

USmart Mobile Device Inc.
Form 10-K
April 16, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

or

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

For the transition period from _____ to _____

Commission file number: 000-50140

USmart Mobile Device Inc.

(Exact name of Registrant as specified in its charter)

Delaware

State or other jurisdiction of incorporation or organization

16-1642709

(I.R.S. Employer Identification Number)

**Room 1703, 17/F., Tower 1, Enterprise Square, 9
Sheung Yuet Road, Kowloon Bay, Kowloon,**

Hong Kong.

(Address of principal executive offices) (Zip Code)

Registrant's telephone number including area code : **011-852-3666-9939**

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

Title of each class	Name of each exchange on which registered
NONE	N/A

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

Common Stock, \$0.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2013 was approximately \$895,349 based upon the closing price of \$0.07 of the registrant’s common stock on the OTC Bulletin Board. (For purposes of determining this amount, only directors, executive officers, and 10% or greater stockholders have been deemed affiliates).

The number of shares of Registrant’s Common Stock outstanding as of April 15, 2014 was 39,684,495.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

Table of Contents

Form 10-K Index

	PAGE
FORWARD LOOKING STATEMENT	1
PART I	
Item 1. Business	1
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	17
Item 2. Properties	18
Item 3. Legal Proceedings	18
Item 4. Mine Safety Disclosures	18
PART II	
Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6. Selected Financial Data	20
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	27
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	27
Item 9A. Controls and Procedures	27
Item 9B. Other Information	30
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	31
Item 11. Executive Compensation	34
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	37
Item 13. Certain Relationships and Related Transactions, and Director Independence	39
Item 14. Principal Accounting Fees and Services	41
PART IV	

Item 15. Exhibits and Financial Statement Schedules	42
Signatures	43
Index to Consolidated Financial Statements	F-1

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents incorporated herein contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, statements that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “plan”, “intend”, “may,” “will,” “expect,” “believe”, “could,” “anticipate,” “estimate,” or “continue” or similar expressions or other variations or comparable terminology are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable laws, the Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

PART I

As used throughout this Annual Report, the terms “USMART”, “Company”, “we”, “us”, “our” or “Registrant” refer to USmart Mobile Device Inc. and its subsidiaries.

Item 1. Business

Overview

USmart Mobile Device Inc. was incorporated under the laws of the State of Delaware on September 17, 2002. The Company has been primarily engaged in the business of distribution of memory products mainly under “Samsung” brand name which principally comprised Dynamic Random Access Memory (“DRAM”), Graphic Random Access Memory (“Graphic RAM”) and Flash storage devices in the Hong Kong Special Administrative Region (“Hong Kong”) and People’s Republic of China (the “PRC” or “China”) markets formerly through its wholly owned subsidiary Atlantic Components Limited (“Atlantic”), a Hong Kong incorporated company, and through ATMD (Hong Kong) Limited (“ATMD”) after April 1, 2012. The Company, through its wholly owned subsidiary ACL International Holdings Limited (“ACL Holdings”), owns 30% equity interest in ATMD, the joint venture with Tomen Devices Corporation (“Tomen”). ATMD offers a broad range of industry-leading Samsung semiconductor products, and additional components and SMD (smartphone panels). Through the acquisition of Jussey Investments Limited (“Jussey”) on September 28, 2012, the Company has diversified its product portfolio and customer network, obtained design and manufacturing capabilities, and tapped into the blooming telecommunication industry with access to the 3G baseband licenses. In 2013, the Company changed the name from ACL Semiconductors Inc. to USmart Mobile Device Inc. On

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September 27, 2013, the Company, through its wholly owned subsidiary ACL Holdings, sold the 30% equity interest in ATMD.

Corporate Structure

Background

ACL International Holdings Limited

ACL Holdings, a holding company incorporated in Hong Kong, is wholly owned by the Company. ACL Holdings owns 100% equity interest of Atlantic and 30% equity interest of ATMD, the joint venture with Tomen and IBComm. On September 27, 2013, ACL Holdings sold the 30% equity interest of ATMD for consideration of USD 3,633,173.

Atlantic Components Limited

Atlantic, a company incorporated in Hong Kong, is indirectly wholly owned by the Company. Atlantic was established in May 1991 by Mr. Chung-Lun Yang (“Mr. Yang”), the Company’s Chairman, as a regional distributor of memory products of various manufacturers. In 1993, Samsung Electronics Hong Kong Co., Ltd. (“Samsung”) appointed Atlantic as its authorized distributor and marketer of Samsung’s memory products in Hong Kong and overseas markets. In 2001, Atlantic established a representative office in Shenzhen, China, and began concentrating its distribution and marketing efforts in Southern China.

The Company’s Samsung business was formerly conducted through Atlantic. After April 1, 2012, Atlantic integrated its business relating to procurement of semiconductors and electronic parts directly from Samsung to the new joint venture, ATMD. The transition of the business integration has been completed by December 31, 2012. During the transitional period, Atlantic extended its distributor agreement with Samsung to June 30, 2012. After the distributor agreement expired, Atlantic transformed its position from Samsung memory products distributor to a general memory products trader, and continues its business by providing various brands of memory products to its customers.

Aristo Technologies Limited

On March 23, 2010, the Company concluded that Aristo Technologies Limited (“Aristo”), a related company solely owned by Mr. Yang, was a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with the Company beginning fiscal year 2007 under the guidance applicable to variable interest entities. Atlantic sells Samsung memory chips to Aristo and allows long grace periods for Aristo to repay the open accounts receivable. Being the Company’s biggest creditor, the Company does not require Aristo to pledge assets or enter into any agreements to bind Aristo to specific repayment terms. The Company does not experience any bad debt from Aristo. Hence, the Company does not provide any bad debt provision derived from Aristo. Although, the Company is not involved in Aristo’s daily operation, it believes that there will not be significant additional risk derived from the trading relationship and transactions with Aristo. Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. In addition to Samsung-branded products, Aristo carries various brands of products, such as Hynix, Micron, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo also provides value-added services to its products and resells it to its customers. Aristo’s 2013 and 2012 sales were around \$0.9 million and \$2 million; it was a distributor that accommodated special requirements for specific customers.

Jussey Investments Limited

Jussey, a holding company incorporated in British Virgin Islands, which is wholly owned by the Company, owns 100% equity interest in eVision Telecom Limited (“eVision”), a Hong Kong incorporated company, and 80% equity interest in USmart Electronic Products Limited, a Hong Kong incorporated company, which owns 100% equity interest of Dongguan Kezheng Electronics Limited, a wholly foreign-owned enterprise (“WFOE”) organized under the laws of the PRC (USmart Electronic Products Limited and Dongguan Kezheng Electronics Limited are together referring as “USmart” hereafter.). Hence, Jussey indirectly owns 80% of Kezheng.

USmart Electronic Products Limited & Dongguan Kezheng Electronics Limited

USmart was founded in 2006 and it conducts its business through either itself or Kezheng, which has a factory located in Dongguan, PRC. USmart provides Research and Development (“R&D”) and both ODM (Original Design Manufacturing) and OEM (Original Equipment Manufacturing) services for the three “C” products – Computers, Communications and Consumer electronics devices, such as tablets, portable media players, digital photo frames, and smartphones. USmart has its own R&D and production teams. With the support from eVision, the business of which is described below, USmart is capable of providing its customers with total solutions from design to manufacturing. USmart holds its own brands – USmart and VSmart, which can be used on a broad spectrum of products including memory storage devices, visual and audio products such as digital flat screen television, DAB (Digital Audio Broadcasting) radios, digital photo frames, and other home electronic products. In 2010, USmart began its business

development in the telecommunication industry, and successfully obtained the W-CDMA (Wideband Code Division Multiple Access is one of the third-generation (“3G”) wireless standards) license from Intel Mobile Communications GmbH., which offers cellular platforms for global phone makers. W-CDMA baseband is adapted by China Unicom, one of the three major telecommunication carriers in the PRC.

eVision Telecom Limited

Founded in 2011, eVision is a Hong Kong based solution house that specializes in CDMA2000 (also known as Evolution-Data Optimized or “EV-DO”) platform. CDMA2000 is one of the 3G wireless standards. This standard was adapted by China Telecom, one of the three major telecommunication carriers in China. The principal function of eVision is to provide CDMA2000 solutions to USmart. In May 2011, eVision entered into an exclusive R&D servicing agreement (the “Servicing Agreement”) with an independent third party in the PRC (the “R&D House”), a solution house that works closely with South China University of Technology and has a R&D team consisting of members with advanced academic qualifications. The R&D House holds, on behalf of eVision, a CDMA2000 software license granted by VIA Telecom Co. Ltd. According to the Servicing Agreement, the R&D House provides R&D services relating to CDMA2000 technology exclusively to eVision, and eVision holds the sole and exclusive right, title and interest to and in the aforementioned license and any R&D results/products obtained or developed by the R&D House during the term of the Servicing Agreement. eVision will also hold all the intellectual property rights that are obtained or developed by the R&D House in the course of such research.

Key Events

ATMD, Joint Venture with Tomen

On September 27, 2013, ACL International Holdings Limited entered a Share Sale Agreement with Tomen Devices Corporation regarding the disposal of 30% share interest of ATMD, the Joint Venture with Tomen and IBcomm, for the consideration of USD 3,633,173. The transaction was completed in November 2013.

Products

The primary products the Company's subsidiaries and joint venture distribute and sell for the year ended December 31, 2013 are described as follows:

Atlantic Components Limited & ATMD (Hong Kong) Limited

Limited by the non-exclusive distributorship agreement, in the year 2013 ATMD will only provide Samsung brand memory products to its customers, whereas Atlantic does not have any limitation and will source any brands requested by its customers.

The primary products for Atlantic and ATMD consist of the followings:

DRAM

Dynamic Random Access Memory (DRAM) is a type of random-access memory that stores each bit of data in a separate capacitor within an integrated circuit. The capacitor can be either charged or discharged; these two states are taken to represent the two values of a bit, conventionally called 0 and 1. Since capacitors leak charge, the information eventually fades unless the capacitor charge is refreshed periodically. Since the application range for DRAM is very broad, it is classified into three main categories, namely Computing DRAM, Consumer DRAM and Graphics DRAM.

Computing DRAM

Computing DRAM is widely used memory component in servers and personal computers (PC) such as desktops and notebooks.

Consumer DRAM

Consumer DRAM is the widely used memory components in consumer products such as Set-Top Boxes (STB), Digital TVs, High Definition TVs (HDTV), Digital Still Cameras (DSC), Video Cameras, Digital Single-Lens Reflex (DSLR) Cameras, Navigation devices (such as Global Positioning System (GPS), GLONASS and Galileo), and as well as the automotive industry.

Graphics DRAM

Graphics DRAM is a special purpose Double Data Rate (DDR) DRAM that is used in graphics-intensive products which require high-speed 3-dimensional calculation performance and a large memory size to be used as data storage buffer, such as for DVD and computer game displays.

Currently, the Computing and Consumer DRAM markets have been dominated by DDR3. The Synchronous Dynamic Random Access Memory (SDRAM), DDR and DDR2 are nearly fading out in the market. The Graphics DRAM market has been dominated by GDDR3 and GDDR5. The GDDR 2 is nearly fading out in the market.

NAND Flash

NAND Flash memory is a specialized type of memory component used to store user data and program code; it retains this information even when the power is off. Although NAND Flash is predominantly used in mobile phones and tablets, it is also commonly used in multimedia digital storage applications for products such as MP3 players, DSC, Digital Voice Recorders, USB Disks, Flash memory cards, solid-state drives (SSD), etc. Flash cards such as the micro SD cards, SD cards, and CF cards are widely used for digital cameras, mobile phones, portable game consoles, MP3 players, etc.

LCD Panel

LCD panel is a major component in visual consumer electronics products such as LCD TVs, tablets, smartphones, notebooks, digital phone frames, portable game consoles, etc.

USmart Electronic Products Limited, Dongguan Kezheng Electronics Limited & eVision Telecom Limited

The primary products for USmart and eVision consist of the followings:

Research & Development

USmart primary focus its R&D on providing smartphone solution under the Intel's 3G baseband license, whereas eVision focus on providing smartphone solution under the VIA's 3G baseband license.

Manufacturing Services

OEM (Original Equipment Manufacturing) services where USmart manufactures products or components to its customers to sell under its customers' brand name. USmart has provided OEM services for various electronic products such as computer and peripherals, flash storage devices, smartphones and home electronic products.

ODM (Original Design Manufacturing) services where USmart designs and manufactures a product which is specified and eventually branded by another firm for sale. USmart has provided ODM services for various electronic products such as computer and peripherals, flash storage devices, smartphones and home electronic products.

Industry Background

Memory products are integral to a wide variety of consumer and industrial applications, including: personal computer systems, workstations and servers, and handheld devices such as notebooks, netbooks, tablets, smartphones, e-Readers, etc. A market trend of increasingly high-throughput applications (including data processing applications, mobile applications, digital consumer electronics, graphics applications, etc) is creating demand for high performance memory products. At present, NAND Flash, DDR2 DRAM, DDR3 DRAM and GDDR5 DRAM are the dominant memory products used with high-throughput applications and Samsung is the world's largest developer and manufacturer of these memory products.

Our Strategy

For the memory products business, the Company intends to, through operation of USmart and eVision, continue to provide its customers with a reliable source of memory products. For the R&D and manufacturing businesses, the Company intends to focus on research and development and manufacturing of smartphone and other mobile device products.

The Company intends to implement the strategies by:

Leverage network to become a leading smartphone solution provider;

Capitalize on rapid migration of manufacturers to China and companies seeking to expand their international market coverage;

Further consolidate leadership position by carrying best-in-class products from highly reputable brands and providing superior customer service;

Maintain optimal product mix with diversified lifecycles to maximize sales as new and groundbreaking technology is introduced; and

Provide “Total Memory Solutions” for computer, consumer electronic appliances and communications devices manufacturers.

Competitive Strengths

The Company believes there are several key factors that will continue to differentiate us from its competitors in Hong Kong and PRC:

There are currently five types of 3G wireless standards in the telecommunication industry. Three of them are adapted in China by the major mobile network carriers, China Unicom, China Telecom and China Mobile. The Company, through USmart and eVision, has access to two of the three 3G wireless standards, namely, WCDMA and CDMA2000 for its smartphones development.

eVision has a strong R&D team specializing in the WCDMA mobile network, while exclusively appointed an R&D House specializing in CDMA2000 mobile network that works closely with South China University of Technology. This R&D House has a R&D team consisting of members with advanced academic qualifications.

Even after the disposal of equity interest in ATMD, the Company still remain a very close business relationship with ATMD and Tomen, the majority shareholder of ATMD. The Company believes this has a competitive advantage over its competitors in Greater China region. As the world's largest memory products manufacturer, Samsung's memory products are competitively priced and have an established reputation for product quality and brand name recognition in the retail and PC/Server OEM & Consumer Electronic segments. ATMD, as one of the largest distributors of Samsung's memory products for Hong Kong and Southern China markets, is expected to be in a highly competitive position compared to other U.S., European, Japanese and Taiwanese memory products manufacturers and distributors.

Sales and Marketing

As of December 31, 2013, the Company employed a total of 5 full time sales and marketing personnel, each of whom has several years' experience in the memory products and manufacturing industry. 2 of these salespeople are stationed in the Company's headquarters in Hong Kong, and 3 of them work out of the Company's China offices. These sales personnel co-operate with consumer electronics retailers and manufacturers, and International Purchase Offices to ensure that clients are supplied promptly with our products.

Research and Development

The Company is currently focusing its resources on research and development of middle to high-end smartphone solutions for WCDMA and CDMA2000 networks. Our in-house R&D team is focusing on research and development of solutions for WCDMA network, whereas the R&D House exclusively performs service to the Company is focusing on research and development of solutions for CDMA2000 network. The Company expects to continue to make substantial investments in research and development and to participate in the development of new and existing industry standards.

As of December 31, 2013, the research and development team consisted of 6 full time engineers and technical staff, and 20 engineers and technical staff working in its appointed R&D House.

The research and development expenses for the year ended December 31, 2013 were around USD 70,000.

Manufacturing

The manufacturing facility partially owned by the Company is located in the city of Dongguan in Guangdong Province. The manufacturing facility was awarded ISO 9001 certification for its production process and its production lines are RoHS (lead free) compliant to comply with today's world environmental trends and standards.

The Company has its own quality control team to control quality and improve yields. This team consisted of 5 full time employees in China.

Competition

The memory products industry in Hong Kong and Southern China markets is very competitive. The Company competes with other memory products traders, consumer electronics manufacturers, and smartphone research and development solution houses, many of which have substantially greater financial, technical, marketing, distribution channels and other resources.

Memory products, such as NAND flash, compete on the basis of product availability, price and customer service. We believe that we compete effectively with respect to each of these competitive factors. Price competition is significant and is expected to continue. Since we have been in the industry for over 20 years, we have maintained good connections with other distributors and memory products manufacturers on sourcing the requested products for our customers. In order to distinct from the other competitors, we have maintained high quality customer service and employed a team of field application engineers to ensure the products we sourced are authentic and reduce the risk of malfunctioning on our customer's products. The Company's principal competitors also include the other non-exclusive distributors of Samsung memory products in the Hong Kong and Southern China markets.

The smartphones industry in the China market is also highly competitive and has been characterized by price competition, manufacturing capacity constraints and product availability constraints at various times. There are currently five types of 3G wireless standards in the telecommunication industry. Three of them are adopted in China by the major mobile network carriers, China Unicom, China Telecom and China Mobile. Currently, the Company has access to two of the three 3G wireless standards, namely, WCDMA and CDMA2000 from Intel and VIA respectively for its smartphones development. Intel and VIA may at its sole discretion increase the number of licensees in China, which would result in an increased competition for the Company. The Company's principal competitors are other smartphone solution providers such as Cellon, Coolpal, and SIMCOM.

Seasonality

The memory products industry and smartphones industry are increasingly characterized by seasonality and wide fluctuations in supply and demand. Since a significant portion of our revenue is from consumer markets, our business may be subject to seasonally lower revenues in certain quarters of our fiscal year. The industry has also been impacted by significant shifts in consumer demand due to economic downturns or other factors, which may result in diminished product demand and production over-capacity. In recent periods, weakness in the general economic condition has had a more significant impact on our results than seasonality, and has made it difficult to assess the impact of seasonal factors on our business.

Market Research

The Company invests significant resources in market research to provide prompt and accurate market intelligence and feedback on a daily, weekly and monthly basis in order to assist the management in production planning and product allocation functions.

Suppliers

In the year 2013, Tomen was our supplier for Samsung memory products provided to Atlantic, and we also had various other PRC and HK suppliers for the general memory products and the other electronic parts for the manufacturing of smartphones.

Customers

As of April 15, 2014, the Company had approximately 30 customers in Hong Kong and Southern China, the majority of whom are memory product traders and Consumer Electronics manufacturers. Other than the Company's most significant two customers who accounted for 37% and 9% of the Company's net sales for the year ended December 31, 2013, no other customer accounted for more than 10% of the Company's net sales for 2013. In order to control the Company's credit risks, the Company does not offer any credit terms to its customers other than a small number of clients who have long-established business relationships with the Company.

Government Regulation

As of December 31, 2013, the Company's business operations were not subject to the regulations of any jurisdiction other than Hong Kong SAR and the PRC. The Company executes its sales contracts and delivers its products in Hong Kong and PRC for its Chinese customers and there have been no restrictions imposed on the Company by the PRC authorities with respect to the Company's pursuit of business growth and opportunities in China.

Employees

As of December 31, 2013, the Company had a total of 81 full time employees in Hong Kong and PRC, including 5 employees in sales and marketing, 4 employees in procurement, 32 employees in administration and accounts, 15 employees in engineering, 5 employees in quality control, 17 employees in production, 3 employees in customer service and liaison. None of the Company employees are represented by labor unions. After the ATMD establishment, Atlantic had a total of 21 full time employees in Hong Kong and PRC, including 17 employees in administration and accounts, and 4 employees in engineering. As of September 28, 2012, the Company expanded the operations group by acquiring Jussey had increased the number of full time employees by 60. The Company has never experienced any work stoppage and believes that our employee relations are favorable.

The Company's primary hiring sources for its employees include referrals from existing employees, print and internet advertising and direct recruiting. All of the Company's employees are highly skilled and educated and subject to rigorous recruiting standards appropriate for a company involved in the distribution of brand name memory products. The Company attracts talent from numerous sources, including higher learning institutions, colleges and industry. Competition for these employees is intense. The Company believes its relationship with its employees to be good. However, the Company's ability to achieve its financial and operational objectives depends in large part upon its continuing ability to attract, integrate, retain and motivate highly qualified personnel, and upon the continued service of its senior management and key personnel, especially Mr. Yang.

Item 1A. Risk Factors

We are subject to a number of risks. Some of these risks are endemic to the high-technology and semiconductor industry and are the same or similar to those disclosed in our previous SEC filings. This section should be read in conjunction with the consolidated financial statements and the accompanying notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report. The risks and uncertainties set out below are not the only risks and uncertainties we face. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks and investors may lose all or part of their investment. The information included in this Annual Report is provided as of the filing date with the SEC and future events or circumstances could differ significantly from the forward-looking statements included herein.

Risks Related to Our Business

Our independent auditor has issued a going concern opinion after auditing our financial statements; our ability to continue is dependent on our ability to raise additional capital and our operations could be curtailed if we are unable to obtain required additional funding when needed.

As of December 31, 2013, the Company has total current assets of \$2,809,342 and current liabilities of \$20,584,666. This raises substantial doubt about the Company’s ability to continue as a going concern. The Company is attempting to address its lack of liquidity by raising additional funds, either in the form of debt or equity or some combination thereof. Any additional equity financing may involve substantial dilution to our then existing shareholders. We currently have no agreements or arrangements with respect to any such financing and there can be no assurance that any needed funds will be available to us on acceptable terms or at all. Our failure to raise additional funds in the future will adversely affect our business operations, and may require us to suspend our operations. After auditing our financial statements, our independent auditor issued a going concern opinion and our ability to continue is dependent on our ability to raise additional capital. If we are unable to maintain our current level of working capital, we will likely to face more difficulty in business operation.

If ATMD's relationship with Samsung is terminated or deteriorated, our financial conditions will be materially adversely affected.

ATMD relies ultimately on Samsung to provide it with products for distribution to its clients.

Although Samsung has renewed distribution agreement with Atlantic in the past, no assurances can be given that Samsung will definitely renew the distribution Agreement with ATMD. In addition, even if such agreement is renewed, no assurance can be given that the terms will be satisfactory to us.

Samsung has the right to increase the number of distributors of its memory products in Hong Kong and the Southern China markets without consulting us. If Samsung significantly increases the number of authorized distributors of its memory products, competition among Samsung distributors would increase and ATMD may not be able to operate profitably.

Any outcomes mentioned above occurred will deteriorate our gross margin and unfavorably change our supply chain, even after the disposal of equity interest of ATMD, and continue to maintain a close relationship with ATMD and Tomen as our supplier for Samsung products.

If Samsung is unable to respond to customer demand for diversified products or is unable to do so in a cost-effective manner, ATMD may lose market share and our financial conditions may be adversely affected.

In recent periods, the market has become relatively segmented, with diverse products need being driven by the different requirements of applications such as desktop and notebook PCs, netbooks, servers, workstations, handheld devices, and communications and industrial applications that demand specific solutions.

Samsung needs to dedicate significant resources to product design and development to respond to customer demand for the continued diversification of memory products. If Samsung is unable or unwilling to invest sufficient resources to meet the diverse memory needs of customers, we, as a major Samsung memory products distributor may lose market share. In addition, as ATMD diversifies its product lines, it may encounter difficulties penetrating certain markets, particularly markets where it does not have existing customers. If ATMD is unable to respond to customer demand for market diversification in a cost-effective manner, the results of its operations and accordingly our financial conditions may be adversely affected.

If Samsung's global allocation process results in Samsung not having sufficient supplies of memory products to meet all of our customer orders, this would have a negative impact on our sales and could result in our loss of customers. However, such shortages are infrequent. On the other hand, no assurance can be given that such shortages will not occur in the future.

USmart and eVision are also dependent on Samsung to provide them with application processors.

The majority of solutions provided by USmart and eVision are Android based and the major components include application processors provided by Samsung. Should there be any disruption in the supply of such processors from Samsung during the fulfillment of orders, USmart and eVision may lose its orders from customers and/or may incur compensation to those customers due to delay in delivery, and may have a negative impact on its financial results and positions.

If the growth rate of either memory products or other components sold or the amount of memory or components used in each application decreases, sales of our products could decrease.

The Company is dependent on the computer and consumer electronics market as many of the products that we distribute are used in PCs, smartphones, or other consumer electronics. DRAMs are the most widely used semiconductor components in PCs. Flash products are mostly used in the consumer electronics products. Wifi and Camera modules are highly used in smartphones. LCD panels are used in many visual products, such as smartphones, tablets, and netbooks. If there is a continued reduction in the growth rate of the related consumer electronics markets, sales of our products built for those markets would decrease, and, as a result, our operations, cash flows and financial condition could be adversely affected.

The demand from the end-products that uses our solutions depends on many factors.

The demand from the end-products that use our solutions depend on many factors such as economic climate, change in technology, competitiveness of competitors, etc. If such demand decreases as a result of negative impact from these factors, it will affect revenue, cash flows and financial conditions of the Company, and may adversely affect the Company's share price.

The solutions provided by us rely on the licenses from Intel Mobile Communications GmbH. and VIA Telecom Co., Ltd, which we could lose.

The majority of solutions provided by USmart are under licenses from Intel Mobile Communications GmbH ("Intel"). Whereas, the majority of solutions provided by eVision are under licenses from VIA Telecom Co. ("VIA") Ltd. If such licenses are revoked or expire without renewal, USmart and eVision will not be able to provide those solutions to its customers and may result in loss of revenue and profits which will have a negative impact to its financial results and

positions.

Competitive level is uncontrollable.

Business in telecommunication industry highly relies on the baseband license acquired from Intel. The current CDMA license providers are Intel, VIA and T3G Technology Co., Ltd. in China. USmart cannot control how many licensees the license providers authorized. If the number of licensees increases, it may increase the competition and result in loss of revenue and profits which may have a negative impact to its financial results and positions.

Our research and development may be costly and/or untimely, and there are no assurances that our research and development will either be successful or completed within the anticipated timeframe, if at all.

Our recent acquired business relies on research and development activities. The research and development of new products play an important role for our company. Development of new products requires significant research and development. If we are unable to perform research and development successfully, our business and results of operations could be negatively impacted.

The research and development of new products is costly and time consuming, and there are no assurances that our research and development of new products will either be successful or completed within the anticipated time frame, if at all. There are also no assurances that if the product is developed, that it will lead to actual commercialization and sales.

We are heavily dependent upon the electronics industry, and excess capacity or decreased demand for products produced by this industry could result in increased price competition as well as a decrease in our gross margins and unit volume sales.

Our business is heavily dependent on the electronics industry. The majority of our revenue is generated from the networking, high-end computing and computer peripherals segments of the electronics industry, which are characterized by intense competition, relatively short product life-cycles and significant fluctuations in product demand. Furthermore, these segments are subject to economic cycles, which have occurred in the past and are likely to occur in the future. A recession or any other event leading to excess capacity or a downturn in these segments of the electronics industry could result in intensified price competition, a decrease in our gross margins and unit volume sales and materially affect our business, prospects, financial condition and results of operations.

The memory product industry is highly competitive.

The Company faces intense competition from a number of companies, some of which are large corporations or conglomerates, that may have greater resources to withstand downturns in the semiconductor memory market, invest in technology and capitalize on growth opportunities. To the extent Samsung memory products become less competitive, our ability to effectively compete against distributors of other memory products will diminish.

We face competition from other telecommunication and computer manufacturers.

We face competition from other telecom and computer manufacturers in China, particularly in the telecommunication sector. There are three major telecommunication companies in China and they can also provide R&D, manufacturing and marketing services to smartphone and other accessories that we feature. This competition may affect our ability to attract and retain customers and buyers and may reduce the prices we are able to charge. An inability to compete effectively could adversely affect our business, financial condition and results of operations.

We are operating in an industry with very short life cycle.

The mobile devices industry in which the newly acquired business is operating has a very short product life cycle. Inability to respond to an end of a product life cycle may result in the loss of revenue and profits which may have a negative impact to its financial results and positions.

We are operating in an industry with high demand in product features upgrade and fast generation change.

The telecommunication industry in which our recently acquired business is operating has high demand in product features upgrade and fast generation change. Inability to respond to the features upgrade and generation change may result in the loss of revenue and profits which may have a negative impact to its financial results and positions.

If our current product strategy and operating system strategy are not successful, our telecommunication business could be negatively impacted.

Our current strategy is to concentrate our mobile solution on smartphones and to use third-party and/or open-source operating systems and associated application ecosystems, predominantly the Google Android operating system (a royalty-free open-source platform). As a result, we are dependent on third-parties' continued development of operating systems, software application ecosystem infrastructures and such third-parties' approval of our implementations of their operating system and associated applications. If we had to change our strategy, our financial results could be negatively impacted because a resulting shift away from using Android and the associated applications ecosystem could be costly and difficult. A strategy shift could increase the burden of development to the Company and potentially create a gap in our portfolio for a period of time, which could competitively disadvantage the Company.

We are at risk if Android-based smartphones do not remain competitive in the marketplace. Even if Android-based smartphones remain competitive, the Android operating system is an open-source platform and many other companies sell competing Android-based smartphones solutions. If the Android-based smartphones solutions of our competitors are more successful than ours, our financial results could be negatively impacted. It is also critical to the success of the Android operating system that third-party developers continue to develop and offer applications for this operating system that are competitive with applications developed for other operating systems. From an overall risk perspective, the industry is currently engaged in an extremely competitive phase with respect to operating system platforms, applications and software generally. If Android does not continue to gain operator and/or developer adoption, or any updated versions or new releases of Google's Android operating system or applications are not made available to us in a timely fashion, the Company could be competitively disadvantaged and our financial results could be negatively impacted.

We may not be able to adequately protect our brand name and intellectual property rights that we developed.

Our brand names and intellectual property rights are important to our business and we rely on them to conduct our business operations. Unauthorized use of our brand names and intellectual property rights by third parties may materially adversely affect our business and reputation. We rely on trademark and copyright laws to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our brand names or intellectual property rights without authorization.

We cannot be assured that third parties will not infringe or misappropriate our brand names or intellectual property rights. We may, at times, have to incur significant legal costs and spend time in defending our trademarks and copyrights. Any defense efforts, whether successful or not, would divert both time and resources from the operation and growth of our business.

Current economic and political conditions may harm our business.

Global economic conditions and the effects of military or terrorist actions may cause significant disruptions to worldwide commerce. If these disruptions result in delays or cancellations of customer orders, a decrease in corporate spending on information technology or our inability to effectively market, manufacture or ship our products, our results of operations, cash flows and financial condition could be adversely affected. There is a risk that the events in Japan could negatively affected semiconductor markets, and may continue to have severe and unpredictable effects on the price of certain raw materials in the future. In addition, our ability to raise capital for working capital purposes and ongoing operations is dependent upon ready access to capital markets. During times of adverse global economic and political conditions, accessibility to capital markets could decrease. If we are unable to access the capital markets over an extended period of time, we may be unable to fund operations, which could materially adversely affect our results of operations, cash flows and financial condition.

We believe that we will require additional equity financing to reduce our long-term debts and implement our business plan.

We anticipate that we will require additional equity financing in order to reduce our long-term debts and implement our business plan of increasing sales in the Southern China markets. There can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on terms acceptable to us. If we obtain such financing, the holders of our Common Stock may experience substantial dilution.

To finance our new business, debt or equity financing may be required and may adversely impact our share price.

In order to expand the business of USmart and eVision as well as the Company, the Company may need to raise fund in form of equity and/or debt to incur substantial additional indebtedness to finance such expansion. If we or our subsidiaries incur additional debt, the risks that we face as a result of an increased indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under our borrowings;
- increase our vulnerability to adverse general economic and industry conditions; require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds or make guarantees; and
- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not always be able to generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all. As a result, the share price may be adversely affected due to increase in gearing or shareholder base.

Risks Relating to the Recent Acquisition

The acquisition may not result in the increase of revenue and profits of the Company.

While the management expects that the acquisition of Jussey will enable the Company to tap into and expand its operations in mobile devices and telecommunication business segments through USmart and eVision, USmart and eVision may not be able to contribute an increase in revenue and profit to the results of the Company as other factors such as changes in future economic climate, intensity of competition from competitors, ability to adapt due to change in technology, number of orders to be received may not be correctly anticipated, which will have a significant impact on the results of USmart and eVision that could generate.

Successful operation of the acquired business is not assured.

Despite that USmart and eVision have orders / projects on hand and pipeline of orders are anticipated, the Company may not be able to expand the business of USmart or eVision beyond these orders / projects and may suffer losses after these orders have been fulfilled as USmart and eVision have operated at a loss making in the past, which may have a significant negative impact to the Company financial position.

Successful integration of the USmart and eVision businesses with our other businesses is not assured.

While management expects that they will be able to integrate the business of USmart and eVision into the Company's existing trading business within the expected timeframe which would enables the Company to operate more effectively and efficiently and to create synergy hence lower costs of operations, such integration may fail or fail to achieve the desired level of synergy and may increase the overall administrative expenses at a ratio higher than the proportionate revenue and profit contribution from USmart and eVision, and may have significant negative impact to the Company.

USmart and eVision may not be able to distribute dividends to the Company.

USmart and eVision are Hong Kong incorporated company and may distribute retained profits to its shareholders. Since USmart and eVision have been operating at a loss in the past and does not have retained profits available for distribution to the Company, it may not be able to generate enough profits to recover losses from prior years and

therefore may not be able to distribute dividends to the Company for further distributions to its shareholders.

A lack of expertise over USmart and eVision financial reporting in U.S. GAAP could result in an inability to accurately report our financial results, which may lead to loss of investor confidence in our financial statements and may adversely affect the Company's share price.

While the management will pursue to ensure that the financial results of USmart and eVision will be reported accurately under U.S. GAAP, the financial results of USmart and eVision may be inaccurately reported under U.S. GAAP due to lack of U.S. GAAP expertise from USmart and eVision and may adversely affect the Company's share price, loss of investor confidence and regulatory penalty.

Our ability to execute on our business strategy and growth will depend in part on the success of the telecommunication industry.

The acquisition is part of the Company's business strategy to grow and expand through access to the telecommunication industry. As a result, the success of USmart and eVision businesses will have a material impact on the overall success of the Company.

Risks Associated With Doing Business in China

There are substantial risks associated with doing business in China, some of which are addressed in the following risk factors.

Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, results of operations and financial condition.

Part of our business is conducted in, and part of our revenues is derived from, the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including, but not limited to structure, governmental involvement, level of development, growth rate, capital re-investment, allocation of resources, control of foreign currency and rate of inflation. The economy of the PRC has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industries by imposing industrial policies. It also exercises significant control over the PRC's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Policies and other measures taken by the PRC government to regulate the economy could have a significant negative impact on economic conditions in the PRC, with a resulting negative impact on our business. For example, our business, results of operations and financial condition may be materially and adversely affected by:

- new laws and regulations and the interpretations of those laws and regulations;
- the introduction of measures to control inflation or stimulate growth;
- changes in the rate or method of taxation; or
- the imposition of additional restrictions on currency conversions and remittances abroad.

Macroeconomic measures taken by the PRC government to manage economic growth could have adverse economic consequences.

In response to concerns about the PRC's high growth rate in industrial production, bank credit, fixed investment and money supply, the PRC government has periodically taken measures to slow economic growth to a more manageable level. Among the measures that the PRC government has taken are restrictions on bank loans in certain sectors. These measures have contributed to a modest slowdown in economic growth in the PRC and a reduction in demand for consumer goods and real property. These measures and any additional measures, including an increase in interest rates, could contribute to a further slowdown in the PRC economy, which could result in a decline in demand for industrial materials and lower revenues for us.

In particular, the State Council has recently announced further macroeconomic measures to control perceived overinvestment in the real property market. The detailed regulations issued by central government agencies to implement these measures include, without limitation, restrictions on foreign investment and strict enforcement of tax collection. We can give you no assurance that these measures and regulations will not adversely affect our business.

The PRC legal system has inherent uncertainties that could negatively impact our business.

Our business is operated through, and our revenues are generated by, our operating subsidiaries in the PRC. Substantially all of our assets are located in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the legal system in China develops, changes in such laws and regulations, their interpretation or their enforcement may have a negative effect on our business, financial condition and results of operations.

It may be difficult to affect service of process upon us or our directors or to enforce any judgments obtained from non-PRC courts.

Our operations are conducted and a substantial part of our assets are located within China. Our key management reside in Hong Kong and China, where substantially all of their assets are located. Investors may experience difficulties in effecting service of process upon us, our directors or our senior management as it may not be possible to affect such service of process outside China. In addition, our PRC counsel has advised us that China does not have treaties with the United States and many other countries providing for reciprocal recognition and enforcement of court judgments. Therefore, recognition and enforcement in China of judgments of a court in the United States or certain other jurisdictions may be difficult or impossible.

Restrictions on foreign currency exchange may limit our ability to obtain and remit foreign currency or to utilize our revenues effectively.

We receive substantially part of our revenues in Renminbi through our ownership and operation of USmart. As a result, any restriction on currency exchange may limit our ability to use revenues generated in Renminbi to service and repay our indebtedness. Our ability to satisfy our debt obligations depends upon the ability of our subsidiaries incorporated in the PRC to obtain and remit sufficient foreign currency. Our subsidiaries incorporated in the PRC must present certain documents to the designated foreign exchange bank before they can obtain and remit foreign currency out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the State Administration for Foreign Exchange). There can be no assurance that our subsidiaries incorporated in the PRC will not encounter difficulty in the future when undertaking these activities. If our subsidiaries in the PRC are unable to remit dividends to us, we could be unable to make payment of interest on and principal of our indebtedness.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese Renminbi into foreign currencies and, if Chinese Renminbi were to decline in value, reducing our revenue in US Dollar terms.

Our reporting currency is the US Dollar and our operations in China use their local currency as their functional currencies. Part of our revenue and expenses in China are in the Chinese currency, the Renminbi. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the Renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of the Renminbi to the US Dollar had generally been stable and the Renminbi had appreciated slightly against the US Dollar. In July 2005, the Chinese government changed its policy of pegging the value of the Renminbi to the US Dollar. Under this policy, which was halted in 2008 due to the worldwide financial crisis, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign

currencies. In June 2010, the Chinese government announced its intention to again allow the Renminbi to fluctuate within the 2005 parameters. It is possible that the Chinese government could adopt an even more flexible currency policy, which could result in more significant fluctuation of Renminbi against the US Dollar, or it could adopt a more restrictive policy. We can offer no assurance that the Renminbi will be stable against the US Dollar or any other foreign currency.

Our financial statements are translated into US Dollars at the average exchange rates in each applicable period. To the extent the US Dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the US Dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign consolidated subsidiaries into US Dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign consolidated subsidiaries' financial statements into US Dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to hedge our exchange rate risks.

The cyclical nature of the telecommunication and computer industry could adversely affect our results of operation.

Our results of operations are and will continue to be affected by the cyclical nature of the telecommunication and computer industry in the PRC. Our products pricing, inventory and accounts receivable are affected by, among other factors, supply and demand of comparable products, interest rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC. We cannot assure you that the products can be sold. In addition, additional supply of new products are scheduled for completion over the next few months and years in the PRC. This additional supply could also adversely affect trade products sales as well as the inventory and credit policies.

Risks Related to Our Common Stock

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act of 2002 may result in actions filed against us by regulatory agencies or in a reduction in the price of our common stock.

We are required to maintain effective internal control over financial reporting under the Sarbanes Oxley Act of 2002 and related regulations. Any material weakness in our internal control over financial reporting that needs to be addressed, or disclosure of a material weakness in management's assessment of internal control over financial reporting, may reduce the price of our common shares because investors may lose confidence in our financial reporting. Our failure to maintain effective internal control over financial reporting could also lead to actions being filed against us by regulatory agencies. We identified material weaknesses in internal control over financial reporting as more fully discussed in Controls and Procedures at Item 9A of our Annual Report as of December 31, 2011. Currently, we have plans for certain remediation actions, but they will take time to implement because of their cost. There can be no assurance when remediation will be completed, if at all. Therefore, future reports may have statements indicating that our controls and procedures are not effective. We cannot assure you that even if we remediate our internal control over financial reporting relating to the identified material weaknesses that it will establish the effectiveness of our internal control over financial reporting or that we will not be subject to material weaknesses in the future.

Our major stockholder controls our business, and could delay, deter or prevent a change of control or other business combination.

One shareholder, Mr. Yang, Chairman of the Board of Directors, holds approximately 67.1% of our outstanding Common Stock. By virtue of his stock ownership, Mr. Yang will control all matters submitted to our board and our stockholders, including the election of directors, and will be able to exercise control over our business, policies and affairs. Since he has substantial voting power, he could cause us to take actions that we would not otherwise consider, or could delay, deter or prevent a change of control or other business combination that might otherwise be beneficial to our stockholders.

Our stock price has been volatile and may fluctuate in the future.

There has been significant volatility in the market prices of publicly traded shares in computer related companies, including ours. From September 30, 2003, the effective date of the reverse-acquisition of Atlantic, to December 31, 2013, the closing price of our Common Stock fluctuated from a per share high of \$3.00 to a low of \$0.01 per share. The share price of our Common Stock may not remain at or exceed current levels. The market price for our Common

Stock, and for the stock of electronic companies generally, has been highly volatile. The market price of our Common Stock may be affected by: (1) incidental level of demand and supply of the stock; (2) daily trading volume of the stock; (3) number of public stockholders in our stock; (4) fundamental results announced by Usmart; and (5) any other unpredictable and uncontrollable factors.

If additional authorized shares of our Common Stock available for issuance or shares eligible for future sale were introduced into the market, it could hurt our stock price.

We are authorized to issue 50,000,000 shares of Common Stock. As of April 15, 2014, there were 39,684,495 shares of our Common Stock issued and outstanding.

Currently, outstanding shares of Common Stock are eligible for resale. We are unable to estimate the amount, timing or nature of future sales of outstanding Common Stock. Sales of substantial amounts of the Common Stock in the public market by these holders or perceptions that such sales may take place may lower the Common Stock's market price.

If penny stock regulations impose restrictions on the marketability of our Common Stock, the ability of our stockholders to sell shares of our stock could be impaired.

The SEC has adopted regulations that generally define a "penny stock" to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share subject to certain exceptions. Exceptions include equity securities issued by an issuer that has (i) net tangible assets of at least \$2,000,000, if such issuer has been in continuous operation for more than three years, or (ii) net tangible assets of at least \$5,000,000, if such issuer has been in continuous operation for less than three years, or (iii) average revenue of at least \$6,000,000 for the preceding three years. Unless an exception is available, the regulations require that prior to any transaction involving a penny stock, a risk of disclosure schedule must be delivered to the buyer explaining the penny stock market and its risks. Our Common Stock is currently trading at under \$5.00 per share. Although we currently fall under one of the exceptions, if at a later time we fail to meet one of the exceptions, our Common Stock will be considered a penny stock. As such the market liquidity for the Common Stock will be limited to the ability of broker-dealers to sell it in compliance with the above-mentioned disclosure requirements.

You should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers;
- “Boiler room” practices involving high-pressure sales tactics;
- Manipulation of prices through prearranged matching of purchases and sales;
 - The release of misleading information;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

• Dumping of securities by broker-dealers after prices have been manipulated to a desired level, for which hurts the price of the stock and causes investors to suffer from loss.

We are aware of the abuses that have occurred in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, we will strive within the confines of practical limitations to prevent such abuses with respect to our Common Stock.

Section 203 of the Delaware General Corporation Law may deter a third party from acquiring us.

Section 203 of the Delaware General Corporation Law prohibits a merger with a 15% shareholder within three years of the date such shareholder acquired 15%, unless the merger meets one of several exceptions. The exceptions include, for example, approval by two-thirds of the shareholders (not counting the 15% shareholder), or approval by the Board prior to the 15% shareholder acquiring its 15% ownership. This provision makes it difficult for a potential acquirer to force a merger with or takeover of the Company, and could thus limit the price that certain investors might be willing to pay in the future for shares of our Common Stock.

Item 1B. Unresolved Staff Comments

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 2. Properties

Our principal office occupies approximately 7,643 square feet and is located at Room 1703, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for five years, expiring November 30, 2014 with monthly lease payments of HKD90,000 (approximately USD11,538).

We lease an office occupies approximately 7,643 square feet and is located at Room 1701, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for five years, expiring November 30, 2014 with monthly lease payments of HKD90,000 (approximately USD11,538). This office is sublet to ATMD

We lease a warehouse unit of approximately 873 square feet, which is located at B13, 1/F., Block B, Proficient Industrial Centre, 6 Wang Kwun Road, Kowloon Bay, Kowloon, Hong Kong. The lease is for two years, expiring May 10, 2015 with monthly lease payments of HKD9,800 (approximately USD1,256).

We own an investment property of approximately 3,000 square feet, which is located at No. 76, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong. The current lease is for two years expiring on September 30, 2015 with monthly lease income of HKD68,000 (approximately USD8,718).

We own a property of approximately 3,000 square feet that is used for Mr. Yang's personal residence and is located at No. 78, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong.

We lease a premise including factory, dormitory, and office space of approximately 6,500 square meters, which is located at No.12, Lu Yi 2 Road, Ke Yuan Cheng, Tang Xia Town, Dongguan City, Guangdong Province, China. The current lease is for eight years expiring on December 31, 2018 with monthly lease payments of RMB81,900 (approximately USD12,967). Pursuant to the lease agreement, the lease payments will increase 5% every three years.

Aristo owns an investment property of approximately 2,670 square feet, which is located at House 19, Casas Domingo, 8 Kam Ka Street, Sheung Shui, New Territories, Hong Kong with 2 parking lots namely No. 39 and No. 40 of the estate. The current lease is for three years expiring on March 14, 2014 with monthly lease income of HKD23,500 (approximately USD3,013).

Aristo owns an investment property of approximately 2,521 square feet, which is located at House 56, Casa Marina II, 1 Lo Ping Road, Tai Po, New Territories, Hong Kong. The current lease is for two years expiring on July 13, 2014

with monthly lease income of HKD27,000 (approximately USD3,462)

In the event that the above facilities become unavailable, we believe that alternative facilities could be obtained on a competitive basis.

Item 3. Legal Proceedings

We are not a party to any current or pending legal proceedings that, if decided adversely to us, would have a material adverse effect upon our business, results of operations, or financial condition, and we are not aware of any threatened or contemplated proceeding by any governmental authority against us. To our knowledge, we are not a party to any material legal proceedings as of the date of this report.

Item 4. Mine Safety Disclosure

Not Applicable

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

	High	Low
Fiscal Year ended December 31, 2013:		
Quarter ended December 31, 2013	\$0.15	\$0.01
Quarter ended September 30, 2013	\$0.07	\$0.03
Quarter ended June 30, 2013	\$0.80	\$0.07
Quarter ended March 31, 2013	\$0.13	\$0.07
Fiscal Year ended December 31, 2012:		
Quarter ended December 31, 2012	\$0.18	\$0.10
Quarter ended September 30, 2012	\$0.20	\$0.05
Quarter ended June 30, 2012	\$0.50	\$0.10
Quarter ended March 31, 2012	\$0.25	\$0.09

Stock price information has been derived from Yahoo Finance. Such quotations reflect inter-dealer bids, without retail mark-up, mark-down or commissions, and may not reflect actual transactions.

As of April 14, 2014, the last reported sale price of our Common Stock, as reported by Yahoo Finance, was \$0.01 per share.

As of April 14, 2014, there were approximately 450 holders of record of our Common Stock.

Dividend Policy

Since our recapitalization with Atlantic, effective September 30, 2003, we have never paid cash dividends on our Common Stock. We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future.

Equity Compensation Plan Information

2006 STOCK OPTION PLAN

On March 31, 2006, the Board of Directors adopted the 2006 Equity Incentive Stock Plan (the “Plan”) and the majority stockholder approved the Plan by written consent. The purpose of the Plan is to provide additional incentive to employees, directors and consultants and to promote the success of the Company’s business. The Plan permits the Company to grant both incentive stock options (“Incentive Stock Options” or “ISOs”) within the meaning of Section 422 of the Internal Revenue Code (the “Code”), and other options which do not qualify as Incentive Stock Options (the “Non-Qualified Options”) and stock awards.

Unless earlier terminated by the Board of Directors, the Plan (but not outstanding options) terminates on March 31, 2016, after which no further awards may be granted under the Plan. The Plan is administered by the full Board of Directors or, at the Board of Director’s discretion, by a committee of the Board of Directors consisting of at least two persons who are “disinterested persons” defined under Rule 16b-2(c)(ii) under the Securities Exchange Act of 1934, as amended (the “Committee”).

Recipients of options under the Plan (“Optionees”) are selected by the Board of Directors or the Committee. The Board of Directors or Committee determines the terms of each option grant, including (1) the purchase price of shares subject to options, (2) the dates on which options become exercisable and (3) the expiration date of each option (which may not exceed ten years from the date of grant). The minimum per share purchase price of options granted under the Plan for Incentive Stock Options and Non-Qualified Options is the fair market value (as defined in the Plan) on the date the option is granted.

Optionees will have no voting, dividend or other rights as stockholders with respect to shares of Common Stock covered by options prior to becoming the holders of record of such shares. The purchase price upon the exercise of options may be paid in cash, by certified bank or cashier’s check, by tendering stock held by the Optionee, as well as by cashless exercise either through the surrender of other shares subject to the option or through a broker. The total number of shares of Common Stock available under the Plan, and the number of shares and per share exercise price under outstanding options will be appropriately adjusted in the event of any stock dividend, reorganization, merger or recapitalization or similar corporate event.

The Board of Directors may at any time terminate the Plan or from time to time make such modifications or amendments to the Plan as it may deem advisable and the Board of Directors or Committee may adjust, reduce, cancel and re-grant an unexercised option if the fair market value declines below the exercise price except as may be required by any national stock exchange or national market association on which the Common Stock is then listed. In no event may the Board of Directors, without the approval of stockholders, amend the Plan if required by any federal, state, local or foreign laws or regulations or any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where options or stock purchase rights are granted under the Plan.

Subject to limitations set forth in the Plan, the terms of option agreements will be determined by the Board of Directors or Committee, and need not be uniform among Optionees.

As of December 31, 2013, there were no options outstanding under the Plan.

Item 6. Selected Financial Data

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other portions of this report contain forward-looking information that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, product demand, market acceptance and other factors discussed in this report under the heading "Risk Factors." This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements and the related notes included elsewhere in this report.

Overview

Corporate Background

USmart was primarily engaged in the business of distribution of memory products mainly under “Samsung” brand name which principally comprised DRAM, Graphic RAM and Flash for the Hong Kong and PRC markets (“Samsung Business”). After April 1, 2012, the Samsung Business was transferred to ATMD, a joint venture with Tomen. We indirectly own 30% equity interest in ATMD. On September 27, 2013, we sold the entire 30% equity interest of ATMD. Through the acquisition of Jussey on September 28, 2012, we have diversified our product portfolio and customer network, obtained design and manufacturing capabilities, and tapped into the blooming telecommunication industry with access to the 3G baseband licenses acquired by Jussey’s subsidiaries.

As of December 31, 2013, we had approximately 30 customers in Hong Kong and Southern China.

For the years ended December 31, 2013 and 2012, the largest 5 customers accounted for 63% and 87% of our net sales, respectively. As of December 31, 2013, we had net current liabilities of \$17,910,909 and accumulated losses of \$16,879,337. We generated net sales of \$72,175,289 for the year ended December 31, 2013 and recorded a net loss of \$13,791,210. In addition, during the year ended December 31, 2013, net cash used for operating activities amounted to \$9,090,317, net cash provided by investing activities amounted to \$9,745,137, net cash used for financing activities amounted to \$1,063,163.

We are in the mature stage of operations and, as a result, the relationships between revenue, cost of revenue, and operating expenses reflected in the financial information included in this document to a large extent represent future expected financial relationships. Much of the cost of sales and operating expenses reflected in our consolidated financial statements are recurring costs in nature.

Plan of Operations

As of December 31, 2013, all of Atlantic's Samsung distributor business had been transferred to ATMD. We, as expected, experienced significant decrease in sales revenues after such transfer, because we only hold a minority interest in ATMD and cannot consolidate our financial results with ATMD's, including its sales revenues. On September 27, 2013, we sold the entire 30% equity interest of ATMD. After the disposal of ATMD's equity interest, we will focus on not only selling of memory products, but also providing total solution for the manufacturing and selling of smartphone products and other mobile devices.

Our business objectives are to i) provide our customers with high-quality services, high-quality and reliable source of memory products, and ii) tap into the telecommunication industry by focusing our resources on research and development and manufacturing smartphone products.

We work closely with our customers to present up-to-date market information collected from retail channels and corporate users to assist them in planning their products roadmap, and assist them to stabilize the components sources from our suppliers.

Executive Summary

In 2013, our major sales came from selling memory products, and manufacturing and selling smartphone products.

Net sales for the year ended December 31, 2013 decreased 55.3% to \$72.2 million compared to the same period in 2012.

Gross profit margin for the year ended December 31, 2013 increased 0.1% to 0.3% compared to the same period in 2012.

Sales were mostly derived from Samsung NAND flash. It represented approximately 75% of our total net sales for the year ended December 31, 2012.

- o 0.4% of net sales were derived from Jussey and its subsidiaries for the year ended December 31, 2012.

Over 98% of net sales were derived from Atlantic for the year ended December 31, 2012. With the completion of the transfer of Atlantic's Samsung distributor business to ATMD, we expect there will be significant decrease in our net sales in the following year.

Gross profit for the year ended December 31, 2013 decreased 42.4% to 0.2 million compared to the same period in 2012.

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Gross profit margin for the year ended December 31, 2013 increased 0.1% to 0.3% compared to the same period in 2012.

- o Inventory provision reversal for the year ended December 31, 2013 \$0.7 million.

Net loss for the year ended December 31, 2013 increased 183% to \$13.8 million compared to the same period in 2012.

o General and administrative expenses for the year ended December 31, 2013 decreased 16.5% to \$4.9 million compared to the same period in 2012.

o Interest expenses for the year ended December 31, 2013 increased 3% to 1.04 million compared to the same period in 2012.

o Share of profits on a jointly-controlled entity for the year ended December 31, 2013 was \$0.9 million compared to losses of \$0.2 million same period in 2012.

The Company anticipates demand is driven by application such as smartphones, tablets, other mobile devices and solid state drives. DRAM revenue is expected to remain to be influenced by global economic conditions.

Results of Operations

The following table sets forth the comparison of the audited consolidated statements of operations data for the year ended December 31, 2013 and 2012 and should be read in conjunction with our financial statements and the related notes appearing elsewhere in this document.

	Year Ended December 31,			Percentage Increase	
	2013	2012	Difference		
Net sales	\$72,175,289	\$161,385,167	\$-89,209,878	-55.2	%
Cost of sales	(71,949,939)	(160,993,711)	-89,043,772	-55.3	%
Gross profit	225,350	391,456	-166,106	-42.4	%
Operating expenses					
Sales and marketing	154,014	331,086	-177,072	-53.5	%
General and administrative	4,906,299	5,873,667	-967,368	-16.5	%
Total operating expenses	5,060,313	6,204,753	-1,144,440	-18.4	%
Income (loss) from operations	(4,834,963)	(5,813,297)	978,334	16.8	%
Other expenses (income)	8,934,360	(980,138)	-7,954,222	-811.5	%
Income (loss) before income taxes provision	(13,769,323)	(4,833,159)	-8,936,164	-184.9	%
Income taxes provision	(21,887)	(32,950)	-11,063	-33.6	
Net (loss) income	\$(13,791,210)	\$(4,866,109)	\$-8,925,101	-183.4	%

The following table sets forth key components as a percentage of net revenue for the year ended December 31, 2013 and 2012

	Year Ended December 31,	
	2013	2012
Net sales	100.0 %	100.00%
Cost of sales	(99.69)%	(99.76)%
Gross profit	0.31 %	0.24 %
Operating expenses		
Sales and marketing	(0.21)%	(0.21)%
General and administrative	(6.80)%	(3.64)%
Total operating expenses	(7.01)%	(3.85)%
Income (loss) from operations	(6.70)%	(3.61)%
Other income (expenses)	(12.38)%	0.62 %

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Income (loss) before income taxes provision	(19.08)%	(2.99)%
Income taxes provision	(0.03)%	0.02 %
Net (loss) income	(19.11)%	(3.01)%

Comparison of the Years Ended December 31, 2013 and 2012

Net Sales

Net sales consist of product sales, net of returns and allowances and any recoveries from sales of previously written down inventories. Net sales are recognized upon the transfer of legal title of the products to the customers. The quantity of products the Company sells fluctuates with changes in demand from its customers. Net sales for the fiscal year 2013 were \$72,175,289, down \$89,209,878 or 55.3% from \$161,385,167 in the 2012 fiscal year. This reduction is largely due to the Samsung business integration to ATMD. The Company has also experienced weak and volatile global economic conditions in 2013, which resulted to delay, reduction and termination of demand for mobile device products, as well as decreased in average selling prices of the order for smartphones, lead to the result of dramatic decrease in the sales turnover in 2013.

Cost of Sales

Cost of sales is comprised of costs of goods purchased from our supplier, costs of manufacturing, assembly and testing of our products, and associated costs related to manufacturing support and quality assurance personnel, as well as provision for excess and obsolete inventories. The Company's cost of sales, as a percentage of net sales, amounted to approximately 99.7% for the year ended December 31, 2013 and approximately 99.8% for the year ended December 31, 2012. Cost of sales decreased by \$89,043,772 or 55.3%, from \$160,993,711 for the year ended December 31, 2012 to \$71,949,939 for the year ended December 31, 2013. The decrease was mainly due to a decrease in sales volume and a slight improvement in the cost of production related to the acquisition of Jussey.

Gross Profit

Gross profit is net sales less cost of sales and is affected by a number of factors, including competitive pricing, product mix, foundry pricing, cost of test and assembly services, manufacturing yields and provision for excess and obsolete inventories. The Company's gross profit for the fiscal year 2013 was \$225,350, a decrease of \$166,106 or 42.4%, from \$391,456 in the fiscal year 2012. Gross profit margin for fiscal year 2013 increased to 0.31% from 0.24% in fiscal year 2012. These results are largely due to reduction in Sales Revenue and Cost of Sales as mentioned above.

Sales and Marketing Expenses

Sales and marketing expenses consists primarily of associated costs for sales and marketing, commissions, promotional activities, freight shipments, and marine insurance. Sales and marketing expenses decreased by \$177,072, or 53.5%, from \$331,086 for the year ended December 31, 2012 to \$154,014 for the year ended December 31, 2013. Such decreases were directly attributable to the decrease of sales and selling activities that incurred smaller expenses.

General and Administrative Expenses

General and administrative expenses consists primarily of compensation (including stock-based compensation) and associated costs for administrative personnel, professional fees including audit and other business registration fee, and director and officer insurance. General and administrative expenses decreased by \$967,368 or 16.5% from \$5,873,667 for the year ended December 31, 2012 to \$4,906,299 for the year ended December 31, 2013. These decreases were principally attributable to a decrease in bank charges, entertainment expenses and salaries and allowances reformation during the year 2013. We intend to enhance our cost control and management effectiveness to reduce the G&A Expenses.

Income (Loss) from Operations

Loss from operations was \$4,834,963 for the year ended December 31, 2013 compared to loss of \$5,813,297 for the year ended December 31, 2012, a decrease of \$978,334. This decrease was mainly due to a decrease in general and administrative expenses derived from the reduction of business activities that led to a smaller amount of operation loss.

Other Expenses (Income)

Other expenses (income) consists primarily of rental income, management and service income, interest income, interest expenses, and profits/(loss) on disposals of assets and investments. Other expenses increased by \$9,914,498 or 1,011.5% from a net income of \$980,138 for the year ended December 31, 2012 to a net expense of \$8,934,360 for the year ended December 31, 2013. The increase was mainly contributed by the goodwill impairment reserve \$11,341,123, partially offset by profit on disposal of fixed assets \$1,930,234 and profits shared from a jointly-controlled entity \$883,199.

Interest Expense

Interest expense, including finance charges, relates primarily to borrowings from our bank and a third party. Interest expense increased \$30,015 or 3%, from interest expense of \$1,011,080 in the year ended December 31, 2012, to \$1,041,095 in the year ended December 31, 2013. These changes were mainly due to increased interest on banking facilities employed by the Company to transact with customers and suppliers during the year 2013. We expect to keep the same level of interest expenses for the coming year.

Income Taxes Provision

The Company is subject to income tax in the U.S., Hong Kong and PRC. Income tax provision for the year ended December 31, 2013 was \$21,887, a decrease of \$11,063 or 33.6% from \$32,950 for the year ended December 31, 2012. This decrease was an adjustment on the prior year estimated Hong Kong corporate income taxes payable by Atlantic. The effective income tax rate is 0.03% for 2013 as compared to 0.02% for 2012. The Company did not have any interest or penalty not to recognize in the income statements for the year ended December 31, 2013 and December 31, 2012 or the balance sheet, as of December 31, 2013 and December 31, 2012.

Net (loss) Income

As a result of the foregoing, the Company recorded a consolidated net loss of \$13,791,210 for the fiscal year 2013, down \$8,925,101 or 183.4%, from a net loss of \$4,866,109 in the fiscal year 2012. This unfavorable result was a consequence of current global economic conditions and contributed by the other income/(loss) items mentioned above.

Critical Accounting Policies

The U.S. Securities and Exchange Commission (“SEC”) recently issued Financial Reporting Release No. 60, “*Cautionary Advice Regarding Disclosure About Critical Accounting Policies*” (“FRR 60”), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company’s financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; policies for revenue recognition, allowance for doubtful accounts, and stock-based compensation. The methods, estimates and judgments we use in

applying these most critical accounting policies have a significant impact on our results we report in our consolidated financial statements.

Revenue Recognition

The Company derives revenues from resale of computer memory products, sale of self-manufacture products, and sale of research and development products. The Company recognizes revenue in accordance with the ASC 605 “Revenue Recognition”. Under ASC 605, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material

Impairment of Long-Lived Assets

We account for impairment of property, plant and equipment in accordance with FASB ASC 360. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. During the reporting years, there was no impairment loss incurred. Competitive pricing pressure and changes in interest rates, could materially and adversely affect our estimates of future net cash flows to be generated by our long-lived assets.

Inventory Valuation

Our policy is to value inventories at the lower of cost or market on a part-by-part basis. In addition, we write down unproven, excess and obsolete inventories to net realizable value. This policy requires us to make a number of estimates and assumptions including market and economic conditions, product lifecycles and forecast demand for our product to value our inventory. To the extent actual results differ from these estimates and assumptions, the balances of reported inventory and cost of products sold will change accordingly. Since Aristo supplies different generations of computer related products, older generation products will move slowly owing to lower market demand. According to the management experience and estimation on the actual market situation, old generation products carrying on hand for ten years will have no re-sell value. Therefore, these inventories on hand over ten years will be written off by Aristo immediately.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts, the aging of accounts receivable, our history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or our customers' actual defaults exceed our historical experience, our estimates could change and impact our reported results.

Liquidity and Capital Resources

Our principal sources of liquidity are cash from operations, bank lines of credit and credit terms from suppliers. Our principal uses of cash have been for operations and working capital. We anticipate these uses will continue to be our principal uses of cash in the future.

As of December 31, 2013, the Company had revolving lines of credit and loan facilities in the aggregate amount of \$8,927,242, of which \$926,623 was available for drawdown as short-term loans repayable within 90 days. Detailed disclosures regarding our outstanding credit facilities are set forth in Notes 7 and 8 of the Notes to Consolidated Financial Statements, including the amounts of the facilities, outstanding balances, interest rates, maturity periods (for long term loans) and pledge of assets.

Our ability to draw down under our various credit and loan facilities is, in each case, subject to the prior consent of the relevant lending institution to make advances at the time of the requested advance and each facility (other than with respect to certain long term mortgage loans) is payable within 90 days of drawdown. Accordingly, on a case by case basis, we may elect to terminate or not renew several of our credit facilities if significant reduction in our available short term borrowings that we do not deem it is commercially reasonable.

As of December 31, 2013, the Company has total current assets of \$2,763,121 and current liabilities of \$20,742,750. This raises substantial doubt about the Company's ability to continue as a going concern. We will continue to seek additional sources of available financing on acceptable terms; however, there can be no assurance that we will be able to obtain the necessary additional capital on a timely basis or on acceptable terms, if at all. In addition, if the results are negatively impacted and delayed as a result of political and economic factors beyond management's control, our capital requirements may increase.

The short-term borrowings from banks and other financial institutions to finance the cash flow required to finance the purchase of products from our suppliers must be made a day in advance of the release of goods from suppliers' warehouse before receiving payments from customers upon physical delivery of such goods in Hong Kong which, in most instances, take approximately two days from the date of such delivery.

The following factors, among others, could have a negative impact on the Company's results of operations and financial position: the termination or change in terms of the banking facilities; pricing pressures in the industry; a continued downturn in the economy in general or in the memory products sector; an unexpected decrease in demand for certain memory products; the Company's ability to attract new customers; an increase in competition in the related markets; and the ability of some of the Company's customers to obtain financing.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform them to actual results or to make changes in our expectations.

Net Cash Used for Operating Activities

In the year ended December 31, 2013, net cash used for operating activities amounted to \$9,090,317 while net cash provided by operating activities in the year ended December 31, 2012, amounted to \$2,795,350, an increase of \$11,885,667. This increase was primarily due to a \$8,626,348 increase in Net loss over the year 2012 derived from \$11,341,123 impairment of goodwill and \$1,930,234 gain on disposal of fixed assets, a \$9,209,313 decrease in accounts payable with related parties, which was partially offset by a \$2,872,546 decrease in inventory.

Net Cash Provided by Investing Activities

In the year ended December 31, 2013, net cash provided by investing activities amounted to \$9,745,137 while net cash used for investing activities in the year ended December 31, 2012, amounted to \$1,487,284, an increase of \$11,232,421. This increase was primarily due to the disposal of property and investment on ATMD, which was offset by a decrease in amount due from Aristo / Mr. Yang and restricted cash.

Net Cash Used for Financing Activities

In the year ended December 31, 2013, net cash used for financing activities amounted to \$1,063,163 while net cash used for financing activities in the year ended December 31, 2012, amounted to \$1,341,423, a decrease of \$278,260. This decrease was due to an increase in the Company's borrowings from a third party offset by a decrease in bank loan borrowing.

Contractual Obligations

The following table presents our contractual obligations as of December 31, 2013 over the next five years and thereafter:

Payments by Period

	Amount	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating Leases	\$1,078,893	\$376,760	\$352,066	\$350,067	\$—
Capital Leases	133,428	75,917	57,511	—	—
Line of credit and notes payable – short-term	3,178,580	3,178,580	—	—	—
Bank Loans	4,760,281	3,475,231	505,656	118,775	660,619
Loan from a third party	7,051,282	641,026	6,410,256	—	—
Total Contractual Obligations	\$16,202,464	\$7,747,514	\$7,325,489	\$468,842	\$660,619

Off-Balance Sheet Arrangements

As of December 31, 2013 and 2012, we had no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements, or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Related Party Transactions

We conduct business with several affiliated companies. All of the related party transactions taking place during the reporting periods were conducted in the normal course of business. The prices of products sold to or purchased from these related entities are in the same price ranges as those offered to other non-related customers or purchased from other vendors.

Amounts due from Aristo / Mr. Yang represented Aristo transactions with various related parties of Mr. Yang.

Effect of Inflation

We believe that our results of operations are not dependent upon moderate changes in inflation rates as we expect to be able to pass along component price increases to our customers.

Inflation generally affects us by increasing costs of raw materials, labor, and equipment. We do not believe that inflation had any material effect on our results of operations in the periods presented in our audited consolidated financial statements.

New Accounting Pronouncements

See Note 2 to consolidated financial statements included in Item 8, Financial Statements, of this Annual Report on Form 10-K

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 8. Financial Statements and Supplementary Data

Attached hereto and filed as part of this Annual Report on Form 10-K are our Consolidated Financial Statements, beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On February 22, 2013 (the "Engagement Date"), the audit committee of the Company's board of directors approved the engagement of Albert Wong & Co. LLP ("New Auditor"), an independent U.S. CPA firm which is associated with the Company's existing independent accountants, Albert Wong & Co. ("Previous Auditor"), who tendered its resignation on February 22, 2013 (the "Resignation Date"), as the Company's new independent accountant.

The report of the Previous Auditor on the Company's consolidated financial statements for the fiscal years ended December 31, 2010 and 2011 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles, except to note that the Company had numerous significant related parties' transactions. During the years ended December 31, 2010 and 2011 and through the Resignation Date, there have been no disagreements between the Company and the Previous Auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements if not resolved to the Previous Auditor's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with their reports. During the years ended December 31, 2010 and 2011 and through the Resignation Date, there were no "reportable events" as that term is described in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2012 and 2011, and any subsequent interim period prior to the Engagement Date, neither the Company nor anyone acting on the Company's behalf consulted the New Auditor with respect to (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters (ii) any matter that was either the subject of a disagreement (as defined in paragraph (a)(1)(iv) of Item 304 of Regulation S-K and the related instructions thereto) or reportable events (as described in Item 304(a)(1)(v) of Regulation S-K).

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Disclosure Controls. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, Company management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Evaluation of Disclosure Controls and Procedures. The Company's CEO and CFO have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of December 31, 2013, and based on this evaluation, the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company's principal executive and financial officer's conclusion regarding the Company's disclosure controls and procedures is based on management's conclusion that the Company's internal control over financial reporting are ineffective, as described below.

Management's Report on Internal Control over Financial Reporting

The Company's CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In making its assessment of internal control over financial reporting management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material weakness described in the following paragraphs, management believes that, as of December 31, 2013, the company's internal control over financial reporting was not effective based on those criteria.

Management's evaluation was retrospective and conducted as of December 31, 2013, the last day of the fiscal year covered by this Form 10-K. Based upon management's evaluation, our CEO and CFO have concluded that our internal controls over financial reporting were not effective as of December 31, 2013 because we have not completed the remediation (discussed elsewhere in this document) for the fiscal year ended December 31, 2013 due to the following material weaknesses:

Company-level controls. We did not maintain effective company-level controls as defined in the Internal Control—Integrated Framework published by COSO. These deficiencies related to each of the five components of internal control as defined by COSO (control environment, risk assessment, control activities, information and communication, and monitoring). These deficiencies resulted in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

Our control environment did not sufficiently promote effective internal control over financial reporting throughout our organizational structure, and this material weakness was a contributing factor to the other material weaknesses described in this Item 9A;

Our board of directors had not established adequate financial reporting monitoring activities to mitigate the risk of management override, specifically:

no formally documented financial analysis was presented to our board of directors, specifically fluctuation, variance, trend analysis or business performance reviews;

– an effective whistleblower program had not been established;

there was insufficient oversight of external audit specifically related to fees, scope of activities, executive sessions, and monitoring of results;

– there was insufficient oversight of accounting principle implementation;

– there was insufficient review of related party transactions; and

– there was insufficient review of recording of stock transactions.

We did not maintained sufficient competent evidence to support the effective operation of our internal controls over financial reporting, specifically related to our board of directors' oversight of quarterly and annual SEC filings; and management's review of SEC filings, journal entries, account analyses and reconciliations, and critical spreadsheet controls;

We had inadequate risk assessment controls, including inadequate mechanisms for anticipating and identifying financial reporting risks; and for reacting to changes in the operating environment that could have a material effect on financial reporting;

There was inadequate communication from management to employees regarding the general importance of controls and employees duties and control responsibilities;

We had inadequate monitoring controls, including inadequate staffing and procedures to ensure periodic evaluations of internal controls, to ensure that appropriate personnel regularly obtain evidence that controls were functioning effectively and that identified control deficiencies were remediated in a timely manner;

We had an inadequate number of trained finance and accounting personnel with appropriate expertise in U.S. generally accepted accounting principles. Accordingly, in certain circumstances, an effective secondary review of technical accounting matters was not performed;

We had inadequate controls over our management information systems related to program changes, segregation of duties, and access controls;

We had inadequate access and change controls over end-user computing spreadsheets. Specifically, our controls over the completeness, accuracy, validity and restricted access and review of certain spreadsheets used in the period-end financial statement preparation and reporting process were not designed appropriately or did not operate as designed; and

We were unable to assess the effectiveness of our internal control over financial reporting in a timely matter.

Financial statement preparation and review procedures. We had inadequate policies, procedures and personnel to ensure that accurate, reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, we had insufficient: a) levels of supporting documentation; b) review and supervision within the accounting and finance departments; c) preparation and review of footnote disclosures accompanying our financial statements; and d) technical accounting resources. These deficiencies resulted in errors in the financial statements and more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. In addition, as discussed in Note 2 of Notes to the Consolidated Financial Statements of this Form 10-K, we recently determined that Aristo Technologies Limited (“Aristo”), a related party, has been a variable interest entity under FASB ASC 810-10-25. Consequently, we are consolidating the financial statements of Aristo with those of the Company for the period effective and are restating our previously filed annual and interim financial statements in amended Form 10-Ks for years ended 2007 and 2008 to reflect the disclosure in accordance with ASC 810-10-25.

Inadequate reviews of account reconciliations, analyses and journal entries. We had inadequate review procedures over account reconciliations, account and transaction analyses, and journal entries. Specifically, deficiencies were noted in the following areas: a) management review of supporting documentation, calculations and assumptions used to prepare the financial statements, including spreadsheets and account analyses; and b) management review of journal entries recorded during the financial statement preparation process. These deficiencies resulted in a more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected.

Inadequate controls over purchases and disbursements. We had inadequate controls over the segregation of duties and authorization of purchases, and the disbursement of funds. These weaknesses increase the likelihood that misappropriation of assets and/or unauthorized purchases and disbursements could occur and not be detected in a timely manner. These deficiencies resulted in errors in the financial statements and in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. Specifically,

We had inadequate procedures and controls to ensure proper segregation of duties within our purchasing and disbursements processes and accounting systems;

- We had inadequate procedures and controls to ensure proper authorization of purchase orders; and

- We had inadequate approvals for payment of invoices and wire transfers.

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 temporary rules of the SEC that permit us to provide only management's report in this annual report.

As of December 31, 2013, we had not completed the remediation of any of these material weaknesses.

We are addressing the outstanding material weaknesses described above, as well as our control environment. We also expect to undertake the following remediation efforts:

We plan on formalizing quarterly financial statement variance analysis of actual versus budget with relevant explanations of variances for distribution to our board of directors.

We are in the process of developing, documenting, and communicating a formal whistleblower program to employees. We expect to post the policy on the Company web site in the governance section and in the common areas in the office. We plan on providing a toll free number for reporting complaints and will hire a specific third party whistleblower company to monitor the hotline and provide monthly reports of activity to our board of directors.

Management intends to continue to provide SEC and US GAAP training for employees and retain external consultants with appropriate SEC and US GAAP expertise to assist in financial statement review, account analysis review, review and filing of SEC reports, policy and procedure compilation assistance, and other related advisory services.

We intend on developing an internal control over financial reporting evidence policy and procedures which contemplates, among other items, a listing of all identified key internal controls over financial reporting, assignment of responsibility to process owners within the Company, communication of such listing to all applicable personnel, and specific policies and procedures around the nature and retention of evidence of the operation of controls.

We have restricted access to all financial modules. In order to mitigate the risks of management or other override, only authorized persons have edit access to each. We will remove or add authorized personnel as appropriate to mitigate the risks of management or other override; and

We have re-assigned roles and responsibilities, and intend to continue improving segregation of duties.

These specific actions are part of an overall program that we are currently developing in an effort to remediate the material weaknesses described above.

Attached as exhibits to this report are certifications of our CEO and CFO, which are required in accordance with Rule 13a-14 of Securities Exchange Act of 1934, as amended. The discussion above in this Item 9A includes information concerning the controls and controls evaluation referred to in the certifications and those certifications should be read in conjunction with this Item 9A for a more complete understanding of the topics presented.

We are committed to improving our internal control processes and will continue to diligently review our internal control over financial reporting and our disclosure controls and procedures. The failure to implement adequate controls may result in deficient and inaccurate reports under the Exchange Act.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

30

PART III**Item 10. Directors, Executive Officers and Corporate Governance****Directors and Executive Officers**

The following table sets forth the name, age, and position of our directors and our executive officers as of December 31, 2012. Each director holds office (subject to our By-Laws) until the next annual meeting of shareholders and until such director's successor has been elected and qualified. All of our executive officers are serving until the next annual meeting of directors and until their successors have been duly elected and qualified. Each executive officer holds his office until he resigns, is removed by the board of directors, or his successor is elected and qualified, subject to applicable employment agreements.

NAME	AGE	POSITION
Chung-Lun Yang	52	Chairman of the Board of Directors
Ben Wong	50	Director and Chief Executive Officer
Philip Tsz Fung Lo	47	Chief Financial Officer (3)
Ming Yan Leung	45	Chief Technology Officer
Ho Man Yeung	58	Director
Wing Sun Leung	50	Director

(1) Kun Lin Lee resigned as Chief Financial Officer on August 18, 2013.

(2) Man Sing Lai resigned as Director on August 18, 2013.

(3) Philip Tsz Fung Lo was engaged as Chief Financial Officer on August 18, 2013

(4) Kenneth Lap-Yip Chan resigned as Director and Chief Operating Officer on September 22, 2013

Chung-Lun Yang, Chairman of the Board. Mr. Yang became a Director on September 30, 2003. Mr. Yang is the founder of Atlantic and has been a director of Atlantic since 1991. Mr. Yang graduated from The Hong Kong Polytechnic University in 1982 with a degree in electronic engineering. From October 1982 until April 1985, he was the sales engineer of Karin Electronics Supplies Ltd. From June 1986 until September 1991, he was Director of Sales (Samsung Components Distribution) of Evertech Holdings Limited, a Hong Kong based company. Mr. Yang has over 15 years of extensive experience in the electronics distribution business. The breadth of Mr. Yang's sales and operational experience led the Board of Directors to believe this individual is qualified to serve as a director of the Company. Mr. Yang is also a member of The Institution of Electrical Engineers, United Kingdom. Mr. Yang resigned as the Company's Chief Executive Officer on February 1, 2013.

Ben Wong, Director and Chief Executive Officer. Mr. Wong was elected as the Director at the Company's 2012 annual shareholders meeting on November 16, 2012, and appointed as the Chief Executive Officer of the Company on February 1, 2013. Mr. Wong has been the Chief Executive Officer and Director of USmart Electronic Products Limited since 2006. Mr. Wong graduated from the Chinese Culture University of Taiwan in 1986 with a Bachelor's Degree of Science in Mechanical Engineering. From 1989 to 1990, he worked for Philips H.K. Ltd. as the Industrial Engineer. He gained manufacturing concept from design to mass production processing, and flow of products development from working in Philips. He is also experienced in object-oriented design/analysis, application development, requirements planning & testing, project development, IT management, prototyping, conceptual design and interface implementation.

Philip Tsz Fung Lo, Chief Financial Officer. Mr. Lo was appointed as our Chief Financial Officer on August 18, 2013. Mr. Lo graduated from the University of Wollongong, NSW Australia in 1992 with a Bachelor of Commerce degree in Accountancy with Merit. In 1994, Mr. Lo received his CPA Programme of Australian Society of CPAs, and currently is a CPA member of the Certified Public Accountants of Australia and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Lo is an independent non-executive director and chairman of Audit Committee of Styland Holdings Limited (211), a company listed on Main Board of The Stock Exchange of Hong Kong Limited, an independent director and chairman of Audit Committee of QKL Stores, Inc., a company listed on NASDAQ (QKLS), and an independent director of Dragon Jade International Limited, a company listed on OTCBB in the United States. Mr. Lo is also the Managing Director of P&L Financial Consultancy Limited and Shenzhen Xin Wei Management Consultancy Limited, which are a HK private company and a PRC Company in the business of providing financial and management consulting services. From January 2010 to January 2012, Mr. Lo served as the Chief Financial Officer of Wuhan General Group (China) Inc. which produces and manufactures blower and generator in China. Also, from December 2007 to January 2009, Mr. Lo served as the Chief Financial Officer of Wuhan Zhongye Yangluo Heavy Machinery Co., Ltd., which produces and manufactures steel products in China. Mr. Lo has extensive experience in the areas of corporate management, financial accounting and auditing. He has served as the CFO of USmart Electronic Products Limited, a subsidiary of the Company since July 2013. Mr. Lo is fluent in English, Mandarin and Cantonese.

Ming Yan Leung, Chief Technology Officer. Mr. Leung was appointed as our Chief Technology Officer on June 11, 2010. Prior to joining the Company, Mr. Leung was Chief Architect Officer of RV Technology Ltd., where he oversaw various mobile solutions and services for enterprises and end users. In 1997, Mr. Leung ran the banking solution team at the Tech-Trans Group where he led the implementation of SWIFT-related solution for various banking institutes and a mobile workforce system for an electricity supply company. Mr. Leung holds a Masters in Engineering Management from the University of Technology, Sydney, and a Postgraduate degree in Investment Decision Making from Wuhan University of Technology. Mr. Leung was chosen to be a member of the board based on his experience in managing development and implementation of electronic devices and solutions for more than 10 years.

Ho Man Yeung, Director. Mr. Yeung became an Independent Director on December 1, 2010. As a member of the Board of Directors to the Company, the Company approved a monthly compensation of \$1,282 (HKD10,000). Mr. Yeung has been a Director of Avnet Sunrise Ltd. since 2002. Avnet Sunrise Ltd. is a subsidiary of Avnet, Inc. [NYSE: AVT] a global distributor of electronic components and devices. Mr. Yeung has over twenty-five years of experience in the electronic distribution industry. It is these experiences and qualifications upon which Mr. Yeung was chosen to be a member of our board. Mr. Yeung graduated from University of Salford with a BSc in Electronics and earned a Certified Diploma of Accounting at Manchester Polytechnic University.

Wing Sun Leung, Director. Mr. Leung became an Independent Director on December 1, 2010. As a member of the Board of Directors to the Company, the Company approved a monthly compensation of \$1,282 (HKD10,000). Mr. Leung has been Project Director since April 2010 at German Alternative Investment (Shenzhen) Company Co. Ltd. an investment and advisory services firm. From 2007 to 2009, Mr. Leung was Vice President and Senior Consultant at Shenzhen Everich Industrial Co. Ltd., an importer and exporter of electronics. Prior to that, Mr. Leung was Sales Director at Sigmatel Asia Inc., a distributor of electronic components in China and Hong Kong. Mr. Leung has over twenty years of experience in the electronics distribution industry in the United States, China and Hong Kong. Mr. Leung graduated from the Chinese University of Hong Kong with a BSc in Social Science. Based on such professional experience, Mr. Leung was chosen to be a member of the board. This experience will inure to the Company's benefit as it seeks to expand its business and maintain its profitability.

There are no family relationships between any of our directors and executive officers. There have been no events under any bankruptcy act, no criminal proceedings and no judgments, orders or decrees material to the evaluation of the ability and integrity of any director or executive officer of the Company during the past five years.

Board Meetings

During the fiscal year ended December 31, 2013, our Board of Directors held 8 meetings. No director who served during the fiscal year ended December 31, 2013 attended fewer than 80% of the meetings of the Board of Directors during that year.

Committees of the Board

On January 20, 2011, the Board of Directors establishes an Audit Committee, Nominating Committee and Compensation Committee of the Board of Directors:

- (i) Mr. Ho Man Yeung and Mr. Wing Sun Leung serve on the Audit Committee;
- (ii) Mr. Ho Man Yeung and Mr. Wing Sun Leung serve on the Nominating Committee, and;
- (iii) Mr. Ho Man Yeung and Mr. Wing Sun Leung serve on the Compensation Committee.

Board Leadership Structure and Risk Oversight Role

Our Board of Directors currently contains 4 Directors, and 2 of the Directors are Independent Directors. The Company is in search of an appropriate candidate to fill in the vacant position of Independent Director for the resignation of Mr. Lai. We believe that such a leadership structure is suitable for the Company at its present stage of development.

As a matter of regular practice, and as part of its oversight function, our Board of Directors periodically reviews on the significant risks in respect to our business. With our current governance structure based on our Board of Directors and senior executives, there is not a significant division of oversight and operational responsibilities in managing the material risks facing the Company.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics, known as our Code of Business Conduct and Ethics which applies to all of our directors, officers, and employees, including our principal executive officer and our principal financial and accounting officer. A copy of the Code of Business Conduct and Ethics is attached as Exhibit 14 to the Annual Report on Form 10-K for the period ended December 31, 2003. To receive a copy of our Code of Business Conduct and Ethics, at no cost, requests should be directed to the Secretary, USmart Mobile Device Inc., Room 1703, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. We intend to disclose any amendment to, or waiver of, a provision of the Code of Business Conduct and Ethics in a report filed under the Securities Exchange Act of 1934, as amended, within four business days of the amendment or waiver.

Stockholder Communications

Stockholders and other interested parties may contact the Board of Directors or the non-management directors as a group at the following address: Board of Directors or Outside Directors, USmart Mobile Device Inc., Room 1703, 17/F., Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. All communications received at the above address will be relayed to the Board of Directors or the non-management directors, respectively. Communications regarding accounting, internal accounting controls or auditing matters may also be reported to the Board of Directors using the above address.

Typically, we do not forward to our directors communications from our stockholders or other communications which are of a personal nature or not related to the duties and responsibilities of the Board, including:

- Junk mail and mass mailings
- New product suggestions
- Resumes and other forms of job inquiries
- Opinion surveys and polls
- Business solicitations or advertisements

Compliance with Section 16(A) of The Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than ten percent of a registered class of our equity securities (collectively, "Reporting Person") to file with the SEC initial reports of ownership and reports of changes in ownership of our Common Stock and other equity securities of the Company. Reporting Persons are required by the SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file. To our knowledge, based solely on a review of the copies of such reports furnished to us, we believe that during fiscal year ended December 31, 2013 all Reporting Persons complied with all applicable filing requirements.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Summary

Our approach to executive compensation is influenced by our belief in rewarding people for consistently strong execution and performance. We believe that the ability to attract and retain qualified executive officers and other key employees is essential to our long term success.

Our plan to obtain and retain highly skilled employees is to provide market competitive salaries and also incentive awards. Our approach is to link individual employee objectives with overall company strategies and results, and to reward executive officers and significant employees for their individual contributions to those strategies and results. We use compensation and performance data from comparable companies in the electronics distribution industry to establish market competitive compensation and performance standards for our employees. Furthermore, we believe that equity awards serve to align the interests of our executives with those of our stockholders. As such, we intend for equity to become a key component of our compensation program.

Named Executive Officers

The named executive officers for the fiscal year ended December 31, 2013 are: Ben Wong, our Chief Executive Officer; Philip Tsz Fung Lo, our Chief Financial Officer; and Ming Yan Leung, our Chief Technology Officer. These individuals are referred to collectively in this Annual Report on Form 10-K as the "Named Executive Officers."

OUR EXECUTIVE COMPENSATION PROGRAM

Overview

The primary elements of our executive compensation program are base salary, incentive cash and stock bonus opportunities and equity incentives typically in the form of stock option grants. Although we provide other types of compensation, these three elements are the principal means by which we provide the Named Executive Officers with compensation opportunities.

The emphasis on the annual bonus opportunity and equity compensation components of the executive compensation program reflect our belief that a large portion of an executive's compensation should be performance-based. This compensation is performance-based because payment is tied to the achievement of corporate performance goals. To the extent that performance goals are not achieved, executives will receive a lesser amount of total compensation. We have entered into employment agreements with four of our Named Executive Officers. Such employment agreements set forth base salaries, bonuses and stock option grants. Such stock option grants are predicated on our achievement of corporate performance goals as set forth in such agreements.

ELEMENTS OF OUR EXECUTIVE COMPENSATION PROGRAM

Base Salary

We pay a base salary to certain of the Named Executive Officers. In general, base salaries for the Named Executive Officers are determined by evaluating the responsibilities of the executive's position, the executive's experience and the competitiveness of the marketplace. Base salary adjustments are considered and take into account changes in the executive's responsibilities, the executive's performance and changes in the competitiveness of the marketplace. We believe that the base salaries of the Named Executive Officers are appropriate within the context of the compensation elements provided to the executives and because they are at a level which remains competitive in the marketplace.

Bonuses

The Board of Directors may authorize us to give discretionary bonuses, payable in cash or shares of Common Stock, to the Named Executive Officers and other key employees. Such bonuses are designed to motivate the Named Executive Officers and other employees to achieve specified corporate, business unit and/or individual, strategic, operational and other performance objectives.

Stock Options

Stock options constitute performance-based compensation because they have value to the recipient only if the price of our Common Stock increases. We have not granted any stock options to any of our Named Executive Officers and the grant of stock options to Named Executive Officers is not a material factor in making compensation determinations with respect to our Named Executive Officers. However, we have in the past used stock options as incentives for our other employees. Stock options generally vest over time, with obtainment of a corporate goal, or a combination of the two. The grant of stock options is designed to motivate our employees to achieve our short term and long term corporate goals.

Retirement and Deferred Compensation Benefits

We do not have any arrangements with the Named Executive Officers to provide them with retirement and/or deferred compensation benefits.

Perquisites

There were no perquisites provided to the Named Executive Officers.

Post-Termination/Change of Control Compensation

We do not have any arrangements with the Named Executive Officers to provide them with compensation following termination of employment.

Tax Implications of Executive Compensation

Our aggregate deductions for each Named Executive Officer compensation are potentially limited by Section 162(m) of the Internal Revenue Code to the extent the aggregate amount paid to an executive officer exceeds \$1 million, unless it is paid under a predetermined objective performance plan meeting certain requirements, or satisfies one of various other exceptions specified in the Internal Revenue Code. At our 2012 Named Executive Officer compensation levels, we did not believe that Section 162(m) of the Internal Revenue Code would be applicable, and accordingly, we did not consider its impact in determining compensation levels for our Named Executive Officers in 2012.

Hedging Policy

We do not permit the Named Executive Officers to “hedge” ownership by engaging in short sales or trading in any options contracts involving our securities.

Option Exercises and Stock Vested

No options have been exercised by our Named Executive Officers during the fiscal year ended December 31, 2013.

Pension Benefits

Under the Mandatory Provident Fund (“MPF”) Scheme Ordinance in Hong Kong, the Company is required to set up or participate in an MPF scheme to which both the Company and employees must make continuous contributions throughout their employment based on 5% of the employees’ earnings, subject to maximum and minimum level of income. For those earning less than the minimum level of income, they are not required to contribute but may elect to do so. However, regardless of the employees’ election, their employers must contribute 5% of the employees’ income. Contributions in excess of the maximum level of income are voluntary. All contributions to the MPF scheme are fully and immediately vested with the employees’ accounts. The contributions must be invested and accumulated until the employees’ retirement.

Nonqualified Deferred Compensation

We do not have any defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

Employment Agreements

We have entered into employment agreements with our Executive Officers, which set the base salary as set forth in our summary compensation table.

Executive Officer Compensation

The following table sets forth the annual and long-term compensation of our Named Executive Officers for services in all capacities to the Company whose total compensation exceeds \$100,000 for the last two fiscal years ended December 31, 2013 and December 31, 2012.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Incentive Plan Compensation	Non-Equity and Non-qualified Deferred Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Chung-Lun Yang Former Chief Executive Officer (1)	2013	\$-	-	--	--	--	--	--	--	\$-
	2012	\$369,231	-	--	--	--	--	--	--	\$369,231

On February 1, 2013, the board of directors of the Company appointed Mr. Ben Wong as the Company's Chief Executive Officer. Mr. Wong has an employment agreement with USmart and receives a monthly salary of HKD50,000 (approximately USD6,427).

On August 18, 2013, the board of directors of the Company appointed Mr. Philip Tsz Fung Lo as the Company's Chief Financial Officer. Mr. Lo has an employment agreement with USmart and receives a monthly salary of HKD30,000 (approximately USD3,856).

Outstanding equity awards at fiscal year-end

None.

Compensation of Directors

The following table sets forth the Director compensation for service on the Board of Directors of the Company for the fiscal year ended December 31, 2013.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Chung-Lun Yang	\$ --	--	--	--	--	--	\$--
Ben Wong (2)	\$ --	--	--	--	--	--	\$--
Kenneth Lap-Yin Chan (4)	\$ --	--	--	--	--	--	\$--
Man Sing Lai (3)	\$ 9,615	--	--	--	--	--	\$9,615
Ho Man Yeung	\$ 15,385	--	--	--	--	--	\$15,385
Wing Sun Leung	\$ 15,385	--	--	--	--	--	\$15,385

(1) Chung-Lun Yang resigned as the Company's Chief Executive Officer on February 1, 2013. The board of directors of the Company appointed Ben Wong as the new Chief Executive Officer on February 1, 2013.

(2) Ben Wong was elected as the director at the Company's 2012 annual shareholders meeting on November 16, 2012.

(3) Man Sing Lai resigned as the Company's Independent Director on August 22, 2013.

(4) Kenneth Lap-Yin Chan resigned as the Company's Director and Chief Operating Officer on September 22, 2013

We compensate our independent directors an amount of HKD10,000 (USD1,282) per month for serving on our board of directors, in addition to reimbursement for out of pocket expenses incurred in attending director meetings. We do not compensate our executive directors for serving on the board of directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of December 31, 2013: (i) by each person who is known by us to own beneficially more than 5% of the Common Stock, (ii) by each of our directors, (iii) by each of our executive officers and (iv) by all our directors and executive officers as a group. On such date, we had 39,474,495 shares of Common Stock outstanding.

As used in the table below, the term beneficial ownership with respect to a security consists of sole or shared voting power, including the power to vote or direct the vote, and/or sole or shared investment power, including the power to dispose or direct the disposition, with respect to the security through any contract, arrangement, understanding, relationship, or otherwise, including a right to acquire such power(s) during the 60 days immediately following December 31, 2013. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Class Beneficially Owned(1)	
Chung-Lun Yang (4) No. 78, 5th Street, Hong Lok Yuen, Tai Po, New Territories, Hong Kong	26,622,000	67.1	%
Ben Wong (2) 11A, Tower 2, Bellagio, 33 Castle Peak Road, Sham Tseng, New Territories, Hong Kong	1,800	0.0	%
Philip Tsz Fung Lo (2) 30C, Block 2, Hanley Villa, 18 Yau Lai Road, Tsuen Wan, New Territories, Hong Kong	0	0.0	%
Kun Lin Lee (3) 7F, No 16 Huan-her East Road Sec 4, Yuan Ho City, Taipei, Taiwan	270,000	1.0	%
Kenneth Lap-Yin Chan (3) Flat B, 8/F., Block 19, South Horizons, Aplei Chau, Hong Kong	0	0.0	%
Ming Yan Leung (2) G/F., 11 Ka Fuk Lane, Tuen Mun, New Territories, Hong Kong	0	0.0	%
Man Sing Lai (5) Flat B, 23/F., Block 31, Laguna City, Cha Kwo Ling Road, Kwun Tong, Kowloon, Hong Kong	0	0.0	%
Ho Man Yeung (4) Block 4, 7/F. Unit B, The Grand Panorama, 10 Robinson Road, Central, Hong Kong	0	0.0	%
Wing Sun Leung (4) 5658 Owens Drive, #202, Pleasanton, CA 94588, USA	0	0.0	%
Farburn Holdings Limited (6) 1601 Beverly House, 93-107 Lockhart Road, Wanchai, Hong Kong.	3,600,000	9.1	%
Ho Fun Cheng (6) 1601 Beverly House, 93-107 Lockhart Road, Wanchai, Hong Kong.	3,600,000	9.1	%
All Directors and Officers as a Group	26,893,800	67.8	%

Applicable percentage of ownership is based on 39,684,495 shares of Common Stock outstanding as of December 31, 2013, together with securities exercisable or convertible into shares of Common Stock within 60 days of December 31, 2013, for each stockholder. Beneficial ownership is determined in accordance with the rules of the United States Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to securities exercisable or convertible into shares of Common Stock that are currently exercisable or exercisable within 60 days of December 31, 2013, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The Common Stock is the only outstanding class of equity securities of the Company.

(2)

Executive Officer

(3)

Former Executive Officer

(4) Director Except as otherwise set forth, information on the stock ownership of these persons was provided to us by such persons.

(5)

Former Director

(6) The shares are owned directly by Farburn Holdings Limited (“Farburn”) and indirectly by Ho Fun Cheng (“Mr. Cheng”) through his equity ownership in Farburn. In addition, Mr. Cheng is the sole director of Farburn, and may be deemed as beneficial owner of these shares. Farburn acquired these shares from the Company pursuant to certain Amended and Restated Finder and Consulting Agreement dated October 15, 2012.

Item 13. Certain Relationships and Related Transactions, and Director Independence

All related person transactions are reviewed and, as appropriate, may be approved or ratified by the Board of Directors. Related person transactions are approved by the Board of Directors only if, based on all of the facts and circumstances, they are in, or not inconsistent with, our best interests and our stockholders, as the Board of Directors determines in good faith. The Board of Directors takes into account, among other factors it deems appropriate, whether the transaction is on terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction. The Board of Directors may also impose such conditions as it deems necessary and appropriate on us or the related person in connection with the transaction.

In the case of a transaction presented to the Board of Directors for ratification, the Board of Directors may ratify the transaction or determine whether rescission of the transaction is appropriate.

CERTAIN RELATED PERSON TRANSACTIONS

Related party receivables are payable on demand upon the same terms as receivables from unrelated parties.

Transactions with Aristo Technologies Limited / Mr. Yang

This represented Aristo transactions with various related parties of Mr. Yang.

As of December 31, 2013 and 2012, we had an outstanding receivable from Aristo / Mr. Yang, the President and Chairman of our Board of Directors, totaling \$931,652 and \$3,658,359, respectively. These advances bear no interest and are payable on demand. The receivable due from Aristo / Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company. A repayment plan has been entered with Mr. Yang.

Transactions with Solution Semiconductor (China) Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. ("Solution").

During the years ended December 31, 2013 and 2012, we received service charges of \$15,384 and \$5,769 respectively from Solution. The service fee was charged for back office support for Solution.

During the years ended December 31, 2013 and 2012, we sold products for \$3,530,784 and \$1,000 respectively, to Solution. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Solution

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (“DBS Bank”) (formerly Overseas Trust Bank Limited) and The Bank of East Asia, Limited (“BEA Bank”) respectively.

Transactions with Systematic Information Limited

Mr. Yang, the Company’s Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (“Systematic Information”) with a total of 100% interest.

During the years ended December 31, 2013 and 2012, we received service charges of \$3,077 and \$7,769 respectively from Systematic Information. The service fee was charged for back office support for Systematic Information.

During the years ended December 31, 2013 and 2012, we sold products for \$2,000,782 and \$17,457 respectively, to Systematic Information. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Systematic Information.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from BEA Bank.

Transactions with Global Mega Development Limited

Mr. Yang is the sole beneficial owner of the equity interests of Global Mega Development Ltd. (“Global”).

During the years ended December 31, 2013 and 2012, we received service charges of \$1,026 and \$0 respectively from Global. The service fee was charged for back office support for Global.

During the years ended December 31, 2013 and 2012, we sold products for \$1,564,213 and \$0 respectively, to Global. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Global.

Transactions with Atlantic Storage Devices Limited

Mr. Yang is a director and 40% shareholder of Atlantic Storage Devices Ltd. (“Atlantic Storage”). The remaining 60% of Atlantic Storage is owned by a non-related party. During the years ended December 31, 2013 and 2012, we sold products for \$25,536 and \$21,784 respectively, to Atlantic Storage. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Atlantic Storage.

Transactions with City Royal Limited

Mr. Yang, the Company’s Chief Executive Officer, majority shareholder and a director, is a 50% shareholder of City Royal Limited (“City”). The remaining 50% of City is owned by the wife of Mr. Yang. A residential property located in Hong Kong owned by City was used by the Company as collateral for loans from DBS Bank.

Transactions with Aristo Components Limited

Mr. Ben Wong appointed as new Chief Executive Officer on February 1, 2013. He is a 90% shareholder of Aristo Components Ltd. (“Aristo Comp”). The remaining 10% of Aristo Comp is owned by a non-related party. During the years ended December 31, 2013 and 2012, we received a management fee of \$12,308 and \$12,308 respectively from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

Transactions with Atlantic Ocean (HK) Limited

Mr. Yang is a director and 60% shareholder of Atlantic Ocean (HK) Limited (“Ocean”). During the years ended December 31, 2013 and 2012, we received a service fee of \$0 and \$9,615 respectively from Ocean. The service fee was charged for back office support for Ocean.

During the years ended December 31, 2013 and 2012, we sold products for \$13,924 and \$0 respectively, to Ocean. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Ocean.

Debt Assignment

On December 27, 2012, Aristo entered into an assignment agreement (the “Assignment Agreement”) with Atlantic and USmart.

Pursuant to the Assignment Agreement, Aristo agreed to assign to Atlantic, for no consideration, all of its rights and interests in certain debts (collectively, the “Debt”) in an amount of US\$11,794,871.79 owed to Aristo by USmart (the “Assignment”).

The Company acquired 80% of USmart’s equity interest (the “Interest”) on September 28, 2012. The Debt owed by USmart to Aristo was taken into consideration by the parties in determining the purchase price for the Interest and was expected to be eliminated subsequent to the closing of the Acquisition.

Item 14. Principal Accounting Fees and Services

The following table presents fees, including reimbursements for expenses, professional audit services and other services rendered by Albert Wong & Co. LLP CPA during the years ended December 31, 2013 and 2012. Albert Wong & Co. LLP CPA audited our annual financial statements for the year ended December 31, 2013 and 2012.

	Fiscal 2013	Fiscal 2012
Audit Fees (1)	\$107,000	\$116,000
Audit Related Fees (2)	\$—	\$—
Tax Fees (3)	\$—	\$—
All Other Fees (4)	\$—	\$—
Total	\$107,000	\$116,000

(1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Albert Wong & Co. CPA firms in connection with statutory and regulatory filings or engagements. Audit Fees billed by Albert Wong & Co. LLP CPA firm includes audited fees for auditing our 2013 annual financial statements. Audit Fees billed by Albert Wong & Co. CPA firm includes audited fees for auditing our 2012 annual financial statements and interim reviews for 2012 to 2013.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." There were no such fees in fiscal year 2013 or 2012.

(3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning. There were no such fees in fiscal year 2013 or 2012.

(4) All Other Fees consist of fees for products and services other than the services reported above. There were no such fees in fiscal year 2013 or 2012.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report

(1) The financial statements listed in the Index to Consolidated Financial Statements are filed as part of this report

(2) The financial statements listed in the Index are filed as part of this report.

Schedule II – Valuation and Qualifying Accounts and Reserves. Schedule II on page S-1 is filed as part of this report.

(3) List of Exhibits

See Index to Exhibits in paragraph (b) below.

The Exhibits are filed with or incorporated by reference in this report.

(b) Exhibits required by Item 601 of Regulation S-K.

Exhibit No.	Description
3.1	Certificate of incorporation of the Company, together with all amendments thereto, as filed with the Secretary of State of the State of Delaware, incorporated by reference to Exhibit 3.1 to the Form 8-K filed with the Securities and Exchange Commission on December 19, 2003.
3.2	By-Laws of the Company, as amended, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement.
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
** 101.INS	XBRL Instance Document
** 101.SCH	XBRL Taxonomy Extension Schema Document

**
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

**
101.DEF XBRL Taxonomy Extension Definition Linkbase Document

**
101.LAB XBRL Taxonomy Extension Label Linkbase Document

**
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

(c) Financial statements required by Regulation S-X which are excluded from the annual report to shareholders by Rule 14a-3(b).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USMART MOBILE
DEVICE INC.

By: /s/ Ben Wong
Ben Wong
Chief Executive Officer

Dated: April 15, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ben Wong Ben Wong	Chief Executive Officer and Director (Principal Executive Officer)	April 15, 2014
/s/ Philip Tsz Fung Lo Philip Tsz Fung Lo	Chief Financial Officer (Principal Financial and Accounting Officer)	April 15, 2014
/s/ Chung-Lun Yang Chung-Lun Yang	Chairman of the Board of Directors	April 15, 2014
/s/ Ho Man Yeung Ho Man Yeung	Director	April 15, 2014
/s/ Wing Sun Leung Wing Sun Leung	Director	April 15, 2014

USmart Mobile Device Inc. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2013 and December 31, 2012 and

For the Years Ended December 31, 2013 and 2012

With Report of Independent Registered Public Accounting Firm

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	F-2
Financial Statements:	
Consolidated Balance Sheets	F-3
Consolidated Statements of Income and Comprehensive Income	F-5
Consolidated Statements of Stockholders' Equity and Accumulated Other Comprehensive Income	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-9
Schedule II – Valuation and Qualifying Accounts	S-1
Schedule III – Quarterly Information	S-1

F-1

Albert Wong & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS

139 Fulton Street, Suite 818B

New York, NY 10038-2532

Tel : 1-212-226-9088

Fax: 1-212-437-2193

To: The board of directors and stockholders of
USmart Mobile Device Inc. ("the Company")

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of USmart Mobile Device Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 USmart Mobile Device Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. These factors as discussed in Note 22 to the financial statements, raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 22. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

New York, United States of America Albert Wong & Co. LLP
April 15, 2014 Certified Public Accountants

F-2

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012****(Stated in US Dollars)****CONSOLIDATED BALANCE SHEETS**

	Notes	2013	2012
ASSETS			
Current assets:			
Cash and cash equivalents		\$231,119	\$639,462
Restricted cash		-	838,413
Accounts receivable, net of allowance for doubtful accounts of \$555,993 for 2013 and \$98,061 for 2012		1,358,873	1,227,703
Inventories, net	3	1,081,511	4,616,148
Other current assets		91,618	776,868
Total current assets		\$2,763,121	\$8,098,594
Long-term assets:			
Property, plant and equipment, net	4	8,212,849	9,586,055
Investments in a jointly-controlled entity	18	-	2,818,307
Goodwill	20	-	11,341,123
Other deposits		138,234	165,325
Amounts due from Aristo / Mr. Yang	6	931,652	3,658,359
TOTAL ASSETS		\$12,045,856	\$35,667,763
LIABILITIES			
Current liabilities:			
Accounts payable		\$623,069	\$358,006
Amount due to related companies		-	9,209,313
Accruals		554,231	375,513
Lines of credit and loan facilities	7	3,178,580	8,319,321
Bank loans	8	3,222,113	6,099,309
Current portion of loan from a third party		641,026	-
Current portion of capital lease	5	75,917	96,506
Income tax payable		(177,291)	(177,291)

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Due to shareholders for converted pledged collateral	112,385	112,385
Other current liabilities	12,444,000	12,386,002
Total current liabilities	\$20,674,030	\$36,779,064

F-3

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012****(Stated in US Dollars)**

	Notes	2013	2012
Long-term liabilities:			
Loan from a third party, less current portion		6,410,256	-
Capital lease, less current portion	5	\$57,511	\$133,428
Deferred tax liabilities		5,569	74,289
Total long-term liabilities		6,473,336	207,717
TOTAL LIABILITIES		\$27,147,366	\$36,986,781
NET ASSETS (LIABILITIES)		\$(15,101,510)	\$(1,319,018)
Commitments and contingencies		\$-	\$-
STOCKHOLDERS' EQUITY			
Preferred stock, 20,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2013 and 2012		-	-
Common stock, \$0.001 par value; 50,000,000 shares authorized; 39,684,495 and 39,474,495 shares issued and outstanding as of December 31, 2013 and 2012		39,685	39,475
Additional paid in capital		4,333,723	4,321,333
Exchange reserve		(1,810)	2,072
Retained earnings (deficits)		\$(16,879,337)	\$(3,539,251)
		\$(12,507,739)	\$823,629
Non-controlling interest		(2,593,771)	(2,142,647)
TOTAL STOCKHOLDERS' EQUITY		\$(15,101,510)	\$(1,319,018)

See accompanying notes to the consolidated financial statements

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012****(Stated in US Dollars)****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	Notes	2013	2012
Net sales		\$72,175,289	\$161,385,167
Costs of sales		(71,949,939)	(160,993,711)
Gross profit (loss)		\$225,350	\$391,456
Operating expenses			
Sales and marketing expenses		154,014	331,086
General and administrative expenses		4,906,299	5,873,667
Income (loss) from operations		\$(4,834,963)	\$(5,813,297)
Other expenses (income)			
Rental income		(167,134)	(196,241)
Interest expenses		1,041,095	1,011,080
Management and service income		(331,816)	(144,423)
Interest income		(2,000)	(2,727)
Profit on disposals of fixed assets		(1,930,234)	(256)
Loss on disposals of investments		68,333	-
Exchange differences		(28,729)	8,422
Reverse for provision of doubtful account		-	(1,662,648)
Miscellaneous		(173,079)	(175,038)
Impairment of goodwill		11,341,123	-
Share result of a jointly-controlled entity	18	(883,199)	181,693
Income (loss) before income taxes		\$(13,769,323)	\$(4,833,159)
Income tax (reversal) provision	11	21,887	32,950
Net income (loss)		\$(13,791,210)	\$(4,866,109)

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Attributable to :

Non-controlling interest	(451,124)	(152,371)
Shareholders of the Company	(13,340,086)	(4,713,738)
	(13,791,210)	(4,866,109)
Earnings (loss) per share – basic and diluted	\$(0.34)	\$(0.14)
Weighted average number of shares – basic and diluted	13 39,562,522	32,734,799

See accompanying notes to the consolidated financial statements

F-5

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

(Stated in US Dollars)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND**ACCUMULATED OTHER COMPREHENSIVE INCOME**

	Number of shares	Amount	Additional paid-in capital	Reserve	Retained earnings (accumulated losses)	Total
Balance, January 1, 2012	29,025,436	\$29,026	\$3,753,577	\$-	1,180,299	\$4,962,902
Issue of capital	10,449,059	10,449	567,756	-	-	578,205
Dividend paid	-	-	-	-	(5,812)	(5,812)
Exchange reserve	-	-	-	2,072	-	2,072
Net income (loss)	-	-	-	-	(4,713,738)	(4,713,738)
Balance, December 31, 2012	39,474,495	\$39,475	\$4,321,333	\$2,072	(3,539,251)	\$823,629
Balance, January 1, 2013	39,474,495	\$39,475	\$4,321,333	\$2,072	(3,539,251)	\$823,629
Issue of capital	210,000	210	12,390	-	-	12,600
Exchange reserve	-	-	-	(3,882)	-	(3,882)
Net income (loss)	-	-	-	-	(13,340,086)	(13,340,086)
Balance, December 31, 2013	39,684,495	\$39,685	\$4,333,723	\$(1,810)	(16,879,337)	\$(12,507,739)

See accompanying notes to the consolidated financial statements

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012****(Stated in US Dollars)****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Notes	2013	2012
Cash flows provided by (used for) operating activities :			
Net (loss) income		\$(13,340,086)	\$(4,713,738)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Reversal of bad debts		-	1,662,648
Allowance for doubtful accounts		457,932	-
Depreciation and amortization		756,596	564,117
Change in inventory reserve		662,093	1,576,923
Issuance of common stocks to consultant as:			
- professional fee for consultant services		12,600	572,400
Gain on disposal of fixed assets		(1,930,234)	(256)
Loss on disposal of investments		68,333	-
Loss (gain) on investment in a jointly-controlled entity		(883,199)	181,693
Loss share by non-controlled party		(451,124)	(152,371)
Amortization of goodwill reserve		11,341,123	-
Dividend paid		-	(7)
Exchange reserve		(3,882)	2,072
Changes in assets and liabilities:			
(Increase) decrease in assets			
Accounts receivable – other		(589,104)	11,141,876
Inventories		2,872,546	(2,444,047)
Other current assets		685,251	(632,226)
Other assets		27,091	(94,604)
Increase (decrease) in liabilities			
Accounts payable – other		265,063	(24,130,109)
Account payable – related parties		(9,209,313)	9,209,313
Accrued expenses		178,718	(167,869)

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Income tax payable	-	24,777
Deferred tax	(68,720)	11,044
Other current liabilities	57,999	10,183,714
Total adjustments	\$4,249,769	\$7,509,088
Net cash provided by (used for) operating activities	\$(9,090,317)	\$2,795,350

See accompanying notes to the consolidated financial statements

F-7

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012****(Stated in US Dollars)**

	Notes	2013	2012
Cash flows used for investing activities:			
Advanced from Aristo / Mr. Yang		\$3,961,166	\$5,459,164
Advanced to Aristo / Mr. Yang		(1,234,459)	(3,337,123)
Net cash inflow on acquisition on subsidiaries	10(b)	-	(1,992,741)
Investment in a jointly-controlled entity		-	(3,000,000)
(Increase) decrease in restricted cash		838,413	1,383,335
Cash proceeds from sales of fixed assets		2,587,949	256
Cash proceeds from sales of investments		3,633,173	-
Purchase of fixed assets		(41,105)	(175)
Net cash provided by (used for) investing activities		\$9,745,137	\$(1,487,284)
Cash flows provided by (used for) financing activities:			
Net borrowings on lines of credit and notes payable		\$(5,140,742)	\$(5,323,257)
Principal payments to bank		(6,018,222)	(1,122,397)
Borrowings from bank		3,141,026	5,064,103
Borrowings from non-controlled party		7,051,282	150,000
Principal payments under capital lease obligation		(96,507)	(109,872)
Net cash provided by (used for) financing activities		\$(1,063,163)	\$(1,341,423)
Net increase (decrease) in cash and cash equivalents		\$(408,343)	\$(33,357)
Cash and cash equivalents – beginning of year		639,462	672,819
Cash and cash equivalents – end of year		\$231,119	\$639,462
Supplementary disclosure of cash flow information:			
Interest paid		\$1,041,095	\$1,011,080
Income tax paid (reversal)		\$-	\$(2,870)

See accompanying notes to the consolidated financial statements

F-8

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization and principal activity

Organization and Basis of Presentation

USmart Mobile Device Inc. (“USmart”) and its subsidiaries are referred to herein collectively and on a consolidated basis as the “Company” or “we”, “us” or “our” or similar terminology.

The Company was incorporated under the laws of the State of Delaware on September 17, 2002 and acquired Atlantic Components Limited, a Hong Kong incorporated company (“Atlantic”) through a reverse-acquisition that was effective September 30, 2003. On September 28, 2012, the Company acquired Jussey Investments Limited, a company incorporated in British Virgins Island (“Jussey”) (please refer to Note 17 for more information on the acquisition).

The Company is currently engaged in the production, manufacturing and distribution of smartphones, electronic products and components in Hong Kong and PRC through its operating subsidiaries:

(i) Atlantic Components Limited, a Hong Kong incorporated company and the Company’s original principle operating subsidiary which is controlled by the Company through its subsidiary, ACL International Holdings Limited (“ACL Holdings”); and

(ii) Aristo Technologies Limited, a Hong Kong incorporated company (“Aristo”), solely owned by Mr. Chung-Lun Yang, the Company’s Chairman and Chief Executive Officer (“Mr. Yang”); and

(iii) eVision Telecom Limited (“eVision”), a Hong Kong incorporated company which was acquired through an acquisition of its holding company, Jussey; and

(iv) USmart Electronic Products Limited (“USmart”), a Hong Kong incorporated company which was acquired through an acquisition of its holding company, Jussey; and

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- (v) Dongguan Kezheng Electronics Limited (“Kezheng”), a wholly foreign-owned enterprise (“WFOE”) organized under the laws of the PRC which is acquired through an acquisition of its ultimate holding company, Jussey.

The Company owns 100% equity interest of ACL International Holdings Limited, a Hong Kong incorporated company, which owns:

- (i) 100% equity interest of Atlantic (restructured on December 17, 2010); and
- (ii) 100% equity interest of Jussey Investments Limited, a company incorporated in British Virgin Islands (acquired by ACL Holdings on September 28, 2012) which owns:
 - a. 100% equity interest in eVision; and
 - b. 80% equity interest in USmart, which owns 100% equity interest in Kezheng.

F-9

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization and principal activity (CONTINUED)

On March 23, 2010, USmart concluded that Aristo, a related company solely owned by Mr. Yang is a variable interest entity under FASB ASC 810-10-25 and is therefore subject to consolidation with USmart beginning fiscal year 2007 under the guidance applicable to variable interest entities.

Business Activity

USmart Mobile Device Inc. was incorporated under the laws of the State of Delaware on September 17, 2002. The Company has been primarily engaged in the business of distribution of memory products mainly under “Samsung” brand name which principally comprised Dynamic Random Access Memory (“DRAM”), Graphic Random Access Memory (“Graphic RAM”), and Flash for the Hong Kong Special Administrative Region (“Hong Kong”) and People’s Republic of China (the “PRC” or “China”) markets formerly through its indirectly wholly owned subsidiary Atlantic Components Limited (“Atlantic”), a Hong Kong incorporated company, and ATMD (Hong Kong) Limited (“ATMD”) after April 1, 2012. The Company, through its wholly owned subsidiary ACL International Holdings Limited (“ACL Holdings”), owns 30% equity interest in ATMD, the joint venture with Tomen Devices Corporation (“Tomen”). ATMD offers a broad range of industry-leading Samsung semiconductor products, and additional components and SMD (smartphone panels). On September 27, 2013, the Company sold the entire 30% equity interest of ATMD. Through the acquisition of Jussey Investments Limited (“Jussey”) on September 28, 2012, the Company has diversified its product portfolio and customer network, obtained design and manufacturing capabilities, and tapped into the blooming telecommunication industry with access to the 3G baseband licenses.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2. Summary of significant accounting policies***(a) Method of Accounting*

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The consolidated financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of consolidated financial statements.

(b) Principles of consolidation

The consolidated financial statements are presented in US Dollars and include the accounts of the Company and its subsidiary. All significant inter-company balances and transactions are eliminated in consolidation.

The Company owned its subsidiary soon after its inception and continued to own the equity's interests through December 31, 2013. The following table depicts the identity of the subsidiary:

Name of Subsidiary	Place of Incorporation	Attributable Equity Interest %	Registered Capital
ACL International Holdings Limited	Hong Kong	100	\$ 0.13
Alpha Perform Technology Limited	BVI	100	\$ 1,000
Atlantic Components Limited (1)	Hong Kong	100	\$ 384,615
Aristo Technologies Limited (2)	Hong Kong	100	\$ 1,282
Dongguan Kezheng Electronics Limited (3)	PRC	80	\$ 680,499
eVision Telecom Limited (4)	Hong Kong	100	\$ 25,641
Jussey Investments Limited (1)	BVI	100	\$ 1
USmart Electronic Products Limited (4)	Hong Kong	80	\$ 1.28

Note: (1) Wholly owned subsidiary of ACL International Holdings Limited

(2) Deemed variable interest entity

(3) Wholly owned subsidiary of USmart Electronic Products Limited

(4) Wholly or partially owned by Jussey Investments Limited

Variable Interests Entities

According to ASC 810-10-25 which codified FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities — an interpretation of ARB No. 51 (FIN 46R), an entity that has one or more of the three characteristics set forth therein is considered a variable interest entity. One of such characteristics is that the equity investment at risk in the relevant entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.

ASC 810-05-08A specifies the two characteristics of a controlling financial interest in a variable interest entity (“VIE”): (1) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance; and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company is the primary beneficiary of Aristo because the Company can direct the activities of Aristo through the common director and major shareholder. Also, the Company extended substantial accounts receivable to Aristo and created an obligation to absorb loss if Aristo failed. Moreover, ASC 810-25-42 & 43 provides guidance on related parties treatment of VIE and specifies the relationship of de-facto agent and principal. This guidance will help to determine whether the Company will consolidate Aristo.

Owing to the extent of outstanding large amounts of accounts receivable since 2007 together with the nominal amount of paid-up capital contributed by Mr. Yang when Aristo was formed, it has been determined that Aristo cannot finance its operations without subordinated financial support from USmart and accordingly, USmart is considered to be the de facto principal of Aristo, Aristo is considered to be the de facto subsidiary of the Company, and Mr. Yang is considered to be a related party of both the Company and Aristo.

By virtue of the above analysis, it has been determined that the Company is the primary beneficiary of Aristo.

F-11

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of significant accounting policies (Continued)

(b) *Principles of consolidation (Continued)*

Aristo Technologies Limited

The Company sells Samsung memory chips to Aristo and allows long grace periods for Aristo to repay the open accounts receivable. Being the biggest creditor, the Company does not require Aristo to pledge assets or enter into any agreements to bind Aristo to specific repayment terms. The Company does not experience any bad debt from Aristo. Hence, the Company does not provide any bad debt provision derived from Aristo. Although, the Company is not involved in Aristo's daily operation, it believes that there will not be significant additional risk derived from the trading relationship and transactions with Aristo.

Aristo is engaged in the marketing, selling and servicing of computer products and accessories including semiconductors, LCD products, mass storage devices, consumer electronics, computer peripherals and electronic components for different generations of computer related products. Aristo carries various brands of products such as Samsung, Hynix, Micron, Elpida, Qimonda, Lexar, Dane-Elec, Elixir, SanDisk and Winbond. Aristo 2013 and 2012 sales were around 7 million and 2 million; it was only a small distributor that accommodated special requirements for specific customers.

Aristo supplies different generations of computer related products. Old generation products will move slowly owing to lower market demand. According to the management experience and estimation on the actual market situation, old products carrying on hand for ten years will have no resell value. Therefore, inventories on hand over ten years will be written-off by Aristo immediately.

The Company sells to Aristo in order to fulfill Aristo's periodic need for Samsung memory products based on prevailing market prices, which Aristo, in turn, sells to its customers. The sales to Aristo for fiscal year 2013 were \$3,337,735 with account receivable of \$4,850,769 as of December 31, 2013. For fiscal year 2012 were \$106,031 with account receivable of \$5,323,933 as of December 31, 2012. For fiscal year 2011 were \$7,086,379 with accounts receivable of \$16,871,739 as of December 31, 2011. For fiscal year 2010 were \$7,123,769 with accounts receivable of

\$14,073,937 as of December 31, 2010.

The Company purchases from Aristo, from time to time, LCD panels, Samsung memory chips, DRAM, Flash memory, central processing units, external hard disks, DVD readers and writers that the Company cannot obtain from Samsung directly due to supply limitations.

Acquisition

The Company uses the acquisition method of accounting for business combinations which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective fair values. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined at the date of acquisition, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of acquired business are reflected in the acquirer's consolidated financial statements and results of operations after the date of the acquisition.

(c)

Jointly-controlled entity

A jointly-controlled entity is a corporate joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in equity method for the consolidated statement of financial position the Group's shares of the equity of a jointly-controlled entity and the consolidated income statement and consolidated reserves, respectively.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of significant accounting policies (Continued)

(d)

Use of estimates

The preparation of consolidated financial statements that conform with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time, however, actual results could differ materially from those estimates.

(e)

Economic and political risks

The Company's operations are conducted in Hong Kong and China. A large number of customers are located in Southern China. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in Hong Kong and China, and by the general state of the economy in Hong Kong and China.

The Company's operations and customers in Hong Kong and Southern China are subject to special 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 the political and social conditions in Hong Kong and China, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

(f)

Property, plant and equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method.

Estimated useful lives of the plant and equipment are as follows:

Automobiles	3 1/3 years
Computers	5 years
Leasehold improvement	5 years
Land and buildings	By estimated useful life
Office equipment	5 years
Machinery	10 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income.

(g)

Account receivable

Accounts receivable is carried at the net invoiced value charged to customer. The Company records an allowance for doubtful accounts to cover estimated credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectability of outstanding accounts receivable. The Company evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of significant accounting policies (Continued)

(h) *Accounting for the impairment of long-lived assets*

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 360 (formerly Statement of Financial Accounting Standards No. 144). The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting years, there was no impairment loss.

(i) *Cash and cash equivalents*

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company maintains bank accounts in Hong Kong. The Company does not maintain any bank accounts in the United States of America.

(j) *Inventories*

Inventories are stated at the lower of cost or market and are comprised of purchased computer technology resale products. Cost is determined using the first-in, first-out method. The reserve for obsolescence was decreased by \$662,093 from \$2,625,375 as of December 31, 2012 to \$1,963,282 as of December 31, 2013. Inventory obsolescence reserves totaled \$2,625,375 including acquired from subsidiaries \$339,078 as of December 31, 2012.

(k)

Lease assets

Leases that substantially transfer all the benefits and risks of ownership of assets to the company are accounted for as capital leases. At the inception of a capital lease, the asset is recorded together with its long term obligation (excluding interest element) to reflect the purchase and the financing.

Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases. Payments made under operating leases are charged to income statement in equal installments over the accounting periods covered by the lease term. Lease incentives received are recognized in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period which they are incurred.

(l) Income taxes

We are governed by the Internal Revenue Code of the United States, the Hong Kong Inland Revenue Department and the PRC's Income Tax Laws. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income of the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of significant accounting policies (Continued)

(l) Income taxes (Continued)

The Company did not have any interest or penalty recognized in the income statements for the period ended December 31, 2013 and December 31, 2012 or the balance sheet, as of December 31, 2013 and December 31, 2012. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company's 2011, 2012 and 2013 U.S. federal income tax returns are subject to U.S. Internal Revenue Service examination and the Company's 2007/8, 2008/9, 2009/2010, 2010/11, 2011/12, 2012/13, 2013/14 Hong Kong Company Income Tax filing are subject to Hong Kong Inland Revenue Department examination. The Company's 2009, 2010, 2011, 2012 and 2013 PRC income tax returns are subject to PRC State Administration of Taxation examination.

(m)

Foreign currency translation

The accompanying consolidated financial statements are presented in United States dollars (USD). The functional currencies of the Company's operating business based in Hong Kong and PRC are the Hong Kong Dollar (HKD) and Renminbi (RMB) respectively. The consolidated financial statements are translated into United States dollars from HKD with a ratio of USD1.00=HKD7.80, a fixed exchange rate maintained between Hong Kong and United States derived from the Hong Kong Monetary Authority pegging HKD and USD monetary policy. For our subsidiaries whose functional currency are the RMB, statement of income, balance sheets and cash flows are translated with a ratio of RMB1.00=HKD1.26 an average exchange rate during the period.

Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods. All of our revenue transactions are transacted in the functional currencies. We have not entered into any material transactions that are either originated, or to be settled, in currencies other than the HKD, RMB and USD. Accordingly, transaction gains or losses have not had, and are not expected to have a material effect on our results of operations.

The RMB is not freely convertible into any other currencies. In addition, all foreign exchange transactions in the PRC must be conducted through authorized institutions. Accordingly, management cannot provide any assurance that the

RMB underlying the consolidated financial statement amounts could have been, or could be, converted into HKD or USD at the exchange rates used to translate the functional currency into the reporting currency.

(n)

Revenue recognition

The Company derives revenues from resale of computer memory products, providing both ODM (Original Design Manufacturing) and OEM (Original Equipment Manufacturing) services for various electronic products, such as computer and peripherals, flash storage devices and home electronic products. The Company recognizes revenue in accordance with the ASC 605 "Revenue Recognition". Under ASC 605, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services are rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates, and returns, which historically were not material.

(o)

Advertising

The Group expensed all advertising costs as incurred. Advertising expenses included in general and administrative expenses were \$1,121 and \$1,250 for the years ended December 31, 2013 and 2012, respectively.

(p)

Segment reporting

The Company's sales are generated from Hong Kong and the rest of China and substantially all of its assets are located in Hong Kong.

(q)

Fair value of financial instruments

The carrying amount of the Company's cash and cash equivalents, accounts receivable, lines of credit, convertible debt, accounts payable, accrued expenses, and long-term debt approximates their estimated fair values due to the short-term maturities of those financial instruments.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of significant accounting policies (Continued)

(r) *Comprehensive income*

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other consolidated financial statements. The Company has no items that represent other comprehensive income and, therefore, has not included a schedule of comprehensive income in the consolidated financial statements.

(s) *Basic and diluted earnings (loss) per share*

In accordance with ASC No. 260 (formerly SFAS No. 128), "Earnings Per Share," the basic earnings (loss) per common share is computed by dividing net earnings (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed similarly to basic earnings (loss) per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

(t) *Reclassification*

Certain amounts in the prior period have been reclassified to conform to the current consolidated financial statement presentation.

(u) *Recently issued Accounting Guidance*

In January 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies that ordinary trade

receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification™ (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

(u) Recently issued Accounting Guidance (Continued)

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the effect of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods. The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

In February 2013, FASB issued Accounting Standards Update (ASU) No. 2013-03, Financial Instruments (Topic 825). This ASU clarifies the scope and applicability of a disclosure exemption that resulted from the issuance of Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendment clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. This ASU is the final version of Proposed Accounting Standards Update 2013-200—Financial Instruments (Topic 825) which has been deleted. The amendments are effective upon issuance.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual

periods thereafter. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

In March 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-05, Foreign Currency Matters (Topic 830). This ASU resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This ASU is the final version of Proposed Accounting Standards Update EITF11Ar—Foreign Currency Matters (Topic 830), which has been deleted. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. Summary of significant accounting policies (Continued)

(u) Recently issued Accounting Guidance (Continued)

In April 2013, FASB Accounting Standards Update 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. This ASU clarifies when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Liquidation is the process by which a company converts its assets to cash or other assets and settles its obligations with creditors in anticipation of ceasing all of its activities. An organization in liquidation must prepare its financial statements using a basis of accounting that communicates information to users of those financial statements to enable those users to develop expectations about how much the organization will have available for distribution to investors after disposing of its assets and settling its obligations. The ASU requires organization to prepare its financial statements using the liquidation basis of accounting when liquidation is "imminent." Liquidation is considered imminent when the likelihood is remote that the organization will return from liquidation and either: (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties; or (b) a plan for liquidation is being imposed by other forces (e.g., involuntary bankruptcy). In cases where a plan for liquidation was specified in the organization's governing documents at inception (e.g., limited-life entities), the organization should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified in the organization's governing documents. The ASU requires financial statements prepared using the liquidation basis to present relevant information about a company's resources and obligations in liquidation, including the following:

The organization's assets measured at the amount of the expected cash proceeds from liquidation, including any items it had not previously recognized under U.S. GAAP that it expects to either sell in liquidation or use in settling liabilities (e.g., trademarks).

The organization's liabilities as recognized and measured in accordance with existing guidance that applies to those liabilities.

Accrual of the costs it expects to incur and the income it expects to earn during liquidation, including any anticipated disposal costs.

This ASU is effective for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted.

In July 2013, FASB has published Accounting Standards Update 2013-09, Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04. This ASU defers indefinitely certain disclosures about investments held by nonpublic employee benefit plans in their plan sponsors' own nonpublic equity securities. The ASU was approved by the FASB on June 12, 2013. ASU No. 2013-09, Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04, applies to disclosures of certain quantitative information about the significant unobservable inputs used in Level 3 fair value measurement for investments held by certain employee benefit plans.

In July 2013, FASB has issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3. INVENTORIES**

Inventories consisted of the following:

	December 31, 2013	December 31, 2012
Finished goods	\$3,044,793	\$7,241,523
Less allowance for excess and obsolete inventory	(1,963,282)	(2,625,375)
Inventory, net	\$1,081,511	\$4,616,148

The following is a summary of the change in the Company's inventory valuation allowance:

	December 31, 2013	December 31, 2012
Inventory valuation allowance, beginning of the year	\$2,625,375	\$709,374
Obsolete inventory sold	(662,093)	-
Additional inventory provision	-	1,916,001
Inventory valuation allowance, end of year	\$1,963,282	\$2,625,375

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net comprise the following:

	December 31, 2013	December 31, 2012
At cost		
Land and buildings	\$8,574,682	\$9,375,558
Automobiles	642,241	658,772
Office equipment	268,863	268,863
Leasehold improvements	543,550	543,550
Furniture and fixtures	57,302	57,302
Machinery	668,185	668,185
	\$10,754,823	\$11,572,230
Less: accumulated depreciation	(2,541,974)	(1,986,175)
	\$8,212,849	\$9,586,055

Depreciation and amortization expense included in the general and administrative expenses for the years ended December 31, 2013 and 2012 were \$756,596 and \$564,117 respectively.

Automobiles include the following amounts under capital leases:

	December 31, 2013	December 31, 2012
Cost	\$399,473	\$469,754
Less accumulated depreciation	(341,876)	(302,106)
Total	\$57,597	\$167,648

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5. CAPITAL LEASE OBLIGATIONS**

The Company leases automobiles under three capital leases that will expire between April 2014 and December 2015. Aggregate future obligations under the capital leases in effect as of December 31, 2013 and 2012 are as follows:

The Company has several non-cancellable capital leases relating to automobiles:

	December 31, 2013	December 31, 2012
Current portion	\$75,917	\$96,506
Non-current portion	57,511	133,428
	\$133,428	\$229,934

At December 31, 2013 and 2012, the value of automobiles under capital leases as follows:

	December 31, 2013	December 31, 2012
Cost	\$399,473	\$469,754
Less: accumulated depreciation	(341,876)	(302,106)
	\$57,597	\$167,648

At December 31, 2013 and 2012, the Company had obligations under capital leases repayable as follows:

	December 31, 2013	December 31, 2012
Total minimum lease payments		
-Within one year	\$81,906	\$103,890

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- After one year but within 5 years	60,351	143,430
	\$142,257	\$247,320
Interest expenses relating to future periods	(8,829)	(17,386)
Present value of the minimum lease payments	\$133,428	\$229,934

F-20

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. RELATED PARTY TRANSACTIONS

Related party receivables are payable on demand upon the same terms as receivables from unrelated parties.

Transactions with Aristo Technologies Limited / Mr. Yang

This represented Aristo transactions with various related parties of Mr. Yang.

As of December 31, 2013 and 2012, we had an outstanding receivable from Aristo / Mr. Yang, the President and Chairman of our Board of Directors, totaling \$931,652 and \$3,658,359, respectively. These advances bear no interest and are payable on demand. The receivable due from Aristo / Mr. Yang to the Company is derived from the consolidation of the financial statements of Aristo, a variable interest entity, with the Company. A repayment plan has been entered with Mr. Yang.

Transactions with Solution Semiconductor (China) Limited

Mr. Yang is a director and the sole beneficial owner of the equity interests of Solution Semiconductor (China) Ltd. ("Solution").

During the years ended December 31, 2013 and 2012, we received service charges of \$15,384 and \$5,769 respectively from Solution. The service fee was charged for back office support for Solution.

During the years ended December 31, 2013 and 2012, we sold products for \$3,530,784 and \$1,000 respectively, to Solution. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Solution

Two facilities located in Hong Kong owned by Solution were used by the Company as collateral for loans from DBS Bank (Hong Kong) Limited (“DBS Bank”) and The Bank of East Asia, Limited (“BEA Bank”) respectively.

Transactions with Systematic Information Limited

Mr. Yang, the Company’s Chief Executive Officer, majority shareholder and a director, is a director and shareholder of Systematic Information Ltd. (“Systematic Information”) with a total of 100% interest.

During the years ended December 31, 2013 and 2012, we received service charges of \$3,077 and \$7,769 respectively from Systematic Information. The service fee was charged for back office support for Systematic Information.

During the years ended December 31, 2013 and 2012, we sold products for \$2,000,782 and \$17,457 respectively, to Systematic Information. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Systematic Information.

A workshop located in Hong Kong owned by Systematic Information was used by the Company as collateral for loans from BEA Bank.

Transactions with Global Mega Development Limited

Mr. Yang is the sole beneficial owner of the equity interests of Global Mega Development Ltd. (“Global”).

During the years ended December 31, 2013 and 2012, we received service charges of \$1,026 and \$0 respectively from Global. The service fee was charged for back office support for Global.

During the years ended December 31, 2013 and 2012, we sold products for \$1,564,213 and \$0 respectively, to Global. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Global.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transactions with Atlantic Storage Devices Limited

Mr. Yang is a director and 40% shareholder of Atlantic Storage Devices Ltd. (“Atlantic Storage”). The remaining 60% of Atlantic Storage is owned by a non-related party. During the years ended December 31, 2013 and 2012, we sold products for \$25,536 and \$21,784 respectively, to Atlantic Storage. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Atlantic Storage.

Transactions with City Royal Limited

Mr. Yang, the Company’s Chief Executive Officer, majority shareholder and a director, is a 50% shareholder of City Royal Limited (“City”). The remaining 50% of City is owned by the wife of Mr. Yang. A residential property located in Hong Kong owned by City was used by the Company as collateral for loans from DBS Bank.

Transactions with Aristo Components Limited

Mr. Ben Wong appointed as new Chief Executive Officer on February 1, 2013. He is a 90% shareholder of Aristo Components Ltd. (“Aristo Comp”). The remaining 10% of Aristo Comp is owned by a non-related party. During the years ended December 31, 2013 and 2012, we received a management fee of \$12,308 and \$12,308 respectively from Aristo Comp. The management fee was charged for back office support for Aristo Comp.

Transactions with Atlantic Ocean (HK) Limited

Mr. Yang is a director and 60% shareholder of Atlantic Ocean (HK) Limited (“Ocean”). During the years ended December 31, 2013 and 2012, we received a service fee of \$0 and \$9,615 respectively from Ocean. The service fee was charged for back office support for Ocean.

During the years ended December 31, 2013 and 2012, we sold products for \$13,924 and \$0 respectively, to Ocean. As of December 31, 2013 and 2012, there were no outstanding accounts receivables from Ocean.

Debt Assignment

On December 27, 2012, Aristo entered into an assignment agreement (the “Assignment Agreement”) with Atlantic and USmart.

Pursuant to the Assignment Agreement, Aristo agreed to assign to Atlantic, for no consideration, all of its rights and interests in certain debts (collectively, the “Debt”) in an amount of US\$11,794,871.79 owed to Aristo by USmart (the “Assignment”).

The Company acquired 80% of USmart’s equity interest (the “Interest”) on September 28, 2012. The Debt owed by USmart to Aristo was taken into consideration by the parties in determining the purchase price for the Interest and was expected to be eliminated subsequent to the closing of the Acquisition.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7. REVOLVING LINES OF CREDIT AND LOAN FACILITIES**

The Company has available to it a \$897,436 revolving line of credit with The Bank of East Asia, Limited (“BEA”) with an outstanding balance of \$897,290 at December 31, 2013 and \$897,000 at December 31, 2012. The line of credit bears interest at the higher of Hong Kong prime rate or HIBOR plus 2% for HKD facilities and LIBOR plus 1.75% for other currency facilities as of December 31, 2013. The weighted average interest rate approximated 5.25% for 2013 and 2012.

The Company has available to it a \$769,231 revolving line of credit with The Bank of East Asia, Limited (“BEA”) with an outstanding balance of \$761,089 at December 31, 2013 and \$764,761 at December 31, 2012. The line of credit bears interest at the higher of Hong Kong prime rate plus 0.25% or HIBOR plus 2% for HKD facilities and LIBOR plus 2% for other currency facilities as of December 31, 2013. The weighted average interest rate approximated 5.5% for 2013 and 2012.

The Company has available to it a \$2,435,897 revolving line of credit with The Fubon Bank (Hong Kong) Limited (Fubon”) with an outstanding balance of 1,520,201 at December 31, 2013 and \$0 at December 31, 2012. The line of credit bears interest at the higher of HIBOR plus 3.5% for HKD facilities and LIBOR plus 3.5% for other currency facilities as of December 31, 2013. The weighted average interest rate approximated 6.5% for 2013.

The summary of banking facilities at December 31, 2013 is as follows:

	Granted facilities	Utilized facilities	Not Utilized Facilities
Lines of credit and loan facilities			
Import/Export Loan	4,102,564	3,178,580	923,984
	\$	\$	\$
Bank Loans	3,222,113 (a)	3,222,113	-
Revolving Short Term Loan	1,538,462 (a)	1,538,168	294
Overdraft	64,103 (b)	61,758	2,345

\$8,927,242 \$8,000,619 \$926,623

(a) The bank loans are combined from the summary of Note (8), total bank loans amount to USD7,630,946 with a revolving short term loan of USD1,538,168. The revolving short term loan is placed under Other Current Liabilities on the balance sheet. It has a facility limit of USD1,538,462, bearing an interest rate of 0.5% below Hong Kong prime rate per annum.

(b) Including in cash and cash equivalents

F-23

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8. BANK LOANS**

Bank loans were comprised of the following as of December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
Installment loan provided by BEA Bank having a maturity date in July 28, 2014 and carrying an interest rate of Hong Kong dollar Prime Rate at 5.25% as of December 31, 2013 and 2012 +0.25%, payable in monthly installments of \$13,291 including interest through December 2013 without any balloon payment requirements	\$89,744	\$243,590
Installment loan provided by BEA Bank having a maturity date in April 18, 2015 and carrying an interest rate of Hong Kong dollar Prime Rate at 5.25% as of December 31, 2013 and 2012 +0.25%, payable in monthly installments of \$46,065 including interest through December 2013 without any balloon payment requirements	683,761	1,196,581
Installment loan provided by DBS Bank having a maturity date in April 25, 2015 and carrying an interest rate of Hong Kong Prime dollar Rate at 5.25% as of December 31, 2013 and 2012 +0.5%, payable in monthly installments of \$55,939 including interest through December 2013 without any balloon payment requirements	859,612	1,574,812
Installment loan provided by DBS Bank having a maturity date in June 2, 2023 and carrying an interest rate of one month HIBOR at 0.28% as of December 31+2%, it was fully repaid on 23 September, 2013	-	456,123
Installment loan provided by DBS Bank having a maturity date in September 15, 2023 and carrying an interest rate of Hong Kong dollar Prime Rate at December 31, 2012 -2.5%, it was fully repaid on 23 September, 2013	-	584,573
Installment loan provided by DBS Bank having a maturity date in June 2, 2026 and carrying an interest rate of one month HIBOR at December 31, 2012 +2%, it was fully repaid on 23 September, 2013	-	703,598
Installment loan provided by DBS Bank having a maturity date in July 21, 2026 and carrying an interest rate of Hong Kong dollar Prime Rate at 5.25% as of December 31, 2012 -2.4%, it was fully repaid on 23 September, 2013	-	1,340,032

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Installment loan having a maturity date in 23 September, 2028 and carrying an interest rate of 2% per annum over one month HIBOR (0.2143% at December 31, 2013) from Fubon Bank payable in monthly installments of \$6,283 including interest through December 2013 without any balloon payment requirements	947,971	-
Term loan having a maturity due in 23 January, 2014 and carrying an interest rate of 3.88429 per annum from Fubon Bank without any balloon payment requirements	641,025	-
	\$3,222,113	\$6,099,309

F-24

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8. BANK LOANS (CONTINUED)**

An analysis on the repayment of bank loan as of December 31, 2013 and December 31, 2012 are as follow:

	December 31, 2013	December 31, 2012
Carrying amount that are repayable on demand or within twelve months from December 31, 2013 containing a repayable on demand clause:		
Within twelve months	\$ 1,937,063	\$ 1,529,282
Carrying amount that are not repayable within twelve months from September 30, 2013 containing a repayable on demand clause but shown in current liabilities:		
After 1 year, but within 2 years	\$ 505,656	\$ 2,142,751
After 2 years, but within 5 years	118,775	467,232
After 5 years	660,619	1,960,044
	\$ 1,285,050	\$ 4,570,027
	\$ 3,222,113	\$ 6,099,309

With respect to all of the debt and credit arrangements referred to in this Note 8 and Note 9, the Company pledged its assets to a bank group in Hong Kong comprised of DBS Bank, BEA Bank and Fubon Bank, as collateral for all current and future borrowings from the bank group by the Company. In addition to the above pledged collateral, the debt is also secured by:

1. Collateral for loans from DBS Bank:
 - (a) a security interest on a residential property located in Hong Kong owned by City, a related party;
 - (b) a workshop located in Hong Kong owned by Solution, a related party; and
 - (c) an unlimited personal guarantee by Mr. Yang

2. Collateral for loans from BEA Bank:
 - (a) a workshop located in Hong Kong owned by Systematic Information, a related party;
 - (b) a workshop located in Hong Kong owned by Solution, a related party; and
 - (c) an unlimited personal guarantee by Mr. Yang

3. Collateral for loans from Fubon Bank

- (a) a security interest on two residential properties located in Hong Kong owned by Aristo, a company wholly owned by Mr. Yang; and
 (b) an unlimited personal guarantee by Mr. Yang

NOTE 9. other current liabilities

The other current liabilities consisted the following as of December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Revolving short term loan	\$1,538,168	\$1,531,637
Trade deposit from customers	7,725,475	9,896,635
Temporary receipts	2,242,999	-
Others	937,358	957,730
	\$12,444,000	\$12,386,002

The trade deposit from customers consists of letter of credits received from our customers which were financed by the bank.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. LOAN FROM A THIRD PARTY

On September 26, 2013, Atlantic Components Limited entered into a Loan Agreement with Excel Precise International Limited, an unrelated third party, for a loan facility to the aggregate extent of HKD55 Million (USD7,051,282). The amount HKD55 Million has been drawn down on September 27, 2013. The rate of interest is 1.1% per month and payable on the 26th day of each calendar month.

The Loan is collateral with mortgage over two Properties owned by Atlantic Components Limited and Personal Guaranteed by Wong, Fung Ming and Yang, Chung Lun.

The repayment time schedule contained in the Loan Agreement is as follows:

Date of Repayment	Amount
The Last date of the 12-month period from September 27, 2013	641,026
The Last date of the 24-month period from September 27, 2013	1,282,051
The Last date of the 36-month period from September 27, 2013	5,128,205
	7,051,282
Current portion	641,026
Non-current portion	6,410,256
	7,051,282

The Loan facility is to provide purpose temporary relief for the Company's liquidity during the negotiation with new banker for a better term on a new banking facility.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 11. Income taxes**

Income tax (reversal) expense amounted to \$21,887 for 2013 and \$32,950 for 2012 (an effective rate of -0.16% for 2013 and -0.02% for 2012). A reconciliation of the provision for income taxes with amounts determined by applying the statutory federal income tax rate of 34% to income before income taxes is as follows:

	December 31, 2013	December 31, 2012
Computed tax at federal statutory rate	\$-	\$-
Tax rate differential on foreign earnings of Atlantic and Aristo, Hong Kong based companies	(83,680)	(353,440)
Federal tax penalty provision	80,000	-
Tax (over) under provision for Atlantic	(68,720)	32,950
Tax paid by Kezheng	10,607	-
Net operating loss carry forward	83,680	353,440
	\$ 21,887	\$ 32,950

The income tax provision consists of the following components:

	December 31, 2013	December 31, 2012
Federal	\$ 80,000	\$ -
Foreign	(58,113)	32,950
	\$ 21,887	\$ 32,950

The Components of the deferred tax assets and liabilities are as follows:

	December 31, 2013	December 31, 2012
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Net operating losses	\$4,681,570	\$1,837,120
Total deferred tax assets	\$4,687,570	\$1,837,120
Less: valuation allowance	(4,687,570)	(1,837,120)
	\$-	\$-

The Company did not have any interest and penalty not to recognize- in the income statements for the year ended December 31, 2013 and 2012 or balance sheet as of December 31, 2013 and 2012. The Company did not have uncertainty tax positions or events leading to uncertainty tax position within the next 12 months. The Company's 2011, 2012, and 2013 U.S. Corporation Income Tax Return are subject to U.S. Internal Revenue Service examination and the Company's 2007/8, 2008/9, 2009/2010, 2010/11, 2011/12 2012/13, and 2013/14 Hong Kong Corporations Profits Tax Return filing are subject to Hong Kong Inland Revenue Department examination. The Company's 2009, 2010, 2011, 2012 and 2013 PRC income tax returns are subject to PRC State Administration of Taxation examination.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 12. CASH FLOW INFORMATION**

(a) Cash paid during the years ended December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
Interest paid	\$1,041,095	\$1,011,080
Income taxes (reversal) paid	\$-	\$(2,870)

(b) Net cash inflow on acquisition of subsidiaries as of December 31, 2013 and December 31, 2012 are as follow:

	December 31, 2013	December 31, 2012
Cash consideration paid up to December 31, 2013 and 2012	\$ -	\$2,150,000
Cash and cash equivalents acquired	-	(157,259)
Net cash inflow in respect of acquisition of subsidiaries	\$ -	\$1,992,741

NOTE 13. WEIGHTED AVERAGE NUMBER OF SHARES

The Company has a 2006 Incentive Equity Stock Plan, under which the Company may grant options to its employees for up to 5 million shares of common stock. There was no dilutive effect to the weighted average number of shares for the years ended December 31, 2013 and 2012 since there were no outstanding options at December 31, 2013 and 2012.

NOTE 14. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

The Company had a non-exclusive Distributorship Agreement with Samsung Electronics Hong Kong Co., Ltd. (“Samsung”), which was initially entered into in May 1993 and has been renewed annually. The Company’s Samsung business was formerly handle through its indirect wholly owned subsidiary, Atlantic. After April 1, 2012, Atlantic integrates its business relating to purchasing semiconductors and electronic parts from Samsung to the new joint venture, ATMD. ATMD has signed a new non-exclusive Distributorship Agreement with Samsung. The

non-exclusive Distributorship Agreement between Atlantic and Samsung was expired in June 30, 2012. On September 27, 2013, the Company sold the entire 30% equity interest of ATMD.

In addition, the Company's operations and business viability are to a large extent dependent on the provision of management services and financial support by Mr. Yang. See Note 8 of the Notes to Consolidated Financial Statements for Mr. Yang's support on the Company's banking facilities.

NOTE 15. RETIREMENT PLAN

Under the Mandatory Provident Fund ("MPF") Scheme Ordinance in Hong Kong, the Company is required to set up or participate in an MPF scheme to which both the Company and employees must make continuous contributions throughout their employment based on 5% of the employees' earnings, subject to maximum and minimum level of income. For those earning less than the minimum level of income, they are not required to contribute but may elect to do so. However, regardless of the employees' election, their employers must contribute 5% of the employees' income. Contributions in excess of the maximum level of income are voluntary. All contributions to the MPF scheme are fully and immediately vested with the employees' accounts. The contributions must be invested and accumulated until the employees' retirement. The Company contributed and expensed \$32,872 for 2013 and \$29,552 for 2012.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 16.COMMITMENTS**

The Company leases its facilities. The following is a schedule by years of future minimum rental payments required under operating leases that have non-cancellable lease terms in excess of one year as of December 31, 2013:

	Related parties	Others	Total
Year ending December 31, 2014	\$ -	\$376,760	\$376,760
2015	-	177,033	177,033
Thereafter	-	525,100	525,100
Total	\$ -	\$1,078,893	\$1,078,893

See Note 6 of the Notes to Consolidated Financial Statements for related party leases. All leases expire prior to December 31, 2018. Real estate taxes, insurance, and maintenance expenses are obligations of the Company. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will likely be more than the amounts shown for 2013. Rent expense for the years ended December 31, 2013 and 2012 totaled \$475,571 and \$241,699, respectively.

NOTE 17.STOCK DIVIDEND

On May 28, 2012, the Company paid a special dividend of the common stock to its shareholders. 5,805,059 shares of common stock were issued and an additional \$7.47 was paid to shareholders for fractional shares. There are no dividends being paid for the year 2013.

NOTE 18.INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY

In March 2012, the Company and Tomen Devices Corporation established ATMD (Hong Kong) Limited, a joint venture operating in Hong Kong. Under the terms of the agreement, USmart's contribution comprised cash of \$3 million.

Particulars of the jointly-controlled entity are as follows:

Name	Place of registration	Percentage of Ownership interest	Voting power	Profit sharing	Principal activity
ATMD (Hong Kong) Limited	Hong Kong	30	30	30	Trading

All shareholding in the above entity are in ordinary shares or the equivalent and are stated to the nearest percentage point.

F-29

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 18. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY (CONTINUED)**

The following table illustrates the summarized financial information of the Company's jointly-controlled entity:

	December 31, 2013	December 31, 2012
Share of jointly-controlled entity's assets and liabilities:		
Current assets	\$ -	\$23,490,550
Non-current assets	-	69,921
Current liabilities	-	(20,742,164)
	\$ -	\$2,818,307
Share of jointly-controlled entity's results:		
Net sales	\$ -	\$48,674,460
Gross profit	-	698,848
Net loss	-	(181,693)

On September 27, 2013 the Company sold the entire 30% equity interest of ATMD.

NOTE 19. ACQUISITION

On September 28, 2012, the Company completed its acquisition of 100% equity interest of Jussey Investments Limited ("Jussey"), a company incorporated in British Virgin Islands, for aggregate purchase consideration of approximately US\$2,150,000, payable by way of cash or equivalent in favor of the seller within 5 business days after the completion of the acquisition. Jussey owns 100% equity interest in eVision Telecom Limited ("eVision"), a Hong Kong incorporated company, and 80% equity interest in USmart Electronic Products Limited ("UEP"), a Hong Kong incorporated company. Jussey indirectly owns 80% of Dongguan Kezheng Electronics Limited ("Kezheng"), a wholly foreign-owned enterprise ("WFOE") organized under the laws of the PRC by UEP.

Through the acquisition, the Company has diversified its product portfolio, enhanced its distributor role to a Research and Develop (“R&D”) manufacturer with its own products and brands, entered the telecommunication industry, gained access to the 3G baseband licenses, and design and manufacturing matrix and facility.

The Company accounted for this acquisition of Jussey and its subsidiaries by acquisition method of accounting. The balance sheet items were stated at fair value. The fair value was accounted upon the issuance of fair value report from an independent valuator engaged for this acquisition.

F-30

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 19.ACQUISITION (CONTINUED)**

The purchase price was allocated as follows:

Purchase Consideration:	
Acquisition obligation payable to sellers	\$2,150,000
Direct costs relating to acquiree	20,000
Less: cash acquired	(157,259)
Net purchase consideration	\$2,012,741
Assets Acquired	
Net tangible assets acquired:	
Fixed assets	\$355,481
Inventories	654,757
Trade receivables, deposits, prepayment and other receivables	717,369
Restricted cash	132,706
Trade payables, other creditors and accruals	(13,328,971)
Non-controlled interest	2,140,276
Net tangible assets acquired	\$(9,328,382)
Purchase consideration in excess of net tangible assets	\$11,341,123
Allocated to:	
Trademark	\$53,955
License contracts	11,287,168
	\$11,341,123

The purchase price allocation was computed based on fair value report from the independent valuator.

Jussey's results of operations are consolidated with the Company effective October 1, 2012.

The intangible assets were fully amortized as of December 31, 2013, see Note 20 for details.

F-31

USMART MOBILE DEVICE INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20. INTANGIBLE ASSETS**

The Company uses the acquisition method of accounting for business combinations which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective fair values. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined at the date of acquisition, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of acquired business are reflected in the acquirer's consolidated financial statements and results of operations after the date of the acquisition.

The intangible assets are summarized in the following table which provides the gross carrying value and accumulated amortization for each major class of intangible assets other than goodwill:

	Remaining useful life	December 31, 2013	December 31, 2012
Gross carrying amount:			
Trademark	12 months	\$53,955	\$53,955
License contracts	12 months	11,287,168	11,287,168
		11,341,123	11,341,123
Less : Accumulated amortization			
Trademark		\$53,955	\$-
License contracts		11,287,168	-
		11,341,123	-
Intangible assets, net		\$-	\$11,341,123

The aggregate amortization expense for those intangible assets that continue to be amortized is reflected in amortization of intangible assets in the Condensed Consolidated Statements of Income (Unaudited) and was \$11,341,123 and \$0 for the year ended December 31, 2013 and 2012 respectively.

The written down of the carrying amount of the intangible assets are based on evaluation of the future revenue generated from the concerned intangible assets. Due to the slowing down of the projected order and the narrowing down of gross margin of the projects, the Company decided to fully write down \$11,341,123 of the entire carrying value of the intangible assets.

NOTE 21.SUBSEQUENT EVENTS

In preparing these financial statements, the Company evaluated the events and transactions that occurred from January 1, 2014 through April 15, 2014, the date these financial statements are issued. The Company has determined that there were no material subsequent events.

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22. UNCERTAINTY OF ABILITY TO CONTINUE AS A GOING CONCERN

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity financing to continue operations and the attainment of profitable operations. The management will seek to raise funds from shareholders.

For the year ended December 31, 2013, the Company has generated revenue of \$72,175,289 and has incurred an accumulated deficit \$16,879,337. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors noted above raise substantial doubts regarding the Company's ability to continue as a going concern.

F-33

USMART MOBILE DEVICE INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

SCHEDULE III

QUARTERLY INFORMATION (UNAUDITED)

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

S-1