2014	Dec 2013	LIABILITIES AND SHAREHOLDERS' EQUITY	Nov 2014	Dec 2013
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash	2,514,485	80,962,376	Short-term loan	25,000,000	25,000,000
Notes Receivable	-	-	Notes payable	-	-
Accounts receivable, trade	219,387,269	154,544,244	Accounts payable, trade	500,472,479	412,361,069
Advances to suppliers	458,491,143	338,415,733	Customer deposits	3,623,218	4,493,927
Interest receivable	-	-	Salary payable	86,715	345,325
Dividends receivable	-	-	Tax payable	333,598	210,246
Other receivables	6,477,595	7,252,825	Interest payable	-	-
Inventories	29,349,674	44,261,907	Dividends payable	-	-
			Other payable	124,185,224	124,889,326
Other current assets					
Total current assets	<b>716,220,166</b>	<b>625,437,084</b>	Other current liabilities		
<b>NON-CURRENT ASSETS:</b>			<b>Total current liabilities</b>	<b>653,701,235</b>	<b>567,299,893</b>
	-	-	<b>NON-CURRENT LIABILITIES:</b>		
	-	-	Long term loan	-	-
Plant and Equipment, net	833,768	1,149,983		-	-
			Total liabilities	653,701,235	567,299,893
			<b>SHAREHOLDERS' EQUITY:</b>		
	-	-	Registered Capital	13,599,347	13,599,347
	-	-	APIC	-	-
Goodwill	-	-		-	-
	-	-	Statutory reserves	2,288,231	2,288,231
	-	-	Retained earnings	47,465,121	43,399,596
Other non-current assets			<b>Total shareholders' equity</b>	<b>63,352,699</b>	<b>59,287,174</b>
<b>Total non-current assets</b>	<b>833,768</b>	<b>1,149,983</b>			
Total Assets	717,053,934	626,587,067	Total liabilities and shareholders' equity	717,053,934	626,587,067



## List of Subsidiaries

<u>Name of Subsidiary</u>	<u>Jurisdiction of Formation</u>
SGOCO International (HK) Limited	Hong Kong
Beijing SGOCO Image Technology Co., Ltd.	People's Republic of China
SGO Corporation.	Delaware, USA
SGOCO (Shenzhen) Technology Co., Ltd.	People's Republic of China

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## CERTIFICATION

I, Shi-bin Xie, President and Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 20-F of SGOCO Group, Ltd.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading regarding the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Annual Report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and
  - (d) Disclosed in this Annual Report any change in the Company's internal control over financial reporting that occurred during the period covered by the Annual Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated: May 15, 2015

By: /s/ Shi-bin Xie  
Name: Shi-bin Xie  
Title: President and Chief Executive Officer

Signature Page to Form 20-F

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## CERTIFICATION

I, Johnson Lau, Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 20-F of SGOCO Group, Ltd.;
  2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading regarding the period covered by this Annual Report;
  3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Annual Report;
  4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and
    - (d) Disclosed in this Annual Report any change in the Company's internal control over financial reporting that occurred during the period covered by the Annual Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
  5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's Board of Directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
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- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated: May 15, 2015

By: /s/ Johnson Lau  
Name: Johnson Lau  
Title: Chief Financial Officer

Signature Page to Form 20-F

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of SGOCO Group, Ltd. (the "Company") on Form 20-F for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Shi-bin Xie, President and Chief Executive Officer, and I, Johnson Lau, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 15, 2015

By: /s/ Shi-bin Xie  
Name: Shi-bin Xie  
Title: President and Chief Executive Officer

Dated: May 15, 2015

By: /s/ Johnson Lau  
Name: Johnson Lau  
Title: Chief Financial Officer

Signature Page to Form 20-F

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in Registration Statements No. 333-172406 on Form S-8 and No. 333-176437 on Form F-3 of our report dated May 15, 2015, relating to the consolidated financial statements of SGOCO Group, Ltd. and its subsidiaries (collectively the "Company"), which appears in this Annual Report on Form 20-F of the Company for the year ended December 31, 2014.

/s/ Crowe Horwath (HK) CPA Limited  
Hong Kong, China  
May 15, 2015

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