

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, 2015

- 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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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 \$0.004 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 4,471,215 ordinary shares issued and outstanding, and 51,511 shares to be issued as of December 31, 2015.

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. The acquisition of Boca International Limited may not produce the benefits the Company anticipated and the Company is exposed to both operational and acquisition integration risks that could adversely affect the Company;
3. Competition in our industry is intense and we may lose customers;
4. 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;
5. 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;
6. Decreases in the price of coal, oil and gas or a decline in popular support for “green” energy technologies could reduce demand for Boca’s energy saving projects, which could materially harm our ability to grow our business;
7. Changes in the growth of demand for or pricing of electricity could reduce demand for Boca’s energy saving projects, which could materially harm our ability to grow our business;
8. We may not be able to adequately respond to changes in technology affecting the energy saving industry;
9. We may not be able to generate any growth and our sales may continue to decrease in the future;
10. Our ability to maintain effective internal control over financial reporting;
11. China’s overall economic conditions and local market economic conditions;

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

13. 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. “Boca” means Boca International Limited, a Hong Kong limited company and a wholly owned subsidiary of SGOCO International.
4. “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;
5. “Guancheng” means Guancheng (Fujian) Electron Technological Co. Limited, a company with limited liability incorporated in China and a wholly owned subsidiary of Honesty Group;
6. “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;
7. “Guanwei” means Guanwei (Fujian) Electron Technological Co. Limited, a company with limited liability incorporated in China and a wholly owned subsidiary of Honesty Group;
8. “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;
9. “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.;
10. “PRC” or “China” means the People’s Republic of China;
11. “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;
12. “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;
13. “SGO” means SGO Corporation, a Delaware corporation and a wholly owned subsidiary of SGOCO International;

14. "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;
15. "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;
16. "SGOCO International" means SGOCO International (HK) Limited, a Hong Kong limited company and wholly owned subsidiary of SGOCO;
17. "SGOCO Shenzhen" means SGOCO (Shenzhen) Technology Co., Ltd., a company with limited liability incorporated in China and a wholly owned subsidiary of SGOCO International;
18. "Tier 3 cities" means middle-scale or prefecture level cities in China; and "Tier 4 cities" means small or county level cities in China;
19. "U.S. Dollars," "dollars," "US\$," or "\$" means the legal currency of the United States. "RMB" or "Renminbi" means the legal currency of China;
20. "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.
21. "Convertible notes" refer to a series convertible notes we issued between June and September, 2015.

## **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, 2015, 2014 and 2013 and the selected consolidated balance sheet data as of December 31, 2015 and 2014 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, 2012 and 2011 and the selected consolidated balance sheet data as of December 31, 2013, 2012 and 2011 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. See “Key Information — Risk Factors” included elsewhere in this Annual Report. The selected consolidated financial information for the years ended December 31, 2015, 2014 and 2013 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 which is based upon post-split share numbers)

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Net revenues	1,921	43,230	200,974	166,701	313,136
Cost of goods sold	(1,826)	(41,213)	(185,045)	(154,221)	(279,399)
Gross profit	95	2,017	15,929	12,480	33,737
Selling expenses	(131)	(297)	(1,073)	(670)	(1,706)
General and administrative expenses	(1,498)	(3,069)	(3,802)	(5,322)	(5,779)
Total operating expenses	(1,629)	(3,366)	(4,875)	(5,992)	(7,485)
(Loss) Income from operations	(1,534)	(1,349)	11,054	6,488	26,252
Interest income	220	338	12	8	288
Interest expense	(57)	(304)	(260)	(61)	(2,074)
Other income (expense), net	(8)	319	192	(130)	(248)
Change in fair value of warrant derivative liability	2	19	(3)	75	(925)
Loss on change in fair value of convertible notes	(1,041)	-	-	-	-
Gain from disposal of subsidiaries	-	-	-	-	127
(Loss) Income before provision for income taxes	(2,418)	(977)	10,995	6,380	25,270
Provision for income taxes	-	(1,311)	(2,551)	(2,167)	(8,651)
Net (Loss) income	(2,418)	(2,288)	8,444	4,213	16,619
(Loss) Income per share:					
Basic-ordinary share	(0.55)	(0.53)	1.96	0.99	4.13
Diluted-ordinary share	(0.55)	(0.53)	1.96	0.99	4.08
Weighted average shares used in calculating earnings (loss) per share:					
Basic	4,400,298	4,351,517	4,298,297	4,264,894	4,021,650
Diluted	4,400,298	4,351,517	4,298,297	4,264,894	4,072,061



**Consolidated Balance Sheet Data**

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

	<b>As of December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total assets	86,882	92,553	104,735	105,647	85,201
Total liabilities	9,046	7,356	16,946	27,332	11,313
Total shareholders' equity	77,836	85,197	87,789	78,315	73,888

**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 intention 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.

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.

##### ***The acquisition of Boca International Limited or any future acquisition may not produce the benefits the Company anticipated and the Company is exposed to both operational and acquisition integration risks that could adversely affect the Company***

In March 2016, we completed the acquisition of 100% ownership of Boca International Limited ("Boca"), a company providing energy saving products and services to reduce the energy costs for new and existing buildings. Our intention is to reduce the reliance on sales of traditional flat panel LED and LCD monitor products and enter into energy saving and new energy market. However, the Company may not be able to fully achieve its strategic objectives and operating efficiencies after the acquisition of Boca. Inherent uncertainties exist in integrating the operations of Boca to the Company. The Company may lose key personnel, either from the acquired entity or from itself, as a result of an acquisition. These factors could contribute to the Company not achieving the expected benefits from its acquisitions within desired time frames, if at all.

Any acquisition or future acquisitions present financial, managerial and operational challenges, including diversion of management attention, difficulty with integrating acquired businesses, integration of different corporate cultures or separating personnel and financial and other systems, increased expenses, assumption of unknown liabilities, indemnities, and potential disputes with the buyers or sellers, and the need to evaluate the financial systems of and establish internal controls for acquired entities. There can be no assurance that the Company will engage in any additional acquisitions or divestitures or that the Company will be able to do so on terms that will result in any expected benefits. If the Company makes any future business acquisitions, it may issue additional shares of common stock to pay for those acquisitions, which would further dilute current shareholders' ownership interest. Acquisitions also could require the Company to use substantial cash or other liquid assets or to incur debt. In such a case, it could make the Company more vulnerable to business downturns and could negatively affect the Company's earnings.

##### ***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 devices, 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.

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 2015, sales to our top three distributors accounted for 66.8% of total revenue. For 2014 and 2013, sales to our top two distributors accounted for 51.7% and 36.5%, respectively, of our total revenue.

Our largest customers have generally changed from period-to-period. There were three, two and two customers each with more than 10% of our revenue for the years ended December 31, 2015, 2014 and 2013, respectively.

***Decreases in the price of coal, oil and gas or a decline in popular support for “green” energy technologies could reduce demand for Boca's energy saving projects, which could materially harm our ability to grow our business.***

Higher coal, oil and gas prices provide incentives for customers to invest in “green” energy technologies such as our energy saving projects that reduce their need for electricity. Conversely, lower coal, oil and gas prices would tend to reduce the incentive for customers to invest in equipment to save electric power. Demand for our projects and services depends in part on the current and future commodity prices of coal, oil and gas. We have no control over the current or future prices of these commodities.

In addition, popular support by governments, corporations and individuals for “green” energy technologies may change. Because of the ongoing development of, and the possible change in support for, “green” energy technologies we cannot assure you that negative changes to this industry will not occur. Changes in government or popular support for “green” energy technologies could have a material adverse effect on our business, prospects and results of operations.

***Changes in the growth of demand for or pricing of electricity could reduce demand for Boca's energy saving projects, which could materially harm our ability to grow our business.***

Boca's revenues are dependent on the ability to provide savings on energy costs for our clients. According to the National Bureau of Statistics of the PRC, domestic electricity consumption grew at a rate of 0.5% in 2015. Power generation capacity was 5618 billion kWh, a decrease of 0.2% from 2014, which is the first annual decline since 1968. Clean energy power generation increased significantly in 2015. The China Electricity Council has forecasted that the rate of growth in China's electricity demand will continue to increase in 2016 as the growth in electricity consumption increases due to the continued development of the Chinese economy. However, such growth is unpredictable and depends on general economic conditions and consumer demand, both of which are beyond our control. Furthermore, pricing of electricity in the PRC is set in advance by the state or local electricity administration and may be artificially depressed by governmental regulation or influenced by supply and demand imbalances. If these changes reduce the cost of electricity from traditional sources of supply, the demand for Boca's energy saving projects could be reduced, and therefore, could materially harm our ability to grow our business.

***We may not be able to adequately respond to changes in technology affecting the energy saving industry.***

Our industry could experience rapid technological changes and new product introductions. Current competitors or new market entrants could introduce new or enhanced products with features which render the systems used in our projects obsolete or less marketable. Our future success will depend, in part, on our ability to respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in effectively using new technologies, developing new systems or enhancing our existing systems and technology on a timely basis. Our new technologies or enhancements may not achieve market acceptance. Our pursuit of new technologies may require substantial time and expense. We may need to license new technologies to respond to technological change. These licenses may not be available to us on terms that we can accept. Finally, we may not succeed in adapting our projects to new technologies as they emerge.

***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 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 2015 and 2014 primarily attributable to our significant reduction in businesses as a result of the sale of SGOCO (Fujian), weak industry growth and increased competition in China’s flat panel display market, which was our primary market.

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.

***Our independent registered auditors have expressed substantial doubt about our ability to continue as a going concern***

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with our financial statements included in this report which states that the financial statements were prepared assuming that we would continue as a going concern. As discussed in Note 2 to the consolidated financial statements included with this report, we had a working capital deficiency and recorded a loss in the current year. These conditions raise substantial doubt about our ability to continue as a going concern. As disclosed under Item 5, “Operating and Financial Review and Prospects” and Note 2 to the consolidated financial statements, certain investors have agreed to purchase 1,900,000 shares of our common stock for an amount of \$7 million, which shall be paid on or before July 31, 2016. In May 2016, we have received the first tranche of \$350,000. However, there can be no assurance that we will be successful in obtaining the financing. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***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.***

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.***

From time-to-time, 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 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 environmental protection, environmental energy saving, electronic and internet-related businesses and enriching our product and service 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.

***Our risk management and internal control systems may not be effective and have deficiencies or material weaknesses***

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 ("Section 404"), 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 under the rules of Section 404, our internal control over financial reporting was ineffective as of December 31, 2015. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of our company's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The material weakness we identified is our lack of sufficient qualified accounting personnel with appropriate understanding of U.S. GAAP and SEC reporting requirements commensurate with our financial reporting requirements, which resulted in a number of internal control deficiencies that were identified as being significant. Also, as a small company, we do not have sufficient internal control personnel to set up adequate review functions at each reporting level.

We are in the process of implementing measures to resolve the material weakness and improve our internal and disclosure controls. However, we may not be able to successfully implement the remedial measures. For example, we may not be able to identify and hire suitable personnel with the requisite U.S. GAAP and internal control experience. The implementation of our remedial initiatives may not fully address the material weakness and significant deficiencies in our internal control over financial reporting. In addition, the process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and economic and regulatory environments and to expend significant resources to maintain a financial reporting system that is adequate in satisfying our reporting obligations. We also expect to incur additional compensation expenses in connection with hiring additional accounting and internal control personnel.

As a result, our business and financial condition, results of operations and prospects, as well as the trading price of our ordinary shares may be materially and adversely affected. Ineffective internal control over financial reporting could also expose us to increased risk of fraud or misuse of corporate assets. In turn, that could subject us to potential delisting from the stock exchange on which our ordinary shares are listed, regulatory investigations or civil or criminal sanctions.

***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.

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

We cannot predict fully how Circular 37 will affect our business operations or future strategies because of ongoing uncertainty over how Circular 37 is interpreted and implemented, and how or whether SAFE will apply it to us.

We have requested our PRC resident beneficial owners to make the necessary applications, filings and amendments as required under SAFE regulations in connection with their equity interests in us. We attempt to ensure that our subsidiaries in China comply, and that our PRC resident beneficial owners subject to these rules comply, with the relevant SAFE regulations. We cannot provide any assurances that all of our present or prospective direct or indirect PRC resident beneficial owners will comply fully with all applicable registrations or required approvals. The failure or inability of our PRC resident beneficial owners to comply with the applicable SAFE registration requirements may subject these beneficial owners or us to fines, legal sanctions and restrictions described above.

#### **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.***

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, 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 SGOOCO (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 SGOOCO (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. In 2015, the RMB depreciated significantly. The exchange rate of the RMB against U.S. Dollars as of December 31, 2015 and 2014 were 6.49 and 6.12, which contributed partly to a decline in our 2015 revenues.

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 may fail to meet continued listing requirements on the NASDAQ Capital Market***

Our ordinary shares are listed on the NASDAQ Capital Market. We must comply with various NASDAQ Marketplace rules to maintain the listing of our securities. The NASDAQ listing rules require, among other things, that a company's stock trading to maintain a minimum bid price of \$1.00. If a NASDAQ-listed company trades below the minimum bid price requirement for 30 consecutive business days, it will be notified of the deficiency.

To regain compliance with the minimum, bid price requirement, the Company must have a minimum, closing bid price of \$1.00 or more for a minimum of ten consecutive business days during a 180-day compliance period. If compliance does not occur within the applicable 180-day compliance period, the Staff will notify the Company that its securities will be delisted from the NASDAQ Capital Market. However, the Company may appeal the Staff's determination to delist its securities to a Hearing Panel. During any appeal process, the Company's ordinary shares would continue to trade on the NASDAQ Capital Market.

If our securities were to be delisted from NASDAQ, the trading of our securities could possibly be shifted to the OTC Bulletin Board or the Pink Sheets. But, that would make it more difficult to dispose of, or obtain accurate quotations for the price of, our securities. In addition, such a development would likely also reduce the already limited coverage of our Company by security analysts and the news media. Delisting and these other effects could cause the price of our securities to decline further.

***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 51.1% 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 51.1% 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.

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

As of December 31, 2015, we had 4,471,215 ordinary shares outstanding, and 51,511 ordinary shares to be issued. Of these shares, approximately 1.5 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 \$20.00 to \$32.00. 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 \$2.00 per warrant when the Acquisition closes. We may redeem the warrants at a price of \$0.04 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 \$46.0 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. 2,125,000 ordinary shares to the former shareholders of Honesty Group; and
2. 1,450,000 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 1,250,000 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 200,000 shares to the former shareholders of Honesty Group. Those 200,000 shares were released in 2012.

In addition, 191,706 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 1,450,000 escrowed shares and the 191,706 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 1,450,000 shares were released to the former shareholders of Honesty Group.

In addition, of the 191,706 escrowed shares, 85,203 and 5,129 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 191,706 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 and expired on that date, the remaining 101,374 escrow shares were cancelled on May 5, 2014.

We entered into various forward-purchase agreements with various hedge funds and other institutions for us to repurchase a total of 536,873 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 4,023,689 ordinary shares, of which 214,917 shares were initially issued in our IPO, and warrants to purchase 454,007 shares at a price of \$32.00 per share, of which 391,507 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.

We have effected a 1-for-4 reverse stock split of our authorized ordinary shares, accompanied by a corresponding decrease in our issued and outstanding shares of ordinary shares and an increase of the par value of each ordinary share from \$0.001 to \$0.004 (the "Reverse Stock Split") on January 19, 2016. All references in this report to share and per share data have been adjusted, including historical data which have been retroactively adjusted, to give effect to the reverse stock split unless specified otherwise.

### ***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 the Company and Apex; 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 51.1% 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). 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. The final amount is \$11.0 million (the "Sale Price").

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) was to be settled prior to June 30, 2015. We received the full amount of Sale Price and settlement of the Payables during 2015. The transfer of the Sale Equity was effective on December 31, 2014.

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.

### **Acquisition of Boca**

On December 28, 2015, SGOCO International entered into a Share Sale and Purchase Agreement for the Sale and Purchase of the Entire Issued Share Capital of Boca International Limited (the "Agreement") with Richly Conqueror Limited, a company organized under the laws of the British Virgin Islands (the "Vendor"). Pursuant to the Agreement, SGOCO International acquires 100% of the issued share capital of Boca International Limited. ("Boca"), a private holding company incorporated in Hong Kong, from its sole legal and beneficial owner - Richly Conqueror Limited at a consideration of \$52 million in the form of cash, plus up to 19.9% newly issued ordinary shares (the "Shares") of the Company. In March, 2016, the acquisition of Boca was closed and SGOCO International fully paid \$52 million plus 1,162,305 post-split shares of common stock of the Company and received 100% of the shares and ownership of Boca.

### **Warrant Repurchase and Retirement**

To reduce the potential for future EPS dilution, in 2011, the Company repurchased and retired a total of 304,294 warrants that had a strike price of \$32.00. Those warrants included 241,794 publicly-traded warrants for an aggregate purchase price of \$360,610 (or \$1.48 per warrant), and 250,000 sponsor warrants for an aggregate purchase price of \$125,000 (or \$2.00 per warrant), in private transactions. On March 7, 2014, the remaining 149,713 publicly-traded warrants expired. There were no outstanding sponsor and publicly-traded warrants as of December 31, 2015.



Additionally, the Company, in private transactions, repurchased and retired a total of 13,274 of the warrants that had a strike price of \$24.00 issued to its underwriters in the December 2010 offering for an aggregate purchase price of \$26,548 (or \$2.00 per warrant). These warrants were expired on December 20, 2015.

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

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

SGOCO's principal executive office is located in Room 1301, 13/F, Golden Centre, 188 Des Voeux Road Central, 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, 2015, 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.

As of December 31, 2015, 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 using 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 also use the proceeds and intercompany payables received from the Sale of SGOCO (Fujian) to perform business acquisitions and develop new products.

On December 28, 2015, SGOCO International entered into a Share Sale and Purchase Agreement for the Sale and Purchase of the Entire Issued Share Capital of Boca International Limited (the "Agreement") with Richly Conqueror Limited, a company organized under the laws of the British Virgin Islands (the "Vendor"). Pursuant to the Agreement, SGOCO International acquires 100% of the issued share capital of Boca International Limited. ("Boca"), a private holding company incorporated in Hong Kong, from its sole legal and beneficial owner - Richly Conqueror Limited at a consideration of \$52 million in the form of cash, plus up to 19.9% or 3.4 million newly issued ordinary shares (the "Shares") of the Company. In March, 2016, the acquisition of Boca has been closed and SGOCO International fully paid \$52 million plus 1,162,305 post-split shares of common stock of the Company and received 100% shares and ownership of Boca.

Boca designs, develops and manufactures Phase Change Material (PCM-TES) storage system and applies them on cooling and heating system. Boca's PCM-TES storage system (the "System") applies real-time electricity demand peak management which shifts on-peak chiller plant load to off-peak and increases chiller efficiency by optimization controls at any time. The System could reduce electricity consumption by approximately 50% during all running time and decrease 2/3 of central air conditioning running cost due to lower tariff rate during off-peak and higher efficiency at all time. The System can be used on all existing and new buildings and is environmentally friendly with a life of more than ten years. The System fully supports energy saving to help control the greenhouse effect and achieve maximum economic benefit for the customers.

Boca commenced R&D of Phase Change Material Thermal Energy Storage (PCM-TES) system in 1992 and started the PCM-TES mass production line in Hong Kong in 2003. During 2003 to 2015, Boca has successfully manufactured and delivered about 10 projects to Hong Kong, Malaysia, Australia, Italy and UK. Due to innovative technology developed in PCM-TES system hardware and software for chiller and heating plants, Boca expects there will be more than 7,000 projects in the US, 10,000 in China, 3,000 in Japan and 3,000 projects in other countries have the potential to install Boca PCM-TES within the next 10 years for those major new and existing buildings. Estimated contract sum for each potential project is about USD1 million. The capital investment in each project retrofit will be paid back by energy savings within 3 to 5 years.

On December 22, 2015, the Company signed a memorandum of understanding (“MOU”) to acquire all of the issued share capital of Sola Green Technologies Limited, a company incorporated in Hong Kong (“Sola Green”), for a purchase price of \$40,000 in form of cash or new shares in SGOCO, subject to satisfactory due diligence and customary purchase price adjustments. In December 2015, a refundable deposit of \$34,000 was paid to the shareholders of Sola Green. On March 1, 2016, an extension of the MOU was signed pursuant to which both parties expect that the definitive agreements will be executed and the transaction will be closed by June 30, 2016. Sola Green invests and develops an Energy-saving Glass Coating. By applying nano-technology, Sola Green integrates rare earth elements with other materials to produce a liquid form thermal insulation coating material. The coating could reduce UV and infrared radiation from sunlight, while maintaining acceptable visibility through the coated glass. As a result of reducing infrared radiation from sunlight, a general temperature reduction of 5-7°C to indoor space could be achieved.

## ***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 2015 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 2015, representing a compound annual growth rate, or CAGR, of 12.1%.

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 2015 annual statistic report issued by National Bureau of Statistics of China, the urban population was 771.1 million, representing 56.1% of the overall population in China as of December 31, 2015 compared to approximately 20% in the early 1980s. China’s urbanization strategy will be further enhanced by a state policy to increase internal demand and consumption.

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

The recovery from the 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 2015.

### ***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 2016, 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 December 31, 2015, the population of China’s internet users climbed to 688.0 million, 56.0 million more than the end of 2014. The internet penetration rate in China has reached 50.3%, an increase of 3.8% from 2014.

The Chinese Ministry of Industry and Information Technology estimated that China’s Internet population will reach roughly 800 million users by 2016. Mobile Internet access is expected to further drive internet penetration in order to reach this goal. On December 31, 2015, the mobile internet users in China reached 619.8 million, representing an annual growth rate of 11.3% compared with December 2014.

## ***SGOCO Products***

We currently 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.

## ***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, 2015, 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 the year ended December 31, 2015. We have used the proceeds and intercompany payables received from the Sale of SGOCO Fujian to make business acquisitions.

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.

### **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, 2015, 2014 and 2013, we received grants of nil, \$0.3 million, and \$0.3 million, 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. Dollar.

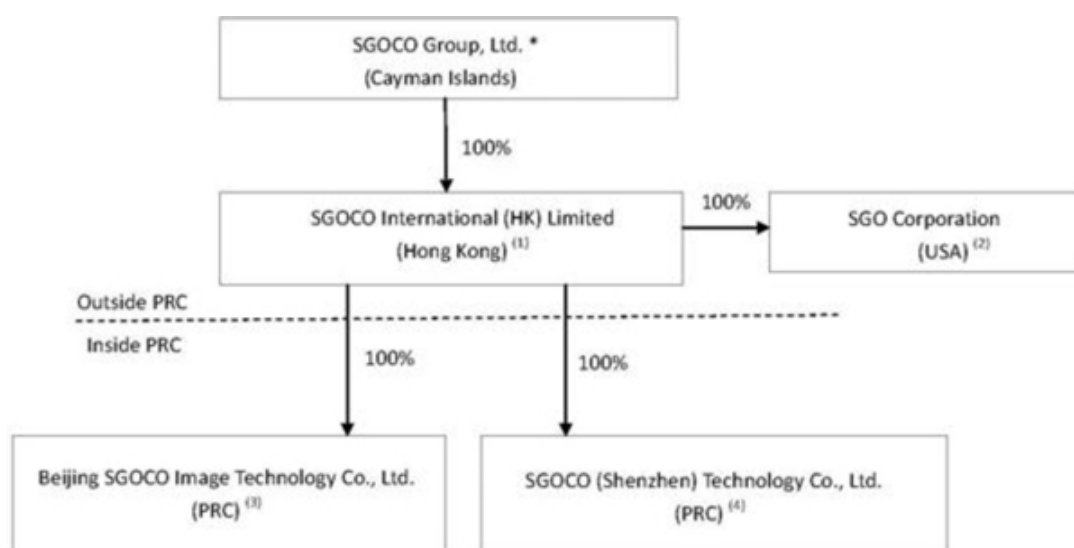
On March 17, 2014, the People’s Bank of China announced that the RMB exchange rate flexibility increased to 2% in order to proceed further with reform of the RMB exchange rate regime. In 2015, the RMB depreciated significantly. The exchange rate of the RMB against U.S. Dollar as of December 31, 2015 and 2014 were 6.49 and 6.12, which contributed partly to a decline in our 2015 revenues.

**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.
- (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. Wen-li Hong.
- (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 and 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 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. Currently, 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, 2015, 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.

As of December 31, 2015, 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 computers 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 using 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) was equivalent to the net asset value of SGOCO (Fujian) on December 31, 2014. The final amount was \$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 the Company and Apex; 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 51.1% 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 and Chairman Mr. Tin Man 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. In addition, we changed our strategic marketing, distribution, and business model in recent years;
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 RMB6.49 and RMB6.12 to \$1.00 at December 31, 2015 and 2014, 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, 2015, 2014, and 2013 were RMB6.23, RMB6.14, and RMB6.20 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 revenue and 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.

### *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 and convertible notes 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.

### *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 was \$27, nil and nil sales returns during the years ended December 31, 2015, 2014 and 2013, respectively.

### *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, 2015 and 2014

#### Revenue

Our sales were \$1.9 million for the year ended December 31, 2015, which decreased by \$41.3 million, or 95.6% from \$43.2 million in the year ended December 31, 2014. The decrease in sales revenue was primarily attributable to the disposal of SGOCO (Fujian) as of December 31, 2014, and 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 \$1.8 million, or 96.1% of the total sales for the year ended December 31, 2015, which compared with \$35.4 million, or 82.0% of total sales generated from our top ten customers for the year ended December 31, 2014. The top two customers accounted for 55.7% and 51.7% of total sales in 2015 and 2014, 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.

#### Cost of goods sold

For the year ended December 31, 2015, cost of goods sold decreased by \$39.4 million, or 95.6%, to \$1.8 million from \$41.2 million for the year ended December 31, 2014. 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, 2015 and 2014 is shown below:

	<u>2015</u>	<u>2014</u>
	(In thousands)	(In thousands)
Purchases from Guancheng	\$ -	\$ 5,286
Purchases from Guanke	86	6,938
Purchases from Honesty Group	190	7,076
Total purchases from Honesty Group and its subsidiaries	<u>\$ 276</u>	<u>\$ 19,300</u>

#### Gross margin

Gross profit for the fiscal year ended December 31, 2015 was \$0.1 million, a decrease of \$1.9 million, or 95.3% from \$2.0 million for the prior fiscal year. As a percentage of total sales, our overall gross margin was 4.9% for the year ended December 31, 2015 as compared to 4.7% for the previous fiscal year.

#### Selling expenses

During the year ended December 31, 2015, selling expenses were approximately \$0.1 million, a decrease of \$0.2 million, or 55.9%, from \$0.3 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, 2015 were 6.8% of total revenues, as compared with 0.7% of total revenues for the prior fiscal year.

#### *General and administrative expenses*

General and administrative expenses amounted to approximately \$1.5 million for the year ended December 31, 2015, \$1.6 million or 51.2% lower than \$3.1 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 in 2015; there was convertible note issuance cost of \$0.1 million, and most of the other general and administrative expenses, including the professional expenses and listing related expenses, were fixed costs.

#### *Interest expense*

Interest expense was \$0.1 million for the fiscal year ended December 31, 2015, a decrease of \$0.2 million, or 81.3%, from \$0.3 million in the previous fiscal year. Interest expenses became minimal caused by the Sale of SGOCO (Fujian). There was a bank loan of RMB25 million in SGOCO (Fujian) during 2014.

#### *Loss on change in fair value of convertible notes*

Our loss on change in fair value of convertible notes increased from nil in 2014 to \$1.0 million in 2015 due to fluctuation in the fair value of our convertible notes, which we issued in 2015.

#### *Loss before provision for income taxes*

As a result of the foregoing factors including the significant decrease in sales and gross profit and loss on change in fair value of convertible notes, loss before provision for income taxes became \$2.4 million for the year ended December 31, 2015, an increase in loss of \$1.4 million, from \$1.0 million for fiscal year of 2014.

#### *Provision for income taxes*

Provision for income tax was nil in the fiscal year of 2015 as compared with \$1.3 million for the fiscal year of 2014.

There were no significant income tax rate changes for any of the Company's legal entities in 2015. Our PRC entities in 2015 and 2014 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 derived 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*

As a result of the various factors described above, net loss for the year ended December 31, 2015 was \$2.4 million, as compared to \$2.3 million for 2014. The net loss margin was 125.9% for the year ended December 31, 2015, as compared to 5.3% during the same period of 2014. The loss margin in 2015 was primarily attributable to the decrease in revenues and decrease in gross margin of our products sold, and loss on the change in fair value of our convertible notes issued in 2015.

## 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. The increase of interest expenses was caused by SGOCO (Fujian) obtained a bank loan of RMD 25 million (US\$4.1 million), which carried an annual interest rate of 7.2%, for a period from September 26, 2013 to September 25, 2014. The loan was renewed on October 22, 2014 with interest rate of 6.6%.

#### *(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 in margin in 2014 was primarily attributable to the decrease of revenues and decrease in gross margin of our products sold.

#### *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 2015, 2014 and 2013 were an increase of 1.4%, an increase of 2.0%, 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, 2015 and December 31, 2014**

##### *Accounts Receivable*

Accounts receivable decreased to \$0.2 million as of December 31, 2015, from \$0.9 million as of December 31, 2014. Accounts receivable on December 31, 2015 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 position. 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 are potentially subject to significant concentrations of credit risk consist primarily of cash, accounts receivable and advances to suppliers. As of December 31, 2015 and 2014, substantially all of our cash was held in major financial institutions located in the PRC, Hong Kong and the United States of America, which management considers being of high credit quality. China does not have an official deposit insurance program, nor does it have an agency similar to The Federal Deposit Insurance Corporation (FDIC) in the United States. However, we believe that the risk of failure of any of these PRC banks is remote. Bank failure is extremely uncommon in China and we believe that those Chinese banks that hold our cash are financially sound based on publicly available information.

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 three major customers was \$1.2 million, or approximately 66.8% of our total sales for the year ended December 31, 2015, with each customer individually accounting for 39.6%, 16.2% and 11.0% of revenue, respectively. No other single customer accounted for more than 10% of our total revenues in 2015. Our accounts receivable from these customers was approximately \$0.2 million as of December 31, 2015.

Sales revenue from two major customers was \$22.3 million, or approximately 51.7% of our 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 our total revenues in 2014. Our 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.

Three major vendors provided approximately 83.4% of our total purchases (including 15.6% of purchasing from Honesty Group) during the year ended December 31, 2015. Our accounts payable due to these vendors was approximately \$0.05 million as of December 31, 2015.

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

Two major vendors provided approximately 71.0% of our total purchases (including 42.4% of purchases from Honesty Group) during the year ended December 31, 2013.

#### *Inventory*

Inventory increased to \$25,857 as of December 31, 2015 from \$1,427 as of December 31, 2014.

#### *Advances to suppliers*

Advances to suppliers increased to \$126,170 as of December 31, 2015 from \$32,685 as of December 31, 2014.

#### *Cash and cash equivalents*

As of December 31, 2015, we held \$0.3 million in cash and cash equivalents and a deficit of \$7.9 million in working capital. As of December 31, 2014, we had \$0.1 million in cash and cash equivalents and \$85.2 million in working capital. The current ratios were (0.13) and 12.6 as of December 31, 2015 and 2014, respectively.

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

Revenue in 2015 decreased 95.6%. Accounts receivable turnover was 3.4x (or a 108-day average collection period, or ACP) for the fiscal year of 2015, which compares with an accounts receivable turnover of 1.76x (or a 207-day average collection period, or ACP) from the prior fiscal year. The shorter turnover days were largely due to our efforts in carefully monitoring the credit quality of our customers.

Our 2015 inventory turnover rate accelerated to 135.3x (or 3 days on hand) from 11.7x (or 31 days on hand) in 2014. The improvement stemmed from our lower level of inventory after the Sale of SGOCO (Fujian) and better coordination between our sales and purchase departments after a revamping of our logistics system.

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, 2015, we had 5 suppliers as compared to 1 supplier as of December 31, 2014 that we had made advances to secure our product 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 2015 by 95.6%. At the same time we slowed down our accounts payable turnover to 5.6x (or 65 days average payment period) from 31.0x (or 12 days average payment period) in 2014. The speed with which we pay our vendors is balanced against our desire to maintain a continued, timely access to quality suppliers of products.



Our principal source of liquidity in 2015 has been cash generated by our operations, proceeds from the sale of SGOCO (Fujian) and proceeds from issuance of convertible notes. As of December 31, 2015, we held \$0.3 million in cash and cash equivalents and had a deficit in working capital of \$7.9 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. We financed the deposits for acquisition of subsidiaries in 2015 from the settlement of \$89.8 million from Apex in relation to the sale of SGOCO (Fujian).

As of December 31, 2015, we had a working capital deficiency and recorded a loss in the current year. These conditions raise substantial doubt about our ability to continue as a going concern. Certain investors have agreed to purchase 1,900,000 shares of our common stock for an amount of \$7 million, which shall be paid on or before July 31, 2016. In May 2016, we have received the first tranche of \$350,000. However, there can be no assurance that we will be successful in obtaining the financing. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. If our cash and bank borrowing are insufficient to meet our requirements, we may seek to sell equity securities, debt securities or borrow from lending institutions. We can make no assurance that financing will be available in the amounts we need or on terms acceptable to us, if at all.

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, 2015, Sun Zone, a shareholder of the Company which is 100% owned by our Chairman, Mr. Tin Man Or, advanced \$0.4 million to the Company. As of December 31, 2015, \$0.5 million (including \$0.1 million outstanding due to Sun Zone as of December 31, 2014) was repaid and the outstanding amount due to Sun Zone was nil.

We entered into a series of Securities Purchase Agreements with certain investors between June and September, 2015. Pursuant to the Agreements, we issued certain convertible notes to the investors in a total principal amount of \$1.1 million. The fair value of the Notes of \$2.2 million as of December 31, 2015 is determined using the binomial model (Refer to Note 12 to the financial statements).

At December 31, 2014, we had agreements with banks in Hong Kong under which we sell trade receivables with recourse, but there was nil balance outstanding. There were no such arrangements and no amounts outstanding at December 31, 2015.

#### *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, 2015, Sun Zone, a shareholder of the Company which is 100% owned by our Chairman, Mr. Tin Man Or, advanced \$0.4 million to the Company. As of December 31, 2015, \$0.5 million (including \$0.1 million outstanding due to Sun Zone as of December 31, 2014) was repaid and the outstanding amount due to Sun Zone was nil.

## 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, 2015, 2014 and 2013 amounted to \$0.1 million, \$0.1 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, 2015 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 convertible notes, operating lease obligations and capital commitments. The following table sets forth a breakdown of our contractual obligations as of December 31, 2015, and their maturity profile:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Convertible notes with principal and interest <sup>(1)</sup>	\$ 1,210,813	\$ 1,210,813	\$ -	\$ -	\$ -
Capital contributions <sup>(2)</sup>	-	-	-	-	-
Total	<u>\$ 1,210,813</u>	<u>\$ 1,210,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- (1) Our convertible notes will mature in 2016, unless earlier repurchased or converted.
- (2) The registered capital of SGOCO Shenzhen is \$5.0 million. As of December 31, 2015, 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.

## 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	73	Chairman and Director
Frank Wu	44	Director
Pruby He	33	Director
John Chen	43	Director
Kim Sing Cheng	40	Director
Hok Fung Wai	39	Director
Shi-bin Xie	39	Chief Executive Officer and President
Xiao-Ming HU	44	Interim Chief Financial Officer
Tony Zhong	32	Vice President of Finance
Jin-feng Li	40	Vice President of Product Development

<sup>1</sup> As of March 31, 2016

*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 capital firms. 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.

*Kim Sing Cheng, Director.* Mr. Cheng has been a director of the Company since December 21, 2015. Mr. Cheng is a professional accountant of Hong Kong and China and has over 15 years of experience in finance and accounting responsibilities. Prior to joining the commercial field, Mr. Cheng had been professionally trained in two audit firms. After that in 2004, he joined Formosa Handbag Company Limited which is a major subcontractor of Nike Inc. in China. Subsequently in 2007, Mr. Cheng joined Wofoo Plastics Limited which is the largest PVC compound producer in the Great China. From 2008 till now, Mr. Cheng is the Finance Manager of Good View Fruits Company Limited which is the top-tier fruits wholesaler and manufacturer in Hong Kong and Macau.

*Hok Fung Wai, Director.* Mr. Wai has been a director of the Company since December 21, 2015. Mr. Wai is an expert in the solar industry, dredging, highway construction and power stations projects. Mr. Wai also has many years of experience in M&A, fund raising and pre-IPO transactions. In the early 2008, he set up Hebert International Ltd, a Hong Kong based company which associates with a few of China State Owned Enterprises including China Harbour, China Communication Construction, CNTIC and Shenhua group. Hebert later became a partner of Silverbear Capital and a strategic partner of UNIDO in exploring solar, Green and energy saving industry for more than 6 years. Mr. Wai still serves as the director of Wahfong Industrial Development Co Ltd based in Guangdong China for luxury garment business.

*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.

*Xiao-Ming HU, Interim Chief Financial Officer.* Mr. HU With over 18 years of experience in Accounting and Finance, specializing in electronic and consumable products, Mr. Xiao-Ming Hu was named as the Interim Chief Financial Officer of SGOCO. He joined the Company in August 2010 as finance manager and was promoted to the Financial Controller of Sgoco (Fujian) Electronic Co., Ltd., a former subsidiary of SGOCO, in June 2013. Prior to joining SGOCO, Mr. Hu was the financial controller of Allen International Group, a private group engaged in trading of cosmetic products and services. From 1998 to 2007, he was a finance manager of Hengan Group, a company engaged in manufacturing, distribution, and sale of personal hygiene products and listed on the Hong Kong Stock Exchange. In addition, Mr. Hu holds a Diploma of Finance from the South Western University of Finance and Economics in China.

*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, a 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 Brookes 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, 2015, the aggregate cash compensation paid to our executive officers was approximately \$0.1 million. There were 48,500 ordinary shares and stock options granted to executive officers in November 2015 and March 2016 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 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.

### ***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***

Bonuses 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.

51,750 ordinary shares were awarded in January 2012 to our independent directors, consultants and employees, 20,000 ordinary shares were issued in March 2013 to our independent directors and 28,750 ordinary shares were issued in July 2013 to our independent directors, consultants and employees. In January 2014, 40,000 ordinary shares were issued to our independent directors and employees (including certain executive officers). In January 2015, 45,000 ordinary shares were issued to our independent directors, consultants and employees (including certain executive officers). In November 2015, 72,500 ordinary shares were issued to our consultants and employees (including certain executive officers). In March 14, 2016, 12,000 post-split ordinary shares (the “Post-Split 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, 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 six 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 of the Company, 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 Messrs. Cheng, Wai, 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 Mr. Cheng. 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 Mr. Cheng (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 22 as of December 31, 2014 to 16 as of December 31, 2015. 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, 2016, 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, 2016 by the sum of 7,136,678 being the number of post-split ordinary shares issued and outstanding as of March 31, 2016 , plus the number of post-split ordinary shares such person or group has the right to acquire within 60 days after as of March 31, 2016 . 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)	2,285,000	32.0%
Frank Wu	10,000	*
John Chen	10,000	*
Pruby He	10,000	*
Shi-bin Xie	7,500	*
Xiao-Ming Hu	17,500	*
Tony Zhong	28,500	*

#### Principal Shareholders

Sze Kit Ting	565,058	7.9%
Richly Conqueror Limited (2)	1,162,305	16.3%

“\*” 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, Mr. Or is a director of both Sun Zone and the company.
- (2) Richly Conqueror Limited, a British Virgin Islands corporation, is beneficially owned by Mr Chan, Kam Biu Richard. The business address of Richly Conqueror Limited is Flat C, 37/F, Tower 9, Le Point, Metro Town, 8 King Ling Road, Tsueng Kwan O, Hong Kong.

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, 2016, we had 7,136,678 post-split ordinary shares issued and outstanding. To our knowledge, as of such date, we had at least two (2) record holders of our shares located in the U.S. that held an aggregate of 60,000 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, 2015, Sun Zone, a shareholder of the Company which is 100% owned by our Chairman, Mr. Tin Man Or, advanced \$0.4 million to the Company. As of December 31, 2015, \$0.5 million (including \$0.1 million outstanding due to Sun Zone as of December 31, 2014) was repaid and the outstanding amount due to Sun Zone was nil.

### 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 or 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.

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			
2015	\$	N/A	\$	N/A	\$	3.80	\$	1.00	\$	N/A	\$	N/A
2014	\$	N/A	\$	N/A	\$	17.36	\$	2.36	\$	0.20	\$	0.20
2013	\$	N/A	\$	N/A	\$	33.32	\$	2.80	\$	5.00	\$	0.08
2012	\$	N/A	\$	N/A	\$	15.12	\$	2.44	\$	0.80	\$	0.04
2011	\$	N/A	\$	N/A	\$	27.52	\$	5.00	\$	3.00	\$	0.40
2010	\$	37.00	\$	28.00	\$	32.00	\$	18.00	\$	4.60	\$	0.72

<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>2016</b>						
First Quarter	\$ N/A	\$ N/A	\$ 3.77	\$ 1.36	\$ N/A	\$ N/A
<b>2015</b>						
Fourth Quarter	\$ N/A	\$ N/A	\$ 2.56	\$ 1.00	\$ N/A	\$ N/A
Third Quarter	\$ N/A	\$ N/A	\$ 2.92	\$ 1.24	\$ N/A	\$ N/A
Second Quarter	\$ N/A	\$ N/A	\$ 2.80	\$ 1.84	\$ N/A	\$ N/A
First Quarter	\$ N/A	\$ N/A	\$ 3.80	\$ 1.52	\$ N/A	\$ N/A
<b>2014</b>						
Fourth Quarter	\$ N/A	\$ N/A	\$ 7.48	\$ 2.04	\$ N/A	\$ N/A
Third Quarter	\$ N/A	\$ N/A	\$ 17.36	\$ 5.08	\$ N/A	\$ N/A
Second Quarter	\$ N/A	\$ N/A	\$ 16.08	\$ 7.52	\$ N/A	\$ N/A
First Quarter	\$ N/A	\$ N/A	\$ 17.16	\$ 11.92	\$ 0.05	\$ 0.05
<b>Monthly Highs and Lows</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
March 2016	\$ N/A	\$ N/A	\$ 3.77	\$ 3.17	\$ N/A	\$ N/A
February 2016	\$ N/A	\$ N/A	\$ 4.48	\$ 2.73	\$ N/A	\$ N/A
January 2016	\$ N/A	\$ N/A	\$ 6.40	\$ 1.36	\$ N/A	\$ N/A
December 2015	\$ N/A	\$ N/A	\$ 2.20	\$ 1.16	\$ N/A	\$ N/A
November 2015	\$ N/A	\$ N/A	\$ 2.20	\$ 1.00	\$ 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.

We entered into a series of Securities Purchase Agreements with certain investors between June and September, 2015. Pursuant to the Agreements, we issued certain convertible notes to the investors in a total principal amount of \$1.1 million.

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 bore 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, 2015, 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 2015 and 2014.

In addition, our actual PFIC status for our 2015 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. In 2015, the RMB depreciated significantly. The center point of the currency's official trading band was 6.1265 in January, and was 6.4465 in December, which contributed partly to a decline in our 2015 revenues, which we report in U.S. dollars in our financial statements.

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 \$20.00 to \$32.00;
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 \$2.00 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 Interim Chief Financial Officer, Mr. Xiao-Ming Hu, 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 ineffective 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. This determination was primarily due to the identification of the material weakness identified in our internal control over financial reporting discussed below.

Despite that, management believes that the consolidated financial statements included in this Annual Report on Form 20-F present fairly the consolidated financial position, results of operations and cash flows of SGOCO for the fiscal year covered.

### ***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, 2015. 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, 2015, our internal control over financial reporting is ineffective.

The specific material weakness we identified in our internal control over financial reporting 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, which resulted in a number of internal control deficiencies that were identified as being significant. Also, as a small company, we do not have sufficient internal control personnel to set up adequate review functions at each reporting level.

In order to cure the foregoing material weakness, we have taken or are taking the following remediation measures:

1. We are seeking additional accounting and internal control staff with relevant U.S. GAAP accounting, SEC reporting and internal control experience, skills and knowledge in improving standards and procedures according to the requirements of the Sarbanes-Oxley Act;
2. We are in the process of hiring a permanent chief financial officer with significant U.S. GAAP and SEC reporting experience; and
3. We plan to provide further training to SGOCO's finance staff to enhance their understanding of SGOCO's internal control policies and procedures, including participating in training programs relating to U.S. GAAP accounting and internal control.

We intend to complete the remediation of the material weaknesses discussed above as soon as practicable but we can give no assurance that we will be able to do so. Designing and implementing an effective disclosure controls and procedures is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to devote significant resources to maintain a financial reporting system that adequately satisfies our reporting obligations. The remedial measures that we have taken and intend to take may not fully address the material weakness that we have identified, and material weaknesses in our disclosure controls and procedures may be identified in the future. Should we discover such conditions, we intend to remediate them as soon as practicable. We are committed to taking appropriate steps for remediation, as needed.

All internal control systems, no matter how well designed, have inherent limitations. Even systems determined to be effective can only provide reasonable assurance regarding financial statement preparation and presentation and may not prevent or detect misstatements. In addition, any evaluation of effectiveness in future periods is subject to the risk that controls may become inadequate because of changes in future conditions.



### ***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***

Except for the matters described above, 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, 2015 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 2015 and 2014.

	<b>2015</b>	<b>2014</b>
Audit Fee	\$ 200,020	\$ 222,107
Audit-Related Fees	-	-
<b>Total</b>	<b>\$ 200,020</b>	<b>\$ 222,107</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 2015 fees include the Company's 2014 annual audit. The 2014 fees include the Company's 2013 annual audit.

#### 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. (incorporated by reference to Exhibit 4.10 to the Company's Form 20-F (file no. 001-35016) filed May 15, 2015)
- 4.11\* Sale and Purchase Agreement dated December 28, 2015, by and between Sgoco International Limited and Richly Conqueror Limited in respect of the transfer of share equity of Boca International Limited.
- 4.12\* Supplemental Agreement to Sale and Purchase Agreement of Boca International Limited dated February 29, 2016, by and between Sgoco International Limited and Richly Conqueror Limited.
- 4.13\* Convertible Note by and between the Company and JSJ Investments Inc. dated June 3, 2015.
- 4.14\* Securities Purchase Agreement by and between the Company and LG Capital Funding, LLC dated June 10, 2015.
- 4.15\* Securities Purchase Agreement by and between the Company and Service Trading Company, LLC dated June 11, 2015.
- 4.16\* Securities Purchase Agreement by and between the Company and Adar Bays, LLC dated June 11, 2015.
- 4.17\* Securities Purchase Agreement by and between the Company and Vis Vires Group, Inc. dated June 25, 2015.
- 4.18\* Securities Purchase Agreement by and between the Company and Black Forest Capital, LLC dated July 17, 2015.
- 4.19\* Securities Purchase Agreement by and between the Company and Crown Bridge Partners, LLC dated September 11, 2015.
- 4.20\* Share Purchase Agreement by and between the Company and an Investor dated May 9, 2016.
- 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, 2015, 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 16, 2016

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, 2015 and 2014 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, 2015. 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 audit 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, 2015 and 2014 and the consolidated results of their operations and cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has a working capital deficiency and recorded a loss in the current year. All these factors raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Crowe Horwath (HK) CPA Limited  
Crowe Horwath (HK) CPA Limited  
Hong Kong, China  
May 16, 2016

**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2015 AND 2014**  
(In thousands of U.S. dollars except share and per share data)

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	345	92
Accounts receivable, net of provision for doubtful accounts of \$1 and nil, respectively	228	910
Other receivables and prepayments	456	51
Receivable from sale of a subsidiary	-	91,379
Inventories	26	1
Advances to suppliers	126	33
Prepaid income taxes	-	17
Other current assets	-	56
Total current assets	<u>1,181</u>	<u>92,539</u>
DEPOSITS FOR ACQUISITION OF SUBSIDIARIES	85,693	-
PLANT AND EQUIPMENT, NET	<u>8</u>	<u>14</u>
Total assets	<u>86,882</u>	<u>92,553</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable, trade	46	606
Loan from a shareholder	-	100
Other payables and accrued liabilities	169	209
Customer deposits	421	198
Taxes payable	6,241	6,241
Warrant derivative liability	-	2
Convertible notes	<u>2,169</u>	<u>-</u>
Total liabilities	<u>9,046</u>	<u>7,356</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, 2015 and 2014	-	-
Common stock, \$0.004 par value, 12,500,000 shares authorized, 4,471,215 and 4,353,715 shares issued and outstanding as of December 31, 2015 and 2014, respectively	18	18
Paid-in-capital	25,904	25,589
Statutory reserves	-	-
Retained earnings	57,183	59,601
Accumulated other comprehensive loss	<u>(5,269)</u>	<u>(11)</u>
Total shareholders' equity	<u>77,836</u>	<u>85,197</u>
Total liabilities and shareholders' equity	<u>86,882</u>	<u>92,553</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, 2015, 2014 AND 2013**  
(In thousands of U.S. dollars except share and per share data)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES	1,921	43,230	200,974
COST OF GOODS SOLD	<u>1,826</u>	<u>41,213</u>	<u>185,045</u>
GROSS PROFIT	<u>95</u>	<u>2,017</u>	<u>15,929</u>
<b>OPERATING EXPENSES:</b>			
Selling expenses	131	297	1,073
General and administrative expenses	1,498	3,069	3,802
Total operating expenses	<u>1,629</u>	<u>3,366</u>	<u>4,875</u>
(LOSS) INCOME FROM OPERATIONS	<u>(1,534)</u>	<u>(1,349)</u>	<u>11,054</u>
<b>OTHER INCOME (EXPENSES):</b>			
Interest income	220	338	12
Interest expense	(57)	(304)	(260)
Other income (expense), net	(8)	319	192
Loss on change in fair value of convertible notes	(1,041)	-	-
Change in fair value of warrant derivative liability	2	19	3
Total other income (expenses), net	<u>(884)</u>	<u>372</u>	<u>(59)</u>
(LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES	<u>(2,418)</u>	<u>(977)</u>	<u>10,995</u>
PROVISION FOR INCOME TAXES	-	1,311	2,551
NET (LOSS) INCOME	<u>(2,418)</u>	<u>(2,288)</u>	<u>8,444</u>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Foreign currency translation adjustment	(5,258)	(36)	805
Realization of foreign currency translation gain relating to disposal of a subsidiary	-	(805)	-
COMPREHENSIVE (LOSS) INCOME	<u>(7,676)</u>	<u>(3,129)</u>	<u>9,249</u>
<b>(LOSS) INCOME PER SHARE:</b>			
Basic	<u>(0.55)</u>	<u>(0.53)</u>	<u>1.96</u>
Diluted	<u>(0.55)</u>	<u>(0.53)</u>	<u>1.96</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b>			
Basic	<u>4,400,298</u>	<u>4,351,517</u>	<u>4,298,297</u>
Diluted	<u>4,400,298</u>	<u>4,351,517</u>	<u>4,298,297</u>

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, 2013	4,366,339	17	24,828	401	53,044	25	78,315
Shares issued for equity compensation plan	48,750	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	4,415,089	18	25,052	809	61,080	830	87,789
Shares issued for equity compensation plan	40,000	1	537	-	-	-	538
Escrow shares cancelled	(101,374)	(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	4,353,715	18	25,589	-	59,601	(11)	85,197
Shares issued for equity compensation plan	117,500	-	239	-	-	-	239
Shares to be issued on conversion of convertible notes	51,511	-	76	-	-	-	76
Net loss	-	-	-	-	(2,418)	-	(2,418)
Foreign currency translation adjustment	-	-	-	-	-	(5,258)	(5,258)
BALANCE, December 31, 2015	4,552,726	18	25,904	-	57,183	(5,269)	77,836

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, 2015, 2014 AND 2013**  
(In thousands of U.S. dollars)

	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss) income	(2,418)	(2,288)	8,444
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation	3	19	76
Property, plant and equipment write-off	3	-	-
Inventory write-off	1	-	-
Transaction cost from issue of convertible notes	106	-	-
Bad debt provision	1	-	98
Change in fair value of warrant derivative liability	(2)	(19)	3
Share-based compensation expenses	239	538	225
Deferred income taxes	-	-	314
Loss on change in fair value of convertible notes	1,041	-	-
Change in operating assets			
Accounts receivable, trade	676	14,275	10,953
Notes receivable	-	1,316	(1,294)
Other receivables and prepayments	(67)	521	(561)
Inventories	(27)	2,009	(1,093)
Prepaid income tax	17	(17)	-
Advances to suppliers	(99)	(42,814)	(4,344)
Other current assets	53	53	31
Change in operating liabilities			
Accounts payable, trade	(556)	13,495	(10,195)
Other payables and accrued liabilities	22	1,943	141
Customer deposits	245	(200)	(189)
Taxes payable	-	385	(1,225)
Net cash (used in) provided by operating activities	<u>(762)</u>	<u>(10,784)</u>	<u>1,384</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from disposal of a subsidiary, net of cash disposed of \$25	89,766	(25)	-
Deposits paid for acquisition of subsidiaries	(89,302)	-	-
Purchase of equipment and construction-in-progress	-	-	(32)
Net cash (used in) provided by investing activities	<u>464</u>	<u>(25)</u>	<u>(32)</u>

**SGOCO GROUP, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013 - Continued**  
(In thousands of U.S. dollars)

	2015	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from short-term loan	-	-	6,668
Payments on short-term loan	-	(2,599)	(6,230)
Proceeds from loan from a shareholder	405	600	-
Payments on loan from a shareholder	(505)	(500)	(209)
Proceeds from convertible notes	696	-	-
Net cash (used in) provided by financing activities	596	(2,499)	229
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	(45)	(97)	368
<b>INCREASE (DECREASE) IN CASH</b>	253	(13,405)	1,949
CASH, beginning of year	92	13,497	11,548
CASH, end of year	345	92	13,497
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid for interest	-	304	260
Cash paid for income taxes	-	963	3,205
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Receivable from convertible note holders under promissory notes	359	-	-
Receivable from the sale of a subsidiary	-	91,379	-

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, 2015, 2014 AND 2013**  
(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 People’s 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 3,575,000 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 4,023,689 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 has effected a 1-for-4 reverse stock split of the Company’s authorized ordinary shares, accompanied by a corresponding decrease in the Company’s issued and outstanding shares of ordinary shares and an increase of the par value of each ordinary share from \$0.001 to \$0.004 (the “Reverse Stock Split”) on January 19, 2016. All references in this report to share and per share data have been adjusted, including historical data which have been retroactively adjusted, to give effect to the reverse stock split unless specified otherwise.

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.

## 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. Apex previously purchased Honesty Group Holdings Limited, 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 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. 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. During 2015, the Company received full payments of the Sale Price and settlement of the Payables. The transfer of the Sale Equity was effective on December 31, 2014.

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 the Company’s 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, 2015:

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

The Company had a working capital deficiency and recorded a loss in in the current year. These factors raise substantial doubts about the Company's ability to continue as a going concern.

On May 9, 2016, the Company entered into a share purchase agreement with certain investors whereby the Company agrees to sell to these investors 1,900,000 shares of the Company's unregistered ordinary shares for an amount of \$7 million. On May 11, 2016, the investors paid the first tranche of \$350,000. The Company shall issue 95,000 shares within 30 working days upon receipt of such payment. The investors shall pay the balance of \$6,650,000 on or before July 31, 2016, and the Company shall issue 1,805,000 shares within 30 working days upon receipt of such payment.

However, there can be no assurance that the Company will be successful in obtaining the financing. The Company believes that with the financing and the successful transition of business to provision of products and projects utilizing "green" energy technologies with the acquisition of Boca and potential acquisition of Sola Green (see Note 7), it can continue as a going concern and return to profitability.

The accompanying consolidated financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty related to the Company's ability to continue as a going concern.

### 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 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, 2015 and 2014, there was \$1 and nil allowance for uncollectible accounts receivable, respectively. Management believes that the remaining accounts receivable are collectible.

## Inventories

Inventory is composed of 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, 2015 and 2014, 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, customer deposits and convertible notes.

As of the balance sheet dates, the estimated fair value 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 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, 2015	Fair Value Measurement at December 31, 2015		
		Level 1	Level 2	Level 3
Convertible notes measured at fair value	\$ 2,169	\$ -	\$ -	\$ 2,169

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

A summary of changes in financial liabilities for the year ended December 31, 2015 was as follows:

Balance at January 1, 2015	\$ 2
Change in fair value of warrant derivative liability	(2)
Issuance of convertible notes	1,149
Fair value loss on issuance of convertible notes	1,019
Interest expenses on convertible notes	56
Change in fair value of convertible notes	21
Conversion of convertible notes	(76)
Balance at December 31, 2015	2,169

Fair value of the convertible notes is determined using the binomial model using the following assumptions at inception and on subsequent valuation dates:

Convertible notes holder	Black Forest Capital, LLC	JSJ Investment Inc	Crown Bridge Partners LLC	LG Capital Funding LLC	Adar Bays LLC	Service Trading Co LLC	VIS Vires Group Inc
Appraisal Date (Inception Date)	7/17/15	6/3/15	9/11/15	6/10/15	6/11/15	6/25/15	
Risk-free Rate	0.77%	0.42%	0.85%	0.78%	0.79%	0.77%	
Applicable Closing Stock Price	\$0.61	\$0.70	\$0.45	\$0.79	\$0.87	\$0.66	
Conversion Price	\$0.34	\$0.28	\$0.23	\$0.39	\$0.39	\$0.40	
Volatility	31.45%	N/A	37.23%	30.18%	30.19%	31.58%	



Dividend Yield	0.00%					
Credit Spread	2.75%	2.59%	3.00%	2.85%	2.80%	2.76%
Liquidity Risk Premium	5.00%					
Appraisal Date	12/31/15					
Risk-free Rate	0.87%	2.16%	0.94%	0.79%	0.79%	0.61%
Applicable Closing Stock Price	\$0.39					
Conversion Price	\$0.19	\$0.19	\$0.19	\$0.21	\$0.21	\$0.22
Volatility	43.13%	N/A	38.86%	47.18%	47.18%	44.59%
Dividend Yield	0.00%					
Credit Spread	4.08%	4.39%	4.08%	4.08%	4.08%	3.66%
Liquidity Risk Premium	5.00%					

## **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 was \$27, nil and nil sales returns during the years ended December 31, 2015, 2014 and 2013, respectively.

## **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, 2015, 2014 and 2013, the Company received grants of nil, \$358 and \$302, respectively, from the PRC municipal government. The grants that the Company received in 2014 and 2013 did not have a 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 years ended December 31, 2015, 2014 and 2013, the Company incurred nil, \$24 and \$71 of interest related to income taxes. 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.

#### **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, 2015, 2014 and 2013.

#### **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, 2015, 2014 and 2013, amounted to \$20, \$86 and \$536, 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, 2015, 2014 and 2013 amounted to \$74, \$56 and \$175, respectively.

## **Earnings (loss) per share**

The Company reports earnings (loss) per share in accordance with the provisions of FASB's related accounting standard. This standard requires presentation of basic and diluted earnings (loss) per share and disclosure of the methodology used in computing such earnings per share. Basic earnings (loss) 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 (loss) 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. Dilutive shares consist of the ordinary shares issuable upon the conversion of convertible notes (using the if-converted method) and ordinary shares issuable upon the exercise of outstanding share options and warrants (using the treasury stock method). Under the treasury stock 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 RMB6.49 and RMB6.12 to \$1.00 at December 31, 2015 and 2014, 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, 2015, 2014 and 2013 were RMB6.23, RMB6.14 and RMB6.20 to \$1.00, respectively.

## **Recent accounting pronouncements**

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendment in this ASU defers the effective date of ASU No. 2014-09 for all entities for one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods with that reporting period. The Company is in the process of evaluating the impact of adoption of this guidance on the consolidated financial statements.

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." ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption of ASU 2015-02 on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory, which requires an entity to measure inventory within the scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The effective date for the standard is for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". To simplify the presentation of deferred income taxes, the amendments in this update require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 are effective for public business entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments in ASU 2016-01 are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

On March 17, 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction and whether an entity reports revenue on a gross or net basis. On April 14, 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing, which provides guidance on identifying performance obligations and accounting for licenses of intellectual property. The effective date and transition requirements for ASU No. 2016-08 and ASU No. 2016-10 are the same as the effective date and transition requirements of ASU No. 2014-09. The Company is evaluating the effect that ASU No. 2016-08 and ASU No. 2016-10 will have on the Company's consolidated financial statements and related disclosures.

On March 15, 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The amendments in ASU 2016-07 are effective for public companies for fiscal years beginning after December 31, 2017 including interim periods therein. Early adoption is permitted. The new standard should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. The Company does not expect that the adoption will have a material impact on its consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which includes amendments to accounting for income taxes at settlement, forfeitures, and net settlements to cover withholding taxes. The amendments in ASU 2016-09 are effective for public companies for fiscal years beginning after December 31, 2016, and interim periods within those annual periods. Early adoption is permitted but requires all elements of the amendments to be adopted at once rather than individually. The Company is evaluating the effect that ASU No. 2016-09 will have on the Company's consolidated financial statements and related disclosures.

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, 2015 and 2014 consisted of the following:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ 229	\$ 910

Allowance for doubtful accounts	(1)	-
	<u>\$ 228</u>	<u>\$ 910</u>

The movements in allowance for doubtful accounts are as follows:

	<u>2015</u>	<u>2014</u>
Balance at the beginning of the year	\$ -	\$ 98
Addition	1	-
Disposal of a subsidiary	-	(98)
Balance at the end of the year	<u>\$ 1</u>	<u>\$ -</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, 2015 and 2014 consisted of the following:

	December 31,	
	2015	2014
Receivables from convertible note holders	\$ 359	\$ -
Other prepayments	97	51
Other receivables and prepayments	<u>\$ 456</u>	<u>\$ 51</u>

According to the convertible note agreements and related promissory notes, certain note holders are required to pay off the principal amount of \$343 prior to the conversion of the respective convertible notes and no later than various dates in January and February 2016. Amounts of \$247 and \$96 were interest bearing at 8% and 12% per annum, respectively, and secured by the pledge of the \$343 convertible notes issued by the Company to these note holders. As of December 31, 2015, unpaid interest thereon was \$16.

#### Note 5 - Inventories

Inventories consisted of the following as of December 31, 2015 and 2014:

	December 31,	
	2015	2014
Finished goods	<u>\$ 26</u>	<u>\$ 1</u>

#### Note 6 - Advances to suppliers

Advances to suppliers as of December 31, 2015 and 2014 consisted of the following:

	December 31,	
	2015	2014
Advances to Honesty Group	\$ 40	\$ -
Advances to other suppliers	86	33
Advances to suppliers	<u>\$ 126</u>	<u>\$ 33</u>

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

#### Note 7 - Deposits paid for acquisition of subsidiaries

##### (a) Acquisition of Boca

On December 28, 2015, SGOCO International entered into a Share Sale and Purchase Agreement (the "SPA") with Richly Conqueror Limited (the "Vendor") pursuant to which SGOCO International will acquire all of the issued share capital of Boca International Limited, a company incorporated in Hong Kong ("Boca"). Total consideration of the Sale Shares includes \$52,000 in the form of cash, plus up to 19.9% new shares in SGOCO (as enlarged by the issuance). In December 2015, the Company paid a \$52,000 refundable deposit to the Vendor.

Boca is principally engaged in environmental protection, energy saving technologies, equipment development and applications. Its business involves production and sales of phase change thermal energy storage materials as well as central air conditioning cooling and heating system application engineering.

The Company and Richly Conqueror Limited entered into a supplemental agreement on February 29, 2016, pursuant to which SGOCO International agreed to issue 1,162,305 ordinary shares of the Company to the Vendor on or before March 15, 2016 and both parties confirmed the closing date of the transaction shall be March 31, 2016. The shares were issued on March 7, 2016, and the fair value of the shares was \$3.51 per share on the closing date, March 31, 2016.

After the completion of the acquisition, Boca became a wholly owned subsidiary of the Company.

The following table sets forth the Company's best estimate of fair value of the assets acquired and the liabilities assumed. The Company is in the process of obtaining a third-party valuation for the assets acquired and liabilities assumed, and will refine fair value estimates when the valuation is completed using the balances as of the closing date, March 31, 2016.

	<u>Boca</u>
Net liabilities acquired	\$ (53)
Amortizable intangible assets (i)	
Backlog contract	372
Proprietary technology	26,179
Goodwill	36,220
Deferred tax liabilities	(6,638)
Total	<u>\$ 56,080</u>
Total purchase price comprised of:	
– cash consideration	\$ 52,000
– share-based consideration	4,080
Total	<u>\$ 56,080</u>

- (i) Acquired amortizable intangible asset-backlog contract and proprietary technology have estimated amortization periods of one year and twenty years, respectively.

The transaction resulted in a purchase price allocation of \$36,220 to goodwill, representing the financial, strategic and operational value of the transaction to the Company. Goodwill is attributed to the premium that the Company paid to obtain the value of the business of Boca and the synergies expected from the combined operations of Boca and the Company, the assembled workforce and their knowledge and experience in provision of products and projects utilizing “green” energy technologies. The total amount of the goodwill acquired is not deductible for tax purposes.

- (b) Potential Acquisition of Sola Green

On December 22, 2015, the Company signed a memorandum of understanding (“MOU”) to acquire all of the issued share capital of Sola Green Technologies Limited, a company incorporated in Hong Kong (“Sola Green”), for a purchase price of \$40,000 in form of cash or new shares in SGOCO, subject to satisfactory due diligence and customary purchase price adjustments. In December 2015, a refundable deposit of \$34,000 was paid to the shareholders of Sola Green. On March 1, 2016, an extension of the MOU was signed pursuant to which both parties expect that the definitive agreements will be executed and the transaction will be closed by June 30, 2016.

Sola Green invests and develops an Energy-saving Glass Coating. By applying nano-technology, Sola Green integrates rare earth elements with other materials to produce a liquid form thermal insulation coating material. The coating could reduce UV and infrared radiation from sunlight, while maintaining acceptable visibility through the coated glass. As a result of reducing infrared radiation from sunlight, a general temperature reduction of 5-7°C to indoor space could be achieved.

Up to the approval date of these financial statements, no definitive agreements have been signed and the acquisition is not yet completed.

#### Note 8 - Plant and equipment, net

Plant and equipment consisted of the following as of December 31, 2015 and 2014:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ -	\$ 36
Machinery and equipment	1	1
Vehicles and office equipment	15	19
Total	<u>16</u>	<u>56</u>
Less: accumulated depreciation	(8)	(42)
Plant and equipment, net	<u>\$ 8</u>	<u>\$ 14</u>

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 amounted to \$3, \$19 and \$76, respectively.

#### Note 9 - Debt and credit facilities

Total interest incurred amounted to \$57, \$304 and \$260 for the years ended December 31, 2015, 2014 and 2013, 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.



**Note 10 - 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 \$11, \$73 and \$135 for the years ended December 31, 2015, 2014 and 2013, respectively.

**Note 11 - Warrant derivative liability****Public Warrants**

In March 2008, the Company, then a special purpose acquisition corporation ("SPAC"), completed its IPO, in which it sold 1,059,825 units (consisting of one ordinary share and one warrant) at \$32 per unit. Those warrants ("Public Warrants") issued in the IPO were publicly traded. Of the 1,059,825 Public Warrants outstanding prior to the consummation of the Acquisition, holders of 668,318 Public Warrants elected to redeem the warrants for cash of \$2.00 per warrant.

During the year of 2011, the Company bought back 241,794 public warrants through private negotiations for total consideration of \$361 with an average price \$1.48 per warrant. In the event that the last sale price of an ordinary share exceeds \$46.00 per share for any 20 trading days within a 30-trading day period, the Company had the option to redeem Public Warrants at a price of \$0.04 per warrant. These warrants were expired on March 7, 2014.

**Unit Options**

Connected with the IPO in March 2008, the Company issued an option ("Unit Options") on a total of 70,000 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 permitted the acquisition of 70,000 Units at \$40.00 per unit. Those Representative Warrants were excisable at \$32.00 per share. The Unit Options including the Representative Warrants expired on March 7, 2014.

## 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 16,667 shares of ordinary shares (5% of the shares sold in the secondary offering) at \$24.00 per share (120% of the price of the shares sold in the secondary offering). The option was exercisable commencing on June 12, 2012, and expired on December 20, 2015.

During 2011, the Company bought back 13,274 warrants from the underwriters for \$27 with a price \$2.00 per warrant. As a result, there were nil and 3,393 outstanding underwriter warrants as of December 31, 2015 and 2014.

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 \$24.00, market price of \$2.48, expected remaining term of one year, expected volatility of 176%, and a risk free rate of 0.11%.

The fair value changes of the underwriter warrants of \$2, \$19 and \$3 were recognized as "Change in fair value of warrant derivative liability" in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2015, 2014 and 2013, respectively.

A summary of changes in warrant activity is presented as follows as of December 31, 2015:

	Underwriter Warrants
Outstanding, January 1 and December 31, 2014	3,393
Expired	(3,393)
Outstanding, December 31, 2015	-

## Note 12 – Convertible notes

The Company entered into a series of Securities Purchase Agreements (the "Agreements") with certain investors between June and September, 2015. Pursuant to the Agreements, the Company issued certain convertible notes (the "Notes") to the investors in a total principal amount of \$1,149. A summary of the major terms of the Agreements are presented as follows:

Investor	Principal amount	Issue date	Maturity date	Interest rate	Conversion discount rate (b)
LG Capital Funding, LLC	\$ 231	6/10/2015	6/10/2016	8%	35%
JSJ Investments INC	150	6/3/2015	12/3/2015(a)	12%	43%
Crown Bridge Partner, LLC	46	9/11/2015	8/25/2016	5%	42%
Service Trading Company, LLC	105	6/11/2015	6/11/2016	8%	35%
Adar Bays, LLC	158	6/11/2015	6/11/2016	8%	35%
Vis Vires Group, INC	159	6/10/2015	3/15/2016	8%	39%
Black Forest Capital, LLC	300	7/17/2015	7/17/2016	12%	42%
	<u>\$ 1,149</u>				

(a) At any time before, on and after the maturity date, this note has a cash redemption premium of 150%.

(b) The rate is the discount to the lowest closing bid price of the Company's ordinary shares for the 10 or 20 days prior to the date of conversion or execution of the convertible note agreements, as the case may be.

The conversion feature is dual indexed to the Company's stock, and is considered an embedded derivative which needs to be bifurcated from the host instrument in accordance with ASC 815.

ASC 815-15-25 provides that if an entity has a hybrid financial instrument that would require bifurcation of embedded derivatives under ASC 815, the entity may irrevocably elect to initially and subsequently measure a hybrid financial instrument in its entirety at fair value with changes in fair value recognized in earnings. The fair value election can be made instrument by instrument and shall be supported by concurrent documentation or a preexisting documented policy for automatic election.

The Company elected to measure the Notes in their entirety at fair value with changes in fair value recognized as non-operating income or loss at each balance sheet date in accordance with ASC 815-15-25. In addition, all issuance costs of \$106 associated with the Notes offering have been expensed as incurred in the year ended December 31, 2015.

Fair value of the Notes of \$2,169 as of December 31, 2015 is determined using the binomial model, one of the option pricing methods. The valuation involves complex and subjective judgment and the Company's best estimates of the probability of occurrence of future events, such as fundamental changes, on the valuation date. Under the binomial valuation model, the Group uses a weighted risk-free and risk interest rate (the combination of the risk free rate plus the credit spread for the underlying Notes) weighted by the probability of conversion as internally solved out by binomial model in discounting its cash flows. The main inputs to this model include the underlying share price, the expected share volatility, the expected dividend yield, the risk free and risk interest rate.

During 2015, the note holders converted Notes with a total principal amount of \$35 into 51,511 ordinary shares of the Company.

Up to the approval date of these financial statements, the note holders have fully converted Notes with a total principal amount of \$1,149 into 1,394,936 ordinary shares of the Company.

**Note 13 - Other payables and accrued liabilities**

Other payables and accrued liabilities as of December 31, 2015 and 2014 consisted of the following:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Accrued professional fees	\$ 132	\$ 130
Accrued staff costs and staff benefits	15	27
Others	22	52
	<u>\$ 169</u>	<u>\$ 209</u>

## **Note 14 - 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, 2015 and 2014.

### **Issuance of capital stock**

On March 5, 2015, a total of 45,000 ordinary shares were issued to the Company's directors and certain employees, which vested immediately. The grant date fair values were \$2.80 per share. On November 16, 2015, a total of 72,500 ordinary shares were issued to the Company's certain employees and consultants, which vested immediately. The grant date fair value was \$1.56 per share. Share-based compensation expense of \$239 was recognized in the consolidated statements of comprehensive income (loss) in 2015. In December 2015, certain of holders agreed to convert convertible notes with a principal amount of \$35 for a total of 51,511 of ordinary shares. The amount of \$76 was classified as shares to be issued under paid-in capital as of December 31, 2015.

On January 21, 2014, a total of 40,000 ordinary shares were issued to the Company's directors and certain employees, which vested immediately. The grant date fair value was \$13.44 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 48,750 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.

## **Note 15 - 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, 2015, 2014 and 2013, the Company made appropriations of nil, nil and \$408 to the statutory reserves, respectively. No appropriations were made to surplus reserve fund.

## **Note 16 - 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, 2015, 2014 and 2013.

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 impose 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, 2015, 2014 and 2013, no deferred tax liability has been recognized for the undistributed earnings of these PRC subsidiaries at December 31, 2015, 2014 and 2013. Total undistributed earnings of the Company's PRC subsidiaries at December 31, 2015 were nil (2014: nil).

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the years ended December 31, 2015, 2014 and 2013:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</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	(2.5)	(5.8)	(5.6)
Valuation allowance	(7.7)	(37.5)	2.1
Tax on disposal of SGOCO (Fujian) (a)	-	(89.9)	-
Other (b)	(14.8)	(26.0)	1.7
Effective income taxes	<u>0%</u>	<u>(134.2)%</u>	<u>23.2%</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, 2015 were payables made for the Sale of Honesty Group and Sale of SGOCO (Fujian) of \$6,241 (2014: payables made for the Sale of Honesty Group of \$6,241). 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, 2015, 2014 and 2013 except for (i) the expense incurred by holding company incorporated in the Cayman Islands where there is no tax. The other 14.8%, 26.0% and 1.7% for the years ended December 31, 2015, 2014 and 2013 included losses incurred by SGOCO of approximately \$1.4 million, \$0.5 million and \$0.4 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:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Deferred income tax assets:		
Net operating loss carry-forward	\$ 939	\$ 838
Less: Valuation allowance	(939)	(838)
	<u>\$ -</u>	<u>\$ -</u>

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, HK entity 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, 2015 and 2014, the Company had \$2,361 and \$2,091, respectively, of deductible tax loss carry forwards that expire through December 31, 2020. The net tax loss of the Hong Kong entity of \$867 and \$159 as of December 31, 2015 and 2014, 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, 2015 and 2014, the Company's U.S. entity, SGO, had net tax loss carry-forwards of \$606 and \$599, 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 17 - 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:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
China	\$ 1,184	\$ 41,321	\$ 177,836
International	737	1,909	23,138
Total	<u>\$ 1,921</u>	<u>\$ 43,230</u>	<u>\$ 200,974</u>

During the years ended December 31, 2015, 2014 and 2013, all of international sales were made to customers in Hong Kong.

## Note 18 - Related party and shareholder transactions

During the year ended December 31, 2015, 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 \$405 to the Company. As of December 31, 2015, \$505 was repaid and the outstanding amount due to Sun Zone is nil.

## Note 19 - Earnings (loss) per share

The following is a reconciliation of the basic and diluted earnings (loss) per share computation:

	For the year ended December 31,		
	2015	2014	2013
Net (loss) income for earnings per share	\$ (2,418)	\$ (2,288)	\$ 8,444
Weighted average shares used in diluted computation - basic and diluted	4,400,298	4,351,517	4,298,297
Earnings (loss) per share – basic and diluted	\$ (0.55)	\$ (0.53)	\$ 1.96

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 90,332 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 101,374 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. The escrow expired on December 31, 2013 and the escrowed shares were cancelled on May 5, 2014. As of December 31, 2014, all the Company’s warrants and unit options were excluded from the diluted loss per share calculation as they were anti-dilutive. As of December 31, 2015, all the Company’s warrants and convertible notes were excluded from the diluted loss per share calculation as they were anti-dilutive.

## Note 20 - 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, 2015 and 2014.

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, 2015, and their maturity profile:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Convertible notes with principal and interest	1,211	1,211	-	-	-
Capital contributions <sup>(1)</sup>	-	-	-	-	-
Total	\$ 1,211	\$ 1,211	\$ -	\$ -	\$ -

- (1) The registered capital of SGOCO Shenzhen is \$5,000. As of December 31, 2015, 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 21 - 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 potentially subject the Company to significant concentrations of credit risk consist primarily of cash, accounts receivable and advances to suppliers. As of December 31, 2015 and 2014, substantially all of the Company's cash was held in major financial institutions located in the PRC, Hong Kong and the United States of America, which management considers being of high credit quality. China does not have an official deposit insurance program, nor does it have an agency similar to The Federal Deposit Insurance Corporation (FDIC) in the United States. However, the Company believes that the risk of failure of any of these PRC banks is remote. Bank failure is extremely uncommon in China and the Company believes that those Chinese banks that hold the Company's cash are financially sound based on public available information.

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 three major customers was \$1,244, or approximately 66.8% of the Company's total sales for the year ended December 31, 2015, with each customer individually accounting for 39.6%, 16.2% and 11.0% of revenue, respectively. No other single customer accounted for more than 10% of the Company's total revenues in 2015. The Company's accounts receivable from these customers were approximately \$228 as of December 31, 2015.

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 were 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 were approximately \$15,948 as of December 31, 2013.

Three major vendors provided approximately 83.4% of total purchases (including 15.6% of purchases from Honesty Group) by the Company during the year ended December 31, 2015. The Company's accounts payable due to these vendors was approximately \$46 as of December 31, 2015.

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.

## **Note 22 - Subsequent events**

Apart from those disclosed elsewhere in these financial statements, the Company had the following subsequent events:

On March 15, 2016, a total of 48,000 shares were issued to the Company's independent directors, certain employees and consultants, which vested immediately. The grant date fair value was \$3.35 per share. Compensation expense of \$161 will be recorded in the statement comprehensive income (loss) during 2016.

On February 29, 2016, a total of 60,000 shares were issued to the certain IR service providers. The grant date fair value was \$3.37 per share. Consulting expense of \$202 will be recorded in the statement comprehensive income (loss) during 2016.



**RICHLY CONQUEROR LIMITED**

Vendor

AND

**SGOCO INTERNATIONAL (HK) LIMITED ( ) ( ) ( ) ( )**

Purchaser

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**Share Sale and Purchase Agreement**

for the sale and purchase of the entire issued share capital of

**BOCA INTERNATIONAL LIMITED ( ) ( ) ( ) ( ) ( ) ( )**

**DATE: 28th day of December 2015**

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**THIS AGREEMENT is made on the 28th day of December 2015.**

**BETWEEN:**

1. **Richly Conqueror Limited**, a company incorporated in British Virgin Islands, the registered address is Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Tpw n, Tortola, British Virgin Islands (the “Vendor”); and
2. **SGOCO International (HK) Limited** ( ) ( ) , a company incorporated in Hong Kong, the registered address is Flat/RM 6803, 68/F, The Center, 99 Queen’s Road, Central, Hong Kong (the “Purchaser”).

**RECITALS:**

- (A) Boca International Limited ( ) is a private holding company incorporated in Hong Kong, the particulars of which are set out in Schedule 1 (the “Company” or “Boca International”).
- (B) The Vendor is the sole legal and beneficial owner of the Sale Shares (as defined below) and the Sale Shares representing the entire issued share capital of the Company.
- (C) The Vendor wishes to sell, and the Purchaser agrees to buy the Sale Shares subject to the terms and conditions set forth in this Agreement.

**THE PARTIES AGREED AS FOLLOWS:**

**1. INTERPRETATION**

- 1.1 **Definitions:** in this Agreement the following words and expressions and abbreviations have the following meanings, unless the context otherwise requires:

“Agreement”	means the agreement, arrangement, understanding or transaction recorded in this Agreement
“Books of Account”	means the unaudited balance sheet of the Company ended the last day of the accounting period, the unaudited statement of profit and loss for the 12 months ended the last day of the accounting period;
“Business Day”	means the day (excluding Saturdays, Sundays and public holidays) on which the commercial banks in Hong Kong are generally open to the public for transactions and normal banking business;
“Completion”	means the completion of the sale and purchase of the Sale Shares in accordance with Clause 5 of this Agreement;
“Completion Date”	means the date on which Completion occurs;

<b>“Consideration”</b>	means the total consideration which the Purchaser should pay for the Sale Shares in accordance with Clause 3.1 of this Agreement;
<b>“Director(s)”</b>	means the directors of the Company;
<b>“Encumbrance”</b>	means mortgage, charge, pledge, lien, option, restriction, assignment, the right of pre-emption or purchase at advance, third party right or interest, any other encumbrance, any other priority or hypothecation, or any other similar preferential arrangement (including but not limited to transfer or retention of the title), or any other agreement which issue or execute the provisions above;
<b>“Guarantee”</b>	means the statements, guarantee, undertakes and other represents set out in Clause 6.1 of and appendix 5 to this Agreement.
<b>“the last day of the accounting period”</b>	means 31 <sup>st</sup> day of December 2015;
<b>“Material Breach”</b>	means delay in the payment of the Consideration for more than 60 days as prescribed under Clause 5.3 of this Agreement;
<b>“Records”</b>	means the records and information of the Company (including but not limited to all the information of accounts, books of accounts, minutes, registrations, finance et etc., declaration forms and declaration records in accordance with the relevant company laws, and all of the statutory account books and records);
<b>“Relevant Right and Benefit”</b>	means material interest, ownership or rights related to the Company, including equity, tenancy, business, facilities et etc.;
<b>“Sale Shares”</b>	means the entire issued share capital of the Company that will sell to the Purchaser; and
<b>“Warranties”</b>	means any warranty, indemnity, letter of guarantee, financial guarantee or any other mortgage, or any other forms of guarantee provided by any individual or third party.

1.2 **References:** references in this Agreement:

- (a) References means clauses, schedules, referenced clauses or sub-clauses, arrangements or the schedules of this Agreement, unless the context otherwise requires;
- (b) Any laws, regulations, or the supplements, amendments, consolidations, re-enactments or extending the validity of the laws or regulations made by the competent court;
- (c) This Agreement (or any specification of it) or any other documents should be interpreted as the references of this Agreement;
- (d) **“China”** means the People’s Republic of China;
- (e) **“RMB”** means the legal currency of China;

(f) “**Hong Kong**” means the Hong Kong Special Administrative Region of People’s Republic of China; and

(g) “**USD**” means the legal currency of the United State of America.

1.3 **Headings:** the headings in this Agreement are for convenience only, and do not affect interpretation.

1.4 **Representations, Schedules, and Statements:** representations, schedules, and statements are parts of this Agreement.

1.5 **Content:** a singular word includes the plural, and vice versa; a word which suggests one gender includes the other genders.

## 2. **SALE AND PURCHASE**

The Vendor as the beneficial owner wishes to sell and the Purchaser wishes to purchase the Sale Shares on the terms set out in this Agreement. Both parties will not be restrained by any rights and impeded by any terms other than terms contained in this Agreement.

## 3. **CONSIDERATION**

3.1 **Consideration:** total consideration of the Sale Shares includes USD52 million in the form of cash, plus up to 19.9% new shares in SGOCO (as enlarged by the issuance) or 3.4 million new shares.

The Consideration should be paid in accordance with the Clause 5.3 and Schedule 2 to this Agreement.

3.2 **Payment:** each payment to the Vendor should be made by telegraphic transfer or other method by the time and the information set out in Schedule and 2.

## 4. **GUARANTEE**

4.1 In order to ensure the payment of the Consideration and the performance of the obligations set out in this Agreement, Purchaser agreed to (a) mortgage 100% Sale Shares to the Vendor and/or other assignee (“**Mortgage**”), the Mortgage Clauses and Conditions set out on the dated Mortgage Deed; (b) deliver the Company’s security interest (“**Security Interest**”) of receivables, cash, and advance payment of the suppliers to the Vendor and/or other assignee before the last day of the accounting period, the total amount of the Security Interest (“**Total Amount**”) is equivalent to the Consideration. The Purchaser shall prompt its subsidiary to open an escrow account as required by [·] (the subsidiary of the Vendor) , the total amount in the escrow account is equivalent to the Total Amount; (c) never promote the Company to liquidate the receivables, cash, and advance payment from the supplier et etc., to ensure the Purchaser has sufficient fund to make payment to the Vendor.

4.2 As part the Mortgage and Security Interests that the Purchaser made to the Vendor, the Purchaser agreed that the Purchaser will not sell any material assets without the written consent of the Vendor, before the Consideration under the Clause 3.1 of this Agreement has been fully paid.

## 5. COMPLETION

5.1 **Completion:** The Completion of this Agreement should take place in the Vendor's office or such place nominated by the Vendor.

5.2 **Vendor's Obligations:** The Vendor should fulfill the conditions set out in Schedule 3, and deliver the related documents to the Purchaser on or before the Completion.

5.3 **Purchaser's Obligations:** Upon Vendor fulfilling its obligation under Clause 5.2 above, the Purchaser should arrange payment of the Consideration by telegraphic transfer or other methods in accordance with Schedule 2 to this Agreement.

## 6. WARRANTIES AND INDEMNITIES

6.1 **Warranties:** the Vendor represents, warrants, and undertakes to the Purchaser the authenticity, accuracy, integrity, and non-misleading of the terms and the accounts of this Agreement after conducting reasonable investigation.

6.2 **Independence of Warranties:** each of the Warranties shall be separate and independent, and shall not damage any other terms of Warranties. Unless expressly stipulated, the Warranties shall not be limited by any other term of this Agreement or any other Warranties.

6.3 **The Rights of the Purchaser:** the Purchaser has the right to claim corresponding indemnity in cash to the Vendor with a written notice, when any breach of this Agreement exists. The amount of indemnity shall be equivalent to the difference between value of the Sale Shares under the terms of the Warranties be executed normally and the value of the Sale Shares after the breach occurs.

**"Corresponding Breach"** means any material unconformity, in authenticity or misleading with the terms of the Warranties discovered by the Vendor after investigation.

6.4 **The Restrains to the Vendor's Obligations:** if there is any breach of this Agreement, the Vendor bears the responsibility of no more than RMB2,000,000, including all penalties (including legal fees and arbitration costs the Purchaser may have). In addition, the Vendor shall not be responsible for any of the debts, Warranties under this Agreement, or Company's conduct, unless the Purchaser file a suit against the Vendor on any specific action above within two (2) years of the Completion.

6.5 **The Purchaser's Duty:** the Purchaser on behalf of its own, its successors and its beneficiaries to protect the Vendor, legal representative, administrative staffs, directors, employees, attorneys, successors and beneficiaries ("**Vendor's Protection**") from any dispute or litigation, and the Purchaser agreed to pay any of the losses, litigations, claims, costs, charges, lawyers' fee, payments, incidentals and duties caused by the dispute or litigation, unless such dispute or litigation is caused by the Vendor's gross negligence or imprudent.

**7. OTHER WARRANTIES**

- 7.1 The Vendor should provide necessary documents according to the reasonable demands of the Purchaser, in order for the Purchaser to get the interest of the Sale Shares, and fully implement the Vendor's obligation under this Agreement.
- 7.2 With the premise of not violating the terms of this Agreement, the Purchaser shall provide all necessary support to the Vendor. The Purchaser shall reveal the financial account to the Vendor, including but not limited to the balance sheet, the profit and loss statement etc. before 31<sup>st</sup> day of December 2015.

**8. TERMINATION**

- 8.1 **Vendor's Right:** The Vendor has the right to terminate this Agreement in whole or part, and reserved its rights and remedies immediately upon written notice to the Purchaser, if (a) the Purchaser has been found materially breached Clause 5.3 of this Agreement, or (b) the Purchaser bankrupted, or filed for bankruptcy, or has any ground of bankruptcy petition against the Purchaser.
- 8.2 **Purchaser's Right:** The Purchaser has the right to terminate this Agreement, if the Vendor has been found materially breached the represents and the terms set out in this Agreement, and such breaching has not been settled, or has not been settled in 20 Business Days since the Purchaser received the written notice of such breaching.

**9. FORCE MAJEURE**

- 9.1 **Force Majeure:** "Force Majeure" means extraordinary events, such as natural disaster beyond control (including fire, flooding, earthquake, storm, hurricane, or other natural disaster), wars, invasion, act of foreign enemies, hostilities (regardless of whether war is declared), civil war, rebellion, revolution, insurrection, military, usurped power or confiscation, terrorist activities, nationalization, government sanction, blockage, embargo, labor dispute, strike, lockout or interruption or failure of water supply, electricity or telephone service (each of the above construct a force majeure).

9.2 **The Effect of Force Majeure:**

- (a) A party shall inform the other party in writing within 24 hours of the occurrence of the Force Majeure event, as the event continued, the suffered party will no longer undertake the obligations stipulated in this Agreement (except for the payment arrangement set out in Schedule 2 of this Agreement). The suffered party shall inform the other party about the possible duration and effect of the Force Majeure event within 15 days of the written information. The suffered party also shall report the evolution of such event on a regular basis, and update continuously. Both parties shall take actions to eliminate or mitigate the damage caused by the Force Majeure.
- (b) Event in the circumstance of the supra, neither party shall terminate this Agreement without the written consent of the other party about the result of the Force Majeure event.
- (c) If a party asserts the Force Majeure as an excuse for failure or delay to perform the party's obligation under this Agreement, then the nonperforming party must prove that the party already performed the Clause 9.2(2) of this Agreement, and substantially completed the obligations that are not affected by the Force Majeure under this Agreement.

**10. NON-COMPETE PERIOD**

- 10.1 During the non-compete period, the Purchaser (and its subsidiaries) shall not induce or attempt to induce any of the Vendor's employee to resign.
- 10.2 The Purchaser accepts the above Clause 10.1 relating to non-competition obligations. The Purchaser shall accept any modification of the above Clause 10.1 if the court with jurisdiction or an arbitrator questions the validity of Clause 10.1. The modification shall be to the extent the Clause could be performed legally to the maximum extent possible. Such modification shall not be applicable to other terms of this Agreement.

**11. RIGHT OF FIRST REFUSAL**

- 11.1 Within five (5) years of the Completion, the Purchaser shall not sell, assign, transfer or transfer the related equity to a third party in other ways, before providing the Vendor and its attorney the right of first refusal.
- 11.2 If a third party wants to officially and legally purchase the equity of the Purchaser's ("**Equity Holder**") company, the Purchaser shall notice the Vendor in writing ("**Notice**"), indicating: (a) the Equity Holder has the intention to sell or transfer the equity ("**Equity**") in other ways; (b) the name and the address of the potential purchaser or transferee ("**Proposed Transferee**") of the Equity; (c) the transfer clause details of transferring the Equity; (d) the proposed consideration in cash or other forms of the Equity ("**Proposed Consideration**"); (e) the Equity Holder admits the Notice follows the first refusal clause of this Agreement, to sell the Equity to the Vendor or its assignee at the Proposed Consideration.
- 11.3 Within 30 days from the receipt of the Notice, the Vendor and/or its attorney shall notice the Equity Holder in writing whether purchase all (or part, with the consent of the Equity Holder) of the Equity for sale, transfer, or transfer to one or more specific Proposed Transferee in the Notice.



- 11.4 The Proposed Consideration of the Equity in this Clause is the consideration. If the Proposed Consideration includes non-cash portion, the board of directors of the Vendor shall fix a price, then converted to cash equivalent.
- 11.5 If the Equity in the Notice have not be purchased by the Vendor or its assignee, the Equity Holder has the right to sell, assign, transfer or transfer the Equity in other ways to the Proposed Transferee whom has been mentioned in the Notice at the Proposed Consideration or higher consideration, but the sale, assignment, or transfer shall (a) be conduct within 120 days since the Notice, (b) comply with all the related laws, and (c) each Proposed Transferee shall agree in writing that this Clause will continue to apply to the Equity. If the Equity has not been transferred to the Proposed Transferee within 120 days since the Notice, the Equity Holder shall give the Vendor a new notice of the right of first refusal if the Equity Holder wants to sell or transfer the Equity.

## 12. CONFIDENTIALITY

**Confidentiality:** Any information involved in the Agreement (the “**Confidential Information**”) shall not be disclosed to a third party in oral or written form except following circumstances:

- (a) provides notice to the other party, which is required by relevant laws or regulatory;
- (b) in order to execute this Agreement, the Confidential Information will be disclosed to the officer, employee and other consultants of public authorities. In this case, the abovementioned individuals and public authorities shall not disclose any Confidential Information. Otherwise, they shall be held liable according to law and be claimed damages as the result of leakage of Confidential Information; and
- (c) the Confidential Information becomes public information without any violation of the Agreement and laws of both parties.

Both parties shall return the Confidential Information relating to the other party in any form held by itself at the request of each party.

## 13. CORPORATE INCOME TAX AND RELEVANT TAX

Corporate income tax and all relevant taxes generated from the share transfer proceeding shall be borne by the Vendor.

## 14. SUMMARY

- 14.1 **Waiver:** any delay and failure to keep an appointment shall not be deemed as a ground for exemption. Any grounds of exemption and breach of clauses shall not have force of law except the grounds are provided by the waiving party with written document with signature.

- 14.2 **Relationship status:** there is no partnership, agency, employment, interests of entities or joint venture relationship in this Agreement.
- 14.3 **Entire agreement:** this Agreement (hereinafter documents and Schedules) contains the whole agreement between the parties to the transaction, and supersedes any previous agreements (oral or written) between them relating to the subject matter hereof.
- 14.4 **Content modification:** any modification of this Agreement shall be modified in written, and shall be signed by both parties to confirm the modification.
- 14.5 **Terms of independence:** if any provision of this Agreement in violation of relevant laws or unable to perform, the provision is deemed as invalid provision. The legality of other provisions of the Agreement shall not be affected and shall continue to perform.
- 14.6 **Additional rights:** the terms of this Agreement has rights to additionality and contains all responsibility of the laws.
- 14.7 **Sustainability:** the rights and obligations in this Agreement will continue effective after the completion of the transaction. Both parties will be no longer continue to be bound by this Agreement after all rights and obligations in this Agreement are completely fulfilled.
- 14.8 **Counterparts:** this Agreement may be executed in multiple counterparts, each counterpart shall be deemed as the original, which together shall constitute one agreement.

## 15. NOTICE

- 15.1 **Address:** any notice or communication in relation to the Agreement shall be retained in written form, or shall be delivered to following address and fax number or the contract details which is confirmed by both parties in written form, by fax, or by prepaid registered letter (Hong Kong or Macau address) or by prepaid registered airmail (not a Hong Kong or Macau address).

### Vendor's information:

Address: 130A Tong Yan San Tsuen, Pat Heung, Yuen Long, New Territories, Hong Kong.

Contact: Dr. Richard Chan Kam Biu

Fax: +852 31766099

Email: dr.richardchan@gmail.com

### Purchaser's information:

Address: 12/F, Tower Bldg #3, China Academy of Science & Technology Development, Gaoxin South Ave.1, NanShan District, ShenZhen, China/ Flat/RM 6803, 68/F, The Center, 99 Queen's Road, Central, Hong Kong

Contact: Tin Man Or

Fax:

15.2 **Delivery** : If there is no other prior to arrival certificate, notification or other information shall be deemed to have been duly given as follows:

- (a) if parties pick up by themselves, the Agreement shall be delivered to the address in Clause 15.1;
- (b) if sent by post other than airmail, two (2) Business Days after the date of posting;
- (c) if sent by air mail, six (6) Business Days after the date of posting; and
- (d) if sent by fax, when confirmation of its transmission has been recorded on the sender's fax machine.

If by post, it shall be proved by providing an envelope containing the correct address and postmark.

## 16. GOVERNING LAW

16.1 **The laws of Hong Kong**: this Agreement shall be complied with the relevant laws of Hong Kong.

16.2 **Arbitration**: both parties promise to solve any dispute or disagreement arising in the Agreement. If a dispute notice has been given by a party, and the other party cannot solve the dispute within 30 days of receiving the notice, the dispute shall be referred to and resolved by arbitration administered by the Hong Kong International Arbitration Centre (“**HKIAC**”) in accordance with the HKIAC rules. The arbitration proceedings shall be conducted in Chinese. The arbitration award as a final judgment shall be binding on both parties. The expenses incurred in connection with the dispute resolution processes shall be borne by the losing party. Both parties shall continue to perform their duties under the Agreement except the disputed matters during the arbitration proceedings.

**SCHEDULE 1**

**Particulars relating to the Company**

**1. BOCA INTERNATIONAL LIMITED**

BR number:	15889340-000-06-15-0
Company number:	362529
Office address:	130A Tong Yan San Tsuen, Pat Heung, Yuen Long, New Territories, Hong Kong.
Date of incorporation:	26 June,1992
Authorised share capital:	HKD10,000.00
Contributed capital:	HKD184.00
Shareholders:	Richly Conqueror Limited
Registered Office:	130A Tong Yan San Tsuen, Pat Heung, Yuen Long, New Territories, Hong Kong.

**SCHEDULE 2**

**Payment Arrangement**

1. The Purchase Price (Clause 3.1) will be paid by wire transfer or other payment methods as provided in this Agreement.
2. The transaction payment will be paid by two tranches with the following total amount:

<b><u>Payment Date</u></b>	<b><u>Amount</u></b>
On or before 31 December, 2015	USD52 million in the form of cash
On or before 31 January, 2016	up to 19.9% new shares in SGOCO (as enlarged by the issuance) or 3.4 million new shares

3. According to this Agreement, if the payment is not paid within 30 days of the Payment Date, the Purchaser will pay a liquidated damage for the unpaid part to the Vendor at a 2% monthly interest rate.

### **SCHEDULE 3**

#### **Vendor's Obligations**

##### **1. AT THE COMPLETION**

1.1 The Vendor shall hold a board meeting of the Company:

The Vendor shall hold a board meeting of the Company to vote, or authorize the execution of all documents by its directors and/or authorized personnel, with at least the following content:

- According to the Article of Association of the Company, the Vendor shall vote and approve in favour of the resolution relating to the share transfer of the Sale Shares from the Vendor to the Purchaser;
- Remove Dr. Richard Chan and Ms Lui Lai Yuen from the directors of the Company, the successor will be appointed by the Purchaser.
- Remove Dr. Richard Chan from the position of the legal representative of the Company, the successor will be appointed by the Purchaser.
- Remove Dr. Richard Chan from the position of the supervisor of the Company, the successor will be appointed by the Purchaser.
- According to the written requests of the Purchaser, the Vendor shall cancel or change the permission of the bank account(s) of the Company.

##### **2. THE OBLIGATION OF TRANSFER DOCUMENTS AND MATERIALS**

At the Completion, the Vendor shall deliver the following documents:

2.1 instruments of transfer and bought and sold notes relating to the Sale Shares duly executed by the Vendor;

2.2 share certificate(s) relating to the Sale Shares;

2.3 a cheque in favour of the Government of Hong Kong SAR and/or the Purchaser for the purpose of stamping the sold note and one of the instrument of transfer relating to the Sale Shares;

2.4 the notice of resignation of the directors and the supervisor of the Company: The Vendor should provide written documents of Dr. Richard Chan and Ms. Lui Lai Yuen in relation to the resignation of the legal representative of the Company and the resignation of the supervisor of the Company, respectively. Dr. Richard Chan and Ms. Lui Lai Yuen do not involve in any initiate litigation proceeding, including but not limited to: compensation, reward, payment, allowance, cost and others.

- 2.5 all corporate documents in relation to the Company including all licenses, contracts, documents and correspondences (covering documents in respect to the assets and rights of the Company);
- 2.6 accounting and financial records, books and all bank related documents, including cheque book, bank statements and records of all bank accounts held by the Company and duly signed change of signatory forms (if any) addressed to or issued by the bank(s);
- 2.7 a valuation report prepared by a professional appraiser confirming the valuation of the Company shall be no less than US\$50 million.
- 2.8 resolution: an original (or certified true copy) of the written board resolution of the Company with reference to part 1.1 of this Schedule 3

3. **THE OBLIGATION OF TRANSFER COMPANY'S PROJECTS, TECHNOLOGY, RELATED INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS**

At the Completion, the Vendor shall transfer all company's projects, technology, related intellectual property and intangible assets to Purchaser. Vendor confirmed and acknowledged the reasonableness of the terms of, and commitment to fulfill the obligations stipulated by this section. Vendor is strictly prohibited in supply, sell, lease those technologies in any business with unauthorized companies or countries nor shall thus causing damage to the interests of PURCHASER.

## **SCHEDULE 4**

### **The Warranties**

#### **1. Rights and Information**

1.1 **Rights:** the Vendor has the rights which are requested by this Agreement and clauses in other documents whether prior to the Completion or in proceeding.

#### **2. Shareholding**

2.1 **The shareholding:** the Vendor is the only statutory beneficiary of the shareholding, and it has unrestrained rights and interests to sell and transfer the whole statutory interests of the Sales Shares.

2.2 **The Company authorized share capital:** the Company authorized share capital as shown in Schedule 1.

#### **2.3 No interest in other entities: the Company does not exist:**

- (a) hold any shareholding of any other company in the present or in the past, and consent acquiring shareholding of any other company; and/or
- (b) any branch, agency or place of business, or other permanent facilities.

#### **3. Books and Files**

3.1 **Books:** the Company books:

- (a) all assets, liabilities, matters and financial statement and income statement ended the last day of the accounting period reflects a true and fair view;
- (b) comply with the Companies Ordinance and other relevant laws and regulations; and
- (c) codified in accordance with Accounting Standard for Business Enterprises.

3.2 **Material adverse changes:** since the last day of the accounting period, the financial condition, transaction and operation of the Company does not occur significant adverse change and effects.

3.3 **Liabilities:** Since the last day of the accounting period, the Company does not detect or occur any significant liabilities.

#### **4. Taxation**

4.1 The taxation of the Company fully comply with the relevant laws and regulations, and paid every amount of taxation. The Company does not involve in any tax dispute, and in the current tax condition, the Company will not lead to any future tax dispute.



4.2 For taxation requirements, all information provided by the Company or on behalf of the Company are complete and accurate.

5. **Applicable Laws and Regulations**

5.1 **The legality of the Company:** the Company was established in accordance with the relevant laws of the People's Republic of China. There is no any resolution, litigation or decision involving liquidation of the Company, and it will not happen in a predictable future.

5.2 **No violation of law:** there is no violation of law, and penalty or liability, or other negative consequence due to the omission of the actions by the Company or any executive, agency or employee (within the range of duty of work).

6. **Business status**

6.1 **At the last day of the accounting period:** since the last day of the accounting period, the business of the Company operates normally as usual.

7. **Properties**

7.1 **No properties:** the Company does not hold any earning from properties or rent in mainland China or other regions.

8. **Agreement**

8.1 **Major/unconventional contract:** since the date of this Agreement, the Company shall not enter any oral or written agreement which will substantially affect the Company's business, financial condition and prediction. There is no unconventional contract except for the ordinary course of business.

9. **Litigation**

9.1 **No litigation:** except the written disclosure to the Purchaser, the Company shall not involve in any litigation, arbitration , administrative or criminal dispute, whether as plaintiff or defendant or otherwise. There is no such outstanding matters or potential risks in relation to abovementioned situation, and there is no such condition or circumstance will lead to the abovementioned situations.

## SCHEDULE 5

### Outstanding matters after Completion

In addition to the abovementioned expression of the Agreement provided by the Purchaser, the Vendor shall ensure that:

1. **Ordinary course of business:** the business operation of the Company shall operate as usual, and not be disturbed by this transaction. No significant decision or change in respect of business, transaction, assets and liabilities of the Company would be made during the ordinary operation.
2. **The acquisition or disposition of assets:** the Company shall not acquire or dispose any assets in any form, except for the demand of ordinary business;
3. **Capital expenditure:** the Company shall not conduct or agree to conduct capital expenditure in any form;
4. **Dividend:** the Company shall not announce, pay or divided the stock dividend in any form;
5. **Obstacle:** there is no obstacle of the Company and its assets exist, other than the written disclosures to the Purchaser;
6. **Guarantee and borrowing:** the Company shall not guarantee or borrow any person in any form;
7. **Ordinary payment:** the Company shall not use the Company's account to make any payment other than the ordinary business of the Company;
8. **The agreement with legal obligations:** the Company shall not enter any agreement more than one year, or any unordinary agreement, arrangement and debt;
9. **Compliance with laws and regulations:** the Company shall comply with the applicable laws and regulations in respect of all business.
10. **Necessarily assist to the Purchaser:** the Company shall provide necessarily reasonable assistance to the Purchaser to ensure a smooth hand over and a normal development of the Company in the future.

**Execution Page**

**SIGNED** by [ ]  
for and on behalf of  
**RICHLI CONQUEROR LIMITED**

Attendee: [ ]

Witness signature: [ ]

Witness name: [ ]

Witness address: [ ]

**SIGNED** by [ ]  
for and on behalf of  
**SGOCO INTERNATIONAL (HK) LIMITED**

Attendee: [ ]

Witness signature: [ ]

Witness name: [ ]

Witness address: [ ]

**APPENDIX A**

**BOCA INTERNATIONAL LIMITED** □□□□□□□□

**Financial Statement of the Management, 30 September, 2015**

Boca International Limited

Profit & Loss Statement

April 2015 through September 2015

16/12/2015  
13:09:33

Revenue	
Sales	
Others Income - Sales	111,500.00
Project Income	
CLP Substation - Tsz Wan Shan	
CLP TWS - Income	369,650.00
Total CLP Substation - Tsz Wan Shan	<u>369,650.00</u>
Total Project Income	<u>369,650.00</u>
Total Revenue	<u>481,150.00</u>
Cost of Goods Sold	
Purchases	
Tools & Materials	375.00
Others Costs	47,300.00
Project Cost	
CLP Substation - Tsz Wan Shan	
CLP TWS - Design & Consultant	165,000.00
Total CLP Substation - Tsz Wan Shan	<u>165,000.00</u>
Total Project Cost	<u>165,000.00</u>
Total Cost of Goods Sold	<u>212,675.00</u>
Gross Profit	<u>268,475.00</u>
Expenses	
Salary	
Salary	291,000.00
MPF - Employee	9,000.00
MPF - Employer	9,000.00
Casual Labour Fee	107,750.00
Total Salary	<u>416,750.00</u>
Depreciation	
Leasehold & Imp. Dep.	3,597.06
Office Equipment Dep.	1,183.98
Motor Vehicle Dep.	53,409.66
Total Depreciation	<u>58,190.70</u>
Insurance	
Motor Insurance	10,100.00
Total Insurance	<u>10,100.00</u>
Motor Vehicle Expenses	
Motor Repair & Maintenance	1,340.00
Motor Running Expenses	90,110.20
Motor Vehicle HP Interest	7,737.72
Penalty	1,080.00
Total Motor Vehicle Expenses	<u>100,267.92</u>
Unity	
Gas	1,793.00
Water	656.00
Electricity	11,154.00
Telephone	8,158.00
Total Unity	<u>21,761.00</u>
Professional Fee	
Secretarial Fee	705.00
Accounting Fee	3,000.00
Professional Charges	6,600.00
Total Professional Fee	<u>10,305.00</u>
Office Consumption	
Maintenance & Repair	1,800.00
Stationery	229.00
Computer Accessories	12,103.00
Postage and Courier	345.00
Printing	1,770.00
Tools	1,961.50
Office Supplies	6,418.10

Boca International Limited

Profit & Loss Statement

April 2015 through September 2015

16/12/2015  
13:09:34

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Electricity Accessories	4,807.00	
Total Office Consumption	<u>29,433.60</u>	
Admin. Expenses		
Transportation	400.00	
Entertainment	50,006.78	
Hotel Accommodation	2,365.00	
Business Trip Expenses	47,447.58	
Medical	12,494.00	
Rental	111,000.00	
Rent & Rates	3,290.00	
Registration Fee	2,250.00	
Management Fee	10,164.00	
Total Admin. Expenses	<u>239,417.36</u>	
Total Expenses	<u>886,225.58</u>	
Operating Profit		<u>(617,750.58)</u>
Other Income		
Other Income	12.00	
Total Other Income		<u>12.00</u>
Other Expense		
Bank Charges	1,399.80	
Finance Charge	26,937.93	
Total Other Expense	<u>28,337.73</u>	
淨損益		<u>(646,076.31)</u>

Boca International Limited

Balance Sheet

As of September 2015

16/12/2015  
13:08:44

Assets	
Fixed Assets	
Leasehold & Improvement	
Leasehold & Improve. at Cost	251,852.49
Acc. Dep. - Leasehold & Improve	(32,676.05)
Total Leasehold & Improvement	219,176.44
Furniture & Equipment	
Furniture & Equipment at Cost	551,605.98
Acc. Dep. - Furniture & Equip.	(547,264.52)
Total Furniture & Equipment	4,341.46
Office Equipment	
Office Equipment at Cost	108,040.21
Acc. Dep. - Office Equipment	(108,040.21)
Total Office Equipment	0.00
Motor Vehicle	
Motor Vehicle at cost	356,064.50
Accum Dep. - Motor Vehicle	(271,499.10)
Total Motor Vehicle	84,565.40
Testing Equip. & Machinery	
Testing Equip. & Machine -Cost	906,459.00
Accum Dep. - Testing Equip.	(906,459.00)
Total Testing Equip. & Machinery	0.00
Total Fixed Assets	308,083.30
Current Assets	
Cash On Hand	
DBS Bank ( Hong Kong ) Ltd	2,217.00
Standard Chartered	11,834.76
Total Cash On Hand	14,051.76
Credit Card	
DBS - Business Card	14,211.53
Total Credit Card	14,211.53
Total Current Assets	28,263.29
Others Assets	
Unity & Sundry Deposit	14,100.00
Rental Deposit	64,900.00
MPF Cont. to East Asia	(3,000.00)
Total Others Assets	76,000.00
Total Assets	412,346.59
Liability	
Long Term Liability	
HP for Motor Vehicle	176,087.47
Total Long Term Liability	176,087.47
Current Liability	
Loan	
DBS - Loan	225,434.60
Standard Chartered Bank Loan	126,793.71
Total Loan	352,228.31
Accural	
Accured Salary	96,500.00
Accured Expenses	48,000.00
Total Accural	144,500.00
Others Liabilities	
Loan from Mr. Ronald Acculli	2,000,000.00
Other Loan - Provision Int.	391,667.00
Total Others Liabilities	2,391,667.00
Total Current Liability	2,888,395.31
Total Liability	3,064,482.78
Net Assets	(2,652,136.19)
Equity	

Boca International Limited

Balance Sheet

As of September 2015

16/12/2015  
13:08:45

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Capital		
Chan Kam Biu - Capital	171.00	
So Chi Kong, Sunny - Capital	7.00	
Chan Ching Yi - Capital	6.00	
Total Capital		184.00
Director Current A/C		
Chan Kam Biu C/A	4,405,365.64	
Total Director Current A/C		4,405,365.64
Accumulated Profits		(6,411,609.52)
Current Year Earnings		(646,076.31)
Total Equity		<u>(2,652,136.19)</u>



**SUPPLEMENTAL AGREEMENT TO SHARE SALE AND PURCHASE AGREEMENT FOR THE SALE AND PURCHASE OF THE ENTIRE  
ISSUED SHARE CAPITAL OF BOCA INTERNATIONAL LIMITED**

This Supplemental Agreement to Share Sale and Purchase Agreement for the Sale and Purchase of the Entire Issued Share Capital of Boca International Limited (this "Supplemental Agreement") is entered into on February 29, 2016, by and between Richly Conqueror Limited, a company organized under the laws of the British Virgin Islands (the "Vendor") and SGOCO International (HK) Limited, a company incorporated under the laws of Hong Kong (the "Purchaser" and together with the Vendor, the "Parties" and each a "Party"). Capitalized terms that are not defined herein shall have the meanings set forth in the Agreement (as defined below).

**RECITALS**

**WHEREAS**, the Vendor and the Purchaser entered into a Share Sale and Purchase Agreement for the Sale and Purchase of the Entire Issued Share Capital of Boca International Limited (the "Agreement"), dated December 28, 2015, pursuant to which, subject to the terms and conditions set forth in the Agreement, the Purchaser acquires 100% of the issued share capital of Boca International Limited. ("Boca"), a private holding company incorporated in Hong Kong, from its sole legal and beneficial owner - Richly Conqueror Limited at a consideration of \$52 million in the form of cash, plus up to 19.9% or 3.4 million newly issued ordinary shares (the "Shares") of SGOCO Group, Ltd. (the "SGOCO"), the sole shareholder of the Purchaser; and

**WHEREAS**, the Purchaser has paid \$52 million in the form of cash to the Vendor on or before December 31, 2015; and

**WHEREAS**, SGOCO effected an 1-for-4 reverse stock split of its authorized ordinary shares, accompanied by a corresponding decrease in its issued and outstanding shares of ordinary shares and an increase of the par value of each ordinary share from \$0.001 to \$0.004 (the "Reverse Stock Split") on January 19, 2016; and

**WHEREAS**, the Parties desire to clarify the number of the Shares and confirm the closing date and other details of the Agreement; and

**WHEREAS**, the Parties desire to complete the payment of the shares in accordance with the Agreement and this Supplemental Agreement by March 15, 2016; and

**WHEREAS**, the Parties desire to close the sale and purchase of the Sale Shares of Boca (the "Transaction") in accordance with the Agreement and this Supplemental Agreement by the end of March, 2016.

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**NOW, THEREFORE**, in consideration of the foregoing recitals and agreements undertaken in this Supplemental Agreement, the sufficiency and adequacy of which each of the Parties hereby acknowledges, the Parties, intending to be legally bound, hereby agree as follows.

#### AGREEMENT

1. The Parties agree and confirm SGOCO shall issue 1,162,305 ordinary shares of SGOCO Group, Ltd. or such greater number of ordinary shares as shall equal to 19.9% of the total ordinary shares of SGOCO outstanding immediately prior to the issuance of such shares (the "Post-Split Shares") to the Vendor as part of the payment of Consideration on or before March 15, 2016, and the Purchaser shall have completed all its payment obligations under the Agreement and this Supplement Agreement upon the issuance of the Post-Split Shares.
  2. The Parties agree that the Payment Date of the Shares shall be on or before March 15, 2016 which shall be evidenced by the issuance of Post-Split Shares described above. If the share payment is not made within 15 days after the Payment Date, the Purchaser will pay liquidated damages for the unpaid part to the Vendor at a 2% monthly interest rate of the value for Post-Split Shares at the closing price of NASDAQ on March 15, 2016.
  3. The Parties confirm the closing date of the Transaction shall be March 31, 2016. If the closing conditions are not met by the Parties, the Vendor shall return the \$52 million cash within 15 days upon the notice of the Purchaser.
  4. The Vendor represents and warrants that it has or will complete all its obligations and deliver all documents required under Schedules 3 of the Agreement on or before March 31, 2016. The Vendor further represents and warrants that it has and will continue to comply with Schedules 4 and 5 of the Agreement until the closing and Completion of the Transaction.
  5. The Vendor agrees that it will not, during the period commencing on the date of the Supplemental Agreement and ending twelve (12) month after such date (the "Lock-Up Period"), (1) offer, pledge, sell, contract to sell, or otherwise transfer or dispose of, directly or indirectly, any Post-Split Shares (the "Lock-Up Securities"); (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise.
  6. The Vendor understands that the Post-Split Shares are characterized as "restricted securities" under U.S. federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Vendor understands that the Post-Split Shares have not been qualified or registered under the laws of any other jurisdiction and therefore may be viewed as restricted securities under any or all of such other applicable securities laws. The Vendor understands that the certificate evidencing the Post-Split Shares may bear a restrictive legend.
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7. Any invalidity, illegality or unenforceability of any provision of this Supplemental Agreement in any jurisdiction shall not invalidate or render illegal or unenforceable the remaining provisions hereof in such jurisdiction and shall not invalidate or render illegal or unenforceable such provisions in any other jurisdiction. The Parties shall endeavor in good faith negotiations to replace any invalid, illegal or unenforceable provision with a valid, legal and enforceable provision, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provision.

8. This Supplemental Agreement shall be governed by and construed in accordance with the laws of Hong Kong, without respect to any principles of conflict of law.

9. This Supplemental Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

[the next page is the signature page]

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IN WITNESS WHEREOF, the Parties have caused this Supplemental Agreement to be executed by their respective officers thereunto duly authorized all as of the date first written above.

**RICHLY CONQUEROR LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

**SGOCO INTERNATIONAL (HK) LIMITED.**

By: \_\_\_\_\_  
Name:  
Title:

ACKNOWLEDGED AND AGREED BY:

**SGOCO Group, Ltd.**

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Supplemental Agreement to Boca Shares Purchase Agreement]

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JSJ INVESTMENTS

NEITHER THIS NOTE NOR THE SECURITIES THAT MAY BE ISSUED BY THE BORROWER UPON CONVERSION HEREOF (COLLECTIVELY, THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THE SECURITIES NOR ANY INTEREST OR PARTICIPATION THEREIN MAY BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED: (I) IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE 1933 ACT, OR APPLICABLE STATE SECURITIES LAWS; OR (II) IN THE ABSENCE OF AN OPINION OF COUNSEL, IN A FORM ACCEPTABLE TO THE ISSUER, THAT REGISTRATION IS NOT REQUIRED UNDER THE 1933 ACT OR; (III) UNLESS SOLD, TRANSFERRED OR ASSIGNED PURSUANT TO RULE 144 UNDER THE 1933 ACT.

**12% CONVERTIBLE NOTE**

**MATURITY DATE OF DECEMBER 3, 2015**

**\$150,000 JUNE 3, 2015**

**FOR VALUE RECEIVED**, SGOCO Group, Ltd., a Cayman Islands Corporation (the "**Company**") doing business in Luoshan, China, hereby promises to pay to the order of JSJ Investments Inc., an accredited investor and Texas Corporation, or its assigns (the "**Holder**"), the principal amount of One Hundred and Fifty Thousand Dollars (\$150,000), on demand of the Holder at any time on or after December 3, 2015 (the "**Maturity Date**"), and to pay interest on the unpaid principal balance hereof at the rate of Twelve Percent (12%) per annum (the "**Interest Rate**") commencing on the date hereof (the "**Issuance Date**").

**1. Payments of Principal and Interest.**

- a. **Payment of Principal.** At any time before, on, or after the Maturity Date, this note has a cash redemption premium of 150% of the principal amount, in addition to outstanding interest, which may only be exercised upon approval and acceptance by JSJ Investments Inc. Without the Holder's consent to repayment or demand of repayment, the Company may not repay the Note, in whole or in part, under any circumstance.
- b. **Demand of Repayment.** The principal and interest balance of this Note shall be paid to the Holder hereof on demand by the Holder at any time on or after the Maturity Date.
- c. **Interest.** This Note shall bear interest ("Interest") at the rate of Twelve Percent (12%) per annum from the Issuance Date until the same is paid, or otherwise converted in accordance with Section 2 below, in full and the Holder, at the Holder's sole discretion, may include any accrued but unpaid Interest in the Conversion Amount. Interest shall commence accruing on the Issuance Date, shall be computed on the basis of a 365-day year and the actual number of days elapsed and shall accrue daily and, after the Maturity Date, compound quarterly. Upon an Event of Default, as defined in Section 10 below, the Interest Rate shall increase to Eighteen Percent (18%) per annum for so long as the Event of Default is continuing ("Default Interest"), provided however, if Holder does not demand repayment on or after the Maturity Date the interest rate shall remain at Twelve Percent (12%).
- d. **General Payment Provisions.** This Note shall be made in lawful money of the United States of America by check to such account as the Holder may from time to time designate by written notice to the Company in accordance with the provisions of this Note. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a Business Day (as defined below), the same shall instead be due on the next succeeding day which is a Business Day and, in the case of any interest payment date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of interest due on such date. For purposes of this Note, "**Business Day**" shall mean any day other than a Saturday, Sunday or a day on which commercial banks in the State of Texas are authorized or required by law or executive order to remain closed.



2. **Conversion of Note.** At any time prior to, upon, or after the Maturity Date, the Conversion Amount (see Paragraph 2(a)(i)) of this Note shall be convertible into ordinary shares of the Company (the “**Ordinary Shares**”) according to the terms and conditions set forth in this Paragraph 2.
- a. **Certain Defined Terms.** For purposes of this Note, the following terms shall have the following meanings:
- i. “**Conversion Amount**” means the sum of (a) the principal amount of this Note to be converted with respect to which this determination is being made, (b) Interest; and (c) Default Interest, if any, on unpaid interest and principal, if so included at the Holder’s sole discretion.
  - ii. “**Conversion Price**” means the lower of: (i) a 43% discount to the lowest trading price per share of the Company’s Ordinary Shares during the previous twenty (20) trading days to the date of a Conversion Notice; or (ii) a 43% discount to the lowest trading price per share during the previous twenty (20) trading days before the date that this Note was executed.
  - iii. “**Person**” means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.
  - iv. “**Shares**” means the Ordinary Shares of the Company into which any balance on this Note may be converted upon submission of a “**Conversion Notice**” to the Company substantially in the form attached hereto as Exhibit 1.
- b. **Holder’s Conversion Rights.** At any time or times on or after the Issuance Date, the Holder shall be entitled to convert all of the outstanding and unpaid principal amount of this Note into fully paid and non-assessable Ordinary Shares in accordance with the stated Conversion Price. The Holder shall not be entitled to convert on a Conversion Date that amount of the Note in connection with that number of Ordinary Shares which would be in excess of the sum of (i) the number of Ordinary Shares beneficially owned by the Holder and its affiliates on a Conversion Date, (ii) any Ordinary Shares issuable in connection with the unconverted portion of the Note, and (iii) the number of Ordinary Shares issuable upon the conversion of the Note with respect to which the determination of this provision is being made on a Conversion Date, which would result in beneficial ownership by the Holder and its affiliates of more than 49.99% of the outstanding Ordinary Shares of the Company on such Conversion Date. For the purposes of the provision to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13d-3 thereunder. Subject to the foregoing, the Holder shall not be limited to aggregate conversions of 49.99% (“**Conversion Limitation**”). The Holder shall have the authority to determine whether the restriction contained in this Section 2(b) will limit any conversion hereunder. The Holder may waive the conversion limitation described in this Section 2(b), in whole or in part, upon and effective after 61 days prior written notice to the Borrower to increase or decrease such percentage.
- c. **Fractional Shares.** The Company shall not issue any fraction of an Ordinary Share upon any conversion; if such issuance would result in the issuance of a fraction of an Ordinary Share, the Company shall round such fraction of an Ordinary Share up to the nearest whole share except in the event that rounding up would violate the conversion limitation set forth in section 2(b) above.
- d. **Conversion Amount.** The Conversion Amount shall be converted pursuant to Rule 144 of the Securities Act of 1933, as amended, into free trading shares at the Conversion Price.
- e. **Mechanics of Conversion.** The conversion of this Note shall be conducted in the following manner:
- i. **Holder’s Conversion Requirements.** To convert this Note into Ordinary Shares on any date set forth in the Conversion Notice by the Holder (the “**Conversion Date**”), the Holder hereof shall transmit by email, facsimile or otherwise deliver, for receipt on or prior to 11:59 p.m., Eastern Time, on such date or on the next business day, a copy of a fully executed Conversion Notice in the form attached hereto as Exhibit 1 to the Company.
  - ii. **Company’s Response.** Upon receipt by the Company of a copy of a Conversion Notice, the Company shall as soon as practicable, but in no event later than one (1) Business Day after receipt of such Conversion Notice, send, via email, facsimile or overnight courier, a confirmation of receipt of such Conversion Notice to such Holder indicating that the Company will process such Conversion Notice in accordance with the terms herein. Within two (2) Business Days after the date the Conversion Notice is delivered, the Company shall have issued and electronically transferred the Shares to the Broker indicated in the Conversion Notice; should the Company be unable to transfer the Shares electronically, it shall, within two (2) Business Days after the date the Conversion was delivered, have surrendered to an overnight courier for delivery the next day to the address as specified in the Conversion Notice, a certificate, registered in the name of the Holder, for the number of Ordinary Shares to which the Holder shall be entitled.



- iii. **Record Holder.** The person or persons entitled to receive the Ordinary Shares issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such Ordinary Shares on the Conversion Date.
- iv. **Timely Response by Company.** Upon receipt by Company of a Conversion Notice, Company shall respond within one business day to Holder confirming the details of the Conversion, and provide within two business days the Shares requested in the Conversion Notice.
- v. **Penalty for Delinquent Response.** If the Company fails to deliver for whatever reason (including any neglect or failure by, *e.g.*, the Company, its counsel or the transfer agent) to Holder the Shares as requested in a Conversion Notice and within three (3) business days of the Conversion Date, the Company shall be deemed in “**Default of Conversion.**” Beginning on the fourth (4<sup>th</sup>) business day after the date of the Conversion Notice, after the Company is deemed in Default of Conversion, there shall accrue a penalty (the “**Conversion Penalty**”) of Additional Shares due to Holder equal to Five percent (5%) of the number stated in the Conversion Notice (the “**Additional Shares**”), which may be applied to the Conversion at the Holder’s election, and for each business day while a Default of Conversion exists and is continuing a Conversion Penalty shall continue to accrue and Holder shall continue to be issued Additional Shares for each such business day. The Additional Shares shall be issued and the amount of the Note retired will not be reduced beyond that stated in the Conversion Notice. If the Additional Shares owed the Holder cause the Shares requested by the Conversion Notice to exceed Conversion Limitation, the Holder may opt instead to have the Conversion Amount reduced by the value, as calculated using the Conversion Price, of the Additional Shares owing. At any time after a Default of Conversion the Holder may, at their sole discretion, rescind the Conversion.
- vi. **Penalty for Inability to Issue Shares.** If the Company fails to deliver Shares requested by a Conversion Notice due to an exhaustion of authorized and issuable Ordinary Shares such that the Company must increase the number of authorized Ordinary Shares before the Shares requested may be issued to the Holder, the discount set forth in the Conversion Price will be increased by 5% for the Conversion Notice in question and all future Conversion Notices until the outstanding principal and interest of the Note is converted or paid in full. This penalty shall not render the penalties prescribed by Paragraph 2(e)(v) void, and may be applied in conjunction with Paragraph 2(e)(v) at the Holder’s election.
- vii. **Rescindment of Conversion Notice.** If (i) the Company fails to respond to Holder within one business day from the date of Conversion confirming the details of Conversion, (ii) the Company fails to provide the Shares requested in the Conversion Notice within three business days from the date of Conversion, (iii) the Holder is unable to procure a legal opinion required to have the Shares issued unrestricted and/or deposited to sell for any reason related to the Company’s standing, (iv) the Holder is unable to deposit the Shares requested in the Conversion Notice for any reason related to the Company’s standing, (v) a Default of Conversion exists; (vi) the Holder is informed that the Company does not have the authorized and issuable Shares available to satisfy the Conversion, (vii) the Company is delinquent in timely filing any reports required to be filed with the Securities and Exchange Commission; (viii) the Company’s Ordinary Shares are delisted from the Nasdaq Stock Market, or (ix) in the event that the Company’s securities are quoted for trading on the OTC Markets, then if OTC Markets changes the Company’s designation to 'Limited Information' (Yield), 'No Information' (Stop Sign), 'Caveat Emptor' (Skull and Crossbones), or 'OTC', 'Other OTC' or 'Grey Market' (Exclamation Mark Sign) on the day of or any day after the date of Conversion, the Holder maintains the option and sole discretion to rescind the Conversion Notice (“**Rescindment**”) with a “**Notice of Rescindment.**”
- viii. **Transfer Agent Fees and Legal Fees.** The issuance of the certificates shall be without charge or expense to the Holder. The Company shall pay any and all Transfer Agent fees, legal fees, and advisory fees required for execution of this Convertible Note and processing of any Notice of Conversion, including but not limited to the cost of obtaining a legal opinion with regard to the Conversion. The Holder will deduct \$3,000 from the principal payment of the Convertible Note solely to cover the cost of obtaining any and all legal opinions required to obtain the Shares requested in any given Conversion Notice. These fees do not make provision for or suffice to defray any legal fees incurred in collection or enforcement of the Note as described in Paragraph 13. The Holder will deduct 3<sup>rd</sup> party due diligence fees due Wellington Shields in the amount of \$12,000 from the principal payment of the Convertible Note.



3. **Other Rights of Holders: Reorganization, Reclassification, Consolidation, Merger or Sale.** Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets to another Person or other transaction which is effected in such a way that holders of Ordinary Shares are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Ordinary Shares is referred to herein as "**Organic Change.**" Prior to the consummation of any (i) Organic Change or (ii) other Organic Change following which the Company is not a surviving entity, the Company will secure from the Person purchasing such assets or the successor resulting from such Organic Change (in each case, the "**Acquiring Entity**") a written agreement (in form and substance reasonably satisfactory to the Holder) to deliver to Holder in exchange for this Note, a security of the Acquiring Entity evidenced by a written instrument substantially similar in form and substance to this Note, and reasonably satisfactory to the Holder. Prior to the consummation of any other Organic Change, the Company shall make appropriate provision (in form and substance reasonably satisfactory to the Holders of a majority of the Conversion Amount of the Notes then outstanding) to ensure that each of the Holders will thereafter have the right to acquire and receive in lieu of or in addition to (as the case may be) the Ordinary Shares immediately theretofore acquirable and receivable upon the conversion of such Holder's Note, such shares of stock, securities or assets that would have been issued or payable in such Organic Change with respect to or in exchange for the number of Ordinary Shares which would have been acquirable and receivable upon the conversion of such Holder's Note as of the date of such Organic Change (without taking into account any limitations or restrictions on the convertibility of the Note set forth in Section 2(b) or otherwise). All provisions of this Note must be included to the satisfaction of Holder in any new Note created pursuant to this section.
4. **Representations and Warranties of the Company.** In connection with the transactions provided for herein, the Company hereby represents and warrants to the Holders the following.
- a. **Organization, Good Standing and Qualification.** The Company is a corporation duly organized, validly existing and in good standing under the laws of the Cayman Islands and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business or properties.
  - b. **Authorization.** All corporate action has been taken on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement. The Company has taken all corporate action required to make all of the obligations of the Company reflected in the provisions of this Agreement, valid and enforceable obligations. The shares of capital stock issuable upon conversion of the Notes have been authorized or will be authorized prior to the issuance of such shares.
  - c. **Fiduciary Obligations.** The Company hereby represents that it intends to use the proceeds of the Notes primarily for the operations of its business and not for any personal, family, or household purpose. The Company hereby represents that its board of directors, in the exercise of its fiduciary duty, has approved the execution of this Agreement based upon a reasonable belief that the loan provided for herein is appropriate for the Company after reasonable inquiry concerning its financial objectives and financial situation.
5. **Covenants of the Company.** So long as the Company shall have any obligations under this Note, the Company shall not without the Holder's prior written consent pay, declare or set apart for such payment any dividend or other distribution (whether in cash, property, or other securities) on share of capital stock solely in the form of additional Ordinary Shares.
- a. So long as the Company shall have any obligations under this Note, the Company shall not without the Holder's prior written consent redeem, repurchase, or otherwise acquire (whether for cash or in exchange for property or other securities) in any one transaction or series of transactions any shares of capital stock of the Company or any warrants, rights, or options to acquire any such shares.
  - b. So long as the Company shall have any obligations under this Note, the Company shall not without the Holder's prior written consent incur any liability for borrowed money, except (a) borrowings in existence as of this date and of which the Company has informed the Holder in writing before the date hereof or (b) indebtedness to trade creditors or financial institutions incurred in the ordinary course of business.





- c. So long as the Company shall have any obligations under this Note, the Company shall not without the Holder's prior written consent sell, lease, or otherwise dispose of a significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets may be conditioned upon a specified use of the proceeds thereof.
6. **Issuance of Ordinary Shares Equivalents.** If the Company, at any time after the Issuance Date, shall issue any securities convertible into or exchangeable for, directly or indirectly, Ordinary Shares ("**Convertible Securities**"), other than the Note, or any rights or warrants or options to purchase any such Ordinary Shares or Convertible Securities, shall be issued or sold (collectively, the "**Ordinary Share Equivalents**") and the aggregate of the price per share for which Additional Shares may be issuable thereafter pursuant to such Ordinary Share Equivalent, plus the consideration received by the Company for issuance of such Ordinary Share Equivalent divided by the number of shares of Ordinary Shares issuable pursuant to such Ordinary Share Equivalent (the "**Aggregate Per Ordinary Share Price**") shall be less than the applicable Conversion Price then in effect, or if, after any such issuance of Ordinary Share Equivalents, the price per share for which Additional Shares may be issuable thereafter is amended or adjusted, and such price as so amended shall make the Aggregate Per Share Price be less than the applicable Conversion Price in effect at the time of such amendment or adjustment, then the applicable Conversion Price upon each such issuance or amendment shall be reduced to the lower of: (i) the Conversion Price; or (ii) a twenty-five percent (25%) discount to the lowest Aggregate Per Share Price (whether or not such Ordinary Share Equivalents are actually then exercisable, convertible or exchangeable in whole or in part) as of the earlier of (A) the date on which the Company shall enter into a firm contract for the issuance of such Ordinary Share Equivalent, or (B) the date of actual issuance of such Ordinary Share Equivalent. No adjustment of the applicable Conversion Price shall be made under this Section 6 upon the issuance of any Convertible Security which is outstanding on the day immediately preceding the Issuance Date. No adjustment shall be made to the Conversion Price upon the issuance of Ordinary Shares pursuant to the exercise, conversion or exchange of any Convertible Security or Ordinary Share Equivalent where an adjustment to the Conversion Price was made as a result of the issuance or purchase of any Convertible Security or Ordinary Share Equivalent.
7. **Reservation of Shares.** The Company shall at all times, so long as any principal amount of the Note is outstanding, reserve and keep available out of its authorized and unissued Ordinary Shares, solely for the purpose of effecting the conversion of the Note, such number of Ordinary Shares as shall at all times be sufficient to effect the conversion of all of the principal amount of the Note then outstanding. The initial number of Ordinary Shares reserved for conversions of the Notes shall be calculated as four times the number of shares necessary to convert the entire value of the Note on the day it was executed, unless the Holder stipulates otherwise in the "Irrevocable Letter of Instructions to the Transfer Agent."
- a. **Capitalization.** So long as this Note is outstanding, upon written request of the Holder or via telephonic communication, the Company's Transfer Agent shall furnish to the Holder the then-current number of Ordinary Shares issued and outstanding, the then-current number of Ordinary Shares authorized, the then-current number of unrestricted shares, and the then-current number of shares reserved for third parties.
8. **Voting Rights.** Holders of this Note shall have no voting rights, except as required by law.
9. **Reissuance of Note.** In the event of a conversion or redemption pursuant to this Note of less than all of the Conversion Amount represented by this Note, the Company shall promptly cause to be issued and delivered to the Holder, upon tender by the Holder of the Note converted or redeemed, a new note of like tenor representing the remaining principal amount of this Note which has not been so converted or redeemed and which is in substantially the same form as this Note, as set forth above.

## 10. Default and Remedies.

### a. Event of Default. An “Event of Default” is:

- i. default for ten (10) days in payment of interest or Default Interest on this Note;
- ii. default in payment of the principal amount of this Note when due;
- iii. failure by the Company for thirty (30) days after notice to it to comply with any other material provision of this Note;
- iv. breach of any covenants, warranties, or representations by the Company herein;
- v. cessation of operations by the Company or a material subsidiary;
- vi. if the Company pursuant to or within the meaning of any Bankruptcy Law; (a) commences a voluntary case; (b) consents to the entry of an order for relief against it in an involuntary case; (c) consents to the appointment of a Custodian of it or for all or substantially all of its property; (d) makes a general assignment for the benefit of its creditors; or (e) admits in writing that it is generally unable to pay its debts as the same become due;
- vii. a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (a) is for relief against the Company in an involuntary case; (b) appoints a Custodian of the Company or for all or substantially all of its property; or (c) orders the liquidation of the Company or any subsidiary, and the order or decree remains unstayed and in effect for thirty (30) days;
- viii. the Company files a Form 15;
- ix. the Company’s failure to timely file all reports required to be filed by it with the Securities and Exchange Commission;
- x. the Company’s Ordinary Shares are delisted from the Nasdaq Stock Market;
- xi. in the event that the Company’s Ordinary Shares are delisted from the Nasdaq Market and subsequently quoted on the OTC Markets and the OTC Markets changes the Company’s designation to ‘No Information’ (Stop Sign), ‘Caveat Emptor’ (Skull and Crossbones), or ‘OTC’, ‘Other OTC’ or ‘Grey Market’ (Exclamation Mark Sign).

The Term “**Bankruptcy Law**” means Title 11, U.S. Code, or any similar Federal or State Law for the relief of debtors. The term “**Custodian**” means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

- ### b. Remedies.
- If an Event of Default occurs, the Holder may in its sole discretion determine to request immediate repayment of all or any portion of the Note that remains outstanding; at such time the Company will be required to redeem all or any portion of the Note so demanded (including all accrued and unpaid interest), in cash, at a price equal to 150% of the outstanding balance, plus accrued Interest and Default Interest and any other amounts then due under this Note.

11. **Vote to Change the Terms of this Note.** This Note and any provision hereof may only be amended by an instrument in writing signed by the Company and holders of a majority of the aggregate Conversion Amount of the Notes then outstanding.

12. **Lost or Stolen Note.** Upon receipt by the Company of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of an indemnification undertaking by the Holder to the Company in a form reasonably acceptable to the Company and, in the case of mutilation, upon surrender and cancellation of the Notes, the Company shall execute and deliver a new Note of like tenor and date and in substantially the same form as this Note; provided, however, the Company shall not be obligated to re-issue a Note if the Holder contemporaneously requests the Company to convert such remaining principal amount into Ordinary Shares.



13. **Payment of Collection, Enforcement and Other Costs.** If: (i) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding; or (ii) an attorney is retained to represent the Holder of this Note in any bankruptcy, reorganization, receivership or other proceedings affecting creditors' rights and involving a claim under this Note, then the Company shall pay to the Holder all reasonable attorneys' fees, costs and expenses incurred in connection therewith, in addition to all other amounts due hereunder.
14. **Cancellation.** After all principal, accrued Interest and Default Interest, if any, at any time owed on this Note has been paid in full, this Note shall automatically be deemed canceled, shall be surrendered to the Company for cancellation and shall not be reissued.
15. **Waiver of Notice.** To the extent permitted by law, the Company hereby waives demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note.
16. **Governing Law.** This Note shall be construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Note shall be governed by, the laws of the State of Texas, without giving effect to provisions thereof regarding conflict of laws. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in Texas for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by sending, through certified mail or overnight courier, a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. **EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HERewith OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.**
17. **Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief.** The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note, at law or in equity (including a decree of specific performance and/or other injunctive relief), and no remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit the Holder's right to pursue actual damages for any failure by the Company to comply with the terms of this Note. The Company covenants to the Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the Holder thereof and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof).
18. **Specific Shall Not Limit General; Construction.** No specific provision contained in this Note shall limit or modify any more general provision contained herein. This Note shall be deemed to be jointly drafted by the Company and the Holder and shall not be construed against any person as the drafter hereof.



19. **Failure or Indulgence Not Waiver.** No failure or delay on the part of this Note in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude further exercise thereof or of any other right, power or privilege.
20. **Partial Payment.** In the event of partial payment by the Holder, the principal sum due to the Holder shall be prorated based on the consideration actually paid by the Holder such that the Company is only required to repay the amount funded and the Company is not required to repay any unfunded portion of this Note, with the exception of any OID contemplated herein.
21. **Entire Agreement.** This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subjects herein. None of the terms of this Agreement can be waived or modified, except by an express agreement signed by each Party hereto.
22. **Representations and Warranties.** The Company expressly acknowledges that the Holder, including but not limited to its officer, directors, employees, agents, and affiliates, have not made any representation or warranty to it outside the terms of this Agreement. The Company further acknowledges that there have been no representations or warranties about future financing or subsequent transactions between the parties.
23. **Notices.** All notices and other communications given or made to the Company pursuant hereto shall be in writing (including facsimile or similar electronic transmissions) and shall be deemed effectively given: (i) upon personal delivery, (ii) when sent by electronic mail or facsimile, as deemed received by the close of business on the date sent, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery. All communications shall be sent either by email, or fax, or to the address specified on the signature page. The physical address, email address, and phone number provided on the signature page shall be considered valid pursuant to the above stipulations; should the Company's contact information change from that listed on the signature page, it is incumbent on the Company to inform the Holder.
24. **Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the rest of the Agreement shall be enforceable in accordance with its terms.
25. **Usury.** If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. The Company covenants (to the extent that it may lawfully do so) that it will not seek to claim or take advantage of any law that would prohibit or forgive the Company from paying all or a portion of the principal or interest on this Note.
26. **Successors and Assigns.** This Agreement shall be binding upon successors and assigns.

— SIGNATURE PAGE TO FOLLOW —



IN WITNESS WHEREOF, the Company has caused this Note to be signed by its CEO, on and as of the Issuance Date.

**COMPANY**

Signature:

By: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Email: \_\_\_\_\_

Phone: \_\_\_\_\_

Facsimile: \_\_\_\_\_

**JSJ Investments Inc.**

Signature:

A handwritten signature in black ink, appearing to read "Sameer Hirji".

Sameer Hirji, President  
JSJ Investments Inc.  
6060 North Central Expressway, Suite 500  
Dallas TX 75206  
888-503-2599



Exhibit 1

Conversion Notice

Reference is made to the 12% Convertible Note issued by SGOCO Group, Ltd.(the "Note"), dated June 3, 2015 in the principal amount of \$150,000 with 12% interest. This note currently holds a principal balance of \$150,000. The features of conversion stipulate a Conversion Price equal to the lower of (i) a 43% discount to the lowest trading price per share during the previous twenty (20) trading days to the date of a Conversion Notice; or (ii) a 43% discount to the lowest trading price per share during the previous twenty (20) trading days before the date that this note was executed, pursuant to the provisions of Section 2(a)(ii) in the Note.

In accordance with and pursuant to the Note, the undersigned hereby elects to convert \$\_\_\_\_\_ of the *principal/interest* balance of the Note, indicated below into Ordinary Shares (the "Ordinary Shares"), of the Company, by tendering the Note specified as of the date specified below.

**Date of Conversion:** \_\_\_\_\_

**Please confirm the following information:**

**Conversion Amount:** \$ \_\_\_\_\_

**Conversion Price:** \$ \_\_\_\_\_ ( \_\_\_\_ % discount from \$ \_\_\_\_\_)

**Number of Ordinary Shares to be issued:** \_\_\_\_\_

**Current Issued/Outstanding:** \_\_\_\_\_

**If the Issuer is DWAC eligible, please issue the Ordinary Shares into which the Note is being converted in the name of the Holder of the Note and transfer the shares electronically to:**

**[BROKER INFORMATION]**

**Holder Authorization:**

JSJ Investments Inc.  
6060 North Central Expressway, Suite 500 \*Do not send certificates to this address  
Dallas, TX 75206  
888-503-2599

Tax ID: 20-2122354

Sameer Hirji, President

**[DATE]**

[CONTINUED ON NEXT PAGE]



JSJ INVESTMENTS

**PLEASE BE ADVISED**, pursuant to Section 2(e)(2) of the Note, “Upon receipt by the Company of a copy of the Conversion Notice, the Company shall as soon as practicable, but in no event later than one (1) Business Day after receipt of such Conversion Notice, **SEND, VIA EMAIL, FACSIMILE OR OVERNIGHT COURIER, A CONFIRMATION OF RECEIPT OF SUCH CONVERSION NOTICE TO SUCH HOLDER INDICATING THAT THE COMPANY WILL PROCESS SUCH CONVERSION NOTICE** in accordance with the terms herein. Within two (2) Business Days after the date of the Conversion Confirmation, the Company shall have issued and electronically transferred the shares to the Broker indicated in the Conversion Notice; should the Company be unable to transfer the shares electronically, they shall, within two (2) Business Days after the date of the Conversion Confirmation, have surrendered to FedEx for delivery the next day to the address as specified in the Conversion Notice, a certificate, registered in the name of the Holder, for the number of shares of Common Stock to which the Holder shall be entitled.”

Signature:

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**Shi-bin Xie**  
CEO  
SGOCO Group, Ltd.

## SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of June 10, 2015, by and between **SGOCO Group, Ltd.**, a Cayman Islands corporation, with headquarters located at Guanke Technology Park, Luoshan, Jinjiang City, Fujian Province, 368800 China (the “Company”), and **LG CAPITAL FUNDING, LLC**, a New York limited liability company, with its address at 1218 Union Street, Suite #2, Brooklyn, NY 11225 (the “Buyer”).

**WHEREAS:**

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”);

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement two 8% convertible notes of the Company, in the forms attached hereto as Exhibit A and B in the aggregate principal amount of \$231,000 (with the first note being in the amount of \$115,500 and the second note being in the amount of \$115,500) (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note. The first of the two notes (the “First Note”) shall be paid for by the Buyer as set forth herein. The second note (the “Second Note”) shall initially be paid for by the issuance of an offsetting \$115,500.00 secured note issued to the Company by the Buyer (“Buyer Note”), provided that prior to conversion of the Second Note, the Buyer must have paid off the Buyer Note in cash such that the Second Note may not be converted until it has been paid for in cash.

C. The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

**NOW THEREFORE**, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On each Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

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Company Initials

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b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. The date and time of the issuance and sale of the Note pursuant to this Agreement (the "Closing Date") shall be on or about June 10, 2015, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties. Subsequent Closings shall occur when the Buyer Note is repaid.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note, such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company's representations and warranties made herein.

e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or re-sale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration, which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an “affiliate” (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) (“Rule 144”) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) (“Regulation S”), and the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in corporate transactions, which opinion shall be accepted by the Company; (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

**“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”**

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, within 2 business days, it will be considered an Event of Default under the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer’s name on the signature pages hereto.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its subsidiaries, if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

d. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a material adverse effect). All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the OTCQB marketplace (the "OTCQB") and does not reasonably anticipate that the Common Stock will be delisted by the OTCQB in the foreseeable future, nor are the Company's securities "chilled" by DTC. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

f. Absence of Litigation. Except as disclosed in the Company's public filings, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company or any of its subsidiaries, or their officers or directors in their capacity as such, that could have a material adverse effect. Schedule 3(f) contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its subsidiaries, without regard to whether it would have a material adverse effect. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

g. Acknowledgment Regarding Buyer' Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer' purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

h. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

i. Title to Property. The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(i) or such as would not have a material adverse effect. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a material adverse effect.

j. Bad Actor. No officer or director of the Company would be disqualified under Rule 506(d) of the Securities Act as amended on the basis of being a "bad actor" as that term is established in the September 19, 2013 Small Entity Compliance Guide published by the Securities and Exchange Commission.

k. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under the Note.

#### 4. COVENANTS.

a. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith ("Documents"), including, without limitation, reasonable attorneys' and consultants' fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer. The Company's total obligation with respect to this transaction is to reimburse Buyer's expenses which shall be \$5,500 in legal fees (and similar amounts for the Second Note) which shall be deducted from each Note when funded.

b. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCQB or any equivalent replacement market, the Nasdaq stock market ("Nasdaq"), the New York Stock Exchange ("NYSE"), or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority ("FINRA") and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTCQB and any other markets on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such markets.

c. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTCQB, Nasdaq, NYSE or AMEX.

d. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

e. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under the Note.

5. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts; Signatures by Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, (iv) via electronic mail or (v) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or delivery via electronic mail, or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company, to:  
SGOCO Group, Ltd.  
Guanke Technology Park, Luoshan,  
Jinjiang City, Fujian Province,  
368800 China  
Attn: Shi-bin Xie, CEO



If to the Buyer:  
LG CAPITAL FUNDING, LLC  
1218 Union Street, Suite #2  
Brooklyn, NY 11225  
Attn: Joseph Lerman, Manager

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its “affiliates,” as that term is defined under the 1934 Act, without the consent of the Company.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

k. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

1. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

**SGOCO Group, Ltd.**

By: \_\_\_\_\_  
Shi-bin Xie  
Chief Executive Officer

**LG CAPITAL FUNDING, LLC.**

By: \_\_\_\_\_  
Name: Joseph Lerman  
Title: Manager

**AGGREGATE SUBSCRIPTION AMOUNT:**

Aggregate Principal Amount of Note: \$ 231,000.00

Aggregate Purchase Price:

Note 1: \$115,500 less \$5,500.00 in legal fees and \$9,240.00 in third party fees to Wellington Shields & Co., LLC

Note 2: \$115,500 less \$5,500.00 in legal fees and \$9,240.00 in third party fees to Wellington Shields & Co., LLC

**EXHIBIT A**  
**144 NOTE - \$115,500**

**EXHIBIT B  
BACK END NOTE  
\$115,500**

**SECURITIES PURCHASE AGREEMENT**

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of June 11, 2015, by and between **SGOCO Group, Ltd.**, a Cayman Islands corporation, with headquarters located at Guanke Technology Park, Luoshan, Jinjiang City, Fujian Province, 368800 China (the “Company”), and **SERVICE TRADING COMPANY, LLC**, a Nevada limited liability company, with its address at 50 W. Liberty Street, Suite #880, Reno Nevada 89501, (the “Buyer”).

**WHEREAS:**

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”);

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement two 8% convertible notes of the Company, in the forms attached hereto as Exhibit A and B in the aggregate principal amount of \$105,000 (with the first note being in the amount of \$52,500 and the second note being in the amount of \$52,500) (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note. The first of the two notes (the “First Note”) shall be paid for by the Buyer as set forth herein. The second note (the “Second Note”) shall initially be paid for by the issuance of an offsetting \$52,500.00 secured note issued to the Company by the Buyer (“Buyer Note”), provided that prior to conversion of the Second Note, the Buyer must have paid off the Buyer Note in cash such that the Second Note may not be converted until it has been paid for in cash.

C. The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

**NOW THEREFORE**, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On each Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

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Company Initials

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b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. The date and time of the issuance and sale of the Note pursuant to this Agreement (the "Closing Date") shall be on or about June 11, 2015, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties. Subsequent Closings shall occur when the Buyer Note is repaid.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note, such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company's representations and warranties made herein.

e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or re-sale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration, which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an “affiliate” (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) (“Rule 144”) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) (“Regulation S”), and the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in corporate transactions, which opinion shall be accepted by the Company; (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):



**“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”**

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, within 2 business days, it will be considered an Event of Default under the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer’s name on the signature pages hereto.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its subsidiaries, if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

d. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a material adverse effect). All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the OTCQB marketplace (the "OTCQB") and does not reasonably anticipate that the Common Stock will be delisted by the OTCQB in the foreseeable future, nor are the Company's securities "chilled" by DTC. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

f. Absence of Litigation. Except as disclosed in the Company's public filings, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company or any of its subsidiaries, or their officers or directors in their capacity as such, that could have a material adverse effect. Schedule 3(f) contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its subsidiaries, without regard to whether it would have a material adverse effect. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

g. Acknowledgment Regarding Buyer' Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer' purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

h. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

i. Title to Property. The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(i) or such as would not have a material adverse effect. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a material adverse effect.

j. Bad Actor. No officer or director of the Company would be disqualified under Rule 506(d) of the Securities Act as amended on the basis of being a "bad actor" as that term is established in the September 19, 2013 Small Entity Compliance Guide published by the Securities and Exchange Commission.

k. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under the Note.

#### 4. COVENANTS.

a. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith ("Documents"), including, without limitation, reasonable attorneys' and consultants' fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer. The Company's total obligation with respect to this transaction is to reimburse Buyer's expenses which shall be \$2,500 in legal fees (and similar amounts for the Second Note) which shall be deducted from each Note when funded.

b. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCQB or any equivalent replacement market, the Nasdaq stock market ("Nasdaq"), the New York Stock Exchange ("NYSE"), or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority ("FINRA") and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTCQB and any other markets on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such markets.

c. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTCQB, Nasdaq, NYSE or AMEX.

d. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

e. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under the Note.

5. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts; Signatures by Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, (iv) via electronic mail or (v) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or delivery via electronic mail, or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company, to:  
SGOCO Group, Ltd.  
Guanke Technology Park, Luoshan,  
Jinjiang City, Fujian Province,  
368800 China  
Attn: Shi-bin Xie, CEO

If to the Buyer:  
SERVICE TRADING COMPANY, LLC  
50 W. Liberty Street, Suite #880,  
Reno Nevada 89501  
Attn: Albert Dayan, Manager

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its “affiliates,” as that term is defined under the 1934 Act, without the consent of the Company.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

k. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

1. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.



IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

**SGOCO Group, Ltd.**

By: \_\_\_\_\_  
Shi-bin Xie  
Chief Executive Officer

**SERVICE TRADING COMPANY, LLC.**

By: \_\_\_\_\_  
Name: Albert Dayan  
Title: Manager

**AGGREGATE SUBSCRIPTION AMOUNT:**

Aggregate Principal Amount of Notes: \$ 105,000.00

Aggregate Purchase Price:

Note 1: \$52,500 less \$2,500.00 in legal fees and \$4,200.00 in third party fees to Wellington Shields & Co., LLC

Note 2: \$52,500 less \$2,500.00 in legal fees and \$4,200.00 in third party fees to Wellington Shields & Co., LLC

**EXHIBIT A**  
**144 NOTE - \$52,500**

**EXHIBIT B  
BACK END NOTE  
\$52,500**

## SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of June 11, 2015, by and between **SGOCO Group, Ltd.**, a Cayman Islands corporation, with headquarters located at Guanke Technology Park, Luoshan, Jinjiang City, Fujian Province, 368800 China (the “Company”), and **ADAR BAYS, LLC**, a Florida limited liability company, with its address at 3411 Indian Creek Drive, Suite 403, Miami Beach, FL 33140 (the “Buyer”).

**WHEREAS:**

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”);

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement two 8% convertible notes of the Company, in the forms attached hereto as Exhibit A and B in the aggregate principal amount of \$157,500 (with the first note being in the amount of \$78,750 and the second note being in the amount of \$78,750) (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note. The first of the two notes (the “First Note”) shall be paid for by the Buyer as set forth herein. The second note (the “Second Note”) shall initially be paid for by the issuance of an offsetting \$78,750.00 secured note issued to the Company by the Buyer (“Buyer Note”), provided that prior to conversion of the Second Note, the Buyer must have paid off the Buyer Note in cash such that the Second Note may not be converted until it has been paid for in cash.

C. The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

**NOW THEREFORE**, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On each Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

\_\_\_\_\_  
Company Initials

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b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. The date and time of the issuance and sale of the Note pursuant to this Agreement (the "Closing Date") shall be on or about June 11, 2015, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties. Subsequent Closings shall occur when the Buyer Note is repaid.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note, such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company's representations and warranties made herein.

e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or re-sale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration, which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an “affiliate” (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) (“Rule 144”) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) (“Regulation S”), and the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in corporate transactions, which opinion shall be accepted by the Company; (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

**“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”**

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, within 2 business days, it will be considered an Event of Default under the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer’s name on the signature pages hereto.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its subsidiaries, if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

d. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.



e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a material adverse effect). All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the OTCQB marketplace (the "OTCQB") and does not reasonably anticipate that the Common Stock will be delisted by the OTCQB in the foreseeable future, nor are the Company's securities "chilled" by DTC. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

f. Absence of Litigation. Except as disclosed in the Company's public filings, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company or any of its subsidiaries, or their officers or directors in their capacity as such, that could have a material adverse effect. Schedule 3(f) contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its subsidiaries, without regard to whether it would have a material adverse effect. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

g. Acknowledgment Regarding Buyer' Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer' purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

h. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

i. Title to Property. The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(i) or such as would not have a material adverse effect. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a material adverse effect.

j. Bad Actor. No officer or director of the Company would be disqualified under Rule 506(d) of the Securities Act as amended on the basis of being a "bad actor" as that term is established in the September 19, 2013 Small Entity Compliance Guide published by the Securities and Exchange Commission.

k. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under the Note.

#### 4. COVENANTS.

a. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith ("Documents"), including, without limitation, reasonable attorneys' and consultants' fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer. The Company's total obligation with respect to this transaction is to reimburse Buyer's expenses which shall be \$3,750 in legal fees (and similar amounts for the Second Note) which shall be deducted from each Note when funded.

b. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCQB or any equivalent replacement market, the Nasdaq stock market ("Nasdaq"), the New York Stock Exchange ("NYSE"), or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority ("FINRA") and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTCQB and any other markets on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such markets.

c. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTCQB, Nasdaq, NYSE or AMEX.

d. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

e. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under the Note.

5. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts; Signatures by Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, (iv) via electronic mail or (v) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or delivery via electronic mail, or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company, to:  
SGOCO Group, Ltd.  
Guanke Technology Park, Luoshan,  
Jinjiang City, Fujian Province,  
368800 China  
Attn: Shi-bin Xie, CEO

If to the Buyer:

ADAR BAYS, LLC  
3411 Indian Creek Drive, Suite 403,  
Miami Beach, FL 33140  
Attn: Sarah Eisenberg, Manager

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its "affiliates," as that term is defined under the 1934 Act, without the consent of the Company.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

k. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

1. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

**SGOCO Group, Ltd.**

By: \_\_\_\_\_  
Shi-bin Xie  
Chief Executive Officer

**ADAR BAYS, LLC.**

By: \_\_\_\_\_  
Name: Sarah Eisenberg  
Title: Manager

**AGGREGATE SUBSCRIPTION AMOUNT:**

Aggregate Principal Amount of Note: \$ 157,500.00

Aggregate Purchase Price:

Note 1: \$78,750 less \$3,750.00 in legal fees and \$6,300.00 in third party fees to Wellington Shields & Co., LLC

Note 2: \$78,750 less \$3,750.00 in legal fees and \$6,300.00 in third party fees to Wellington Shields & Co., LLC

**EXHIBIT A**  
**144 NOTE - \$78,750**



**EXHIBIT B**  
**BACK END NOTE**  
**\$78,750**

## SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of June 10, 2015, by and between **SGOCO GROUP, LTD.**, a Cayman Islands corporation, with headquarters located at Suite 1503, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong (the “Company”), and **VIS VIRES GROUP, INC.**, a New York corporation, with its address at 111 Great Neck Road – Suite 216, Great Neck, NY 11021 (the “Buyer”).

**WHEREAS:**

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”);

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement an 8% convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of \$159,000.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note.

C. The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

**NOW THEREFORE**, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On the Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

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b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. Subject to the satisfaction (or written waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Note pursuant to this Agreement (the "Closing Date") shall be 12:00 noon, Eastern Standard Time on or about June 15, 2015, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note (including, without limitation, such additional shares of Common Stock, if any, as are issuable (i) on account of interest on the Note, (ii) as a result of the events described in Sections 1.3 and 1.4(g) of the Note or (iii) in payment of the Standard Liquidated Damages Amount (as defined in Section 2(f) below) pursuant to this Agreement, such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company's representations and warranties made herein.

e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or resale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration, which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an "affiliate" (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) ("Rule 144")) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) ("Regulation S"), and the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in corporate transactions, which opinion shall be accepted by the Company; (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

**“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”**

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer's name on the signature pages hereto.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its Subsidiaries (as defined below), if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted. Schedule 3(a) sets forth a list of all of the Subsidiaries of the Company and the jurisdiction in which each is incorporated. The Company and each of its Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect. "Material Adverse Effect" means any material adverse effect on the business, operations, assets, financial condition or prospects of the Company or its Subsidiaries, if any, taken as a whole, or on the transactions contemplated hereby or by the agreements or instruments to be entered into in connection herewith. "Subsidiaries" means any corporation or other organization, whether incorporated or unincorporated, in which the Company owns, directly or indirectly, any equity or other ownership interest.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Capitalization. As of the date hereof, the authorized capital stock of the Company consists of: (i) 50,000,000 authorized shares of Common Stock, \$0.001 par value per share, of which 17,414,861 shares are issued and outstanding; and (ii) 1,000,000 authorized shares of Preferred Stock, \$0.001 par value per share, of which *no* shares are issued and outstanding; no shares are reserved for issuance pursuant to the Company's stock option plans, no shares are reserved for issuance pursuant to securities (other than the Note) exercisable for, or convertible into or exchangeable for shares of Common Stock and 3,500,000 shares are reserved for issuance upon conversion of the Note. All of such outstanding shares of capital stock are, or upon issuance will be, duly authorized, validly issued, fully paid and non-assessable. No shares of capital stock of the Company are subject to preemptive rights or any other similar rights of the shareholders of the Company or any liens or encumbrances imposed through the actions or failure to act of the Company. As of the effective date of this Agreement, (i) there are no outstanding options, warrants, scrip, rights to subscribe for, puts, calls, rights of first refusal, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to, or securities or rights convertible into or exchangeable for any shares of capital stock of the Company or any of its Subsidiaries, or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its Subsidiaries, (ii) there are no agreements or arrangements under which the Company or any of its Subsidiaries is obligated to register the sale of any of its or their securities under the 1933 Act and (iii) there are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the issuance of the Note or the Conversion Shares. The Company has furnished to the Buyer true and correct copies of the Company's Certificate of Incorporation as in effect on the date hereof ("Certificate of Incorporation"), the Company's Bylaws, as in effect on the date hereof (the "By-laws"), and the terms of all securities convertible into or exercisable for Common Stock of the Company and the material rights of the holders thereof in respect thereto. The Company shall provide the Buyer with a written update of this representation signed by the Company's Chief Executive on behalf of the Company as of the Closing Date.

d. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

e. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.

f. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). Neither the Company nor any of its Subsidiaries is in violation of its Certificate of Incorporation, By-laws or other organizational documents and neither the Company nor any of its Subsidiaries is in default (and no event has occurred which with notice or lapse of time or both could put the Company or any of its Subsidiaries in default) under, and neither the Company nor any of its Subsidiaries has taken any action or failed to take any action that would give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its Subsidiaries is a party or by which any property or assets of the Company or any of its Subsidiaries is bound or affected, except for possible defaults as would not, individually or in the aggregate, have a Material Adverse Effect. The businesses of the Company and its Subsidiaries, if any, are not being conducted, and shall not be conducted so long as the Buyer owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity. Except as specifically contemplated by this Agreement and as required under the 1933 Act and any applicable state securities laws, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency, self regulatory organization or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement, the Note in accordance with the terms hereof or thereof or to issue and sell the Note in accordance with the terms hereof and to issue the Conversion Shares upon conversion of the Note. All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. If the Company is listed on the OTCBB, the Company is not in violation of the listing requirements of the Over-the-Counter Bulletin Board (the "OTCBB") and does not reasonably anticipate that the Common Stock will be delisted by the OTCBB in the foreseeable future. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.



g. SEC Documents; Financial Statements. The Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “1934 Act”) (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits to such documents) incorporated by reference therein, being hereinafter referred to herein as the “SEC Documents”). Upon written request the Company will deliver to the Buyer true and complete copies of the SEC Documents, except for such exhibits and incorporated documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in subsequent filings prior the date hereof). As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied, during the periods involved and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the financial statements of the Company included in the SEC Documents, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to December 31, 2014, and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in such financial statements, which, individually or in the aggregate, are not material to the financial condition or operating results of the Company. The Company is subject to the reporting requirements of the 1934 Act.

h. Absence of Certain Changes. Since December 31, 2014, there has been no material adverse change and no material adverse development in the assets, liabilities, business, properties, operations, financial condition, results of operations, prospects or 1934 Act reporting status of the Company or any of its Subsidiaries.

i. Absence of Litigation. There is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company or any of its Subsidiaries, or their officers or directors in their capacity as such, that could have a Material Adverse Effect. Schedule 3(i) contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its Subsidiaries, without regard to whether it would have a Material Adverse Effect. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

j. Patents, Copyrights, etc. The Company and each of its Subsidiaries owns or possesses the requisite licenses or rights to use all patents, patent applications, patent rights, inventions, know-how, trade secrets, trademarks, trademark applications, service marks, service names, trade names and copyrights (“Intellectual Property”) necessary to enable it to conduct its business as now operated (and, as presently contemplated to be operated in the future); there is no claim or action by any person pertaining to, or proceeding pending, or to the Company’s knowledge threatened, which challenges the right of the Company or of a Subsidiary with respect to any Intellectual Property necessary to enable it to conduct its business as now operated (and, as presently contemplated to be operated in the future); to the best of the Company’s knowledge, the Company’s or its Subsidiaries’ current and intended products, services and processes do not infringe on any Intellectual Property or other rights held by any person; and the Company is unaware of any facts or circumstances which might give rise to any of the foregoing. The Company and each of its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of their Intellectual Property.

k. No Materially Adverse Contracts, Etc. Neither the Company nor any of its Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation which in the judgment of the Company’s officers has or is expected in the future to have a Material Adverse Effect. Neither the Company nor any of its Subsidiaries is a party to any contract or agreement which in the judgment of the Company’s officers has or is expected to have a Material Adverse Effect.

l. Tax Status. The Company and each of its Subsidiaries has made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its Subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. None of the Company’s tax returns is presently being audited by any taxing authority.

m. Certain Transactions. Except for arm's length transactions pursuant to which the Company or any of its Subsidiaries makes payments in the ordinary course of business upon terms no less favorable than the Company or any of its Subsidiaries could obtain from third parties and other than the grant of stock options disclosed on Schedule 3(c), none of the officers, directors, or employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

n. Disclosure. All information relating to or concerning the Company or any of its Subsidiaries set forth in this Agreement and provided to the Buyer pursuant to Section 2(d) hereof and otherwise in connection with the transactions contemplated hereby is true and correct in all material respects and the Company has not omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or exists with respect to the Company or any of its Subsidiaries or its or their business, properties, prospects, operations or financial conditions, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed (assuming for this purpose that the Company's reports filed under the 1934 Act are being incorporated into an effective registration statement filed by the Company under the 1933 Act).

o. Acknowledgment Regarding Buyer' Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer' purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

p. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

q. No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby.

r. Permits; Compliance. The Company and each of its Subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease and operate its properties and to carry on its business as it is now being conducted (collectively, the "Company Permits"), and there is no action pending or, to the knowledge of the Company, threatened regarding suspension or cancellation of any of the Company Permits. Neither the Company nor any of its Subsidiaries is in conflict with, or in default or violation of, any of the Company Permits, except for any such conflicts, defaults or violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. Since December 31, 2014, neither the Company nor any of its Subsidiaries has received any notification with respect to possible conflicts, defaults or violations of applicable laws, except for notices relating to possible conflicts, defaults or violations, which conflicts, defaults or violations would not have a Material Adverse Effect.

s. Environmental Matters.

(i) There are, to the Company's knowledge, with respect to the Company or any of its Subsidiaries or any predecessor of the Company, no past or present violations of Environmental Laws (as defined below), releases of any material into the environment, actions, activities, circumstances, conditions, events, incidents, or contractual obligations which may give rise to any common law environmental liability or any liability under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or similar federal, state, local or foreign laws and neither the Company nor any of its Subsidiaries has received any notice with respect to any of the foregoing, nor is any action pending or, to the Company's knowledge, threatened in connection with any of the foregoing. The term "Environmental Laws" means all federal, state, local or foreign laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations issued, entered, promulgated or approved thereunder.

(ii) Other than those that are or were stored, used or disposed of in compliance with applicable law, no Hazardous Materials are contained on or about any real property currently owned, leased or used by the Company or any of its Subsidiaries, and no Hazardous Materials were released on or about any real property previously owned, leased or used by the Company or any of its Subsidiaries during the period the property was owned, leased or used by the Company or any of its Subsidiaries, except in the normal course of the Company's or any of its Subsidiaries' business.

(iii) There are no underground storage tanks on or under any real property owned, leased or used by the Company or any of its Subsidiaries that are not in compliance with applicable law.

t. Title to Property. The Company and its Subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its Subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(t) or such as would not have a Material Adverse Effect. Any real property and facilities held under lease by the Company and its Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a Material Adverse Effect.

u. Insurance. The Company and each of its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company and its Subsidiaries are engaged. Neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect. Upon written request the Company will provide to the Buyer true and correct copies of all policies relating to directors' and officers' liability coverage, errors and omissions coverage, and commercial general liability coverage.

v. Internal Accounting Controls. The Company and each of its Subsidiaries maintain a system of internal accounting controls sufficient, in the judgment of the Company's board of directors, to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

w. Foreign Corrupt Practices. Neither the Company, nor any of its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any Subsidiary has, in the course of his actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended, or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

x. Solvency. The Company (after giving effect to the transactions contemplated by this Agreement) is solvent (i.e., its assets have a fair market value in excess of the amount required to pay its probable liabilities on its existing debts as they become absolute and matured) and currently the Company has no information that would lead it to reasonably conclude that the Company would not, after giving effect to the transaction contemplated by this Agreement, have the ability to, nor does it intend to take any action that would impair its ability to, pay its debts from time to time incurred in connection therewith as such debts mature. The Company did not receive a qualified opinion from its auditors with respect to its most recent fiscal year end and, after giving effect to the transactions contemplated by this Agreement, does not anticipate or know of any basis upon which its auditors might issue a qualified opinion in respect of its current fiscal year.

y. No Investment Company. The Company is not, and upon the issuance and sale of the Securities as contemplated by this Agreement will not be an "investment company" required to be registered under the Investment Company Act of 1940 (an "Investment Company"). The Company is not controlled by an Investment Company.

z. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under Section 3.4 of the Note.

4. COVENANTS.

a. Best Efforts. The parties shall use their best efforts to satisfy timely each of the conditions described in Section 6 and 7 of this Agreement.

b. Form D; Blue Sky Laws. The Company agrees to file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof to the Buyer promptly after such filing. The Company shall, on or before the Closing Date, take such action as the Company shall reasonably determine is necessary to qualify the Securities for sale to the Buyer at the applicable closing pursuant to this Agreement under applicable securities or “blue sky” laws of the states of the United States (or to obtain an exemption from such qualification), and shall provide evidence of any such action so taken to the Buyer on or prior to the Closing Date.

c. Use of Proceeds. The Company shall use the proceeds for general working capital purposes.

d. Right of First Refusal. Unless it shall have first delivered to the Buyer, at least seventy two (72) hours prior to the closing of such Future Offering (as defined herein), written notice describing the proposed Future Offering (“ROFR Notice”), including the terms and conditions thereof, identity of the proposed purchaser and proposed definitive documentation to be entered into in connection therewith, and providing the Buyer an option during the seventy two (72) hour period following delivery of such notice to purchase the securities being offered in the Future Offering on the same terms as contemplated by such Future Offering (the limitations referred to in this sentence and the preceding sentence are collectively referred to as the “Right of First Refusal”) (and subject to the exceptions described below), the Company will not conduct any equity (or debt with an equity component) financing in an amount less than \$100,000 (“Future Offering(s)”) during the period beginning on the Closing Date and ending six (6) months following the Closing Date. Notwithstanding anything contained herein to the contrary, the Company shall not consummate any Future Offering with an investor, or an affiliate of such investor (collectively “Prospective Investor”), identified on an ROFR Notice whereby the Buyer exercised its Right of First Refusal for a period of forty (45) days following such exercise; and any subsequent offer by a Prospective Investor is subject to this Section 4(d) and the Right of First Refusal. In the event the terms and conditions of a proposed Future Offering are amended in any respect after delivery of the notice to the Buyer concerning the proposed Future Offering, the Company shall deliver a new notice to the Buyer describing the amended terms and conditions of the proposed Future Offering and the Buyer thereafter shall have an option during the seventy two (72) hour period following delivery of such new notice to purchase its pro rata share of the securities being offered on the same terms as contemplated by such proposed Future Offering, as amended. The foregoing sentence shall apply to successive amendments to the terms and conditions of any proposed Future Offering. The Right of First Refusal shall not apply to any transaction involving (i) issuances of securities in a firm commitment underwritten public offering (excluding a continuous offering pursuant to Rule 415 under the 1933 Act) or (ii) issuances of securities as consideration for a merger, consolidation or purchase of assets, or in connection with any strategic partnership or joint venture (the primary purpose of which is not to raise equity capital), or in connection with the disposition or acquisition of a business, product or license by the Company. The Right of First Refusal also shall not apply to the issuance of securities upon exercise or conversion of the Company’s options, warrants or other convertible securities outstanding as of the date hereof or to the grant of additional options or warrants, or the issuance of additional securities, under any Company stock option or restricted stock plan approved by the shareholders of the Company.

e. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith (“Documents”), including, without limitation, reasonable attorneys’ and consultants’ fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer. The Company’s obligation with respect to this transaction is to reimburse Buyer’ expenses shall be \$4,000.00.

f. Financial Information. Upon written request the Company agrees to send or make available the following reports to the Buyer until the Buyer transfers, assigns, or sells all of the Securities: (i) within ten (10) days after the filing with the SEC, a copy of its Annual Report on Form 10-K its Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K; (ii) within one (1) day after release, copies of all press releases issued by the Company or any of its Subsidiaries; and (iii) contemporaneously with the making available or giving to the shareholders of the Company, copies of any notices or other information the Company makes available or gives to such shareholders.

g. [INTENTIONALLY DELETED]

h. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCBB or any equivalent replacement exchange or electronic quotation system (including but not limited to the Pink Sheets electronic quotation system) and will comply in all respects with the Company’s reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority (“FINRA”) and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTCBB and any other exchanges or electronic quotation systems on which the Common Stock is then traded regarding the continued eligibility of the Common Stock for listing on such exchanges and quotation systems.



i. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the Pink Sheets, OTCQX, OTCBB, Nasdaq, Nasdaq SmallCap, NYSE or AMEX.

j. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

k. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under Section 3.4 of the Note.

l. Failure to Comply with the 1934 Act. So long as the Buyer beneficially owns the Note, the Company shall comply with the reporting requirements of the 1934 Act; and the Company shall continue to be subject to the reporting requirements of the 1934 Act.

m. Trading Activities. Neither the Buyer nor its affiliates has an open short position in the common stock of the Company and the Buyer agree that it shall not, and that it will cause its affiliates not to, engage in any short sales of or hedging transactions with respect to the common stock of the Company.

5. Transfer Agent Instructions. The Company shall issue irrevocable instructions to its transfer agent to issue certificates, registered in the name of the Buyer or its nominee, for the Conversion Shares in such amounts as specified from time to time by the Buyer to the Company upon conversion of the Note in accordance with the terms thereof (the "Irrevocable Transfer Agent Instructions"). In the event that the Borrower proposes to replace its transfer agent, the Borrower shall provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower. Prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold, all such certificates shall bear the restrictive legend specified in Section 2(g) of this Agreement. The Company warrants that: (i) no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5, and stop transfer instructions to give effect to Section 2(f) hereof (in the case of the Conversion Shares, prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold), will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Note; (ii) it will not direct its transfer agent to transfer or delay, impair, and/or hinder its transfer agent in transferring (or issuing)(electronically or in certificated form) any certificate for Conversion Shares to be issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement; and (iii) it will not fail to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any Conversion Shares issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement. Nothing in this Section shall affect in any way the Buyer's obligations and agreement set forth in Section 2(g) hereof to comply with all applicable prospectus delivery requirements, if any, upon re-sale of the Securities. If the Buyer provides the Company, at the cost of the Buyer, with (i) an opinion of counsel in form, substance and scope customary for opinions in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the 1933 Act and such sale or transfer is effected or (ii) the Buyer provides reasonable assurances that the Securities can be sold pursuant to Rule 144, the Company shall permit the transfer, and, in the case of the Conversion Shares, promptly instruct its transfer agent to issue one or more certificates, free from restrictive legend, in such name and in such denominations as specified by the Buyer. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer, by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 may be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section, that the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of showing economic loss and without any bond or other security being required.

6. Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Note to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

- a. The Buyer shall have executed this Agreement and delivered the same to the Company.
- b. The Buyer shall have delivered the Purchase Price in accordance with Section 1(b) above.
- c. The representations and warranties of the Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and the Buyer shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Buyer at or prior to the Closing Date.
- d. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

7. Conditions to The Buyer's Obligation to Purchase. The obligation of the Buyer hereunder to purchase the Note at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion:

- a. The Company shall have executed this Agreement and delivered the same to the Buyer.
- b. The Company shall have delivered to the Buyer the duly executed Note (in such denominations as the Buyer shall request) in accordance with Section 1(b) above.
- c. The Irrevocable Transfer Agent Instructions, in form and substance satisfactory to a majority-in-interest of the Buyer, shall have been delivered to and acknowledged in writing by the Company's Transfer Agent.

d. The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Buyer shall have received a certificate or certificates, executed by the chief executive officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Buyer including, but not limited to certificates with respect to the Company's Certificate of Incorporation, By-laws and Board of Directors' resolutions relating to the transactions contemplated hereby.

e. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

f. No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company including but not limited to a change in the 1934 Act reporting status of the Company or the failure of the Company to be timely in its 1934 Act reporting obligations.

g. The Conversion Shares shall have been authorized for quotation on the OTCBB and trading in the Common Stock on the OTCBB shall not have been suspended by the SEC or the OTCBB.

h. The Buyer shall have received an officer's certificate described in Section 3(c) above, dated as of the Closing Date.

8. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of Nassau. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company, to:  
SGOCO GROUP, LTD.  
Suite 1503, Sino Plaza,  
255 -257 Gloucester Road  
Causeway Bay, Hong Kong  
Attn: SHI-BIN XIE, Chief Executive Officer/President  
facsimile: [enter fax number]

With a copy by fax only to (which copy shall not constitute notice):  
[enter name of law firm]  
Attn: [attorney name]  
[enter address line 1]  
[enter city, state, zip]  
facsimile: [enter fax number]

If to the Buyer:  
VIS VIRES GROUP, INC.  
111 Great Neck Road – Suite 216,  
Great Neck, NY 11021  
Attn: CurtKramer, President  
e-mail: info@visviresgroup.com

With a copy by fax only to (which copy shall not constitute notice):  
Naidich Wurman LLP  
111 Great Neck Road – Suite 214  
Great Neck, NY 11021  
Att: Judah A. Eisner, Esq.  
facsimile: 516-466-3555

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, subject to Section 2(f), the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its “affiliates,” as that term is defined under the 1934 Act, without the consent of the Company.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Publicity. The Company, and the Buyer shall have the right to review a reasonable period of time before issuance of any press releases, SEC, OTCBB or FINRA filings, or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of the Buyer, to make any press release or SEC, OTCBB (or other applicable trading market) or FINRA filings with respect to such transactions as is required by applicable law and regulations (although the Buyer shall be consulted by the Company in connection with any such press release prior to its release and shall be provided with a copy thereof and be given an opportunity to comment thereon).

k. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

l. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

m. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

**SGOCO GROUP, LTD.**

By: \_\_\_\_\_  
SHI-BIN XIE  
Chief Executive Officer/President

**VIS VIRES GROUP, INC.**

By: \_\_\_\_\_  
Name: CurtKramer  
Title: President  
111 Great Neck Road – Suite 216,  
Great Neck, NY 11021

**AGGREGATE SUBSCRIPTION AMOUNT:**

Aggregate Principal Amount of Note: \$ 159,000.00

Aggregate Purchase Price: \$ 159,000.00

Tranche #1 VVG-1159 (SGCO)  
June 10, 2015  
max.georgatos@wellingtonshields.com



## SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of July 17, 2015, by and between **SGOCO Group, Ltd.**, a Cayman Islands corporation, with headquarters located at Guanke Technology Park, Luoshan, Jinjiang City, Fujian Province, 368800 China (the “Company”), and **BLACK FOREST CAPITAL, LLC**, a Wyoming limited liability company, with its address at 555 Madison Avenue, 5<sup>th</sup> Floor, New York, NY 10022, (the “Buyer”).

**WHEREAS:**

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”);

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement two 12% convertible notes of the Company, in the forms attached hereto as Exhibit A and B in the aggregate principal amount of \$300,000.00 (with the first note being in the amount of \$200,000.00 and the second note being in the amount of \$100,000.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note. Each note shall contain a 4% OID such that the purchase price shall be \$192,000.00 for the first note and \$96,000.00 for the second note. The first of the two notes (the “First Note”) shall be paid for by the Buyer as set forth herein. The second note (the “Second Note”) shall initially be paid for by the issuance of an offsetting \$96,000.00 secured note issued to the Company by the Buyer (“Buyer Note”), provided that prior to conversion of the Second Note, the Buyer must have paid off the Buyer Note in cash such that the Second Note may not be converted until it has been paid for in cash.

C. The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

**NOW THEREFORE**, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On each Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

\_\_\_\_\_  
Company Initials

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b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. The date and time of the issuance and sale of the Note pursuant to this Agreement (the "Closing Date") shall be on or about July 17, 2015, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties. Subsequent Closings shall occur when the Buyer Note is repaid.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note, such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company's representations and warranties made herein.

e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or re-sale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration, which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an “affiliate” (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) (“Rule 144”) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) (“Regulation S”), and the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in corporate transactions, which opinion shall be accepted by the Company; (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

**“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”**

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, within 2 business days, it will be considered an Event of Default under the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer’s name on the signature pages hereto.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its subsidiaries, if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

d. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a material adverse effect). All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the OTCQB marketplace (the "OTCQB") and does not reasonably anticipate that the Common Stock will be delisted by the OTCQB in the foreseeable future, nor are the Company's securities "chilled" by DTC. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

f. Absence of Litigation. Except as disclosed in the Company's public filings, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company or any of its subsidiaries, or their officers or directors in their capacity as such, that could have a material adverse effect. Schedule 3(f) contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its subsidiaries, without regard to whether it would have a material adverse effect. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

g. Acknowledgment Regarding Buyer' Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer' purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

h. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

i. Title to Property. The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(i) or such as would not have a material adverse effect. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a material adverse effect.

j. Bad Actor. No officer or director of the Company would be disqualified under Rule 506(d) of the Securities Act as amended on the basis of being a "bad actor" as that term is established in the September 19, 2013 Small Entity Compliance Guide published by the Securities and Exchange Commission.

k. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under the Note.

#### 4. COVENANTS.

a. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith ("Documents"), including, without limitation, reasonable attorneys' and consultants' fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer. The Company's total obligation with respect to this transaction is to reimburse Buyer's expenses which shall be \$10,000 in legal fees (and \$5,000 for the Second Note) which shall be deducted from the Notes when funded.

b. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCQB or any equivalent replacement market, the Nasdaq stock market ("Nasdaq"), the New York Stock Exchange ("NYSE"), or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority ("FINRA") and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTCQB and any other markets on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such markets.

c. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTCQB, Nasdaq, NYSE or AMEX.

d. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

e. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under the Note.

f. Right of Future Funding. While any Note being purchased herein remains unconverted, the Buyer shall have the right to be the sole purchaser of any third party debt being made available for purchase under Rule 3(a)(9) of the 1933 Act ("3(a)(9) Debt"). In the event the Company makes available any 3(a)(9) Debt, it shall first provide the Buyer with notice of the purchase opportunity. The Buyer shall have a period of 3 business days to accept or forgo the purchase opportunity. In the event the Buyer does not affirmatively respond at the end of the 3 business day period, then the Buyer shall be deemed to have rejected the purchase opportunity and it may be made available to other parties.

g. Registration Rights. With respect to any Company issued note owned by the Buyer, in the event the Company completes a registration statement for its securities prior to the date on which that particular note is eligible for conversion into legend free shares under Rule 144, the shares issuable upon conversion of that particular note shall be "piggybacked" onto the registration statement.



5. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts; Signatures by Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, (iv) via electronic mail or (v) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or delivery via electronic mail, or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company, to:  
SGOCO Group, Ltd.  
Guanke Technology Park, Luoshan,  
Jinjiang City, Fujian Province,  
368800 China  
Attn: Shi-bin Xie, CEO

If to the Buyer:  
BLACK FOREST CAPITAL, LLC  
555 Madison Avenue, 5<sup>th</sup> Floor,  
New York, NY 10022  
Attn: Black Forest Capital, LLC

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its "affiliates," as that term is defined under the 1934 Act, without the consent of the Company.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

k. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

l. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

**SGOCO Group, Ltd.**

By: \_\_\_\_\_  
Shi-bin Xie  
Chief Executive Officer

**BLACK FOREST CAPITAL, LLC.**

By: \_\_\_\_\_  
Name:  
Title: Authorized Signer

**AGGREGATE SUBSCRIPTION AMOUNT:**

Aggregate Principal Amount of Notes: \$300,000.00

Aggregate Purchase Price:

Note 1: \$200,000.00 less \$8,000.00 in OID, \$10,000.00 in legal fees and \$16,000.00 in third party fees to Wellington Shields & Co., LLC

Note 2: \$100,000.00 less \$4,000.00 in OID, \$5,000.00 in legal fees and \$8,000.00 in third party fees to Wellington Shields & Co., LLC

**EXHIBIT A**  
**144 NOTE - \$200,000**

**EXHIBIT B  
BACK END NOTE  
\$100,000**

**SECURITIES PURCHASE AGREEMENT**

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of September 11, 2015 by and between **SGOCO Group, Ltd.**, a Cayman Islands corporation, with headquarters located at Suit 1503, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong (the “Company”), and **Crown Bridge Partners, LLC**, a New York limited liability company, with its address at 1173a 2<sup>nd</sup> Avenue, Suite 126, New York, NY 10065 (the “Buyer”).

**WHEREAS:**

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”);

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement a 5% convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of \$46,000.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, no par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note. The note shall contain an original issuance discount of \$7,000, resulting in total funding of \$39,000.

C. The Buyer wishes to purchase , upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

**NOW THEREFORE**, the Company and the Buyer severally (and not jointly) hereby agree as follows:

**1. Purchase and Sale of Note.**

a. Purchase of Note. On the Closing Date (as defined below) , the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the “Purchase Price”) by wire transfer of immediately available funds to the Company, in accordance with the Company’s written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer’s name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

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c. Closing Date. Subject to the satisfaction (or written waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Note pursuant to this Agreement (the “Closing Date”) shall be 12:00 noon, Eastern Standard Time on or about August 25, 2015 or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the “Closing”) shall occur on the Closing Date at such location as may be agreed to by the parties.

**2. Buyer’s Representations and Warranties.** The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note (including, without limitation, such additional shares of Common Stock, if any, as are issuable (i) on account of interest on the Note, (ii) as a result of the events described in the Note or (iii) in payment of the Standard Liquidated Damages Amount (as defined in Section 2 below) pursuant to this Agreement, such shares of Common Stock being collectively referred to herein as the “Conversion Shares” and, collectively with the Note, the “Securities”) for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D (an “Accredited Investor”).

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer’s compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer’s right to rely on the Company’s representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company’s representations and warranties made herein.

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e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or re- sale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration , which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an “affiliate” (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) (“Rule 144”)) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) (“Regulation S”), and the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in corporate transactions, which opinion shall be accepted by the Company; (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable , any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”

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The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer's name on the signature pages hereto.

**2. Representations and Warranties of the Company.** The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its Subsidiaries (as defined below), if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted. Schedule A sets forth a list of all of the Subsidiaries of the Company and the jurisdiction in which each is incorporated. The Company and each of its Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership or use of property or the nature of the business conducted by it makes such qualification necessary except where the failure to be so qualified or in good standing would not have a Material Adverse Effect. "Material Adverse Effect" means any material adverse effect on the business, operations, assets, financial condition or prospects of the Company or its Subsidiaries, if any, taken as a whole, or on the transactions contemplated hereby or by the agreements or instruments to be entered into in connection herewith. "Subsidiaries" means any corporation or other organization, whether incorporated or unincorporated, in which the Company owns, directly or indirectly, any equity or other ownership interest.

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b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Capitalization. As of the filing of its most recent Form 20-F, the outstanding capital stock of the Company consists of: (i) 17,414,861 common shares outstanding, par value \$0.001, and other than as disclosed in the Company's filings, there are no shares reserved for issuance pursuant to the Company's stock option plans, no shares are reserved for issuance pursuant to securities (other than the Note) exercisable for, or convertible into or exchangeable for shares of Common Stock and 12,000,000 shares are reserved for issuance upon conversion of the Note. All of such outstanding shares of capital stock are, or upon issuance will be, duly authorized, validly issued, fully paid and non-assessable. No shares of capital stock of the Company are subject to preemptive rights or any other similar rights of the shareholders of the Company or any liens or encumbrances imposed through the actions or failure to act of the Company. As of the effective date of this Agreement, (i) there are no outstanding options, scrip, rights to subscribe for, puts, calls, rights of first refusal, agreements, understandings, claims or other commitments or rights of any character whatsoever relating to, or securities or rights convertible into or exchangeable for any shares of capital stock of the Company or any of its Subsidiaries, or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its Subsidiaries, (ii) there are no agreements or arrangements under which the Company or any of its Subsidiaries is obligated to register the sale of any of its or their securities under the 1933 Act and (iii) there are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) that will be triggered by the issuance of the Note or the Conversion Shares. When requested, the Company will furnish to the Buyer true and correct copies of the Company's Certificate of Incorporation as in effect on the date hereof ("Certificate of Incorporation"), the Company's By-laws, as in effect on the date hereof (the "By-laws"), and the terms of all securities convertible into or exercisable for Common Stock of the Company and the material rights of the holders thereof in respect thereto. The Company shall provide the Buyer with a written update of this representation signed by the Company's Chief Executive on behalf of the Company as of the Closing Date.

d. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

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e. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.

f. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). Neither the Company nor any of its Subsidiaries is in violation of its Certificate of Incorporation, By-laws or other organizational documents and neither the Company nor any of its Subsidiaries is in default (and no event has occurred which with notice or lapse of time or both could put the Company or any of its Subsidiaries in default) under, and neither the Company nor any of its Subsidiaries has taken any action or failed to take any action that would give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its Subsidiaries is a party or by which any property or assets of the Company or any of its Subsidiaries is bound or affected, except for possible defaults as would not, individually or in the aggregate, have a Material Adverse Effect. The businesses of the Company and its Subsidiaries, if any, are not being conducted, and shall not be conducted so long as the Buyer owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity. Except as specifically contemplated by this Agreement and as required under the 1933 Act and any applicable state securities laws, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court, governmental agency, regulatory agency, self-regulatory organization or stock market or any third party in order for it to execute, deliver or perform any of its obligations under this Agreement, the Note in accordance with the terms hereof or thereof or to issue and sell the Note in accordance with the terms hereof and to issue the Conversion Shares upon conversion of the Note. All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the Over-the-Counter Bulletin Board (the "OTCBB") and does not reasonably anticipate that the Common Stock will be delisted by the OTCBB in the foreseeable future. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

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g. SEC Documents; Financial Statements. The Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “1934 Act”) (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits to such documents) incorporated by reference therein , being hereinafter referred to herein as the “SEC Documents”). Upon written request the Company will deliver to the Buyer true and complete copies of the SEC Documents, except for such exhibits and incorporated documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in subsequent filings prior the date hereof). As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied, during the periods involved and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in the financial statements of the Company included in the SEC Documents, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to December 31, 2014, and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in such financial statements, which, individually or in the aggregate, are not material to the financial condition or operating results of the Company. The Company is subject to the reporting requirements of the 1934 Act.

h. Absence of Certain Changes. Since December 31, 2014, there have been no material adverse change and no material adverse development in the assets, liabilities, business, properties, operations, financial condition, results of operations, prospects or 1934 Act reporting status of the Company or any of its Subsidiaries.

i. Absence of Litigation. There is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company or any of its Subsidiaries, or their officers or directors in their capacity as such, that could have a Material Adverse Effect. Schedule C contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its Subsidiaries, without regard to whether it would have a Material Adverse Effect. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

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j. Patents, Copyrights, etc. The Company and each of its Subsidiaries owns or possesses the requisite licenses or rights to use all patents, patent applications, patent rights, inventions, know-how, trade secrets, trademarks, trademark applications, service marks, service names, trade names and copyrights ("Intellectual Property") necessary to enable it to conduct its business as now operated (and, as presently contemplated to be operated in the future); there is no claim or action by any person pertaining to, or proceeding pending, or to the Company's knowledge threatened, which challenges the right of the Company or of a Subsidiary with respect to any Intellectual Property necessary to enable it to conduct its business as now operated (and, as presently contemplated to be operated in the future); to the best of the Company's knowledge, the Company's or its Subsidiaries' current and intended products, services and processes do not infringe on any Intellectual Property or other rights held by any person; and the Company is unaware of any facts or circumstances which might give rise to any of the foregoing. The Company and each of its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of their Intellectual Property.

k. No Materially Adverse Contracts, Etc. Neither the Company nor any of its Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation which in the judgment of the Company's officers has or is expected in the future to have a Material Adverse Effect. Neither the Company nor any of its Subsidiaries is a party to any contract or agreement which in the judgment of the Company's officers has or is expected to have a Material Adverse Effect.

l. Tax Status. The Company and each of its Subsidiaries has made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its Subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. None of the Company's tax returns is presently being audited by any taxing authority.

m. Certain Transactions. None of the officers, directors, or employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

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n. Disclosure. All information relating to or concerning the Company or any of its Subsidiaries set forth in this Agreement and provided to the Buyer pursuant to Section 2(d) hereof and otherwise in connection with the transactions contemplated hereby is true and correct in all material respects and the Company has not omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or exists with respect to the Company or any of its Subsidiaries or its or their business, properties, prospects, operations or financial conditions, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed (assuming for this purpose that the Company's reports filed under the 1934 Act are being incorporated into an effective registration statement filed by the Company under the 1933 Act).

o. Acknowledgment Regarding Buyer's Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer's purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

p. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

q. No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby.

r. Permits; Compliance. The Company and each of its Subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease and operate its properties and to carry on its business as it is now being conducted (collectively, the "Company Permits"), and there is no action pending or, to the knowledge of the Company, threatened regarding suspension or cancellation of any of the Company Permits. Neither the Company nor any of its Subsidiaries is in conflict with, or in default or violation of, any of the Company Permits, except for any such conflicts, defaults or violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. Since September 30, 2013, neither the Company nor any of its Subsidiaries has received any notification with respect to possible conflicts, defaults or violations of applicable laws, except for notices relating to possible conflicts, defaults or violations, which conflicts, defaults or violations would not have a Material Adverse Effect.

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s. Environmental Matters.

(i) There are, to the Company's knowledge, with respect to the Company or any of its Subsidiaries or any predecessor of the Company, no past or present violations of Environmental Laws (as defined below), releases of any material into the environment, actions, activities, circumstances, conditions, events, incidents, or contractual obligations which may give rise to any common law environmental liability or any liability under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or similar federal, state, local or foreign laws and neither the Company nor any of its Subsidiaries has received any notice with respect to any of the foregoing, nor is any action pending or, to the Company's knowledge, threatened in connection with any of the foregoing. The term "Environmental Laws" means all federal, state, local or foreign laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations issued, entered, promulgated or approved thereunder.

(ii) Other than those that are or were stored, used or disposed of in compliance with applicable law, no Hazardous Materials are contained on or about any real property currently owned, leased or used by the Company or any of its Subsidiaries, and no Hazardous Materials were released on or about any real property previously owned, leased or used by the Company or any of its Subsidiaries during the period the property was owned, leased or used by the Company or any of its Subsidiaries, except in the normal course of the Company's or any of its Subsidiaries' business.

(iii) There are no underground storage tanks on or under any real property owned, leased or used by the Company or any of its Subsidiaries that are not in compliance with applicable law.

t. Title to Property. The Company and its Subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its Subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule D or such as would not have a Material Adverse Effect. Any real property and facilities held under lease by the Company and its Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a Material Adverse Effect.

u. Insurance. The Company and each of its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company and its Subsidiaries are engaged. Neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect. Upon written request the Company will provide to the Buyer true and correct copies of all policies relating to directors' and officers' liability coverage, errors and omissions coverage, and commercial general liability coverage.

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v. Internal Accounting Controls. The Company and each of its Subsidiaries maintain a system of internal accounting controls sufficient, in the judgment of the Company's board of directors, to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

w. Foreign Corrupt Practices. Neither the Company, nor any of its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any Subsidiary has, in the course of his actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended, or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

x. Solvency. The Company (after giving effect to the transactions contemplated by this Agreement) is solvent (i.e., its assets have a fair market value in excess of the amount required to pay its probable liabilities on its existing debts as they become absolute and matured) and currently the Company has no information that would lead it to reasonably conclude that the Company would not, after giving effect to the transaction contemplated by this Agreement, have the ability to, nor does it intend to take any action that would impair its ability to, pay its debts from time to time incurred in connection therewith as such debts mature. The Company received a qualified opinion from its auditors with respect to its most recent fiscal year end and, after giving effect to the transactions contemplated by this Agreement, anticipates its auditors will issue a qualified opinion in respect of its current fiscal year.

y. No Investment Company. The Company is not, and upon the issuance and sale of the Securities as contemplated by this Agreement will not be an "investment company" required to be registered under the Investment Company Act of 1940 (an "Investment Company"). The Company is not controlled by an Investment Company.

z. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under Section 3.4 of the Note.

### **3. Covenants.**

a. Best Efforts. The parties shall use their best efforts to satisfy timely each of the conditions described in Section 6 and 7 of this Agreement.

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b. Use of Proceeds. The Company shall use the proceeds for general working capital purposes.

c. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith ("Documents"), including, without limitation, reasonable attorneys' and consultants' fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer. In respect of this Transaction, the Company shall reimburse Buyer for Buyer's expenses at Closing, which shall be listed in the disbursement authorization and shall be included in the total funding amount.

d. Financial Information. Upon written request the Company agrees to send or make available the following reports to the Buyer until the Buyer transfers, assigns, or sells all of the Securities: (i) within ten (10) days after the filing with the SEC, a copy of its Annual Report on Form 20-F its Reports on Form 6-K and any Current Reports; (ii) within two (2) days after release, copies of all press releases issued by the Company or any of its Subsidiaries; and (iii) contemporaneously with the making available or giving to the shareholders of the Company, copies of any notices or other information the Company makes available or gives to such shareholders.

e. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTCBB or any equivalent replacement quotation service, the Nasdaq National Market ("Nasdaq"), the Nasdaq SmallCap Market ("Nasdaq SmallCap"), the New York Stock Exchange ("NYSE"), or the American Stock Exchange ("AMEX") and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority ("FINRA") and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTCBB and any other exchanges or quotation systems on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such exchanges and quotation systems.

f. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTCBB or any equivalent replacement quotation service, Nasdaq, Nasdaq SmallCap, NYSE or AMEX.

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g. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

h. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under Section 3.4 of the Note.

i. Failure to Comply with the 1934 Act. So long as the Buyer beneficially owns the Note, the Company shall comply with the reporting requirements of the 1934 Act; and the Company shall continue to be subject to the reporting requirements of the 1934 Act.

j. Trading Activities. Neither the Buyer nor its affiliates has an open short position in the common stock of the Company and the Buyer agree that it shall not, and that it will cause its affiliates not to, engage in any short sales of or hedging transactions with respect to the common stock of the Company.

k. Transfer Agent Instructions. The Company shall issue irrevocable instructions to its transfer agent to issue certificates, registered in the name of the Buyer or its nominee, for the Conversion Shares in such amounts as specified from time to time by the Buyer to the Company upon conversion of the Note in accordance with the terms thereof (the "Irrevocable Transfer Agent Instructions"). In the event that the Borrower proposes to replace its transfer agent, the Borrower shall provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower. Prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold, all such certificates shall bear the restrictive legend specified in Section 2(g) of this Agreement. The Company warrants that: (i) no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5, and stop transfer instructions to give effect to Section 2(f) hereof (in the case of the Conversion Shares, prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to Rule 144 without any restriction as to the number of Securities as of a particular date that can then be immediately sold), will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Note; (ii) it will not direct its transfer agent not to transfer or delay, impair, and/or hinder its transfer agent in transferring (or issuing)(electronically or in certificated form) any certificate for Conversion Shares to be issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement; and (iii) it will not fail to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any Conversion Shares issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement. Nothing in this Section shall affect in any way the Buyer's obligations and agreement set forth in Section 2(g) hereof to comply with all applicable prospectus delivery requirements, if any, upon re-sale of the Securities. If the Buyer provides the Company, at the cost of the Buyer, with (i) an opinion of counsel in form, substance and scope customary for opinions in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the 1933 Act and such sale or transfer is effected or (ii) the Buyer provides reasonable assurances that the Securities can be sold pursuant to Rule 144, the Company shall permit the transfer, and, in the case of the Conversion Shares, promptly instruct its transfer agent to issue one or more certificates, free from restrictive legend, in such name and in such denominations as specified by the Buyer. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer, by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 may be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section, that the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of showing economic loss and without any bond or other security being required.

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l. Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Note to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

i. the Buyer shall have executed this Agreement and delivered the same to the Company.

ii. The Buyer shall have delivered the Purchase Price in accordance with Section 1(b) above.

iii. The representations and warranties of the Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and the Buyer shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Buyer at or prior to the Closing Date.

iv. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

m. Conditions to The Buyer's Obligation to Purchase. The obligation of the Buyer hereunder to purchase the Note at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion:

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- i. The Company shall have executed this Agreement and delivered same to the Buyer.
  - ii. The Company shall have delivered to the Buyer the duly executed Note (in such denominations as the Buyer shall request) in accordance with Section 1(b) above.
  - iii. The Irrevocable Transfer Agent Instructions, in form and substance satisfactory to a majority-in-interest of the Buyer, shall have been delivered to and acknowledged in writing by the Company's Transfer Agent.
  - iv. The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Buyer shall have received a certificate or certificates, executed by the chief executive officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Buyer including, but not limited to certificates with respect to the Company's Certificate of Incorporation, By-laws and Board of Directors' resolutions relating to the transactions contemplated hereby.
  - v. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.
  - vi. No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company including but not limited to a change in the 1934 Act reporting status of the Company or the failure of the Company to be timely in its 1934 Act reporting obligations.
  - vii. The Conversion Shares shall have been authorized for quotation on the OTCBB (or any equivalent replacement quotation service) and trading in the Common Stock on the OTCBB shall not have been suspended by the SEC or the OTCBB.
  - viii. The Buyer shall have received an officer's certificate described in Section 3(c) above, dated as of the Closing Date.
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#### 4. **Governing Law; Miscellaneous.**

a. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state of New York. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based on *uponforum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

c. **Headings.** The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. **Severability.** In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. **Entire Agreement; Amendments.** This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

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f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be :

If to the Company, to:  
SGOCO Group, Ltd.  
Suite 1503, Sino Plaza  
255-257 Gloucester Road  
Causeway Bay, Hong Kong

If to the Buyer:  
Crown Bridge Partners, LLC  
1173a 2<sup>nd</sup> Avenue, Suite 126  
New York, NY 10065

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, subject to Section 2(f), the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its "affiliates," as that term is defined under the 1934 Act, without the consent of the Company.

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Publicity. The Company, and the Buyer shall have the right to review a reasonable period of time before issuance of any press releases, SEC, OTCBB or FINRA filings, or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of the Buyer, to make any press release or SEC, OTCBB (or other applicable trading market) or FINRA filings with respect to such transactions as is required by applicable law and regulations (although the Buyer shall be consulted by the Company in connection with any such press release prior to its release and shall be provided with a copy thereof and be given an opportunity to comment thereon).

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k. Further Assurances. Each party shall do and perform , or cause to be done and performed, all such further acts and things , and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

l. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

m. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled , in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

SGOCO Group, Ltd.

\_\_\_\_\_  
By: Shi-bin Xie  
Title: CEO

Crown Bridge Partners, LLC

\_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_



## SHARE PURCHASE AGREEMENT

This SHARE PURCHASE AGREEMENT is dated as of May 9, 2016 (the "Agreement") and is entered into by and between SGOCO GROUP, LTD., a Cayman Islands corporation (the "Company"), and the undersigned Investor (the "Investor").

## RECITALS

**WHEREAS**, the Investor is an individual who has no relationship with the Company or any officers or directors of the Company;

**WHEREAS**, the Company has filed a registration statement (the "Registration Statement") with the Securities and Exchange Commission ("SEC"), in connection with the Company's proposed public offering (the "PO") of shares of the Company's common stock, par value \$0.004 per share (the "Common Stock"). The Registration Statement is still in effect;

**WHEREAS**, the Company desires to issue and sell to the Investor, and the Investor desires to purchase from the Company in a private placement, 1,900,000 shares of the Company's unregistered ordinary shares (the "Shares") for an amount of US\$ 7 million, approximately US\$3.68 per share, as provided in this Agreement (the "Shares").

## WITNESSETH

**NOW THEREFORE**, in consideration of the above recitals and promises made in this Agreement, the parties hereby agree as follows:

SECTION 1. **Share Purchase**. Subject to the terms and conditions of this Agreement, the Company shall issue and sell to the Investor, and the Investor shall purchase from the Company 1,900,000 shares of unregistered ordinary shares of the Company (the "Transaction"). The total purchase price for the Shares is US\$ 7 million, approximately US\$3.68 per share (the "Purchase Price").

SECTION 2. **Adjustment of the Purchase Price**. The Purchase Price shall be fixed, and there shall be no adjustment of the Purchase Price.

SECTION 3. **Payments and Issuance**. The total purchase price of the Shares is US\$7 million (the "Total Price") and shall be paid by two (2) tranches.

The Investor shall pay the first tranche of US\$ 350,000 on or before May 13, 2016; and the Company shall issue 95,000 shares within 30 working days upon receipt of the payment.

The Investor shall pay the second tranche of US\$ 6,650,000 on or before July 31, 2016; and the Company shall issue 1,805,000 shares within 30 working days upon receipt of the payment.

SECTION 4. **Representations and Warranties of the Company.** The Company represents and warrants to the Investor that it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and the Company has all requisite legal and corporate power, and has taken all corporate action on the part of its officers, directors and shareholders as may be necessary for the authorization, execution and delivery of this Agreement.

SECTION 5. **Representations and Warranties of the Investor.** The Investor represents and warrants to the Company that it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and the Investor has all requisite legal and corporate power, and has taken all corporate action on the part of its officers, directors and shareholders as may be necessary for the authorization, execution and delivery of this Agreement.

SECTION 6. **Registration Rights.** Within 180 days from the effective date of this Agreement, the Company shall file a registration statement on Form F-3 or on such other form promulgated by the SEC for which the Company then qualifies for the registration of the Shares for their resale by the Investor.

SECTION 7. **Restricted Securities.** The Investor understands that the Shares are characterized as "restricted securities" under U.S. federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Investor understands that the Shares have not been qualified or registered under the laws of any other jurisdiction and therefore may be viewed as restricted securities under any or all of such other applicable securities laws.

SECTION 8. **Legends.** The Investor understands that the certificates evidencing the Shares issued pursuant to this Agreement may bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE (A) ABSENCE OF (1) A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER THE SECURITIES ACT OR (II) AN OPINION OF COUNSEL TO THE HOLDER THAT SUCH REGISTRATION IS NOT REQUIRED OR (B) UNLESS SOLD PURSUANT TO RULE 144 OF THE SECURITIES ACT. THIS SECURITY MAY NOT BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT BUT MAY BE PLEDGED IN CONNECTION WITH ANY LOAN SECURED BY SUCH SECURITIES FOR THE BENEFIT OF THE COMPANY."

SECTION 9. **Miscellaneous.**

9.1 **Further Assurances.** Each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurances, as may be reasonably requested by any other party to evidence and reflect the transactions described herein and contemplated hereby, and to carry into effect the intents and purposes of this Agreement.

9.2 **Number and Gender.** All words and any variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person, persons, entity or entities may require or as otherwise appropriate in view of their context.

9.3 **Captions.** Captions are provided herein for convenience only and they are not to serve as a basis for interpretation or construction of this Agreement, nor as evidence of the intention of the parties hereto.

9.4 **Severability.** The provisions of this Agreement are severable. The invalidity, in whole or in part, of any provision of this Agreement shall not affect the validity or enforceability of any other of its provisions. If one or more provisions hereof shall be declared invalid or unenforceable, the remaining provisions shall remain in full force and effect and shall be construed in the broadest possible manner to effectuate the purposes hereof. The parties further agree to replace such void or unenforceable provisions of this Agreement with valid and enforceable provisions that will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provisions.

9.5 **Counterparts.** This Agreement may be executed in separate counterparts, each of which shall be deemed as an original; when executed, separately or together, all of such counterparts shall constitute a single original instrument, effective in the same manner as if all parties hereto had executed one and the same instrument.

9.6 **Entire Agreement.** This Agreement is intended by the parties hereto to be the final expression of their agreement and constitutes and embodies the entire agreement and understanding between the parties hereto with regard to the subject matter hereof and is a complete and exclusive statement of the terms and conditions thereof, and shall supersede any and all prior oral and written correspondence, conversations, negotiations, agreements and understandings relating to the same subject matter.

9.7 **Amendment.** Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Investors. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each of the parties hereto.

9.8 **Governing Law.** This Agreement shall be governed by and construed in and accordance with the law of the Cayman Islands, without giving effect to the conflict of law principles thereof.

9.9 **Successors and Assigns.** Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors of the parties hereto whose rights or obligations hereunder are affected by such terms and conditions. This Agreement, and the rights and obligations hereunder, shall not be assigned. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

9.10 **Effectiveness of this Agreement.** This Agreement shall become effective when it is executed by all parties and the date stated in the first sentence of this Agreement shall be the effective date.

*[The remainder of this page has been left intentionally blank]*

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement with the intent and agreement that the same shall be effective as of the day and year first above written.

SGOCO GROUP, LTD

By: /s/ Shi-Bin XIE  
Name: Shi-Bin XIE  
Title: CEO

SUN YUET WO 許國宇

By: /s/  
Name: SUN YUET WO

**List of Subsidiaries**

<b><u>Name of Subsidiary</u></b>	<b><u>Jurisdiction of Formation</u></b>
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 16, 2016

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, Xiao-Ming HU, Interim 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
  - (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 16, 2016

By: /s/ Xiao-Ming HU  
Name: Xiao-Ming HU  
Title: Interim 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, 2015, 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 16, 2016

By: /s/ Shi-bin Xie  
Name: Shi-bin Xie  
Title: President and Chief Executive Officer

Dated: May 16, 2016

By: /s/ Xiao-Ming HU  
Name: Xiao-Ming HU  
Title: Interim 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 16, 2016, 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, 2015.

/s/ Crowe Horwath (HK) CPA Limited

Crowe Horwath (HK) CPA Limited  
Hong Kong, China  
May 16, 2016

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