

Kington Wirelessinfo Solution Holding Ltd  
Form 20-F  
February 09, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

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

For the Fiscal year ended September 30, 2017

OR

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

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

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

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 001-34738

**Kingtone Wirelessinfo Solution Holding Ltd**

(Exact name of Registrant as specified in its charter)

Not applicable

(Translation of Registrant's name into English)

British Virgin Islands	3rd Floor, Borough A, Block A. No.181, South Taibai Road, Xi'an, Shaanxi Province,
(Jurisdiction of incorporation or organization)	People's Republic of China 710065 (Address of principal executive offices)

Ms. Li Wu

3rd Floor, Borough A, Block A. No.181, South Taibai Road, Xi'an, Shaanxi Province,  
People's Republic of China 710065  
Tel: (86) 29-88266368

(Name, telephone, Email and/or facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
Ordinary shares, par value \$0.01 per share	None
American Depositary Shares, each representing	NASDAQ Capital Market

one Ordinary Share

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

none

(Title of Class)

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

none

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 1,405,000 Ordinary Shares, including 714,375 Ordinary Shares represented by 714,375 American Depositary Shares outstanding as of September 30, 2017. (The numbers reflected the effect from a 1-for-10 reverse split effective November 6, 2012)

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.      Yes      No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.      Yes      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).      Yes      No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP      International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.    Item 17      Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).      Yes      No

*In this annual report:*

*References to the “Company”, “we”, “our” and “us” are to Kingtone Wirelessinfo Solution Holding Ltd and its consolidated subsidiaries and variable interest entity, except as the context otherwise requires;*

*References to an “ADS” are to an American Depositary Share, each of which represents one of our Ordinary Shares with a par value of \$.01 per share;*

*References to a particular “fiscal” year, such as “fiscal 2017”, are to our fiscal year ended on September 30, of that year*

### **Special Note Regarding Forward-looking Statements**

This annual report contains forward-looking statements that involve risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this annual report. These forward-looking statements include:

our future business development, results of operations and financial condition;

expected changes in our net revenues and certain cost or expense items;

our ability to attract and retain customers; and

trends and competition in the enterprise mobile software application market.

You should read this annual report thoroughly with the understanding that our actual future results may be materially different from, and/or worse, than what we expect. We qualify all of our forward-looking statements by these

cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

This annual report also contains estimates, projections and statistical data related to the enterprise mobile software and IT services market in China. This market data, including data from IDC, a leading provider of market data and intelligence, speaks as of the date it was published and includes projections that are based on a number of assumptions and are not representations of fact. The enterprise mobile software and IT services market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may materially and adversely affect our business and the market price of our ADSs. In addition, the rapidly changing nature of the software and IT services market subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data proves to be incorrect, actual results may differ from the projections based on these assumptions.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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## **PART I**

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

Not applicable.

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

Not applicable.

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

#### **A. SELECTED FINANCIAL DATA.**

Kington Wirelessinfo Solution Holding Ltd and its consolidated subsidiaries (“Kington Wireless”, “we”, “us”, or “the Company”) and Xi’an Kington Information Technology Co., Ltd., a PRC limited liability company (“Kington Information”), which was incorporated in Xi’an, Shaanxi province, China on December 28, 2001, are under common control from the earliest date presented. On October 27, 2009, we were incorporated with a fiscal year end of November 30, and on December 15, 2009, we consummated a number of related transactions to acquire contractual control of Kington Information (the “Reorganization”). The selected financial data are solely those of Kington Information for the fiscal year ended September 30, 2009, and then they are combined with Kington Wireless through December 15, 2009, the date of the Reorganization, and they are consolidated with Kington Wireless following the date of the Reorganization.

In March 2010, we changed our fiscal year end from November 30 to September 30 to have the same fiscal year end as Kington Information. As we and our wholly-owned subsidiaries had no operations from October 1, 2009 to November 30, 2009, except for our initial capitalization and our preparation for our initial public offering, the statement of income and comprehensive income for the year ended September 30, 2009 is the same as those for the fiscal year ended November 30, 2009.

The selected financial data for fiscal years 2017, 2016, 2015, 2014 and 2013 have been derived from our audited consolidated and combined financial statements. The selected consolidated and combined financial data should be read in conjunction with our audited financial statements and the accompanying notes and “Item 5 – Operating and Financial Review and Prospects.” Our consolidated and combined financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future periods. You should not view our historical results as an indicator of our future performance.

**Kington Wirelessinfo Solution Holding Ltd and Subsidiaries****Selected Consolidated And Combined Statements of Operations and Comprehensive Income (Loss) Data**

	For the Years Ended September 30,				
	2017	2016	2015	2014	2013
	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
	(\$ in Thousands, Except per Share Data)				
Total revenues	\$ 173	\$ 1,192	\$ 8,819	\$ 6,186	\$ 11,562
Cost of sales	349	988	5,618	4,222	10,544
Gross (loss) profit	(176 )	204	3,201	1,964	1,018
Operating expenses:					
Selling and marketing expenses	101	134	153	364	557
General and administrative expenses	1,471	1,917	3,355	1,940	2,805
Research and development expenses	-	55	288	202	249
Total operating expenses	1,572	2,106	3,796	2,506	3,611
Operating (loss) income	(1,748 )	(1,902 )	(595 )	(542 )	(2,593 )
Interest income	289	400	29	32	79
loss of net investment in sales-type leases			-	-	(1,443 )
Other income (expense), net	1,240	1,342	1,593	509	(1,176 )
Income (Loss) before income tax expense	(219 )	(160 )	1,027	(1 )	(5,133 )
Income tax expenses			-	-	-
Net (loss) income	(219 )	\$ (160 )	\$ 1,027	\$ (1 )	\$ (5,133 )
Other comprehensive income					
Foreign currency translation gain(loss)	48	(867 )	(686 )	(38 )	616
Comprehensive (loss) income	(171 )	\$ (1,027 )	\$ 341	\$ (39 )	\$ (4,517 )
(Loss) Earnings per share:					
Basic and Diluted	\$ (0.16 )	\$ (0.11 )	\$ 0.73	\$ (0.00 )	\$ (3.65 )
Weighted average number of ordinary shares outstanding <sup>(1)</sup>					
Basic and Diluted	1,405,000	1,405,000	1,405,000	1,405,000	1,405,000

**Kingtone Wirelessinfo Solution Holding Ltd and Subsidiaries**

**Selected Consolidated and Combined Balance Sheets Data**

	As of September 30,				
	2017	2016	2015	2014	2013
	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
	(\$ in Thousands)				
Cash and cash equivalents	902	1,239	2,743	4,166	6,132
Total current assets	5,568	12,334	7,489	19,393	19,591
Total assets	23,001	23,724	25,694	32,894	33,581
Advances from customers	368	381	392	8,365	9,062
Dividend payable	777	775	812	840	842
Total current liabilities	3,482	4,034	4,977	12,518	13,168
Total shareholders' equity	19,519	19,690	20,717	20,376	20,413
Total liabilities and shareholders' equity	23,001	23,724	25,694	32,894	33,581

**B. CAPITALIZATION AND INDEBTEDNESS.**

Not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS.**

Not applicable.

**D. RISK FACTORS.**

An investment in our ADSs involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all other information contained in this annual report, including the matters discussed under “Special Note Regarding Forward-Looking Statements,” before you decide to invest in our ADSs. You should pay particular attention to the fact that we are a holding company with substantial operations in China and are subject to legal and regulatory environments that in many respects differ from those of the United States. If any of the following risks, or any other risks and uncertainties that are not presently foreseeable to us, actually occur, our business, financial condition, results of operations, liquidity and our future growth prospects would be materially and adversely affected. You should also consider all other information contained in this annual report before deciding to invest in our ADSs.

**Risks Related to Our Company and Our Industry**

*If demand for enterprise remote and mobile connectivity does not continue to expand in China, we may experience a shortfall in revenues or earnings or otherwise fail to meet public market expectations.*

The growth of our business is dependent, in part, upon the increased migration by enterprises to wireless connectivity services in China and our ability to capture a higher proportion of this market. If the demand in China for enterprise connectivity services does not continue to grow, or grows in ways that do not use our services, then we may not be able to grow our business, maintain our profitability or meet public market expectations. Increased usage of enterprise connectivity services depends on numerous factors, including:

1. the willingness of enterprises to make additional information technology expenditures;
2. the availability of security products necessary to ensure data privacy over the public networks;
3. the quality, cost and functionality of these services and competing services;
4. the increased adoption of wired and wireless broadband access methods; and
5. the proliferation of electronic devices such as handhelds and smart-phones and related applications; and

***The Company had incurred negative cash flows from operative activities and net losses as of September 30, 2017. These matters raise substantial doubt about the Company's ability to continue as a going concern.***

The Company's consolidated financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of and for the year ended September 30, 2017, the Company had incurred significant operating losses and working capital deficit. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plans to obtain such resources for the Company include (1) obtaining contracts with higher gross margin, (2) proceeds from the related-party loans lent to its related parties, and (3) short-term or long-term borrowings from banks, stockholders or other parties when needed. However, management cannot provide any assurance that the Company will be successful in accomplishing any of these plans.

***We face intense competition from other software development and IT service companies and, if we are unable to compete effectively, we may lose customers and our revenues may decline.***

The market for software products and IT services, including wireless IT application products and solutions, is highly competitive and subject to rapid changes in technology. In fiscal year 2017, we faced significant competition from both established and emerging software companies which contributed to the decline in our revenues and we expect to continue to face significant competition in the future. In addition, our growth opportunities in new product markets could be limited to the extent established and emerging software companies enter or have entered those markets. We believe the principal competitive factors in our markets are industry experience, quality of the products and services offered, reputation, marketing and selling skills, as well as price. We face significant competition from various competitors, including:

- other Chinese wireless data communication and exchange software application and service providers, such as
- 1. Beijing CEICT Technology Co., Ltd., Xi'an Future Technology Information Co., Ltd., Shenzhen Shi Ji An Ruan Technology Co., Ltd. and Cyber Technologies (Suzhou) Co., Ltd.;
- 2. other Chinese software developers and IT service providers, that may decide to add wireless data communication and exchange programming capability;
- 3. telecommunication equipment producers and suppliers; and
- 4. multi-national service providers.

Many of our current and prospective competitors have significantly greater financial, marketing, service, support, technical and other resources than we do. As a result, they may be able to adapt more quickly than us to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products. Announcements of competing products by large competitors or other vendors could result in the cancellation of orders by customers in anticipation of the introduction of such new products. Smaller competitors can also compete against us in terms of price, and some regional small competitors have a closer relationship with the local government. In addition, some of our competitors currently make complementary products that are sold separately. Such competitors could decide to enhance their competitive position by bundling their products to attract customers seeking integrated, cost-effective software applications. We also expect competition to increase as a result of software industry consolidations, which may lead to the birth of additional large and well-financed competitors. Increased competition is likely to result in price reductions, fewer customer orders, reduced margins and loss of market share.

***We may undertake acquisitions, investments, joint ventures or other strategic alliances, which could have a material adverse effect on our ability to manage our business. In addition, such undertakings may not be successful.***



Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances. Joint ventures and strategic alliances may expose us to new operational, regulatory and market risks, as well as risks associated with additional capital requirements. We may not be able, however, to identify suitable future acquisition candidates or alliance partners. Even if we identify suitable candidates or partners, we may be unable to complete an acquisition or alliance on terms commercially acceptable to us. If we fail to identify appropriate candidates or partners, or complete desired acquisitions, we may not be able to implement our strategies effectively or efficiently.

In addition, our ability to successfully integrate acquired companies and their operations may be adversely affected by several factors. These factors include:

- 1.diversion of management’s attention;
- 2.difficulties in retaining customers of the acquired companies;
- 3.difficulties in retaining personnel of the acquired companies;
- 4.entry into unfamiliar markets;
- 5.unanticipated problems or legal liabilities; and
- 6.tax and accounting issues.

If we fail to integrate acquired companies efficiently, our earnings, revenue growth and business could be negatively affected.

***The contemplated assets exchange transaction is subject to several closing conditions including the NASDAQ approval and there is no guarantee that any of the closing conditions will meet.***

As referenced under Section 10C Material Contracts section of this report, on January 25, 2018, the Company executed an Asset Exchange Agreement (“AEA”) with C Media Limited, a corporation organized under the laws of the Cayman Islands (“C Media”), whereby the Company agreed to purchase all the capital stock and equity interests of LK Technology Ltd, together with its wholly-owned subsidiaries MMB Limited and Mobile Media (China) Limited and all respective subsidiaries from C Media in exchange for (i) 185,412,599 ordinary shares of the Company, par value \$0.01 per share (“Ordinary Shares”), (ii) 1,000,000 preferred shares of Kingtone (“Preferred Shares”) and (iii) all issued and outstanding capital stock or equity interests of the Company’s subsidiary, Topsy Info-Tech Holdings Pte Ltd., and its wholly-owned subsidiary Xi’an Softech Co., Ltd., including all entities effectively controlled by Xi’an Softech Co., Ltd. through contractual arrangements and variable business entities.



In order to consummate the contemplated transactions described above, the Company must obtain shareholders' consent (i) to authorize 1,000,000 Preferred Shares, (ii) to authorize additional Ordinary Shares so that total authorized Ordinary Shares is equal to 250,000,000 shares, (iii) to list such Ordinary Shares on NASDAQ, and (iv) to approve the transactions contemplated in the Asset Exchange Agreement. Additionally, NASDAQ must approve the contemplated transactions prior to consummation thereof. C Media has the right to terminate the AEA if the closing has not occurred (other than through the failure of C Media to comply fully with its obligations under the AEA) on or before July 31, 2018.

There is no assurance that the closing conditions of the transaction above would be satisfied and to the extent any of them fails to meet, the transactions may not close and there may be material negative impact on the Company and the value of the shares may be significantly impacted.

***Due to intense competition for highly-skilled personnel, we may fail to attract and retain enough sufficiently trained employees to support our operations; our ability to bid for and obtain new projects may be negatively affected and our revenues could decline as a result.***

The IT industry relies on skilled employees, and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees. Wireless information management application development is a relatively new area in the IT industry. There is a small pool of experienced developers. As the market demand picks up and more IT companies enter this market, there is significant competition in China for professionals with the skills necessary to develop the products and perform the services we offer to our customers. Increased competition for these professionals, in the wireless information management application development areas or otherwise, could have an adverse effect on us if we experience significant increase in the attrition rate among employees with specialized skills, which could decrease our operating efficiency and productivity and could lead to a decline in demand for our services.

In addition, our ability to serve existing customers and business partners and obtain new business will depend, in large part, on our ability to attract, train and retain skilled personnel that enable us to keep pace with growing demands for wireless information management application, evolving industry standards and changing customer preferences. Our failure to attract, train and retain personnel with the qualifications necessary to fulfill the needs of our existing and future customers or to assimilate new employees successfully could have a material adverse effect on our business, financial condition and results of operations. Our failure to retain our key personnel on business development or find suitable replacements of the key personnel upon their departure may lead to shrinking new implementation projects, which could materially adversely affect our business.

***Our business depends substantially on the continuing efforts of our senior executives and other key personnel, and our business may be severely disrupted if we lose their services.***

Our future success heavily depends upon the continued services of our senior executives and other key employees, particularly since we recently appointed a new chairman. Mr. Tao Li was chairman until his death on December 15, 2017. On December 21, 2017, the remaining directors of the board appointed Mr. Zhuoyu Li as chairman. During this time of transition, we will rely particularly on Mr. Peng Zhang, our chief executive officer, Ms. Li Wu, our chief financial officer. If one or more of our senior executives or key employees is unable or unwilling to continue in his or her present position, we may not be able to replace such employee easily, or at all, we may incur additional expenses to recruit, train and retain replacement personnel, our business may be severely disrupted, and our financial condition and results of operations may be materially adversely affected.

***If Mr. Li's other professional duties interfere or conflict with his duties for our company, our business, results of operations and financial condition could be materially and adversely affected.***

Mr. Li, our chairman, currently serves as Chairman and Chief Executive Officer of China Green Agriculture, Inc. ("CGA"), a producer of humic acid based compound fertilizer in the PRC whose common stock is listed on the New York Stock Exchange. Mr. Li's duties as Chairman and Chief Executive Officer of CGA require the devotion of a substantial amount of his professional time and attention. Mr. Li currently devotes approximately 70% of his professional time to his duties for CGA. Similarly, our success and the execution of our growth strategy will require his significant efforts and the devotion of a substantial amount of his professional time and attention. If the performance of his duties on behalf of CGA interferes or conflict with his duties as Chairman of our company, we may not be able to achieve our anticipated growth and our business, results of operations and financial condition could be materially adversely affected.

***Our business could suffer if our executives and directors compete against us and our non-competition agreements with them cannot be enforced.***

If any of our senior executives or key employees joins a competitor or forms a competing company, we may lose customers, know-how and key professionals and staff members to them. Also, if any of our business development managers who keep a close relationship with our customers and business partners joins a competitor or forms a competing company, we may lose customers, and our revenues may be materially adversely affected. Most of our executives have entered into employment agreements with us that contain non-competition provisions. However, if any dispute arises between our executive officers and us, such non-competition provisions may not be enforceable, especially in China, where all of these executive officers and key employees reside, in light of the uncertainties with China's legal system. See "Risk Factors — Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us."

***A significant portion of the software development, ongoing system support and enhancement service revenues we generate are fixed amounts according to our sales contracts. If we fail to accurately estimate costs and determine resource requirements in relation to our projects, our margins and profitability could be materially and adversely affected.***

A significant portion of the software development, ongoing system support and enhancement service revenues we generate are fixed amounts according to our sales contracts or bids we submit. Our projects often involve complex technologies and must often be completed within compressed timeframes and meet increasingly sophisticated customer requirements. We may be unable to accurately assess the time and resources required for completing projects and price our projects accordingly. If we underestimate the time or resources required, we may experience cost overruns and mismatches in project staffing. Conversely, if we over-estimate requirements, our bids may become uncompetitive and we may lose business as a result. Furthermore, any failure to complete a project within the stipulated timeframe could expose us to contractual and other liabilities and damage our reputation.

***Our computer networks may be vulnerable to security risks that could disrupt our services and adversely affect our results of operations.***

Our computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems caused by unauthorized access to, or improper use of, systems by third parties or employees. A hacker who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. Computer attacks or disruptions may jeopardize the security of information stored in and transmitted through computer systems of our customers. Actual or perceived concerns that our systems may be vulnerable to such attacks or disruptions may deter telecom operators and consumers from using our solutions or services. As a result, we may be required to expend significant resources to protect against the threat of these security

breaches or to alleviate problems caused by these breaches, which could adversely affect our results of operations.

*If we do not continually enhance our solutions and service offerings, we may have difficulty in retaining existing customers and attracting new customers.*

We believe that our future success will depend, to a significant extent, upon our ability to enhance our existing solutions and to introduce new solutions and features to meet the requirements of our customers in a rapidly developing and evolving market. We currently devote significant resources to refining and expanding our base software modules and to developing solutions that operate in accordance with our customers' networks and systems. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of these products or services, or any products or services that we may plan to introduce in the future. Our present or future products may not satisfy the evolving needs of the telecom industry, and these solutions and services may not achieve anticipated market acceptance or generate incremental revenue. If we are unable to anticipate or respond adequately to the need for solutions and service enhancements due to resource, technological or other constraints, our business, financial condition and results of operations could be materially and adversely affected.

***If we are unable to develop competitive new products and service offerings our future results of operations could be adversely affected.***

Our future revenue stream depends to a large degree on our ability to utilize our technology in a way that will allow us to offer new types of software applications and services to a broader client base. We will be required to make investments in research and development in order to continually develop new software applications and related service offerings, enhance our existing software applications and related service offerings and achieve market acceptance of our software applications and service offerings. We may incur problems in the future in innovating and introducing new software applications and service offerings. Our development-stage software applications may not be successfully completed or, if developed, may not achieve significant customer acceptance. If we are unable to successfully define, develop and introduce competitive new software applications, and enhance existing software applications, our future results of operations would be adversely affected. Development schedules for software applications are difficult to predict. The timely availability of new applications and their acceptance by customers are important to our future success. A delay in the development of new applications could have a significant impact on its results of operations.

***Changes in technology could adversely affect our business by increasing our costs, reducing our profit margins and causing a decline in our competitiveness.***

China's wireless telecom industry, in which we operate, is characterized by rapidly changing technology, evolving industry standards, frequent introductions of new services and solutions and enhancements as well as changing customer demands. New solutions and new technologies often render existing solutions and services obsolete, excessively costly or otherwise unmarketable. As a result, our success depends on our ability to adapt to the latest technological progress, such as the 4G standard and technologies, and to develop or acquire and integrate new technologies into our software solutions and IT-related services. Advances in technology also require us to commit substantial resources to developing or acquiring and then deploying new technologies for use in our operations. We must continuously train personnel in new technologies and in how to integrate existing hardware and software systems with these new technologies. We may not be able to adapt quickly to new technologies or commit sufficient resources to compete successfully against existing or new competitors in bringing to market solutions and services that incorporate these new technologies. We may incur problems in the future in innovating and introducing new software applications and service offerings. Our development-stage software applications may not be successfully completed or, if developed, may not achieve significant customer acceptance. If we fail to adapt to changes in technologies and compete successfully against established or new competitors, our business, financial condition and results of operations could be adversely affected.

***Returns on our investment in new technologies, such as 4G technology, and new solutions may not materialize as expected.***

We have invested and will invest in the future a substantial amount of capital, manpower and other resources to develop new solutions and acquire technologies in preparation for the adoption by the wireless telecom industry in China of new standards and technologies, such as the 4G standard and technologies. However, our abilities to successfully develop and commercialize these new solutions and technologies are subject to a number of risks and uncertainties, including uncertainty surrounding the timing of the adoption of these new standards and technologies by China's telecom industry and the receptiveness to these new technologies by their customer base, as well as our abilities to develop and market these new solutions cost-effectively and to deliver these solutions ahead of our competitors. Any of the above risks and uncertainties could jeopardize our ability to successfully realize a significant return on our investment in the 4G and other new technologies and solutions, if at all.



***Problems with the quality or performance of our solutions may cause delays in the introduction of new solutions or result in the loss of customers and revenues, which could have a material and adverse effect on our business, financial condition and results of operations.***

Our software solutions are complex and may contain defects, errors or bugs when first introduced to the market or to a particular customer, or as new versions are released. Because we cannot test for all possible scenarios, our solutions may contain errors which are not discovered until after they have been installed, and we may not be able to timely correct these problems. These defects, errors or bugs could interrupt or delay the completion of projects or sales to our customers. In addition, our reputation may be damaged and we may fail to acquire new projects from existing customers or new customers. Errors may occur when we provide systems integration and maintenance services. Some of the contracts with our customers do not have provisions setting forth limitations on liability for consequential damages. Even in cases where we have agreements with our customers that contain provisions designed to limit our exposure to potential claims and liabilities arising from customer problems, these provisions may not effectively protect us against such claims in all cases and in all jurisdictions. In addition, as a result of business and other considerations, we may undertake to compensate our customers for damages arising from the use of our solutions, even if our liability is limited by these provisions. Moreover, claims and liabilities arising from customer problems could also result in adverse publicity and materially and adversely affect our business, results of operations and financial condition. We currently do not carry any product or service liability insurance and any imposition of liability on us may materially and adversely affect our business and increase our costs, resulting in reduced revenues and profitability.

***Our products may contain undetected software defects, which could negatively affect our revenues.***

Our software products are complex and may contain undetected defects. In the past, we have discovered software defects in certain of our products and have experienced delayed or lost revenues during the period it took to correct these problems. Although we test our products, it is possible that errors may be found or occur in our new or existing products after we have commenced commercial shipment of those products. Defects, whether actual or perceived, could result in adverse publicity, loss of revenues, product returns, a delay in market acceptance of our products, loss of competitive position or claims against us by customers. Any such problems could be costly to remedy and could cause interruptions, delays, or cessation of our product sales, which could cause us to lose existing or prospective customers and could negatively affect our results of operations.

***We may be subject to infringement, misappropriation and indemnity claims in the future, which may cause us to incur significant expenses, pay substantial damages and be prevented from providing our services or technologies.***

Our success depends, in part, on our ability to carry out our business without infringing the intellectual property rights of third parties. Patent and copyright law covering software-related technologies and IT marketing is evolving rapidly

and is subject to a great deal of uncertainty. Our self-developed or licensed technologies, processes or methods may be covered by third-party patents or copyrights, either now existing or to be issued in the future. Any potential litigation may cause us to incur significant expenses. Third-party claims, if successfully asserted against us may cause us to pay substantial damages, seek licenses from third parties, pay ongoing royalties, redesign our services or technologies, or prevent us from providing services or technologies subject to these claims. Even if we were to prevail, any litigation would likely be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

Additionally, most of our software development contracts signed with our customers contain indemnity clauses whereby we will indemnify our customers for any loss or damages suffered as a result of any third-party claims against them for any infringement of intellectual property rights in connection with the installation and use of the customized software solutions we develop for them. We may still be exposed to significant liabilities under these indemnity clauses to which we've agreed with our customers.

***Our failure to protect our intellectual property rights may undermine our competitive position, and subject us to costly litigation to protect our intellectual property rights.***

Any misappropriation of our technology or the development of competitive technology could seriously harm our business. We regard a substantial portion of our software solutions and systems as proprietary and rely on statutory copyright, trademark, patent, trade secret laws, customer license agreements, employee and third-party non-disclosure agreements and other methods to protect our proprietary rights. Nevertheless, these resources afford only limited protection and the actions we take to protect our intellectual property rights may not be adequate. In particular, third parties may infringe or misappropriate our proprietary technologies or other intellectual property rights, which could have a material adverse effect on our business, financial condition and results of operations. In addition, intellectual property rights and confidentiality protection in China may not be as effective as in the United States, and policing unauthorized use of proprietary technology can be difficult and expensive. In addition, litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. The outcome of any such litigation may not be in our favor. Furthermore, any such litigation may be costly and may divert management attention, as well as our other resources, away from our business. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, we have no insurance coverage against litigation costs and would have to bear all litigation costs in excess of the amount recoverable from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

***Our solutions incorporate a portion of, and work in conjunction with, third-party hardware and software solutions. If these third-party hardware or software solutions are not available to us at reasonable costs, or at all, our results of operations could be adversely impacted.***

Although our solutions primarily rely on our own core technologies, some of our solutions incorporate a small portion of third-party hardware and software solutions. In addition, our solutions are designed to work in conjunction with the third-party hardware and software in our customers' existing systems. If any third party were to discontinue making their solutions available to us or our customers on a timely basis, or increase materially the cost of their solutions, or if our solutions failed to properly function or interoperate with replacement hardware or software solutions, we may need to incur costs in finding replacement third-party solutions and/or redesigning our solutions to replace or function with or on replacement third-party solutions. Replacement solutions may not be available on terms acceptable to us or at all, and we may be unable to develop alternative solutions or redesign our solutions on a timely basis or at a reasonable cost. If any of these were to occur, our results of operations could be adversely impacted.

***Our ability to sell our products is highly dependent on the quality of our service and support offerings, and our failure to offer high quality service could have a material adverse effect on our ability to market and sell our products.***

Our customers depend upon our customer service and support staff to resolve issues relating to our products. High-quality support services are critical for the successful marketing and sale of our products. If we fail to provide high-quality support on an ongoing basis, our customers may react negatively and we may be materially and adversely affected in our ability to sell additional products to these customers. This could also damage our reputation and prospects with potential customers. Our failure to maintain high-quality support services could have a material and adverse effect on our business, results of operations and financial condition.

***Weaknesses In Our Internal Controls Over Financial Reporting or Disclosure Controls and Procedures May Have A Material Adverse Effect On Our Business, The Price Of Our ADSs, Operating Results And Financial Condition.***

We are required to establish and maintain appropriate internal controls over financial reporting and disclosure controls and procedures. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules adopted by the Securities and Exchange Commission, every public company is required to include a management report on its internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement first applied to our annual report on Form 20-F for the fiscal year ended on September 30, 2011. In connection with our assessments of our disclosure controls and procedures and internal controls over financial reporting, management concluded that as of September 30, 2017, our disclosure controls and procedures and our internal controls over financial reporting were not effective due to lack of U.S. generally accepted accounting principles ("U.S. GAAP") expertise in our current

accounting team. Please refer to the discussion under Item 15, “Controls and Procedures” for further discussion of our material weakness as of September 30, 2017. Should we be unable to remediate the material weakness promptly and effectively, such weakness could harm our operating results, result in a material misstatement of our financial statements, cause us to fail to meet our financial reporting obligations or prevent us from providing reliable and accurate financial reports or avoiding or detecting fraud. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the trading price of our ADSs. Any litigation or other proceeding or adverse publicity relating to the material weaknesses could have a material adverse effect on our business and operating results.

***We have very limited insurance coverage which could expose us to significant costs and business disruption.***

We do not maintain any insurance coverage for our leased properties. Should any natural catastrophes such as earthquakes, floods, typhoons or any acts of terrorism occur in Shaanxi Province, where our head office is located and most of our employees are based, or elsewhere in China, we might suffer not only significant property damages, but also loss of revenues due to interruptions in our business operations, which could have a material adverse effect on our business, operating results or financial condition.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources, particularly if it affects our technology platforms which we depend on for delivery of our software and services, and could have a material adverse effect on our financial condition and results of operations.

***We may be liable to our customers for damages caused by unauthorized disclosure of sensitive and confidential information, whether through our employees or otherwise.***

We are typically required to manage, utilize and store sensitive or confidential customer data in connection with the products and services we provide. Under the terms of our customer contracts, we are required to keep such information strictly confidential. We seek to implement specific measures to protect sensitive and confidential customer data. We require our employees to enter into non-disclosure agreements to limit such employees' access to, and distribution of, our customers' sensitive and confidential information and our own trade secrets. We can give no assurance that the steps taken by us in this regard will be adequate to protect our customers' confidential information. If our customers' proprietary rights are misappropriated by our employees, in violation of any applicable confidentiality agreements or otherwise, our customers may consider us liable for that act and seek damages and compensation from us. However, we currently do not have any insurance coverage for mismanagement or misappropriation of such information by our employees. Any litigation with respect to unauthorized disclosure of sensitive and confidential information might result in substantial costs and diversion of resources and management attention.

***We may face intellectual property infringement claims that could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing products and services.***

It is critical that we use and develop our technology and products without infringing upon the intellectual property rights of third parties, including patents, copyrights, trade secrets and trademarks. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us, whether with or without merit, could, among others things, require us to pay substantial damages, develop non-infringing technology, or re-brand our name or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease making, licensing or using products that have infringed a third party's intellectual property rights. Protracted litigation could also result in existing or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation, or could require us to indemnify our customers against infringement claims in certain instances. Also, we may be unaware of intellectual property registrations or applications relating to our services that may give rise to potential infringement claims against us. Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our services or using technology containing the allegedly infringing intellectual property. Any intellectual property litigation could have a material adverse effect on our business, results of operations or financial condition.

***We have transferred intellectual property rights to a number of our customized software solutions to our customers in the past and may not own all these intellectual property rights. We may be subject to intellectual property infringement claims from these customers and others, which may force us to incur substantial legal expenses and, if determined adversely against us, may disrupt our business and materially and adversely affect our revenues and net income.***

Our business involves the development and customization of software solutions for customers. While we retain ownership in the intellectual property rights underlying the core technologies required to develop our customized finished software solutions, in most cases, our contracts for custom-designed projects provided that our customers own, or share with us, intellectual property rights to the finished software solutions developed under such contracts. Under these circumstances, we may not have the right to reuse the related finished software in projects involving other customers nor can we unilaterally apply for copyright registrations, patents or other intellectual property rights for these software solutions. To the extent that we are unable to reuse the software and to the extent that the use of such software is important to the growth of our business with other customers, the inability to reuse such software could hinder the growth of our business. Furthermore, a portion of these contracts provide that our customers have ownership rights to any substantial improvements we subsequently make to the software solutions developed under these contracts. As a result, we may be subject to intellectual property infringement or profit sharing claims in the future from these customers. Any such claims could subject us to costly litigation and may require us to pay damages and develop non-infringing intellectual property, or acquire licenses to the intellectual property that is the subject of the alleged infringement. These could harm our reputation and materially and adversely affect our business and net income.

***Seasonality and fluctuations in our customers' annual IT budget and spending cycle and other factors can cause our revenues and operating results to vary significantly from quarter to quarter and from year to year.***

Our revenues and operating results will vary significantly from quarter to quarter and from year to year due to a number of factors, many of which are outside of our control. A large number of our engineers take vacation around the Chinese New Year holiday, which typically falls between late January and February of each year. The lack of man-hours during this holiday period usually leads to relatively lower revenues during the first calendar quarter. Due to the annual budget cycles of most of our customers, we may be unable to accurately estimate the demand for our solutions and services beyond the immediate calendar year, which could adversely affect our business planning. Moreover, our results will vary depending on our customers' business needs from year to year. Due to these and other factors, our operating results have fluctuated significantly from quarter to quarter and from year to year. These fluctuations are likely to continue in the future, and operating results for any period may not be indicative of our future performance in any future period.

***Our corporate actions are substantially controlled by our principal shareholders, who can cause us to take actions in ways you may not agree with.***

Mr. Tao Li, our former Chairman, beneficially owned and had voting control over approximately 47.9% of our ordinary shares, and our officers and directors as a group beneficially own and have voting control over an aggregate of approximately 48.9% of our ordinary shares. These shareholders, acting individually or as a group, could exert control and substantial influence over matters such as electing directors, amending our constitutional documents, and approving acquisitions, mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our shares. Alternatively, our controlling shareholders may cause a merger, consolidation or change of control transaction even if it is opposed by our other shareholders, including those who purchase shares in this offering.



***We depend on a small number of customers to derive a significant portion of our revenues. If we were to become dependent again upon a few customers, such dependency could negatively impact our business, operating results and financial condition.***

We derived a material portion of our revenues from a small number of customers. In the years ended September 30, 2017 and 2016, our five largest customers accounted for 97.7% and 46.1% of our total sales, respectively, and our largest customer - Hunan Huanan Photoelectricity Science & Technology Co., Ltd. accounted for approximately 23.9% of our total sales during for the fiscal year ended September 30, 2017. As our customer base may change from year-to-year, during such years that the customer base is highly concentrated, the fluctuation of our sales to any of such major customers could have a material adverse effect on our business, operating results and financial condition. Moreover, our high customer base concentration may also adversely affect our ability to negotiate contract prices with these customers, which may in turn materially and adversely affect our results of operations.

***Our historical outstanding accounts receivable have been relatively high. Inability to collect our accounts receivable on a timely basis, if at all, could materially and adversely affect our financial condition, liquidity and results of operations.***

Historically, our outstanding accounts receivable have been relatively high. As of September 30, 2017 and 2016, our outstanding accounts receivable were \$3.4 million and \$4.2 million, respectively. Although we conduct credit evaluations of our customers, we generally do not require collateral or other security from our customers. In addition, we have had a relatively high customer concentration. The outstanding accounts receivable balance for our largest customer was 64.3% and 72.6% of the total accounts receivable balance as of September 30, 2017 and 2016, respectively. As a result, an extended delay or default in payment relating to a significant account will have a material and adverse effect on the aging schedule and turnover days of our accounts receivable. Our inability to collect our accounts receivable on a timely basis, if at all, could materially and adversely affect our financial condition, liquidity and results of operations.

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

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

Substantially all of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in

China. Although the Chinese economy is no longer a planned economy, the PRC government continues to exercise significant control over China's economic growth through direct allocation of resources, monetary and tax policies, and a host of other government policies such as those that encourage or restrict investment in certain industries by foreign investors, control the exchange between RMB and foreign currencies, and regulate the growth of the general or specific market. These government involvements have been instrumental in China's significant growth in the past 30 years. The reorganization of the telecommunications industry encouraged by the PRC government has directly affected our industry and our growth prospect. In response to the recent global and Chinese economic downturn, the PRC government has adopted policy measures aimed at stimulating the economic growth in China. If the PRC government's current or future policies fail to help the Chinese economy achieve further growth or if any aspect of the PRC government's policies limits the growth of the telecommunications industry in China or our industry or otherwise negatively affects our business, our growth rate or strategy, our results of operations could be adversely affected as a result.

***Our business benefits from certain government tax incentives. Expiration, reduction or discontinuation of, or changes to, these incentives will increase our tax burden and reduce our net income.***

Under the PRC Enterprise Income Tax Law passed in 2007 and the implementing rules, both of which became effective on January 1, 2008, or the New EIT Law, a unified enterprise income tax rate of 25% and unified tax deduction standard is applied equally to both domestic-invested enterprises and foreign-invested enterprises, or FIEs. Enterprises established prior to March 16, 2007 eligible for preferential tax treatment in accordance with the then tax laws and administrative regulations shall gradually become subject to the New EIT Law rate over a five-year transition period starting from the date of effectiveness of the New EIT Law. However, certain qualifying high-technology enterprises may still benefit from a preferential tax rate of 15% if they own their core intellectual properties and they are enterprises in certain State-supported high-tech industries to be later specified by the government. As a result, if our PRC subsidiaries qualify as “high-technology enterprises,” they will continue to benefit from the preferential tax rate of 15%, subject to transitional rules implemented from January 1, 2008. Kingtone Information is qualified as a “high-technology enterprise” until 2017 and therefore it had benefited from the preferential tax rate of 15%, subject to transitional rules implemented on January 1, 2008. Currently, the value-added taxes we pay on our software products are refunded to us by the tax authorities as part of the PRC state policies to encourage the development of the PRC software industry. If Kingtone Information ceases to qualify as a “high-technology enterprise”, or if the refund of the value-added taxes ceases to apply, or the tax authorities change their position on our preferential tax treatments in the future, our future tax liabilities may materially increase, which could materially and adversely affect our financial condition and results of operations .

***If we and/or Topsky were deemed a “resident enterprise” by PRC tax authorities, we and/or Topsky could be subject to tax on our global income at the rate of 25% under the New EIT Law and our non-PRC shareholders could be subject to certain PRC taxes.***

Under the New EIT Law and the implementing rules, both of which became effective January 1, 2008, an enterprise established outside of the PRC with “de facto management bodies” within the PRC may be considered a PRC “resident enterprise” and will be subject to the enterprise income tax at the rate of 25% on its global income as well as PRC enterprise income tax reporting obligations. The implementing rules of the New EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. However, as of the date of this annual report, no final interpretations on the implementation of the “resident enterprise” designation are available. Moreover, any such designation, when made by PRC tax authorities, will be determined based on the facts and circumstances of individual cases. Therefore, if we and/or Topsky were to be considered a “resident enterprise” by the PRC tax authorities, our and/or Topsky’s global income would be taxable under the New EIT Law at the rate of 25% and, to the extent we and/or Topsky were to generate a substantial amount of income outside of PRC in the future, we and/or Topsky would be subject to additional taxes. In addition, the dividends we pay to our non-PRC enterprise shareholders and gains derived by such shareholders or ADS holders from the transfer of our shares or ADSs may also be subject to PRC withholding tax at the rate up to 10%, if such income were regarded as China-sourced income.

***Our holding company structure may limit the payment of dividends.***

We have no direct business operations, other than our ownership of our subsidiaries and our contractual control of Kingtone Information. While we have no current intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. As a result, there may be limitations on the ability of our PRC subsidiaries to pay dividends or make other investments or acquisitions that could be beneficial to our business or otherwise fund and conduct our business.

In addition, under the New EIT Law and the implementing rules that became effective on January 1, 2008, dividends generated from the business of our PRC subsidiaries after January 1, 2008 and payable to us and/or Topsky may be subject to a withholding tax rate of 10% if the PRC tax authorities subsequently determine that we and/or Topsky is a non-resident enterprise, unless there is a tax treaty with China that provides for a different withholding arrangement. Topsky, the direct holder of 100% of the equity interests of Softech, is organized in Singapore. Under the Notice of the State Administration of Taxation on Delivering the Table of Negotiated Dividends and Interest Rates to Lower Levels of People's Republic of China, such dividend withholding tax rate is reduced to 5% if a Singapore resident enterprise owns over 25% of the PRC Company distributing the dividends. As Topsky is a Singapore company and owns 100% of Softech, under the aforesaid notice, any dividends that Softech pays to Topsky will be subject to a withholding tax at the rate of 5%, provided that Topsky is not considered to be PRC tax resident enterprises. If, however, Topsky is regarded as a resident enterprise, the dividends payable to Topsky from Softech may be exempt from the PRC income tax, and the dividends payable from Topsky to us will be subject to a 10% PRC withholding tax (unless we are considered to be a PRC tax resident enterprise). Any such taxes could thus materially reduce the amount of funds available to us to meet our cash requirements, including the payment of dividends to our shareholders.

***Uncertainties with respect to the PRC legal system could adversely affect us.***

We conduct all of our business through our subsidiaries in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws and regulations applicable to wholly foreign-owned enterprises. The PRC legal system is based on statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our May 2010 public offering to make loans or additional capital contributions to our PRC operating subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

In utilizing the proceeds of our May 2010 public offering as an offshore holding company of our PRC operating subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations. For example, loans by us to our subsidiaries in China, which are FIEs, to finance their activities cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or SAFE. On August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. The notice requires that RMB converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. The foreign currency-denominated capital shall be verified by an accounting firm before converting into RMB. In addition, SAFE strengthened its oversight over the flow and use of RMB funds converted from the foreign currency-denominated capital of a foreign-invested company. To convert such capital into RMB, the foreign-invested company must report the use of such RMB to the bank, and the RMB must be used to the reported purposes. According to Circular 142, change of the use of such RMB without approval is prohibited. In addition, such RMB may not be used to repay RMB loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules.

We may also decide to finance our subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce, or MOFCOM, or its local counterpart. We may not be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our PRC subsidiaries. If we fail to receive such approvals, our ability to use the proceeds of our May 2010 public offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs or ordinary shares.

***Fluctuation in the value of the RMB may have a material adverse effect on the value of your investment.***

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximate 26.8% appreciation of the RMB against the U.S. dollar between July 21, 2005 and September 30, 2015. Provisions on Administration of Foreign Exchange, as amended in August 2008, further changed China's exchange regime to a managed floating exchange rate regime based on market supply and demand. Since reaching a high against the U.S. dollar in July 2008, however, the RMB has traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the RMB has fluctuated sharply since July 2008 against other freely-traded currencies, in tandem with the U.S. dollar. In August 2015, the PRC Government devalued its currency by approximately 3%, representing the largest yuan depreciation for 20 years. Concerns remain that China's slowing economy, and in particular its exports, will need a stimulus that can only come from further cuts in the exchange rate.

It is difficult to predict how long the current situation may continue and when and how it may change again as the People's Bank of China may regularly intervene in the foreign exchange market to achieve economic policy goals. Substantially all of our revenues and costs are denominated in the RMB, and a significant portion of our financial assets are also denominated in RMB. We principally rely on dividends and other distributions paid to us by our subsidiaries in China. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs or ordinary shares in U.S. dollars. Any fluctuations of the exchange rate between the RMB and the U.S. dollar could also result in

foreign currency translation losses for financial reporting purposes.



***We control Kingtone Information through contractual arrangements which may not be as effective in providing control over Kingtone Information as direct ownership, and if Kingtone Information or its shareholders breach the contractual arrangements, we would have to rely on legal remedies under PRC law, which may not be available or effective, to enforce or protect our rights.***

We conduct substantially all of our operations, and generate substantially all of our revenues, through contractual arrangements with Kingtone Information, our variable interest entity, or VIE, that provide us, through our ownership of Topsky and its ownership of Softech, with effective control over Kingtone Information. We have no direct ownership interest in Kingtone Information. We depend on Kingtone Information to hold and maintain contracts with our customers. Kingtone Information also owns substantially all of our intellectual property, facilities and other assets relating to the operation of our business, and employs the personnel for substantially all of our business. Neither our company nor Softech has any ownership interest in Kingtone Information. Although we believe that that each contract under Softech's contractual arrangements with Kingtone Information is valid, binding and enforceable under current PRC laws and regulations in effect, these contractual arrangements may not be as effective in providing us with control over Kingtone Information as direct ownership of Kingtone Information would be. In addition, Kingtone Information may breach the contractual arrangements. For example, Kingtone Information may decide not to make contractual payments to Softech, and consequently to our company, in accordance with the existing contractual arrangements. In the event of any such breach, we would have to rely on legal remedies under PRC law. These remedies may not always be available or effective, particularly in light of uncertainties in the PRC legal system.

***Softech's contractual arrangements with Kingtone Information may result in adverse tax consequences to us.***

We could face material and adverse tax consequences if the PRC tax authorities determine that Softech's contractual arrangements with Kingtone Information were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for PRC tax purposes, of adjustments recorded by Kingtone Information, which could adversely affect us by increasing Kingtone Information's tax liability without reducing Softech's tax liability, which could further result in late payment fees and other penalties to Kingtone Information for underpaid taxes.

***PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation of such PRC laws and regulations, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.***

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of Softech's contractual arrangements with Kingtone Information. Softech is considered a foreign invested enterprise under PRC

law. As a result, Softech is subject to PRC law limitations on its businesses and foreign ownership of Chinese companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. In January 2015, China's Ministry of Commerce unveiled a draft legislation that could change how the government is regulating corporate structures, especially for VIEs controlled by foreign investments. Instead of looking at "ownership", the draft law focused on the entities or individuals hold control of a VIE. If a VIE is deemed to be controlled by foreign investors, it may be barred from operating in restricted sectors or the prohibited sectors listed on a "negative list", where only companies controlled by Chinese nationals could operate, even if structured as VIEs.

In the event that the draft law is implemented in any form, and that the Company's business is characterized as one of the "restricted" or "prohibited" sectors, Kingtone Information may be barred from operation which will materially adversely affect our business.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

***If we were required to obtain the prior approval of the China Securities Regulatory Commission, or CSRC, of the listing and trading of our ADSs on the NASDAQ Capital Market, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies.***

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which became effective on September 8, 2006 (the “New M&A Rules”). This regulation, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for the purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process, if practicable at all. The application of this new PRC regulation remains unclear with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

Prior to our May 2010 initial public offering, our PRC counsel has advised us that, based on its understanding of the current PRC laws and regulations as well as the procedures announced on September 21, 2006: (i) Softech was directly incorporated by Topsky as a foreign investment enterprise under PRC law; therefore, there was no acquisition of the equity of a “PRC domestic company” as defined under the New M&A Rules; and (ii) the contractual arrangements between Kingtone Information and Softech are not clearly defined and considered as the transaction which shall be applied to the New M&A Rules. Therefore, we did not seek prior CSRC approval for our initial public offering.

However, if the CSRC required that we obtain its approval prior to the completion of our initial public offering and the listing of our ADSs on the NASDAQ Capital Market, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares.

Also, if the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our shares.

***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to penalties and limit our ability to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute profits to us, or otherwise adversely affect us.***

On October 21, 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing such offshore company with assets or equity interests in an onshore enterprise located in the PRC, or an offshore special purpose company. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore special purpose company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore special purpose company. Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore special purpose companies that have made onshore investments in the PRC in the past are required to have completed the relevant registration procedures with the local SAFE branch by March 31, 2006. To further clarify the implementation of Notice 75, the SAFE issued Circular 106 on May 29, 2007. Under Circular 106, PRC subsidiaries of an offshore special purpose company are required to coordinate and supervise the filing of SAFE registrations by the offshore holding company's shareholders or beneficial owners who are PRC residents in a timely manner.

Some of our current shareholders and/or beneficial owners may fall within the ambit of the SAFE notice and be required to register with the local SAFE branch as required under the SAFE notice. If so required, and if such shareholders and/or beneficial owners fail to timely register their SAFE registrations pursuant to the SAFE notice, or if future shareholders and/or beneficial owners of our company who are PRC residents fail to comply with the registration procedures set forth in the SAFE notice, this may subject such shareholders, beneficial owners and/or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to our company, or otherwise adversely affect our business.

***Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.***

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that has the securities traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

On May 24, 2013, the PCAOB announced that it has entered into a Memorandum of Understanding ("MOU") on Enforcement Cooperation with the China Securities Regulatory Commission (the "CSRC") and the Ministry of Finance (the "MOF"). The MOU establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in both countries' respective jurisdictions. More specifically, it provides a mechanism for the parties to request and receive from each other assistance in obtaining documents and information in furtherance of their investigative duties. In addition to developing enforcement MOU, the PCAOB has been engaged in continuing discussions with the CSRC and MOF to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges. Despite of the foregoing, until PCAOB can inspect its registered firms in China as it can do on the firms in the United States, the shareholders are still less advantageous in obtaining the benefits of PCAOB inspections comparing to the shareholders of a company that retains a PCAOB registered audit firm domiciled in the United States.

## Risks Associated with our ADSs

*The market price of our ADSs may be highly volatile, and you may not be able to resell at or above your initial purchase price.*

There is a limited public market for our shares and ADSs. We cannot assure you that there will be an active trading market for our ADSs. You may not be able to sell your ADSs quickly or at the market price if trading in our ADSs is not active.

The trading price of our ADSs may be volatile. The price of our ADSs could be subject to wide fluctuations in response to a variety of factors, including the following:

1. Introduction of new products, services or technologies offered by us or our competitors;
2. Failure to meet or exceed revenue and financial projections we provide to the public;
3. Actual or anticipated variations in quarterly operating results;
4. Failure to meet or exceed the estimates and projections of the investment community;
5. General market conditions and overall fluctuations in United States equity markets;
6. Announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
7. Disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
8. Additions or departures of key management personnel;
9. Issuances of debt or equity securities;
10. Significant lawsuits, including patent or shareholder litigation;
11. Changes in the market valuations of similar companies;
12. Sales of additional ADSs by us or our shareholders in the future;
13. Trading volume of our ADSs;
14. Fluctuations in the exchange rate between the U.S. dollar and Renminbi;
15. Negative market perception and media coverage of our company or other companies in the same or similar industry with us; and
16. Other events or factors, many of which are beyond our control.

In addition, the stock market in general, and the NASDAQ Capital Market and software products and services companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our ADS, regardless of our actual operating performance.

***Our ADSs are subject to the SEC's penny stock rules which may make it difficult for broker-dealers to complete customer transactions and trading activity in our securities.***

Our ADSs are deemed to be “penny stock” as that term is defined under the Securities Exchange Act of 1934, as amended. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and “accredited investors.” The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse in each of the prior two years.

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. Moreover, broker-dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. A broker-dealer must receive a written agreement to the transaction from the investor setting forth the identity and quantity of the penny stock to be purchased. These requirements may make it more difficult for broker-dealers to effectuate customer transactions and trading activity in our securities. As a result, the market price of our ADSs may be depressed, and you may find it more difficult to sell our ADSs.

***Sales of a substantial number of ordinary shares or ADSs in the public market by our existing shareholders could cause the price of our ADSs to fall.***

Sales of a substantial number of our ordinary shares or ADSs in the public market or the perception that these sales might occur, could depress the market price of our ADSs and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our ADSs.

All of our existing shareholders prior to our May 2010 offering were subject to lock-up agreements with the underwriters of the offering that restricted the shareholders' ability to transfer ordinary shares or ADSs until expiration of the lock-up period in November 2010. The lock-up agreements limited the number of ordinary shares or ADSs that may be sold immediately following the public offering. Subject to certain limitations, approximately 1,000,000 of our total outstanding shares are now eligible for sale. Sales of ordinary shares by these shareholders could have a material adverse effect on the trading price of our ADSs.

***Future sales and issuances of our ordinary shares or ADSs, or rights to purchase our ordinary shares or ADSs, including pursuant to our 2010 Omnibus Incentive Plan, could result in additional dilution of the percentage ownership of our shareholders and could cause the price of our ADSs to fall.***

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our shareholders may experience substantial dilution. We may sell ordinary shares, ADSs, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell ordinary shares, ADSs, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. Such sales may also result in material dilution to our existing shareholders, and new investors could gain rights superior to our existing shareholders.

***We do not intend to pay dividends on our ordinary shares, so any returns will be limited to the value of our ADSs.***

We have never declared or paid any cash dividend on our ordinary shares. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return shareholders will therefore be limited to the value of their ADSs.



***As the rights of shareholders under British Virgin Islands law differ from those under U.S. law, you may have fewer protections as a shareholder.***

Our corporate affairs will be governed by our memorandum of association and articles of association, the BVI Business Companies Act, 2004, or the BVI Act, of the British Virgin Islands and the common law of the British Virgin Islands. The rights of shareholders to take legal action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are to a large extent governed by the BVI Act and the common law of the British Virgin Islands. The common law of the British Virgin Islands is derived in part from comparatively limited judicial precedent in the British Virgin Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the British Virgin Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States. In particular, the British Virgin Islands has a less developed body of securities laws as compared to the United States, and some states (such as Delaware) have more fully developed and judicially interpreted bodies of corporate law.

As a result of all of the above, holders of our ADSs may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than they would as shareholders of a U.S. company.

***British Virgin Islands companies may not be able to initiate shareholder derivative actions, thereby depriving shareholders of the ability to protect their interests.***

British Virgin Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. The circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect to any such action, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the United States. Accordingly, shareholders may have fewer alternatives available to them if they believe that corporate wrongdoing has occurred. The British Virgin Islands courts are also unlikely to recognize or enforce against us judgments of courts in the United States based on certain liability provisions of U.S. securities law; and to impose liabilities against us, in original actions brought in the British Virgin Islands, based on certain liability provisions of U.S. securities laws that are penal in nature. There is no statutory recognition in the British Virgin Islands of judgments obtained in the United States, although the courts of the British Virgin Islands will generally recognize and enforce the non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

***The laws of the British Virgin Islands provide little protection for minority shareholders, so minority shareholders will have little or no recourse if the shareholders are dissatisfied with the conduct of our affairs.***

Under the law of the British Virgin Islands, there is little statutory law for the protection of minority shareholders other than the provisions of the BVI Act dealing with shareholder remedies. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of the corporation, our memorandum of association and articles of association. Shareholders are entitled to have the affairs of the company conducted in accordance with the general law and the memorandum of association and articles of association.

There are common law rights for the protection of shareholders that may be invoked, largely dependent on English company law, since the common law of the British Virgin Islands is limited. Under the general rule pursuant to English company law known as the rule in *Foss v. Harbottle*, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company's affairs by the majority or the board of directors. However, every shareholder is entitled to have the affairs of the company conducted properly according to law and the company's constituent documents. As such, if those who control the company have persistently disregarded the requirements of company law or the provisions of the company's memorandum of association and articles of association, then the courts will grant relief. Generally, the areas in which the courts will intervene are the following: (1) an act complained of which is outside the scope of the authorized business or is illegal or not capable of ratification by the majority; (2) acts that constitute fraud on the minority where the wrongdoers control the company; (3) acts that infringe on the personal rights of the shareholders, such as the right to vote; and (4) where the company has not complied with provisions requiring approval of a majority of shareholders, which are more limited than the rights afforded minority shareholders under the laws of many states in the United States.

*Anti-takeover provisions in our memorandum of association and articles of association and our right to issue preference shares could make a third-party acquisition of us difficult.*

Some provisions of our memorandum of association and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares.

***You may not have the same voting rights as the holders of our ordinary shares and must act through the depositary to exercise your rights.***

Holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. Upon our written request, the depositary will mail to you a shareholder meeting notice which contains, among other things, a statement as to the manner in which your voting instructions may be given, including an express indication that such instructions may be given or deemed given to the depositary to give a discretionary proxy to a person designated by us if no instructions are received by the depositary from you on or before the response date established by the depositary. However, no voting instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which we inform the depositary that (i) we do not wish such proxy given, (ii) substantial opposition exists, or (iii) such matter materially and adversely affects the rights of shareholders. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but you may not receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

***You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we may not, and under the deposit agreement for the ADSs, the depositary will not, offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to rely on an exemption from registration under the Securities Act to distribute such rights and securities. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition,

the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***We may be a passive foreign investment company, of PFIC, which could lead to additional taxes for U.S. holders of our ADSs or ordinary shares.***

We do not expect to be, for U.S. federal income tax purposes, a passive foreign investment company, or a PFIC, which is a foreign company for which, in any given taxable year, either at least 75% of its gross income is passive income, or investment income in general, or at least 50% of its assets produce or are held to produce passive income, for the current taxable year, and we expect to operate in such a manner so as not to become a PFIC for any future taxable year. However, because the determination of PFIC status for any taxable year cannot be made until after the close of such year and requires extensive factual investigation, including ascertaining the fair market value of our assets on a quarterly basis and determining whether each item of gross income that we earn is passive income, we cannot assure you that we will not become a PFIC for the current taxable year or any future taxable year. If we are or become a PFIC, a U.S. holder of our ADSs or ordinary shares could be subject to additional U.S. federal income taxes on gain recognized with respect to the ADSs or ordinary shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

*If the trading price of our ADSs fails to comply with the continued listing requirements of the NASDAQ Capital Market, we would face possible delisting, which would result in a limited public market for our ADS and make obtaining future debt or equity financing more difficult for us.*

Companies listed on NASDAQ are subject to delisting for, among other things, failure to maintain a minimum closing bid price of \$1.00 per share for 30 consecutive business days. On December 19, 2011, we received a letter from NASDAQ indicating that for the last 30 consecutive business days, the closing bid price of our ADSs fell below the minimum \$1.00 per share requirement pursuant to NASDAQ Listing Rule 5550(a)(2) for continued listing on the NASDAQ Capital Market. We have regained compliance with the minimum bid price requirement for continued listing set forth in NASDAQ Listing Rule 5550(a)(2), as its ADS with its underlying ordinary share has achieved a closing bid price of \$1.00 or greater for the 10 consecutive business days from November 6 to November 23, 2012 by implementing a 1-for-10 combination, or reverse split of the ordinary shares effective November 6, 2012, we cannot be sure that the price of our ADSs will comply with this requirement for continued listing on the NASDAQ Capital Market in the future. If we were not able to do so, our ADSs would be subject to delisting and would likely trade on the over-the-counter market. If our ADSs were to trade on the over-the-counter market, selling our ADSs could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage of us may be reduced. In addition, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in our ADSs, further limiting the liquidity of our ADS. As a result, the market price of our ADSs may be depressed, and you may find it more difficult to sell our ADSs. Such delisting from the NASDAQ Capital Market and continued or further declines in our share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing.

#### **ITEM 4. INFORMATION ON THE COMPANY.**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY.**

###### **Overview**

We are a holding company and conduct our operations through a contractually-controlled entity in the PRC named Xi'an Kingtone Information Technology Co., Ltd., a PRC limited liability company ("Kington Information") that develops and provides mobile enterprise solutions in the PRC. In May 2010, we consummated an initial public offering of our American Depositary Shares, or ADSs, for gross proceeds of \$16 million, and our ADSs were listed on the NASDAQ Capital Market under the ticker symbol "KONE".

Kington Information was incorporated in Xi'an, Shaanxi Province, as a company limited by stocks on December 28, 2001. When it was incorporated, it had a registered capital of RMB50 million and its name was Xi'an TechTeam Intelligent Technology Stock Co., Ltd. Kington Information increased its registered capital to RMB56,000,000 on June 16, 2008 and changed its name to the current name on November 5, 2003. Kington Information is majority-owned by Mr. Tao Li, our former chairman.

In December 2009, we consummated a number of related transactions through which we acquired control of Kington Information. Xi'an Softech Co., Ltd. ("Softech"), a company incorporated on November 27, 2009 under the laws of the PRC as a wholly foreign-owned enterprise ("WFOE"), entered into a series of agreements (the "Control Agreements") with Kington Information and the shareholders of Kington Information pursuant to which Softech was granted full managerial and economic control over Kington Information, effectively rendering Kington Information a contractual subsidiary of Softech. We entered into this contractual-control relationship in order to comply with certain PRC regulations relating to the nature and sensitivity of certain aspects of Kington Information's business; namely, its work on PRC government projects. See "Item 4. – Information on the Company – C. Organizational Structure – Contractual Arrangements with Kington Information and Its Respective Shareholders" for further information on these contractual arrangements.

Softech is a wholly-owned subsidiary of Topsy Info-tech Holdings Pte Ltd. ("Topsy"), a company incorporated under the laws of Singapore on November 3, 2009. Topsy, in turn, is our wholly-owned subsidiary. We were incorporated under the name Reizii Capital Management Ltd. in the British Virgin Islands on October 27, 2009 and changed our name to KingtoneWirelessinfo Solution Holding Ltd ("Kington Wireless") on December 17, 2009.

In exchange for causing Kingtone Information to enter into the Control Agreements, the shareholders of Kingtone Information received beneficial ownership of ordinary shares of Kingtone Wireless, through certain nominee entities, in the same relative ownership percentage as they held in Kingtone Information prior to our May 2010 public offering.

## **Corporate Information**

Our principal executive offices are located at 3/F, Borough A, Block A, No. 181 South Taibai Road in Xi'an, Shaanxi Province, People's Republic of China 710065. Our website is [www.kingtoneinfo.com](http://www.kingtoneinfo.com). We routinely post important information on our website. The information contained on our website is not a part of this annual report.

Our agent for service of process in the United States is Vcorp Services LLC with an address at 20 Robert Pitt Drive, Suite 214, Monsey, NY10952.

## **B. BUSINESS OVERVIEW.**

We are a China-based developer and provider of mobile enterprise solutions. Mobile enterprise solutions allow company personnel whose work function requires mobility (as opposed to operating from a single work station) to be connected with enterprise information technology, or IT systems, including Enterprise Asset Management (EAM), Enterprise Resource Planning (ERP), Supply Chain Management (SCM), and Customer Relationship Management (CRM). Our software enables such systems to get extended to personnel in the field using wireless devices such as smart phones, PDAs (or Personal Digital Assistant), cameras, barcode scanners, portable printers, GPS devices, and tablet computers. Mobile enterprise solutions also contain custom software applications for specific industries and businesses.

Our mobile enterprise solutions are built on our proprietary core middleware platform consisting of standardized modules. This core middleware platform allows our solutions to seamlessly integrate with our customers' existing information management systems. The core middleware platform can host an array of standardized and scalable applications developed by us or by others. This structured design allows us to timely and cost-effectively meet our customers' specific requirements, and to respond to their changing needs.

Mobile enterprise solutions are generally aimed at reducing processing times and facilitating the flow of information among people and systems. Mobile computing allows field workers to communicate and interact more efficiently with their central operations, and vice versa. Enterprises are able to capture more accurate and timely information, and to



achieve major reductions in paperwork and administration. Mobile enterprise solutions can be used to put important data in the hands of field workers, thus improving decision-making and productivity in the field. They improve efficiency in everyday functions including work dispatch, sales, inspections, repairs, deliveries, tracking and scheduling. They can also be used within factory settings, where wireless data connections are used to improve central control and monitoring of production and automations systems. For example, we designed and implemented solutions for a PRC-based petroleum company that allows plant managers to wirelessly monitor its production lines from off-site or remote locations.

According to latest data from China's three mobile operators as quoted by Ministry of Industry and Information Technology on April 19, 2015, China, the world's largest mobile phone market by subscribers, posted a 0.3 percent monthly increase in the number of mobile subscribers to 1.29 billion from 1.24 billion at February 20, 2014. The number of subscribers reached 1.24 billion in February 2014, up from 1.15 billion at ended of March 2013; it reached 1.15 billion at the end of March 2013, up from 1.11 billion at end-December 2012. The Chinese mobile market recorded the highest annual net additions with 135 million in 2012, up from 134 million in 2011, bringing the total to 1.11 billion. By the end of 2017, it is estimated that there will be 1.57 billion mobile subscribers in the country, representing a 114.0% penetration rate, with the growth rate averaging 7.2% between 2013 and 2017. It also forecasted the number of 3G/4G subscribers to increase to 768.7 million in 2017.

As the foundation of the mobile Internet, mobile networks play a crucial role in the development of the entire market. Thus, China's high bandwidth mobile application market has been developing slowly, limited by the mobile bandwidth. However, with the formal commercial application of the 4G service, the download rate of 100Mbps will be provided for users, effectively breaking the bandwidth limitation and laying a foundation for the development of China's high bandwidth mobile application market. Internet Data Centre (IDC) is optimistic about the development prospect of high bandwidth mobile applications such as mobile videos, mobile music and mobile online games. According to the planning of the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT"), the executive bodies of "Broadband China" are the three major telecom operators, with China Telecom and China Unicom undertaking most of the tasks. With the formal commercial application of the 4G service, China Telecom and China Unicom have adjusted their core services and taken the 4G service as new key focus of investment and development. This will affect the investment and operation of the broadband service and have certain effects on the entire development process of "Broadband China". To cooperate with our telecom partners, we are offering solutions to enable wider forms of mobile computing that take advantage of the 4G bandwidth. We also plan to devote resources to 4G products in anticipation of future government approval and commercial deployment.

We typically act as a total solutions provider, packaging our software with various third-party hardware and related equipment. We are headquartered in Xi'an, China and sell our products widely throughout China.

### **Our Industry — Mobile Enterprise Software Industry**

We operate in the mobile enterprise software industry in China. We believe the mobile enterprise market in China benefits from compelling industry fundamentals such as increasing investment in IT, the country's 4G rollout, and increasing demand for wireless applications within working environments. However, as the macro economy is slowing down, the government will be more conservative on the investment on the mobile enterprise software, especially mobile enterprise software for some vertical industries such as police and emergency.

### ***"Internet of Things" ("IOT") Development in China***

There has been a boom in research and development of China's IOT industry since the second half of 2009 when the government decided to promote the promising industry as well as other progressive industries including new energy, new materials and information networks.

China's State Council, the cabinet, issued guiding opinions for the orderly and healthy development of IOT, targeting breakthroughs in core technologies, shaping an IOT industry system. Under the guiding opinions, China will form a group of leading companies as well as small and medium-sized firms with creativity and innovation, and establish a

complete IOT industrial chain. China promises to offer stronger financial and tax-related support to the IOT industry.

The Chinese government has been gradually increasing its financial support for the development of the IOT. In April 2011, the Ministry of Finance and the MIIT promulgated the Interim Measures for the Management of Special Funds for the Development of the Internet of Things. The government earmarked over RMB 5 billion (\$750 million) for IOT investment by 2015. China's IOT market hit 500 billion (\$80 billion USD) by 2015, and MIIT estimates it will double to RMB 1 trillion (\$166 billion USD) by 2020.

### ***Information Technology Development in China***

The IDC study presents forecasts and analysis for the China IT services market for the period 2012-2017. "China's focus on economic development could promote strong development in tertiary industries, especially the services industry. Technology development is an important focus in the economy. China's economic transformation leads to a strong need for IT services. According to an IDC report, revenue for the IT Services industry has been growing at an annualized rate of 8.4% over the past five years. In 2017, revenue is expected to total \$144.4 billion, up 6.8% from 2016.. Although the IT services industry in China has a short history, it has been expanding quickly.

This supports our belief that market acceptance of enterprise mobility applications, solutions and systems usually accelerates when potential customers' back-end information technology systems are fairly developed and they start to invest in applications. By identifying sectors with high growth rates of IT investment, we can exploit opportunities to expand our business by capturing the growth in targeted vertical industry markets.

### ***Mobile Enterprise Solutions in China***

We believe that China's enterprise mobility market is experiencing rapid development, driven primarily by the development of the mobile industry.

The growth of mobile enterprise solutions is driven by the demand for increased business efficiencies and new functionalities. In many modern businesses, operations are distributed over a large area, with individual operating elements. Mobile enterprise solutions allow organizations to enable mission-specific field and long-distance information management on a real-time basis. Mobile enterprise solutions consist of packaged, mission-specific and industry-specific applications and software designed especially for enterprise using wireless connectivity.

Enterprise wireless applications can be tailored to meet the specific needs of many industry sectors, such as manufacturing, energy, transportation, logistics, utilities, healthcare, and government agencies (such as police and emergency services). These custom software solutions include production control automation, sales force automation, field force automation, customer relationship management, enterprise resource planning, supply chain management, operations management, inventory management, time and expense, logistics, and other collaborative items.

Wireless enablement for an enterprise and its many activities is a prominent trend according to the IDC report. With the growth of the domestic economy, improvements in bandwidth, and increased mobility in working environments, enterprises and government agencies are increasing spending on the construction of mobile platforms and applications to extend their functionality outside of stationary locations. Mobile enterprise solutions including mobile middleware software, mobile security software, mobile device management software, and mobile enterprise applications have fueled the growth of both business data and video/voice usage, which are also major driving factors in communication spending.

### **Our Strengths**

We believe the following strengths differentiate us from our competitors:

***Proprietary suite of mobile enterprise solutions offerings***

We are among the first of Chinese companies to focus predominantly on developing mobile enterprise solutions. Since we began our operations in 2001, we have completed many successful client installations (approximately 172) and have accumulated special knowledge and expertise that has directly resulted in the creation and development of our proprietary adaptable middleware platform, and an array of software applications. A client installation is considered “successful” when we have developed the solutions/systems according to the customer’s contractual specifications and have otherwise fulfilled all other material terms set forth in the sales contract, including installing, configuring and making the solutions/systems operational within the specified time periods. Additionally, to be considered “successful”, a customer must have test run the solutions/systems and indicated its satisfaction by signing the acceptance letter.

We believe our mobile enterprise software is superior in breadth of application. Our middleware platform and software applications can be selectively packaged to create tailored solutions that can be installed on both new systems and existing frameworks.

***Strong development capability***

We have taken advantage of the significant talent pool within the universities and research institutes in Xi’an China, where our operations are located, to establish a dedicated research and development team. As of September 30, 2017, we had 10 engineers dedicated to technology development and customer implementations. Our development engineers have diverse technical backgrounds and are led by experienced development practitioners. We have been able to track and incorporate the latest technologies into our software to continuously improve our core middleware platform and applications, and to develop new functionalities.

### ***Industry knowledge***

We work closely with our customers to build upon our understanding of our customers' operational processes and requirements. Our sales teams coordinate closely with our development teams to reflect those requirements in our solutions. As a result, our mobile enterprise solutions fit smoothly into our customers' operations. In addition, our presence in the mobile enterprise solution market since its inception provides us with domain knowledge which we use to help position ourselves for future growth. We continually receive feedbacks from this evolving market and are able to anticipate emerging sectors and future product requirements.

### ***Good track record***

Virtually all businesses and public service operations have the potential to experience efficiencies and new functionalities with mobile enterprise solutions. We have successfully completed projects for clients, such as the Central Government Security Bureau and Beijing Emergency Response Center, from many verticals. These serve as high-profile case studies and enhance our reputation in the marketplace and, thus, provide a key endorsement for the quality and stability of our product offerings. Moreover, by having our main corporate office in Xi'an, China, we benefit from the continued surge in IT investment by the Western provinces.

### ***Joint efforts with Chinese wireless telecom carriers***

We benefit from joint business development efforts with China Telecom, China Mobile and China Unicom. These wireless telecom carriers have a strategic interest in the advancement of the mobile enterprise in China. Our sales professionals work closely with those companies to access their large pools of corporate customers. Together we make joint presentations to candidate customers, where the carrier will provide the wireless network and we will provide the mobile enterprise solution. We have unwritten cooperative relationships with all three telecom carriers to co-promote next-generation mobile solutions for various other applications in China. In addition we have a formal co-marketing agreement with China Telecom to co-promote next-generation mobile solutions for law enforcement applications in Shaanxi province. For the year ended September 30, 2017, we completed a total of seven customer projects with the three telecom carriers. Typically under these arrangements, we jointly market our products and services for customer applications as customer's contract with the telecom carrier with us providing our solutions to the customer and receiving our remuneration from the telecom carrier.

### ***Our Strategy***

***Seize the opportunity presented by 4G adoption in China***

As the foundation of the mobile Internet, mobile networks play a crucial role in the development of the entire market. China's high bandwidth mobile application market has been developing slowly, limited by the mobile bandwidth. However, with the formal commercial application of the 4G service, the download rate of 100Mbps will be provided for users, effectively breaking the bandwidth limitation and laying a foundation for the development of China's high bandwidth mobile application market. IDC is optimistic about the development prospect of high bandwidth mobile applications such as mobile videos, mobile music and mobile online games. According to the planning of MIIT, the executive bodies of "Broadband China" are the three major telecom operators, with China Telecom and China Unicom undertaking most of the tasks. With the formal commercial application of the 4G service, China Telecom and China Unicom have adjusted their core services and taken the 4G service as new key focus of investment and development. This will affect the investment and operation of the broadband service and have certain effects on the entire development process of "Broadband China". To cooperate with our telecom partners, we are offering solutions to enable wider forms of mobile computing that take advantage of the 4G bandwidth. We also plan to devote resources to 4G products in anticipation of future government approval and commercial deployment.

***Recruit, train and retain engineering professionals***

We must train and retain our technical and business development teams. Once employed, we provide our technical employees with a comprehensive training program to understand our technologies, market and product offerings.

*Pursue strategic acquisition opportunities*

We will from time to time consider acquisitions or alliances that enable us to acquire talented and experienced software development personnel, enhance our technological capabilities and competitive advantages or provide licensing or recurring revenue opportunities, and propel our expansion.

**Our Products and Solutions**

We use various combinations of our existing middleware software modules, together with custom application software that we develop, to create a complete mobile enterprise software solution. For some customers, we provide the mobile enterprise software solution only. For other customers, we provide a complete wireless system solution, including mobile enterprise software and all hardware (our own hardware in addition to third party hardware such as servers or wireless devices).

An example of our mobile enterprise software products is an insurance industry application that we developed with China Mobile. Our mobile enterprise software for this application enables an insurance company's field personnel to receive their dispatch information and proceed accident reporting and claim processing while in the field. Form data is input electronically and high-resolution photos can be collected and filed wirelessly, from the accident site. For this application, we provide the software only, while China Mobile provides hardware and the network services.

Our mobile enterprise software consists of core middleware and a broad array of software applications. Our middleware serves as an intelligent platform that operates on top of our customers' operating systems and management information systems. Our software applications can be integrated onto our middleware platform as well as attached mobile devices (mobile phones, PDAs, laptops, etc.) to perform essential tasks or extend our customers' existing applications over wireless communications to fixed or mobile nodes. We have combined elements of both browser/server and client/server frameworks in our software design to allow for both reliable and flexible access by authorized personnel, at virtually anytime and from anywhere.

An example of our complete wireless systems (software and hardware) is a mobile video surveillance system that we developed for the Beijing Emergency Response Center. Using servers and cameras combined with our mobile enterprise software, we provided a complete wireless system that enables the Beijing Emergency Response Center to collect and monitor video from its patrol cars. This system improved the speed and quality of the emergency response by enabling supervisors to approach an emergency situation in a faster and more thorough way.



### ***Core Middleware Platform***

Our core middleware platform resides on the customers' servers. It is comprised of two layers of modules. The *General Purpose Layer* consists of mandatory software modules required to support the application software plugged into the middleware platform. The *Basic Layer* modules are also mandatory components that perform basic functions, such as communicating with a variety of hardware and software platforms, computer operating systems, networking and database products, coordinating and synchronizing the tasks performed by our solutions, and adding information security to data transmission.

### ***Software Applications***

We have developed two types of software applications that can be selectively overlaid with middleware to complete a packaged solution, namely, Information and Communication-Technology Converged, or ICT-converged, and Vertical Industry Applications.

ICT-converged applications perform generic functionalities that may be applied across multiple industries. Vertical Industry Applications, on the other hand, are non-generic and perform a specific task required by a particular industry. Both types of applications can reside on converged mobile devices (“Terminal-end Applications”), or on computer servers (“Server-end Applications”). Our Terminal-end Applications work on a variety of mobile devices and mobile operating systems.

In the terminal-end, we have information security, Radio Frequency Identification Devices (RFID), location-based service, steam media, information exchange, and management and configuration applications. The information security application encrypts or decrypts the information to ensure sensitive or classified information of our vertical industry customers can be transmitted over the public wireless telecommunication network safely. Installed with our RFID application and appropriate chips, a mobile phone can be turned into a RFID reader and writer for faster information input in certain vertical industry customers, such as the police and administration of industry and commerce. Our location-based service application enables a mobile phone to receive information relevant to its location. This application can greatly improve the operating efficiency of the mobile workforce of some of our vertical industry customers’ by pushing timely information to them. Our steam media application turns a mobile phone into a moveable video monitor and collector to facilitate decision-making by delivering live pictures anywhere anytime to the decision-maker. The information exchange application automatically synchronizes information in the mobile phone and in the back-end database.

### ***Our Hardware Products***

*Portable Video Server.* Our portable video server for vehicles or individuals can be integrated into our overall solutions package or purchased separately to add live mobile video surveillance or transmission functions to our customers’ existing systems.

We design the server, including the breadboard, the layout of internal structures, the specifications of the electronic components, and the I/O specifications. We currently outsource the production of our hardware to third-party manufacturers. We program the embedded software and write the software into the portable video servers. We also program the software loaded on our customers’ central servers to work with our portable video servers. By using our portable video server solution, our customers enjoy higher quality video and experience better transmission compared to the generic webcam solutions available elsewhere in the marketplace. Many industries and applications require this superior quality.

### **Tailoring Our Solutions**

The engineers in our internal solutions implementation department develop the tailored mobile enterprise solution according to our customer's requirements. Tailored solutions includes our core middleware platform and a selected combination of our software applications, and sometimes hardware we develop ourselves or outsource to third-party vendors. Tailored solutions are delivered as a turn-key package.

## **Research and Development**

As of September 30, 2017, we had 6 engineers devoted to developing our software products. They are currently all located in our main corporate office in Xi'an, China.

Our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Our research and development center is responsible for conducting all of our basic research and development activities. The focus of our research and development personnel is on developing and improving our core middleware platform, our CIT-converged applications and our hardware products. Currently, there are 4 employees with post-graduate educations out of the total 6 engineers in our research and development center, including two with doctorate degrees and two with other post-graduate degrees, with diverse backgrounds in computer science and technology, telecommunication engineering, software engineering and physical electronics.

We believe our professionals are adept at utilizing the latest technical developments in our industry to create new products and functionality. They also receive customer feedback from the sales and marketing team to develop applications demanded by our customers in certain sectors.

As of September 30, 2017, we had three engineers in our Vertical Industry Application Development Department, which is responsible for developing vertical industry applications. As of September 30, 2017, we had three engineers out of the aforementioned four engineers in our Automation Telematics Application Development Department that are responsible for developing automation telematics applications, which is a sub-group of vertical industry applications required by customers in manufacturing sectors with high degree of automation in their operations. Engineers in these two departments are also responsible for implementing the solutions for our customers.

## **Sales and Marketing**

We sell our products and services mainly through our sales and marketing team, which is primarily based at our headquarters in Xi'an, China and our branch office in Beijing, China. We had seven professionals in sales and marketing as of September 30, 2017.

To date, we have sold our mobile enterprise solutions to customers in 27 provinces, municipalities and autonomous regions in the PRC. In addition to those in Xi'an and Beijing, we have local sales teams that maintain close contact with our business partners and customers. We ensure that most of our sales and marketing professionals also have a technical background to make them competent for specialized IT sales, such as mobile enterprise solutions. Our sales and marketing professionals are organized into two teams: (i) Vertical Industry Application. and (ii) Automation Telematics.

The Vertical Industry Application sales force targets general business and government customers. They work closely with sales professionals at China's wireless telecommunication carriers (China Telecom, China Mobile and China Unicom), under general cooperation framework agreements to develop new customers. We believe the carriers are motivated to improve their average revenue per user, or ARPU, by selling integrated services to enterprise customers. However, they generally lack the ability to develop applications to overlay on their basic data communication network. In most cases, the carriers directly contract with us to provide the wireless application solution. In other cases, we sell directly to our enterprise customers or are engaged as a sub-contractor or by other IT companies with the customer relationship.

Our Automation Telematics Application sales team focuses on industrial automation projects. These are mainly factory-specific wireless solutions that enable automated or semi-automated factory production lines, using our

proprietary middleware and wireless capability. Automation Telematics utilizes wireless over short distances in a wide variety of usages that enable great automation control and production line monitoring and management. For such projects, typically we are contracted directly by the project owners or sub-contracted by the general contractors to provide automation telematics solutions. In most cases, building our software into large and complex physical systems (such as automated production lines) enables us to make a greater profit than if we sold our software independently.

## **Sales Process**

Our sales process begins by explaining to our potential customers the benefit of our wireless application products to the customer's particular business. Some companies seek mobile functionality for their sales force, some seek cross-company, real-time networking across all fixed and mobile nodes, while others seek a particular functionality specific to their own trade or business. Our team first seeks to understand each company's particular needs and then develops a product design proposal. For each project or mandate, we will typically compete against several other companies in an open bid invitation process.

## Major Customers

On March 20, 2017, we entered into a contract with Shaanxi Huajian Energy Co., Ltd. ("Huajian") to provide monitoring system service to the Yanchang Energy project in Yanan, Shaanxi Province. Pursuant to the agreement, we provide engineering services to the Yanchang Energy project. The services performed under this contract include installation, debugging and initial training of staff, and operating the tank, engineering instruments and telecommunications. This contract generated RMB 0.8 million, or approximately \$110,680 in revenue to the Company as of September 30, 2017.

## Competition

The wireless applications software market is currently a highly-fragmented industry with many players offering industry-specific solutions. We compete with a variety of different companies, some of which do not have a proprietary wireless platform and must therefore outsource and/or do more development and testing. Other companies have developed a wireless system for a single application that is not widely adaptable to usages across many industries. We believe one of our competitive advantages is the versatility of our platform, which allows for its application across numerous industries without significant ground-up redevelopment for each customer.

Our main competitors in the wireless application market in China are:

1. International IT consulting and service providers that have a strong foothold in customized enterprise software and information system design and implementation, such as Syclo and Accenture;
2. International mobile enterprise software and solution providers that have a significant presence in China, such as SAP and CDC Software; and

Domestic mobile enterprise solution developers, such as Beijing Silu Innovation Technology Co., Ltd., a mobile application provider that focuses solely on environmental protection areas, and Cyber Technologies (Suzhou) Co., Ltd., a wireless application software and IT service provider that focuses solely on public securities areas.

We believe we have a superior understanding of our vertical industry markets compared to our international competitors and that our software products have much wider application areas than those of our domestic competitors. We also bring mobile applications to industrial automation management and control, an area in which we believe we have a higher level of sophistication than our competitors.

## **Intellectual Property**

We have registered the following software copyrights, patents and trademarks for our business operations. We believe this intellectual property forms an integral part of our competitive strength.

### ***Patents:***

Through Kingtone Information, we have been granted an invention patent by the State Intellectual Property Office (“SIPO”) of PRC on September 23, 2009. This patent is “wireless video transmission system based on BREW platform”. The patent code is ZL 200710018138.4. We enjoy a 20-year protection period starting from the grant date of the patent.

We have also been granted a utility model patent (application number: 200820228566.X) on December 9, 2009. The name of this utility model invention is “Multi-business Data Collection Equipment”.

A third patent for “multilink wireless mobile industrial management and control integrated data transmission system” with the application number 200810150072.9 was granted to us on March 30, 2011.

**Software Copyrights:**

Through Kingtone Information, we have received the following software copyrights from the National Copyright Administration (“NCA”) of PRC:

<b>Name of Software</b>	<b>Registration Number</b>	<b>Date of Issuance</b>
Wireless video monitoring system V1.0	2007SR12909	August 28, 2007
RFID based wireless transportation administration monitoring system V1.0	2007SR17240	November 1, 2007
Wireless emergency command and management system V1.0	2008SR04120	February 26, 2008
Mobile industry management and control integrated system V1.0	2008SR18892	September 10, 2008
Wireless mobile news dispatches system V1.0	2008SR18893	September 10, 2008
Wireless police affairs system V1.0	2009SR04756	November 10, 2009
Wireless OA system V1.0	2009SR07729	February 25, 2009
Vertical industrial application software platform	2010SR031071	June 26, 2010
Third-grade unattended platform system V1.0	2014SR149914	May 1, 2011
Wireless police system V2.0	2014SR149829	June 1, 2012
Wireless emergency system based on Windows Phone 8 system	2014SR149864	July 20, 2014
Mobile monitor terminals software iOS version V1.0	2015SR038094	October 31, 2014

**Trademarks:**

We have registered the following trademarks with the Trademark Office, State Administration for Industry and Commerce in the PRC:

<b>Registered Trademark</b>	<b>Registration Number</b>	<b>Classification Number</b>	<b>Valid Period</b>
KingTone	4392291	42*	July 28, 2008 to July 27, 2018
Kingtone	4392294	35*	July 28, 2008 to July 27, 2018
	7402930	45*	January 7, 2011 to January 6, 2021
“KINGTONE INFORMATION”	7402927	37*	November 21, 2010 to November 20, 2020
“KINGTONE INFORMATION”	7402928	9*	December 21, 2010 to December 20, 2020
“KINGTONE INFORMATION”	7402926	45*	October 21, 2010 to October 20, 2020
	7402925	41*	July 7, 2011 to July 6, 2021



“KINGTONE  
INFORMATION”

7402911	35*	January 7, 2011 to January 6, 2021
7402912	37*	June 4, 2011 to June 3, 2021

7402901 9\* December 21, 2010 to December 20, 2020  
 7402916 45\* October 21, 2010 to October 20, 2020  
 7402917 35\* October 28, 2010 to October 27, 2020  
 7402918 37\* October 21, 2010 to October 20, 2020  
 7402919 42\* January 28, 2011 to January 27, 2021  
 7402915 41\* January 28, 2011 to January 27, 2021  
 7703614 37\* January 21, 2011 to January 20, 2021  
 7703613 35\* January 7, 2011 to January 6, 2021  
 7703612 45\* January 7, 2011 to January 6, 2021  
 7703611 41\* January 7, 2011 to January 6, 2021  
 7703617 9\* April 21, 2011 to April 20, 2021  
 7703615 42\* August 21, 2011 to August 20, 2021  
 7703623 45\* January 7, 2011 to January 6, 2021  
 7703624 35\* January 7, 2011 to January 6, 2021  
 7703625 37\* January 21, 2011 to January 20, 2021  
 7703626 42\* February 21, 2011 to February 20, 2021  
 7703610 9\* March 14, 2011 to March 13, 2021  
 7703622 41\* February 21, 2011 to February 20, 2021  
 7703611 41\* February 21, 2011 to February 20, 2021  
 7402914 9\* October 14, 2011 to October 13, 2021  
 7402912 37\* February 14, 2012 to February 13, 2022  
 Konelive 9042353 9\* January 21, 2012 to January 20, 2022  
 Konelive 9042455 35\* January 21, 2012 to January 20, 2022  
 Konelive 9042539 37\* January 21, 2012 to January 20, 2022  
 Konelive 9042675 41\* January 21, 2012 to January 20, 2022  
 Konelive 9042605 42\* January 21, 2012 to January 20, 2022  
 Konelive 9042643 45\* January 21, 2012 to January 20, 2022  
 Superlive 9046346 9\*  
 Superlive 9046385 35\* January 21, 2012 to January 20, 2022  
 Superlive 9046404 37\* January 21, 2012 to January 20, 2022  
 Superlive 9046471 41\* April 7, 2012 to April 6, 2022  
 Superlive 9046666 42\* July 14, 2012 to July 3, 2022  
 Superlive 9046733 45\* February 14, 2012 to February 13, 2022

\* See below for an explanation of each classification number used in the table above.

We have submitted applications for the following trademarks to the Trademark Office of State Administration for Industry and Commerce in the PRC:

<b>Pending Trademark</b>	<b>Application Number</b>	<b>Classification Number</b>	<b>Application Date</b>	<b>Date of Acceptance for Application</b>
	7402913	42*	May 18, 2009	June 4, 2009
	7402914	9*	May 18, 2009	June 4, 2009
	7402929	41*	May 18, 2009	June 4, 2009
Superlive	9046666	42*	January 12, 2011	January 19, 2011
Superlive	9046346	9*	January 12, 2011	January 19, 2011

\* See below for an explanation of each classification number used in the table above.

Classification No. 9: data processing apparatus, couplers (data processing equipment), computer software (recorded), monitors (computer programs), smart cards (integrated circuit cards), electro-dynamic apparatus for the remote control of signals, alarms, and electric installations for the remote control of industrial operations.

Classification No. 35: auctioneering, sales promotion for others, marketing analysis, marketing research, import-export agencies, advisory services for business management, business management for franchise, personnel management consultancy, relocation services for businesses, and systemization of information into computer databases.

Classification No. 37: building construction supervision, electric appliance installation and repair, installation, maintenance and repair of computer hardware, interference suppression in electrical apparatus, machinery installation, maintenance and repair, burglar alarm installation and repair, and telephone installation and repair.

Classification No. 41: instruction services, teaching, education information, tuition, arranging and conducting of colloquiums, publication of electronic books and journals on-line, amusements, and vocational guidance.

Classification No. 42: technical research, studies (technical project), computer software design, updating of computer software, recovery of computer data, computer systems analysis, installation of computer software, computer anti-virus protection, and research and development for others.

Classification No. 45: security consultancy, monitoring of burglar and security alarms, computer software permit (legal service), factory security inspection, household service security consultancy, copyright management, and baggage examination for safety.

### **Business Certificates and Qualifications**

We have obtained all necessary regulatory certifications to conduct our business in the PRC, including without limitation, the following: Software Enterprise Recognition Certificate, Computer Information System Integration Qualification Certificate, Construction Enterprise Qualification Certificate, and Security Technology & Protection Enterprise Certificate. We have also been properly certified as a high-tech enterprise and met the ISO 9001:2000 qualification management system.

## **Legal Proceedings**

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we do not believe that we are a party to any litigation that will have a material adverse impact on our financial condition or results of operations. We are not aware of any significant legal or governmental proceedings against us, or contemplated to be brought against us.

## **C. ORGANIZATIONAL STRUCTURE**

The following diagram illustrates our corporate structure and the place of formation and affiliation of each of our subsidiaries and affiliates.

### **Contractual Arrangements with Kingtone Information and its Respective Shareholders**

Our relationship with Kingtone Information and each of its respective shareholders is governed by a series of contractual arrangements. Some of the businesses in which Kingtone Information is engaged deal with classified government information in China. The current PRC laws and regulations do not allow companies with foreign equity holders to carry out such business activities. If we had a direct or indirect ownership in Kingtone Information, it could materially and adversely affect Kingtone Information's ability to service existing contracts and to win future contracts. Therefore, Softech and Kingtone Information entered into a series of contractual arrangements that allow us to effectively control Kingtone Information without violating relevant PRC laws and regulations. Under PRC laws, each of Softech and Kingtone Information is an independent legal person and neither of them is exposed to liabilities incurred by the other party. Pursuant to the contractual arrangements between Softech and Kingtone Information, as applicable, Kingtone Information transfers any and all net profits generated from its operations to Softech. Effective December 15, 2009, Softech entered into several control agreements with Kingtone Information, which agreements are summarized below.

### ***Entrusted Management Agreement***

Pursuant to the terms of the Entrusted Management Agreement dated December 15, 2009 among Kingtone Information, Softech and the shareholders of Kingtone Information (the “Entrusted Management Agreement”), Kingtone Information and its shareholders agreed to entrust the operations and management of its business to Softech. According to the Entrusted Management Agreement, Softech possesses the full and exclusive right to manage Kingtone Information’s operations, assets and personnel, has the right to control all of Kingtone Information’s cash flows through an entrusted bank account, is entitled to Kingtone Information’s net profits as a management fee, is obligated to pay all of Kingtone Information’s payables and loan payments, and bears all losses of Kingtone Information. The Entrusted Management Agreement shall remain in effect until (i) the parties mutually agree to terminate the agreement, (ii) the dissolution of Kingtone Information or (iii) Softech acquires all of the assets or equity of Kingtone Information (as more fully described below under “Exclusive Option Agreement”). We anticipate that Kingtone Information will continue to be the contracting party under its customer contracts, banks loans and certain other assets until such time as those may be transferred to Softech.

### ***Exclusive Technology Service Agreement***

Pursuant to the terms of the Exclusive Technology Service Agreement dated December 15, 2009 between Kingtone Information and Softech (“the Exclusive Technology Services Agreement”), Softech is the exclusive technology services provider to Kingtone Information. Kingtone Information agreed to pay Softech all fees payable for technologies services prior to making any payments under the Entrusted Management Agreement. Any payment from Kingtone Information to Softech must comply with applicable Chinese laws. Further, the parties agreed that Softech shall retain sole ownership of all intellectual property developed in connection with providing technology services to Kingtone Information. The Exclusive Technology Services Agreement shall remain in effect until (i) the parties mutually agree to terminate the agreement, (ii) the dissolution of Kingtone Information or (iii) Softech acquires Kingtone Information (as more fully described below under “Exclusive Option Agreement”).

### ***Shareholders’ Voting Proxy Agreement***

Pursuant to the terms of the Shareholders’ Voting Proxy Agreement dated December 15, 2009 among Softech and the shareholders of Kingtone Information (the “Shareholders’ Voting Proxy Agreement”), each of the shareholders of Kingtone Information irrevocably appointed Softech as their proxy to exercise on each of such shareholder’s behalf all of their voting rights as shareholders pursuant to PRC law and the Articles of Association of Kingtone Information, including the appointment and election of directors of Kingtone Information. Softech agreed that it shall maintain a board of directors composed of the members of the board of directors of Kingtone Wireless, except for those directors that are employed solely for the purpose of satisfying listing or financing requirements of Kingtone Wireless. The Shareholders’ Voting Proxy Agreement shall remain in effect until Softech acquires all of the assets or equity of

Kington Information.

***Exclusive Option Agreement***

Pursuant to the terms of the Exclusive Option Agreement dated December 15, 2009 among Softech, Kingtone Information and the shareholders of Kingtone Information (the “Exclusive Option Agreement”), the shareholders of Kingtone Information granted Softech an irrevocable and exclusive purchase option (the “Option”) to acquire Kingtone Information’s equity interests and/or remaining assets, but only to the extent that the acquisition does not violate limitations imposed by PRC law on such transactions. As discussed above, the current PRC law and regulations do not allow foreigners to hold equity interests in a PRC entity that engages in business dealings with classified government information. Accordingly, the Option is exercisable at any time at Softech’s discretion so long as such exercise and subsequent acquisition of Kingtone Information does not violate PRC law. The consideration for the exercise of the Option is to be determined by the parties and memorialized in the future by definitive agreements setting forth the kind and value of such consideration. To the extent Kingtone Information shareholders receive any of such consideration, the Option requires them to transfer (and not retain) the same to Kingtone Information or Softech. The Exclusive Option Agreement may be terminated by mutual agreement or in 30 days following a written notice from Softech.

### ***Equity Pledge Agreement***

Pursuant to the terms of the Equity Pledge Agreement dated December 15, 2009 among Softech and the shareholders of Kingtone Information (the “Pledge Agreement”), the shareholders of Kingtone Information pledged all of their equity interests in Kingtone Information, including the proceeds thereof, to guarantee all of Softech's rights and benefits under the Entrusted Management Agreement, the Exclusive Technology Service Agreement, the Shareholders’ Voting Proxy Agreement and the Exclusive Option Agreement. Prior to termination of the Pledge Agreement, the pledged equity interests cannot be transferred without Softech's prior written consent. The Pledge Agreement may be terminated only upon the written agreement from the parties.

### **D. PROPERTY AND EQUIPMENT**

We operate out of an office located at 3/F, Borough A, Block A, No. 181 South Taibai Road in Xi'an. We own our office space, which covers a floor space of 3,022.94 square meters.

Our Beijing branch office is located at Room 2208 and 2209 at Building 16, An Hui Dong Li, Chaoyang District, Beijing. It covers a floor space of 184.81 square meters. Our former chairman Mr. Tao Li had owned this space. We pay no consideration for the use of this office.

In April 2008, we purchased an approximately 20,000 square meter six-story warehouse and industrial facility in Xi'an, which we named the “Kington Center”. We have paid the entire purchase price and obtained both the property ownership certificate and land use right certificate from the provincial government. We have finished the interior design phase of refurbishing the Kington Center.. On October 28, 2013, the Company signed a twenty-year lease agreement with Xi'an Zhongde Orthopedics Hospital Co., Ltd. (“Zhongde”). According to the lease agreement, the Company shall lease “Kington Center” to Zhongde with a monthly rent of approximately \$0.1 million from July 1, 2014 until December 31, 2034. The rent will have an incremental 2 percent increase year over year during the next following years.

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

None.



## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A . OPERATING RESULTS.

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes to those financial statements appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as our anticipated growth strategy, our plans to recruit more employees, our plans to invest in research and development to enhance our product or service lines, our future business development, results of operations and financial condition, expected changes in our net revenues and certain cost or expense items, our ability to attract and retain customers, trends and competition in the enterprise mobile software application market, and the factors set forth elsewhere in this report, our actual results may differ materially from those anticipated in these forward-looking statements. In light of those risks and uncertainties, there can be no assurance that the forward-looking statements contained in this report will in fact occur. You should not place undue reliance on the forward-looking statements contained in this report.*

*The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by U.S. federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Further, the information about our intentions contained in this report is a statement of our intention as of the date of this report and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.*

*Unless the context otherwise requires, all references to (i) “PRC” and “China” are to the People’s Republic of China; (ii) “U.S. dollar,” “\$” and “US\$” are to United States dollars; and (iii) “RMB”, “Yuan” and Renminbi are to the currency of the PRC or China.*

## Overview

Kington Wireless was incorporated on October 27, 2009 under the laws of the British Virgin Islands and acts as a holding company. We conduct substantially all of our operations through our contractually-controlled PRC entity, Kington Information, which focuses on developing mobile enterprise solutions in China. We provide a suite of applications that enable mission-specific field and long-distance information management in wireless environments.

Kington Information commenced its current line of business in 2001 as an industrial automation management and control software system developer. We subsequently developed a core middleware platform consisting of standardized modules. This core middleware platform allows our solutions to seamlessly integrate with our customers’ existing information management systems. The core middleware platform can host an array of standardized and scalable applications developed by us. This structured design allows us to timely and cost-effectively meet our customers’ specific requirements and respond to their operational changes. Customized packages of our middleware platform and applications are marketed as tailored solutions to business and government customers of all kinds.

## Results of operations for the fiscal year ended September 30, 2017 compared to the fiscal year ended September 30, 2016.

The following table sets forth key components of our results of operations for the periods indicated, in thousands of dollars and percentage of revenue and changes.

	For the Years Ended September 30,						
	2017			2016			Change
	(\$ in Thousands, Except per Share Data)						
Revenue	\$173	100.0	%	\$1,192	100.0	%	(85.5 )%
Cost of sales	349	201.7	%	988	82.9	%	(64.7 )%
Gross profit	(176 )	(101.7 )%		204	17.1	%	(186.3 )%
Operating expenses							
Selling and marketing expenses	101	58.4	%	134	11.2	%	(24.6 )%
General and administrative expenses	1,471	850.3	%	1,917	160.8	%	(23.3 )%
Research and development expenses	-	-	%	55	4.6	%	(100 )%

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Total operating expenses	1,572	908.7 %	2,106	176.7 %	(25.4 )%
Loss from operations	(1,748 )	(1010.4)%	(1,902 )	(115.9)%	(8.1 )%
Other income (expense)					
Interest income	289	167.1 %	400	33.6 %	27.8 %
Other income, net	1,240	716.8 %	1,342	112.6 %	(7.6 )%
Total other income, net	1,529	883.8 %	1,742	146.1 %	(12.2 )%
Loss before income tax expenses	(219 )	(126.6 )%	(160 )	(13.4 )%	36.9 %
Net Loss	\$(219 )	(126.6 )%	\$(160 )	(13.4 )%	36.9 %
Other comprehensive income					
Foreign currency translation gain (loss)	48	27.7 %	(867 )	(72.7 )%	(105.5 )%
Comprehensive Loss	\$(171 )	(98.8 )%	\$(1,027 )	(86.2 )%	(83.4 )%
Loss per ordinary share:					
Basic and Diluted	\$(0.16 )		\$(0.11 )		(45.5 )%
Weighted average number of ordinary shares outstanding	1,405,000		1,405,000		0 %

The following is a breakdown of our revenue, cost of sales and gross margin for the years indicated, in thousands of dollars, and our respective gross margin percentages and changes.

	For the Years Ended September 30							
	2017			2016			Changes	
	(\$ in Thousands)							
Revenue								
Software	\$-	-	%	\$62	5.2	%	(100	)%
Wireless system solutions	173	100	%	1,130	94.8	%	(84.7	)%
Total Revenue	173	100.0	%	1,192	100.0	%	(85.5	)%
Cost of Sales								
Software	25	7.2	%	40	4.0	%	(37.5	)%
Wireless system solutions	324	92.8	%	948	96.0	%	(65.8	)%
Total Cost of Sales	349	100.0	%	988	100.0	%	(64.7	)%
Gross Profit								
Software	(25 )	14.2	%	22	10.8	%	(213.6	)%
Wireless system solutions	(151)	85.8	%	182	89.2	%	(183	)%
Total Gross Profit	(176)	100.0	%	204	100.0	%	(186.3	)%
Gross Margin								
Software		-	%		35.5	%		
Wireless system solutions		(87.3	)%		16.1	%		
Blended Gross Margin		(101.7)	)%		17.1	%		

### **Revenue**

We are a China-based developer and provider of mobile enterprise solutions. We generate revenue in two ways, from customized software middleware and applications for various public and private service agencies, which we identify as software solution sales, and from packaged solutions that include both software and hardware in automation telematics for clients mainly in the manufacturing sector, which we identify as wireless system solution sales. In the year ended September 30, 2017, we experienced a significant contraction in both our software solution business and our wireless system solution business. While the business conditions deteriorated rapidly, we face strong competition in our wireless system solution business. There is also a growing number of small service providers compete very aggressively on price which negatively affected our ability to win new contracts. Thereafter our revenue decreased by 85.5% to approximately \$0.2 million in the year ended September 30, 2017 from approximately \$1.2 million in the year ended September 30, 2016.

The Company had no revenue from software solutions in the year ended September 30, 2017, compared to \$0.06 million in the year ended September 30, 2016.

Our revenue from wireless system solution sales decreased by 84.7% to approximately \$0.2 million in the year ended September 30, 2017 from approximately \$1.1 million in the year ended September 30, 2016. As a percentage of total revenue, wireless system solution revenue increased from 94.8% to 100% of our total revenue.

### ***Cost of Sales***

Our cost of sales decreased by 64.7% to approximately \$0.3 million in the year ended September 30, 2017 from approximately \$1 million in the year ended September 30, 2016. As a percentage of our total revenues, our cost of sales increased to 201.7% of revenues in the year ended September 30, 2017 from 82.9% of our total revenues in the year ended September 30, 2016.

Cost of sales for software decreased by 37.5% to approximately \$0.03 million in the year ended September 30, 2017 from approximately \$0.04 million in the year ended September 30, 2016, representing 7.2% and 4.0% of our total cost of sales in the fiscal years ended September 30, 2017 and 2016, respectively. Cost of sales for wireless system solutions decreased by 65.8% to approximately \$0.3 million in the year ended September 30, 2017 from approximately \$0.9 million in the year ended September 30, 2016, representing 92.8% and 96.0% of total cost of sales and 187.3% and 83.9% of wireless system solution revenues in the fiscal years ended September 2017 and 2016, respectively.

### ***Gross Profit and Gross Margin***

Our total gross profit decreased by 186.3% to approximately negative \$0.18 million in the year ended September 30, 2017 from approximately \$0.2 million in the year ended September 30, 2016. Our total gross margin was minus 101.7% and 17.1% in the years ended September 30, 2017 and 2016 of total revenue, respectively. This decrease of gross margin was primarily due to the overall decrease in industry profit margin.

Our gross profit for wireless system solution sales decreased by 183% to approximately negative \$0.15 million in the year ended September 30, 2017 from approximately \$0.18 million in the year ended September 30, 2016. Our gross margin for wireless system solution sales decreased to minus 87.3% in the year ended September 30, 2017 from 16.1% in the year ended September 30, 2016, which is mainly attributable to the allowance of obsolete inventory which is classified as cost of sales.

### ***Operating Expenses***

#### ***Selling and Marketing Expenses***

Our selling and marketing expenses decreased by 24.6% to approximately \$0.1 million in fiscal year 2017 from approximately \$0.13 million in fiscal year 2016, and represented 58.4% and 11.2% of our revenue for the years ended September 30, 2017 and 2016, respectively. Selling and marketing expenses consisted primarily of compensation and benefit expenses relating to our sales and marketing personnel, travel and communication expenses, and selling and marketing-related office expenses. The decrease in sales and marketing expenses was a direct result of the Company's cost-control decision to reduce the related marketing and traveling expenses as a method of coping with the depressed software solutions market by decreasing labor costs. The lower demand for software solutions products is caused by the fact that most of the clients in our business sectors are government-sponsored companies. With the macro-policy in China that controls the spending budgets in governmental agencies, fewer clients in such sector were inclined to buy value-added software solutions.

#### *General and Administrative Expenses*

Our general and administrative expenses decreased by 23.3% to approximately \$1.5 million in fiscal year 2017 from approximately \$1.9 million in fiscal year 2016, and represented 850.3% and 160.8% of our revenue for the years ended September 30, 2017 and 2016, respectively. General and administrative expenses consist primarily of compensation and benefit expenses relating to personnel other than our engineers and our sales and marketing team, depreciation and amortization expenses and overhead expenses. General and administrative expenses also include legal and other professional fees, share-based compensation and other miscellaneous administrative costs. The significant decrease in general and administrative expenses was mainly due to the decreased bad debt expense caused by certain aged receivables, and decreased labor cost as a result of the decreased business operation.

### *Research and Development Expenses*

Our research and development expenses were nil in the fiscal year 2017, compared to approximately \$0.06 million in fiscal year 2016.

### *Loss from Operations*

We incurred a loss of \$1.7 million in the year ended September 30, 2017, an 8.1% decrease in such a loss from approximately loss of \$1.9 million in the year ended September 30, 2016, which was primarily due to the significantly lower general and administrative expenses for the fiscal year ended September 30, 2017, compared to the same period last year.

### *Net Loss*

We incurred a net loss of \$0.22 million in the year ended September 30, 2017 as compared to net loss of approximately \$0.16 million in the year ended September 30, 2016. Basic and diluted loss per share was \$0.16 in the year ended September 30, 2017, compared to \$0.11 loss per share in the prior year period. The number of weighted average ordinary shares outstanding was 1,405,000 for the years ended September 30, 2017 and 2016, respectively.

### **Results of operations for the fiscal year ended September 30, 2016 compared to the fiscal year ended September 30, 2015.**

The following table sets forth key components of our results of operations for the periods indicated, in thousands of dollars and percentage of revenue and changes.

	For the Years Ended September 30,				Change	
	2016		2015			
	(\$ in Thousands, Except per Share Data)					
Revenue	\$ 1,192	100.0 %	\$ 8,819	100.0 %	(86.5 )%	
Cost of sales	988	82.9 %	5,618	63.7 %	(82.4 )%	
Gross profit	204	17.1 %	3,201	36.3 %	(93.6 )%	



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Operating expenses						
Selling and marketing expenses	134	11.2 %	153	1.7 %	(12.4 )%	
General and administrative expenses	1,917	160.8 %	3,355	38.0 %	(42.9 )%	
Research and development expenses	55	4.6 %	288	3.3 %	(80.9 )%	
Total operating expenses	2,106	176.7 %	3,796	43.0 %	(44.5 )%	
Loss from operations	(1,902 )	(115.9)%	(595 )	(6.7 )%	(219.7 )%	
Other income (expense)						
Interest income	400	33.6 %	29	0.3 %	1,279.3%	
Other income, net	1,342	112.6 %	1,593	18.1 %	(15.8 )%	
Total other income, net	1,742	146.1 %	1,622	18.4 %	7.4 %	
Income (Loss) before income tax expenses	(160 )	(13.4 )%	1,027	11.6 %	(115.6 )%	
Net Income (loss)	\$(160 )	(13.4 )%	\$1,027	11.6 %	(115.6 )%	
Other comprehensive income						
Foreign currency translation loss	(867 )	(72.7 )%	(686 )	(7.8 )%	26.4 %	
Comprehensive Income ( loss)	\$(1,027 )	(86.2 )%	\$341	3.9 %	(401.2 )%	
Income (Loss) per ordinary share:						
Basic and Diluted	\$(0.11 )		\$0.73		(115.6 )%	
Weighted average number of ordinary shares outstanding	1,405,000		1,405,000		0 %	

The following is a breakdown of our revenue, cost of sales and gross margin for the years indicated, in thousands of dollars, and our respective gross margin percentages and changes.

	For the Years Ended September 30,							
	2016			2015			Changes	
	(\$ in Thousands)							
Revenue								
Software	\$62	5.2	%	\$136	1.5	%	(54.4	)%
Wireless system solutions	1,130	94.8	%	8,683	98.5	%	(87.0	)%
Total Revenue	1,192	100.0	%	8,819	100.0	%	(86.5	)%
Cost of Sales								
Software	40	4.0	%	61	1.1	%	(34.4	)%
Wireless system solutions	948	96.0	%	5,557	98.9	%	(82.9	)%
Total Cost of Sales	988	100.0	%	5,618	100.0	%	(82.4	)%
Gross Profit								
Software	22	10.8	%	75	2.3	%	(70.7	)%
Wireless system solutions	182	89.2	%	3,126	97.7	%	(94.2	)%
Total Gross Profit	204	100.0	%	3,201	100.0	%	(93.6	)%
Gross Margin								
Software		35.5	%		55.1	%		
Wireless system solutions		16.1	%		36.0	%		
Blended Gross Margin		17.1	%		36.3	%		

### **Revenue**

We are a China-based developer and provider of mobile enterprise solutions. We generate revenue in two ways, from customized software middleware and applications for various public and private service agencies, which we identify as software solution sales, and from packaged solutions that include both software and hardware in automation telematics for clients mainly in the manufacturing sector, which we identify as wireless system solution sales. In the year ended September 30, 2016, we experienced a significant contraction in our software solution business and our wireless system solution business. While the business conditions deteriorated rapidly, we faced strong competition in our wireless system solution business. There is also a growing number of small service providers compete very aggressively on price which negatively affected our ability to win new contracts. Thereafter our revenue decreased by 86.5% to approximately \$1.2 million in the year ended September 30, 2016 from approximately \$8.8 million in the year ended September 30, 2015.

Our revenue from software solution sales decreased by 54.4% to approximately \$0.06 million in the year ended September 30, 2016 from approximately \$0.14 million in the year ended September 30, 2015. As a percentage of total revenue, software solution sales increased from 1.5% to 5.2%.

Our revenue from wireless system solution sales decreased by 87.0% to approximately \$1.1 million in the year ended September 30, 2016 from approximately \$8.7 million in the year ended September 30, 2015. As a percentage of total revenue, wireless system solution revenue decreased from 98.5% to 94.8% of our total revenue.

### ***Cost of Sales***

Our cost of sales decreased by 82.4% to approximately \$1 million in the year ended September 30, 2016 from approximately \$5.6 million in the year ended September 30, 2015. As a percentage of our total revenues, our cost of sales increased to 82.9% of revenues in the year ended September 30, 2016 from 63.7% of our total revenues in the year ended September 30, 2015. The decrease in cost of sales was primarily attributable to the decrease in revenue from both software business and wireless system solutions business.

Cost of sales for software decreased by 34.4% to approximately \$0.04 million in the year ended September 30, 2016 from approximately \$0.06 million in the year ended September 30, 2015, representing 4.0% and 1.1% of our total cost of sales and 64.5% and 44.9% of our software revenue in the fiscal years ended September 30, 2016 and 2015, respectively. Cost of sales for wireless system solutions decreased by 82.9% to approximately \$0.9 million in the year ended September 30, 2016 from approximately \$5.6 million in the year ended September 30, 2015, representing 96.0% and 98.9% of total cost of sales and 83.9% and 64.0% of wireless system solution revenues in the fiscal years ended September 2016 and 2015, respectively.

### ***Gross Profit and Gross Margin***

Our total gross profit decreased by 93.6% to approximately \$0.2 million in the year ended September 30, 2016 from approximately \$3.2 million in the year ended September 30, 2015. Our total gross margin was 17.1% and 36.3% in the years ended September 30, 2016 and 2015 of total revenue, respectively. This decrease of gross margin was primarily due to national slow-down economy, which resulted in the overall decrease in industry profit margin.

Our gross profit for software solution sales decreased by 70.7% to approximately \$22,000 in the year ended September 30, 2016 from approximately \$75,000 in the year ended September 30, 2015. Our gross margin for software solutions sales decreased to 35.5% in the year ended September 30, 2016 from 55.1% in the year ended September 30, 2015. Our gross profit for wireless system solution sales decreased by 94.2% to approximately \$0.2 million in the year ended September 30, 2016 from approximately \$3.1 million in the year ended September 30, 2015. Our gross margin for wireless system solution sales decreased to 16.1% in the year ended September 30, 2016 from 36.0% in the year ended September 30, 2015, which is partially attributable to the lower margin of some of the wireless projects.

### ***Operating Expenses***

#### ***Selling and Marketing Expenses***

Our selling and marketing expenses decreased by 12.4% to approximately \$0.13 million in fiscal year 2016 from approximately \$0.15 million in fiscal year 2015, and represented 11.2% and 1.7% of our revenue for the years ended September 30, 2016 and 2015, respectively. Selling and marketing expenses consisted primarily of compensation and benefit expenses relating to our sales and marketing personnel, travel and communication expenses, and selling and marketing-related office expenses. The decrease in sales and marketing expenses was a direct result of the Company's cost-control decision to reduce the related marketing and traveling expenses coping with the depressing software solution market and the decreased labor cost. The lower demand for software solutions products is caused by the fact

that most of our clients in our business sectors are government sponsored companies. With the macro-policy in China that controls the spending budgets in governmental agencies, less clients in such nature were inclined to buy value-added software solutions.

#### *General and Administrative Expenses*

Our general and administrative expenses decreased by 42.9% to approximately \$1.9 million in fiscal year 2016 from approximately \$3.4 million in fiscal year 2015, and represented 160.8% and 38.0% of our revenue for the years ended September 30, 2016 and 2015, respectively. General and administrative expenses consist primarily of compensation and benefit expenses relating to personnel other than our engineers and our sales and marketing team, depreciation and amortization expenses and overhead expenses. General and administrative expenses also include legal and other professional fees, share-based compensation and other miscellaneous administrative costs. The decrease in general and administrative expenses was mainly due to the decrease in bad debt expense, and we reduced the related labor cost.

### *Research and Development Expenses*

Our research and development expenses decreased 80.9% to approximately \$0.06 million in fiscal year 2016 from approximately \$0.3 million in fiscal year 2015, and represented 4.6% and 3.3% of our revenue for the years ended September 30, 2016 and 2015, respectively. Research and development expenses consist primarily of compensation and benefit expenses relating to engineers in our research and development center, materials cost in research and development activities relating to our research and development center. The decrease in research and development expenses was mainly because the Company intended to decrease the expenses under an unsatisfied business condition.

### *Loss from Operations*

We incurred a loss of \$1.9 million in the year ended September 30, 2016, a 219.7% increase in such a loss from approximately loss of \$0.6 million in the year ended September 30, 2015. The increase in loss from operations was mainly due to significantly lower revenues from software solutions and wireless system solutions business.

### *Net Income (Loss)*

We incurred a net loss of \$0.2 million in the year ended September 30, 2016 as compared to net income of approximately \$1 million in the year ended September 30, 2015. Basic and diluted loss per share was \$0.11 in the year ended September 30, 2016, compared to income per share \$0.73 in the prior year period. The number of weighted average ordinary shares outstanding was 1,405,000 for the years ended September 30, 2016 and 2015, respectively.

### **Liquidity and Capital Resources**

#### *Cash Flows and Working Capital*

As of September 30, 2017, we had a working capital of approximately \$1.2 million, including cash of approximately \$0.9 million. The following table sets forth a summary of our cash flow for the periods indicated:

	For the Years Ended September 30,		
	2017	2016	2015
	(\$ in Thousands)		
Net cash provided by (used in) operating activities	\$ 516	\$ (780 )	\$ 2,366
Net cash provided by (used in) investing activities	(29 )	(22 )	1
Net cash used in financing activities	(800 )	(690 )	(3,714 )
Effect of exchange rate fluctuation on cash and cash equivalents	(24 )	(12 )	(76 )
Net decrease in cash and cash equivalents	(337 )	(1,504 )	(1,423 )
Cash and cash equivalents, beginning of year	1,239	2,743	4,166
Cash and cash equivalents, end of year	902	1,239	2,743

### ***Operating Activities***

Net cash provided by operating activities was approximately \$0.5 million for the year ended September 30, 2017 as compared to \$0.8 million net cash used in operating activities the year ended September 30, 2016. During 2017, the Company had account and notes receivable of 3 million, compared to minus \$4 million for the last year. In addition, the Company's accounts payable decreased to \$0.9 million from \$1.3 million.

### ***Investing Activities***

Net cash used in investing activities for the year ended September 30, 2017 was approximately \$29,000 as compared to net cash used in investing activities of approximately \$22,000 for the year ended September 30, 2016. The cash used in investing activities in 2017 was mainly due to the purchase of property and equipment.

### ***Financing Activities***

Net cash used in financing activities during the fiscal year of 2017 was approximately \$0.8 million as compared to \$0.7 million for the fiscal year of 2016.

As a result of the total cash activities, our net cash decreased by approximately \$0.3 million from September 30, 2016 to September 30, 2017 and to approximately \$1.5 million from September 30, 2015 to September 30, 2016.

Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Also, our PRC subsidiaries must file the board resolutions authorizing the payment of dividends, the capital verification report of our PRC subsidiaries, the audit report issued by a certified public accountant company and other required materials to the banks entrusted by the local foreign exchange bureau for the examination of the remittance of the dividend. Our PRC subsidiaries can only remit dividends to us after passing the examination. Such examination requirement may limit our PRC subsidiaries' ability to pay dividends to us which may limit our ability to pay dividends to our shareholders. If we are unable to pay dividends to our shareholders, our ability to secure equity financing in the future may be adversely affected.

### **Contractual Obligations**

As of September 30, 2017, we did not have any contractual obligations required to be disclosed.

### **Quantitative and Qualitative Disclosure about Market Risk**

#### ***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to the interest expense incurred as a result of short-term bank loans maturing within 12 months. We have not used any derivative financial instruments to manage our interest risk



exposure. We carry refinancing risk related to short-term interest-bearing loans. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. However, our future interest expense may be higher than expected due to changes in market interest rates.

### ***Foreign Exchange Risk***

Translation adjustments amounted to \$0.04 million, \$0.9 million loss and \$0.7 million loss for years ended September 30, 2017, 2016 and 2015, respectively. We translated balance sheet amounts except for equity at September 30, 2017, 2016 and 2015 at RMB 6.6545, RMB 6.6702 and RMB 6.2683 to \$1.00, respectively. We stated equity accounts at their historical rate. The average translation rates applied to income statement accounts for the years ended September 30, 2017, 2016 and 2015 were RMB 6.8122, RMB 6.5321 and RMB 6.648 to \$1.00, respectively. So far, the PRC government has been able to manage a stable exchange rate between RMB and the U.S. Dollar. We do not anticipate material translation adjustments due to large fluctuations in exchange rates between RMB and the U.S. Dollar. However, our future upward translation adjustments may occur and can be significant due to changes in the exchange rate.

The PRC government imposes strict restrictions on PRC resident companies regarding converting RMB into foreign currencies and vice versa under capital account transactions, such as receiving equity investments from outside of the PRC, making equity investments outside of the PRC, borrowing money from or lending money outside of the PRC, and repaying debt or remitting liquidated assets and/or accumulated profits outside of the PRC. These transactions have to be approved by the relevant PRC government authorities, including but not limited to the commerce bureau, the tax bureau and the State Administration of Foreign Exchange, or SAFE, and have to be conducted at banks entrusted by the local SAFE branch. Kingtone Information has not conducted any foreign currency transactions since its inception. Softech had not conducted any foreign currency transactions except for converting a relevantly small amount of foreign currency into RMB as registered capital pursuant to PRC regulations. As our business continues to grow, we may need to continuously finance our PRC subsidiaries by raising capital from outside of the PRC. The restriction on converting RMB into foreign currencies, and vice versa, may limit our ability to use capital resources from outside of the PRC. Such restrictions may also limit our ability to remit profits from our PRC subsidiaries outside of the PRC, therefore potentially limiting our ability to pay dividends to our shareholders. In addition, such restrictions will limit our ability to freely transfer temporary excess cash in our or our subsidiaries' bank accounts in and out of the PRC, therefore limiting our ability to conduct cross-border cash management activities to optimize the utilization of our cash.

### ***Inflation***

Although China has experienced an increasing inflation rate, inflation has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the consumer price index increased 2.6% from January to December, 2012. In 2013, the average consumer price index increase rate was 2.6%. In 2014 and 2015, the average consumer price index increased rate was 2.0% and 1.5%, respectively. In 2016, the average consumer price index increased rate was 1.2%. In 2017, the average consumer price index increased rate was 3.8%. The results of the PRC government's actions to combat inflation are difficult to predict. Adverse changes in the Chinese economy, if any, will likely impact the financial performance of a variety of industries in China that use, or would be candidates to use, our software products and services.

### **Critical Accounting Policies**

We prepare our financial statements in conformity with the accounting principles generally accepted in the United States of America, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe the following accounting policies involve the most

significant judgments and estimates used in the preparation of our financial statements and should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report.

### ***Revenue Recognition***

Revenues consist primarily of sales of wireless system solutions and software solutions with support contracts. We recognize revenue when (1) pervasive evidence of an arrangement exists, (2) delivery has occurred and customer acceptance is reasonably assured, (3) the fee is fixed or determinable, and (4) collectability is probable.

We generally provide wireless system software service solutions and customized software under short and long-term fixed-price contracts that require significant production and customization. The contract periods range from two months to approximately two years in length. We recognize income for these contracts following both the percentage-of-completion method, measured by contract milestones and on the basis of actual costs incurred versus the total estimated contract costs, and on the completed contract method in accordance with the ASC No. 605-35, “*Construction-Type and Certain Production-Type Contracts*” and ASC No.985-605, “*Software-revenue recognition*”.

Provided unapproved change orders or claims occur in the future, in accounting for contracts, we follow ASC No. 605-35. We will recognize revenues associated with unapproved change orders or claims to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated. Contract losses are provided in their entirety in the period that they become known, without regard to the percentage-of-completion. However, we have not experienced significant unapproved change orders in the past.

The software contracts generally provide for post-contract customer support (“PCS”) for a period of one year from delivery of the software. The value of PCS revenue is not separately reported and is accounted for as part of the entire fee under the contract accounting methods described above since the PCS meets the criteria specified in ASC No. 985-605-25-71 as follows:

1. PCS is included in the total contract price;
2. PCS is for one year or less;
3. estimated costs are insignificant;
4. upgrades and enhancements during the PCS term have historically been and are expected to continue to be minimal and infrequent; and
5. the contract does not include any service elements that are accounted for separately.

All other services are provided under separate agreements and fee arrangements and the related revenue is recognized over the period the services are provided.

Unbilled revenue consists of recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients as of the balance sheet date.

We present all sales revenue net of a value-added tax (“VAT”).

The Company recognizes revenue using the fair value of the software and service by reference to the retail market price of the software and service. These revenues are recorded as “Software Revenue”.

***Cost of sales***

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of sales. Cost of sales (exclusive of depreciation and amortization) primarily includes the cost of the hardware purchased from the third parties, direct labor, materials and the applicable share of overhead expense directly related to the execution of services and delivery of projects.

The Company's PRC subsidiary and VIE are subject to business tax on revenues related to certain types of services at various rates. Business tax on revenues earned from provision of services to customers is recorded as an additional item to cost of sales in the same period in which the related revenue is recognized.

***Accounts and notes receivable***

Accounts and notes receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts as needed. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on aging data, historical collection experience, customer specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not have any off-balance-sheet credit exposure related to its customers.

### ***Inventories***

Inventories consist of raw materials, finished goods, and project-in-progress, which include the direct labor, direct materials and overhead costs related to projects. Inventories are stated at lower of cost or market value. Cost is determined using first in first out method.

Where there is evidence that the market value of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the carrying value of inventories will be written down.

### ***Share-based compensation***

Share options granted to employees and independent directors are accounted for under ASC 718, "*Share-Based Payment*". In accordance with ASC 718, the Company determines whether a share option should be classified and accounted for as a liability award or an equity award. All grants of share options to employees classified as equity awards are recognized in the financial statements based on their grant date fair values. All grants of share options to employees classified as liability awards are re-measured at the end of each reporting period with an adjustment for fair value recorded to the current period expense in order to properly reflect the cumulative expense based on the current fair value of the vested options over the vesting period. The Company has elected to recognize compensation expenses using the Black-Scholes-Merton (BSM) option-pricing model estimated at the grant date based on the award's fair value and is recognized as expense on a straight-line basis for each separately vesting portion of the award (the graded vesting attribution method).

Restricted stock units (RSUs) are measured based on the fair market values of the underlying stock on the dates of grant. Shares are issued on the vesting dates net of the statutory withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding. Also, the Company recognizes stock-based compensation using the graded vesting attribution method.

The Company records share-based compensation expense for awards granted to non-employees in exchange for services at fair value in accordance with the provisions of ASC 505-50, "*Equity based payment to non-employees*". For the awards granted to non-employees, the Company will record compensation expenses equal to the fair value of the share at the measurement date, which is determined to be the earlier of the performance commitment date or the service completion date.

***Impairment of long-lived assets***

The Company applies the Accounting Standards Codification (“ASC”) No. 360-10 “*Property, plant and equipment*”, ASC NO. 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

The Company tests long-lived assets, including property, plant and equipment and intangible assets subject to periodic amortization, for recoverability at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the net carrying amount is greater than its fair value. Assets are grouped and evaluated at the lowest level for their identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the future estimated cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally measured by discounting expected future cash flows as the rate the Company utilizes to evaluate potential investments. The Company estimates fair value based on the information available in making whatever estimates, judgments and projections are considered necessary. No impairment of long-lived assets was recognized for the years ended September 30, 2015 and 2014, respectively.

## Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” (“ASU 2015-14”) in August 2015. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) in March 2016, ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) in April 2016, ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), and ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” (“ASU 2016-20”), respectively. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-10 clarifies guidelines related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The updates in ASU 2016-10 include targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The amendments in ASU 2016-20 represents changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as ASU 2014-09. We do not expect the adoption of ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “*Presentation of Financial Statements—Going Concern (Subtopic 205-40)*”. In connection with preparing financial statements for each annual and interim reporting period, an entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial position and results of operations.



August, 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The amendment defers the effective date of ASU No. 2014-09 for all entities for one year. The guidance in ASU 2014-09 will now apply to public business entities, certain not-for-profit entities, and certain employee benefit plans from annual reporting periods beginning December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods after December 31, 2016, including interim reporting periods with that reporting period.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805)*. ASU No. 2015-16 requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in the Update require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The adoption of ASU 2015-016 is not expected to have a material effect on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. This update is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not anticipate the adoption of this ASU will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in ASU No. 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases (FAS 13)*. ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share Based Payment Accounting*, to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of this newly issued guidance to its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation* (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions. The areas for simplification in ASU No. 2016-09 include the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU No. 2016-09 on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments. Financial Instruments—Credit Losses (Topic 326) amends guideline on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. ASU No. 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of ASU No. 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of ASU No. 2016-15 on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes* (Topic 740): “Intra-Entity Transfers of Assets Other Than Inventory”. The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and remove the exception to postpone recognition until the asset has been sold to an outside party. The amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

Also in October 2016, the FASB issued ASU No. 2016-17, *Consolidation* (Topic 810): “Interest Held through Related Parties That Are under Common Control”, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity, or VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The

amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): “Restricted Cash” (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 will become effective for us beginning April 1, 2018, or fiscal 2019. ASU 2016-18 is required to be applied retrospectively. Upon adoption, amounts described as restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for us in the first quarter of 2018 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation—Stock compensation (Topic 718): Scope of modification accounting” (“ASU 2017-09”). The purpose of the amendment is to clarify which changes to the terms or condition of a share-based payment award require an entity to apply modification accounting. For all entities that offer share based payment awards, ASU 2017-09 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2017-09 on its consolidated financial statements.

## **B. LIQUIDITY AND CAPITAL RESOURCES**

The information contained in “Item 5. Operating and Financial Review and Prospects – A. Operating Results – Liquidity and Capital Resources” is incorporated herein by reference.

## **C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

The discussions of our research and development activities were contained in “Item 4. Information about our Company – B. Business Overview – Research and Development” and “Item 5. Operating and Financial Review and Prospects – A. Operating Results – Operating Expenses – Research and Development Expenses” are incorporated herein by reference. In the years ended September 30, 2017, 2016 and 2015, we spent \$0, \$56,654 and \$288,214, respectively, on research and development activities.

## **D. TREND INFORMATION.**

### **Industry and Market Outlook**

China has awarded licenses to mobile phone companies to provide the superfast 4G network to customers. The licenses, which are designed to give mobile phone users faster access to services, were granted by the government to China Mobile, China Unicom Hong Kong and China Telecom. Since the grants, China Mobile has offered 4G to subscribers from December 18, 2013. China Unicom and China Telecom, the country's other two major carriers, also offer 4G wireless. The number of China Mobile 4G customers has exceeded 900 million by the end of October in 2017. The move greatly bolstered business for telecom equipment makers and a range of other companies.

Under China's 12th Five-Year Plan, a key priority is for China to transition from "Made in China" to "Designed in China." In order to achieve this goal, the government plans to heavily invest in science and technology education and R&D so as to further develop China's intellectual property rights system and support "Next-Generation IT" as a Strategic Emerging Industry (SEI). Additionally, China plans to upgrade the technological capabilities of private and public services, including "triple play" services (the convergence of telecom, broadcasting and Internet networks), ecommerce, and e-government and statistics systems. Furthermore, the government plans to invest in R&D of the "Internet of things" and cloud computing, and develop digital and virtual technologies.

## **E. OFF-BALANCE SHEET ARRANGEMENTS**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, except for the mortgage referenced above, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

## **F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

As of September 30, 2017, we did not have any contractual obligations required to be disclosed in this Item 5.F.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.**

### **A. DIRECTORS AND SENIOR MANAGEMENT.**

#### **Executive Officers and Directors**

The following table sets forth the names and ages as of the date of this annual report of each of our executive officers and directors:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Zhuoyu "Richard" Li	25	Chairman
Peng Zhang	50	Chief Executive Officer
Li Wu	55	Chief Financial Officer
Lili Dong(1)(2)(3)	57	Independent Director
Xianyun Zhang (1)(2)(3)	53	Independent Director



Junwei Wang (1)(2)(3) 42 Independent Director

(1)Member of the Compensation Committee

(2)Member of the Audit Committee

(3)Member of the Nominating and Corporate Governance Committee

Set forth below is biographical information concerning our executive officers and directors.

**Zhuoyu Li** has served as President of China Green Agriculture, Inc., an NYSE listed company (NYSE: CGA) since May 11, 2016. Prior to joining CGA, Mr. Li has served as Chief Operating Officer at Xi'an 900LH.com Food Co., Ltd. since January 2016. From January 2015 to January 2016, Mr. Li served as a senior manager at the international department of 900LH.com, where he helped to develop the international market. Mr. Li served as a senior manager at the customer center of 900LH.com from March 2013 through January 2015. He studied business at the University of Auckland in 2012.

**Peng Zhang** has served as our Chief Executive Officer since December 2009. Since March 2009, Mr. Zhang has served as the President and Chief Executive Officer of Kingtone Information, our contractually-controlled PRC operating company. Mr. Zhang joined Kingtone Information in August 2001 as an engineer and subsequently worked as the manager of the automation department, deputy manager and manager of the management and control department, and the vice president. Prior to joining Kingtone Information, Mr. Zhang was the deputy general manager of Lanzhou Hualong Gardening Co., Ltd. from January 2000 to July 2001. Prior to that, Mr. Zhang worked as a technician, assistant engineer, engineer and deputy department head at the material supply department of Yumen Petroleum Administration Bureau of China National Petroleum Corporation (“CNPC”) from 1988 to 1999. Mr. Zhang graduated from Chongqing Petroleum Technical School with an Associate degree in mining mechanics in 1988. He continued his education at the Open College of the Communist Party of China (“CPC”) University, Gansu Campus and graduated in 2000 with a Bachelor’s degree in Business Administration. We believe Mr. Zhang’s knowledge of our history and expertise in the engineering area qualify him to serve our Chief Executive Officer.

**Li Wu** has served as our Chief Financial Officer since May 31, 2011. Prior to becoming our Chief Financial Officer, Ms. Li Wu served as a director of our company since December 2009, and served as the Chief Financial Officer of our company from December 2009 to April 2010. Since 2004, Ms. Wu has served as the finance director of Kingtone Information, our contractually-controlled PRC operating company. Prior to this position, she worked as the Deputy Finance Director at the state-owned Xi’an Metal forming Machine Factory from 1981 to 2003. Ms. Wu graduated from Shaanxi Finance and Economics College and obtained her Bachelor’s degree in 1990. She is a Certified Public Accountant in PRC. We believe Ms. Wu’s knowledge of our history and her accounting background suit her to be our Chief Financial Officer.

**Dr. Lili Dong** has served as an independent director of our Company since March 2010. Dr. Dong has over 20 years’ experience in the computing distributed system, computer network application and data mining research. She has been a professor of Xi’an Construction Science & Technology University since December 2007. Dr. Dong has led several important research projects, including Distributed Object Computing Models and Multimedia Digital Watermarking Application projects funded by Shanxi Province Fund, Peer to Peer Network Communication Technology project funded by Xi’an Science & Technology Bureau. Dr. Dong’s experience in computing distributed system and other similar areas qualifies her to serve as our director and chairman of our compensation committee.

**Xianyun Zhang**, CICPA, has over 20 years of experience in accounting and has served as an independent director of the Company since December 2011. Since 2004, he has served as the chairman of Beijing Zhongzheng Tiantong Certified Public Accountant Co., Ltd. Mr. Zhang previously worked at Beijing Zhongzhou Guanghu Certified Public Accountant Co., Ltd, the Import-Export Bank of China, and the Ministry of Finance in the People’s Republic of China. Mr. Zhang obtained a bachelor’s degree in accounting in 1988 from Jiangxi University of Finance and Economics. In 1996, Mr. Zhang obtained a master’s degree in accounting from Zhejiang University. Mr. Zhang’s accounting and financial management expertise qualifies him to be our director and chairman of the audit committee.

**Junwei Wang** has significant experience in legal affairs and has served as an independent director of the Company since December 2011. Since 2007, Ms. Wang served as the attorney of China Galaxy Securities Co., Ltd. Ms. Wang previously worked at Beijing Zhongxin Legal Firm, China Science & Merchants Venture Capital Management Co. Ltd. and Heilongjiang Posts and Telecommunications Bureau. Ms. Wang obtained a bachelor's degree in law in 1998 from Heilongjiang University. In 2008, she obtained a master's degree in law from Renmin University of China. Ms. Wang's legal background qualifies her to be our director and chairman of the nominating and corporate governance committee.

## **B. COMPENSATION.**

### **Compensation of Directors and Executive Officers**

For the fiscal year ended September 30, 2017, we paid an aggregate of approximately \$37,660 in cash compensation to our executive officers and an aggregate of approximately \$80,359 in cash compensation to our directors for serving on our board of directors.

Other than non-employee directors, we do not intend to compensate directors for serving on our board of directors or any of its committees. We do, however, intend to reimburse each member of our board of directors for out-of-pocket expenses incurred by each director in connection with attending meetings of the board of directors and its committees.

As of September 30, 2017, we have made the following grants under our 2010 Omnibus Incentive Plan to our directors and executive officers and certain former directors and officer:

	Type of	Number of	Exercise Price	Grant Date	Expiration Date
	Equity Award	Ordinary Shares			
Ying Yang	Options	10,000	\$ 40.00	May 14, 2010	May 14, 2020
Lili Dong	Options	1,000	\$ 40.00	May 14, 2010	May 14, 2020
Melody Shi	Options	666	\$ 40.00	May 14, 2010	May 14, 2020
James Fong	Options	666	\$ 40.00	May 14, 2010	May 14, 2020

Note : The EPS data and the weighted average shares outstanding for all periods have been retroactively restated to reflect the 1-for-10 reverse stock split effected on November 6, 2012.

## 2010 Omnibus Incentive Plan

A description of the provisions of our 2010 Omnibus Incentive Plan (the “Incentive Plan”) is set forth below. This summary is qualified in its entirety by the detailed provisions of the Incentive Plan, which was included as an exhibit to our initial registration statement on Form F-1 filed on April 13, 2010.

In April 2010, our board of directors and our shareholders approved and adopted the Incentive Plan, reserving 1,500,000 ordinary shares for future issuances thereunder. The purpose of the Incentive Plan is to attract and to encourage the continued employment and service of, and maximum efforts by, our officers, key employees and other key individuals by offering those persons an opportunity to acquire or increase a direct proprietary interest in our operations and future success. As of September 30, 2017, we had outstanding under the Incentive Plan the equity awards set forth in the table above.

## Administration

The Incentive Plan is administered by our board of directors, or at the discretion of the board, by our compensation committee. Our board of directors has delegated authority to our compensation committee to administer the Incentive Plan. Subject to the terms of the Incentive Plan, the compensation committee may select participants to receive awards, determine the types of awards and terms and conditions of awards, and interpret provisions of the Incentive

Plan.

The ordinary shares issued or to be issued under the Incentive Plan consist of authorized but unissued shares. If any ordinary shares covered by an award are not purchased or are forfeited, or if an award otherwise terminates without delivery of any ordinary shares, then the number of ordinary shares counted against the aggregate number of ordinary shares available under the plan with respect to the award will, to the extent of any such forfeiture or termination, again be available for making awards under the Incentive Plan.

### *Eligibility*

Awards may be made under the Incentive Plan to our employees, officers, directors, consultants or advisers or to any of our affiliates, and to any other individual whose participation in the Incentive Plan is determined to be in our best interests by our board of directors.

### ***Amendment or Termination of the Plan***

Our board of directors may terminate or amend the Incentive Plan at any time and for any reason. No amendment, however, may adversely impair the rights of grantees with respect to outstanding awards. The Incentive Plan has a term of ten years. Amendments will be submitted for shareholder approval to the extent required by applicable stock exchange listing requirements or other applicable laws.

### ***Options***

The Incentive Plan permits the granting of options to purchase ordinary shares intended to qualify as incentive share options under the Internal Revenue Code and share options that do not qualify as incentive share options, or non-qualified share options.

The exercise price of each share option may not be less than 100% of the fair market value of our ADSs representing ordinary shares on the date of grant. In the case of certain 10% shareholders who receive incentive share options, the exercise price may not be less than 110% of the fair market value of our ADSs representing ordinary shares on the date of grant. An exception to these requirements is made for options that we grant in substitution for options held by employees of companies that we acquire. In such a case the exercise price is adjusted to preserve the economic value of the employee's share option from his or her former employer.

The term of each share option is fixed by the compensation committee and may not exceed ten years from the date of grant. The compensation committee determines at what time or times each option may be exercised and the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised.

Options may be made exercisable in installments. The award agreement provides the vesting of the options. Exercisability of options may be accelerated by the compensation committee.

In general, an optionee may pay the exercise price of an option by (1) cash or check (in U.S. dollars or Renminbi or other local currency as approved by the compensation committee), (2) ordinary shares held for such period of time as may be required by the compensation committee, (3) delivery of a notice of a market order with a broker with respect to ordinary shares then issuable upon exercise of an option, and that the broker has been directed to pay us a sufficient portion of net proceeds of the sale in satisfaction of the exercise price, provided that payment of such proceeds is then made to us upon settlement of such sale, (4) other property acceptable to the compensation committee with a fair

market value equal to the exercise price, (5) cashless exercise or (6) any combination of the foregoing.

Share options granted under the Incentive Plan may not be sold, transferred, pledged, or assigned other than by will or under applicable laws of descent and distribution. However, we may permit limited transfers of non-qualified options for the benefit of immediate family members of grantees to help with estate planning concerns or pursuant to a domestic relations order in settlement of marital property rights.

### ***Other Awards***

The compensation committee may also award under the Incentive Plan:

1. ordinary shares subject to restrictions;
2. deferred ordinary shares, credited as deferred ordinary share units, but ultimately payable in the form of unrestricted ordinary shares in accordance with the terms of the grant or with the participant's deferral election;
3. ordinary share units subject to restrictions;
4. unrestricted ordinary shares, which are ordinary shares issued at no cost or for a purchase price determined by the compensation committee which are free from any restrictions under the 2011 Omnibus Incentive Plan;
5. dividend equivalent rights entitling the grantee to receive credits for dividends that would be paid if the grantee had held a specified number of ordinary shares; or

a right to receive a number of ordinary shares or, in the discretion of the compensation committee, an amount in cash or a combination of ordinary shares and cash, based on the increase in the fair market value of the ADSs representing ordinary shares underlying the right during a stated period specified by the compensation committee.

### ***Effect of Certain Corporate Transactions***

Certain change of control transactions involving us may cause awards granted under the Incentive Plan to vest, unless the awards are continued or substituted for by the surviving company in connection with the corporate transaction.

Unless otherwise provided in the appropriate option agreement on the date of grant or provided by our board of directors thereafter with the consent of the grantee, options granted under the Incentive Plan become exercisable in full following (1) a dissolution of our company or a merger, consolidation or reorganization of our company with one or more other entities in which we are not the surviving entity, (2) a sale of substantially all of our assets to another person or entity, or (3) any transaction (including without limitation a merger or reorganization in which we are the surviving entity) which results in any person or entity owning 50% or more of the combined voting power of all classes of our shares.

### ***Adjustments for Dividends and Similar Events***

The compensation committee will make appropriate adjustments in outstanding awards and the number of ordinary shares available for issuance under the Incentive Plan, including the individual limitations on awards, to reflect ordinary share dividends, stock splits and other similar events.

## **C. BOARD PRACTICES.**

### **Board of Directors**

Our board of directors consists of five members being Mr. Zhuoyu Li, Ms. Li Wu, Dr. Lili Dong, Mr. Xianyun Zhang and Ms. Junwei Wang. Our directors hold office until our annual meeting of shareholders, where their successors will be duly elected and qualified, or until the directors' death, resignation or removal, whichever is earlier. Our directors are not subject to a term of office and hold office until their resignation, death or incapacity or until their respective successors have been elected and qualified in accordance with our fourth amended and restated memorandum of



association and articles of association. A director will be removed from office if, among other things, the director (1) becomes bankrupt, (2) dies or becomes of unsound mind, or (3) is absent from meetings of our board of directors for six consecutive months without leave and our board of directors resolves that the office is vacated. A director is not entitled to any special benefits upon termination of service with the company.

### **Director Independence**

Our board of directors consists of five members; Dr. Lili Dong, Mr. Xianyun Zhang and Ms. Junwei Wang have been determined by us to be independent directors within the meaning of the independent director guidelines of the NASDAQ Corporate Governance Rules (the “NASDAQ Rules”).

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

To enhance our corporate governance, we established three committees under our board of directors: an audit committee, a compensation committee, and a nominating and corporate governance committee. We have adopted a charter for each of these committees. The committees have the following functions and members.

### *Audit Committee*

Our audit committee reports to our board of directors regarding the appointment of our independent public accountants, the scope and results of our annual audits, compliance with our accounting and financial policies and management's procedures and policies relating to the adequacy of our internal accounting controls. Our audit committee consists of Dr. Lili Dong, Mr. Xianyun Zhang and Mr. Junwei Wang. Mr. Xianyun Zhang, having accounting and financial management expertise, serves as the chairman of the audit committee. Our board of directors has determined that each of these persons meet the definition of an "independent director" under the applicable NASDAQ Rules and under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Our audit committee is responsible for, among other things:

the appointment, evaluation, compensation, oversight and termination of the work of our independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting);

an annual performance evaluation of the audit committee;

establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing matters or potential violations of law, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters or potential violations of law;

ensuring that it receives an annual report from our independent auditor describing our internal control procedures and any steps taken to deal with material control deficiencies and attesting to the auditor's independence and describing all relationships between the auditor and us;

reviewing our annual audited financial statements and quarterly financial statements with management and our independent auditor;

reviewing and approving all proposed related party transactions;

reviewing our policies with respect to risk assessment and risk management;

meeting separately and periodically with management and our independent auditor; and

reporting regularly to our board of directors.

### ***Compensation Committee***

Our compensation committee assists the board of directors in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. In addition, the compensation committee reviews share compensation arrangements for all of our other employees. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer is not permitted to be present at any committee meeting during which his or her compensation is deliberated. Our compensation committee consists of Lili Dong, Xianyun Zhang and Junwei Wang, with Dr. Dong serving as the chairman of the compensation committee. Our board of directors has determined that each of these persons meet the definition of “independent director” under the applicable requirements of the NASDAQ Rules.

Our compensation committee is responsible for, among other things:

reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives and setting the compensation level of our chief executive officer based on this evaluation;

reviewing and making recommendations to the board with respect to the compensation of our executives, incentive compensation and equity-based plans that are subject to board approval; and

providing annual performance evaluations of the compensation committee.

### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee assists the board of directors in identifying and selecting or recommending individuals qualified to become our directors, developing and recommending corporate governance principles and overseeing the evaluation of our board of directors and management. Our nominating and corporate governance committee consists of Lili Dong, Xianyun Zhang and Junwei Wang, with Ms. Wang serving as the chairman of the nominating and corporate governance committee. Our board of directors has determined that each of these persons meet the definition of “independent director” under the applicable requirements of the NASDAQ Rules.

Our nominating and corporate governance committee is responsible for, among other things:

selecting and recommending to our board nominees for election or re-election to our board, or for appointment to fill any vacancy;

reviewing annually with our board the current composition of the board of directors with regards to characteristics such as independence, age, skills, experience and availability of service to us;

selecting and recommending to our board the names of directors to serve as members of the audit committee and the compensation committee, as well as the nominating and corporate governance committee itself; advising our board of directors periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any remedial action to be taken; and

monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

### **Code of Business Conduct and Ethics**

Our board of directors adopted a code of business conduct and ethics applicable to our directors, officers and employees.

### **Duties of Directors**

Under British Virgin Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum of association and articles of association. We have the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

appointing officers and determining the term of office of the officers;

authorizing the payment of donations to religious, charitable, public or other bodies, clubs, funds or associations as deemed advisable;

exercising the borrowing powers of the company and mortgaging the property of the company;

executing cheques, promissory notes and other negotiable instruments on behalf of the company; and

maintaining or registering a register of mortgages, charges or other encumbrances of the company.

### **Remuneration and Borrowing**

The directors may receive such remuneration as our board of directors may determine from time to time. Each director is entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our board of directors or committees of our board of directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors.

Our board of directors may exercise all the powers of the company to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

### **Qualification**

A director is not required to hold shares as a qualification to office.

### **Limitation on Liability and Other Indemnification Matters**

British Virgin Islands law does not limit the extent to which a company's memorandum of association and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the British Virgin Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Under our memorandum of association and articles of association, we may indemnify our directors, officers and liquidators against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with civil, criminal, administrative or investigative proceedings to which they are party or are threatened to be made a party by reason of their acting as our director, officer or liquidator. To be

entitled to indemnification, these persons must have acted honestly and in good faith with a view to the best interest of the company and, in the case of criminal proceedings, they must have had no reasonable cause to believe their conduct was unlawful.

### **Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee is an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

### **Employment Agreements**

In 2009, each of our executive officers has entered into a five-year employment agreement with Softech, our wholly-owned PRC subsidiary. In 2015, certain of our executive officers renewed the employment agreement for five years ending in 2019. Softech may terminate a senior executive officer's employment for cause, at any time, without prior notice or remuneration, for certain acts of the officer, including, but not limited to, material violation of our regulations, failure to perform agreed duties or embezzlement that caused material damage to us and conviction of a crime. A senior executive officer may terminate his or her employment at any time by 30-days prior written notice. Each senior executive officer is entitled to certain benefits upon termination, including a severance payment equal to a certain specified number of months of his or her then salary, if he or she resigns for certain good reasons specified by the agreement or the relevant rules or if Softech terminated his or her employment without any of the above causes.

**D. EMPLOYEES.**

As of September 30, 2017, we had a total of 49 full-time employees, including four in research and development, seven in sales and marketing and the rest in a variety of other divisions. All of our employees are full-time employees. None of our employees is currently represented by a union and/or collective bargaining agreements. We believe that we have good relations with our employees and since our inception we have had no history of work stoppages or union organizing campaigns.

**E. SHARE OWNERSHIP.**

The following table provides information as to the beneficial ownership of our ordinary shares as of December 22, 2017 by the persons listed. Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. For purposes of the following table, a person is deemed to have beneficial ownership of any ordinary shares if such person has the right to acquire such shares within 60 days of December 22, 2017. For purposes of computing the percentage of outstanding shares held by each person, any shares that such person has the right to acquire within 60 days after of December 22, 2017 are deemed to be outstanding, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as otherwise noted, the persons named in the table have sole voting and investment power with respect to all of the ordinary shares beneficially owned by them. Unless otherwise indicated, the address of each person listed is c/o Xi'an Kingtone Information Co., Ltd., 3rd Floor, Borough A, Block A. No. 181, South Taibai Road, Xi'an, Shaanxi Province, People's Republic of China 710065.

Percentage ownership in the following table is based on 1,405,000 ordinary shares outstanding on December 22, 2017.

Name	Position	Number of Shares Beneficially Owned		Percent of Shares Outstanding	
Officers and Directors					
Tao Li	Former Chairman	672,676	(1)	47.9	%
Li Wu	Chief Financial Officer, Director	10,676	(2)	*	
Peng Zhang	Chief Executive Officer	3,500	(3)	*	
Lili Dong	Independent Director	1,000	(4)	*	
Xianyun Zhang	Independent Director	0		*	
Junwei Wang	Independent Director	0		*	
				48.92	%



All directors and executive officers as a group (6 persons)

5% Shareholders

Hu Gao	n/a	125,432	(5)	8.9	%
SCGC Capital Holding Company Limited	n/a	106,071	(6)	7.5	%
Xuetao Chen	n/a	88,398	(7)	6.3	%

\*Less than 1%.

(1) Represents (i) 68,864 ADSs owned by Mr. Li and (ii) 603,811.6 ordinary shares held of record by First Choice Investment Ltd, a company organized under the laws of Somoa, which are beneficially owned by Mr. Li.

Represents (i) 4,375.4 ordinary shares held of record by Ms. Wu and (ii) 6,300.7 ordinary shares held of record by Xtra Heights Management Ltd (“Xtra”), a company organized under the laws of the British Virgin Islands, which are beneficially owned by Ms. Wu pursuant to a certain Call Option Agreement, dated December 15, 2009, between Ms. Wu, Xtra and Sha Li.

Represents (i) 875 ordinary shares held of record by Mr. Zhang, and (ii) 2,625.3 ordinary shares held of record Xtra, which are beneficially owned by Mr. Zhang pursuant to a certain Call Option Agreement, dated December 15, 2009, between Mr. Zhang, Xtra and Sha Li.

(4) Represents options to purchase 1,000 ordinary shares exercisable within 60 days.

(5) Represents ADSs owned by Silver Avenue Overseas Inc., a British Virgin Islands company, which are beneficially owned by Hu Gao

Represents ADSs owned by SCGC Capital Holding Company Limited, a British Virgin Islands company (“SCGC”), which is owned by Shenzhen Capital Group Co., Ltd. The registered address of SCGC is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The beneficial owners of the shares held by SCGC are Shenzhen Capital Group Co., Ltd and Xi’an Hongtu Capital Co., Ltd., both of which are shareholders of Xi’an Kingtone Information Co., Ltd. (“Kington Information”) and are owned and controlled (as to voting and disposition) by the Shenzhen Municipal Government in the PRC.

Represents ADSs owned by Big Leap Enterprises Limited, a British Virgin Islands company (“Big Leap”), which are beneficially owned by Mr. Chen. Big Leap is the owner of an aggregate of 115,357 ADSs, of which the remaining ADSs are beneficially owned by shareholders of Kingtone Information other than Mr. Chen.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.**

### **A. MAJOR SHAREHOLDERS**

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

To our knowledge, (A) we are not directly or indirectly owned or controlled by (i) another corporation or (ii) any foreign government and (B) there are no arrangements (including any announced or expected takeover bid), the operation of which may at a subsequent date result in a change in our control.

The voting rights of our major shareholders do not differ from the voting rights of other holders of the same class of shares.

**B. RELATED PARTY TRANSACTIONS. BUSINESS RELATIONSHIPS.**

Members of our management team and our principal shareholders currently hold majority equity interests in Kingtone Information, our contractually-controlled entity in the PRC from which we derive substantially all of our revenues. We are party to a series of control agreements with Kingtone Information. See “Item 4 – Information About the Company – C. Organizational Structure - Contractual Arrangements with Kingtone Information and Its Respective Shareholders”. In addition, certain of our officers, directors and principal shareholders serve as officers and directors of Kingtone Information and/or are shareholders of Kingtone Information. The following table sets forth the relationship of such officers, directors and principal shareholders with Kingtone Information and their respective ownership interest in Kingtone Information:

Name	Relationship with Kington Wireless	Relationship with Kington Information	Percentage Ownership Interest in Kington Information	
Tao Li	Former Chairman	Former Chairman	61.61	%(1)
Peng Zhang	Chief Executive Officer	Vice President	0.36	%
Li Wu	Chief Financial Officer	Chief Financial Officer	1.09	%
Shenzhen Capital Group Co., Ltd. <sup>(2)</sup>	Indirect Shareholder	Shareholder	10.72	%
Xuetao Chen	Indirect Shareholder	Shareholder	8.93	%

Consists of (i) 36.61% of the shares of Kingtone Information owned of record by Mr. Li, and (ii) 25% of the shares of Kingtone Information owned of record by Xi'an TechTeam Investment Holding Group Company (“TechTeam Investment”). Mr. Li, as the former majority shareholder of TechTeam Investment, had dispositive power over the shares of Kingtone Information owned by TechTeam Investment.

<sup>(2)</sup> Shenzhen Capital Group Co., Ltd. has dispositive power with respect to the 106,071 ADSs of our company held of record by SCGC Capital Holding Company Limited.

Our Beijing branch office is located in office space leased to us by Mr. Tao Li, our former Chairman, who owns this space. We lease it from him for no consideration.

On September 30, 2010, Kingtone Information entered into a lease agreement with Shaanxi TechTeam Jinong Humic Acid Product Co., Ltd. (“Jinong”), a wholly-owned subsidiary of CGA, pursuant to which Jinong rents 360 square meters of office space from Kingtone Information. The lease provides for a two-year term effective as of July 1, 2010 with monthly rent of RMB10,800, or approximately \$1,600. On June 29, 2012, Kingtone Information renewed the lease agreement with Jinong for the monthly rent of US\$3,867 (RMB24,480) for a two-year term starting from July 1, 2012. From July 1, 2014 to June 29, 2016, the monthly rent was US\$3,977 (RMB24,480). On June 29, 2016, the lease was renewed with Jinong with the same monthly rent in the prior term for another two-year term from July 1, 2016.

As of September 30, 2017, we had the outstanding loans as listed below. Each entity is indirectly owned and controlled by Mr. Tao Li, our former Chairman. The Company provided short-term financing to such parties:

As of September 30, 2017, we had an outstanding loan of approximately \$450 thousand to Shaanxi Tech Team Jinong Humid Acid Product Co., Ltd., which is indirectly owned and controlled by Tao Li, former Chairman of the Company. The largest amount of the outstanding loan was \$83 thousand during the past three years. The loan was the unsecured rental expense, interest free and payable on demand.

As of September 30, 2017, we had an outstanding loan of approximately \$1.8 million to Xi'an Tech Team Investment Holdings (Group) Co., Ltd. (the “Group Company”), which is 66% indirectly owned and controlled by Tao Li, former Chairman of the Company. The largest amount of the outstanding loan was \$1.2 million during the past three years.

On November 1, 2013 and August 10, 2015, the Company entered into loan agreements with Xi'an Xinrong Engineering and Industry (Group) Co., Ltd (“Xinrong”), which was 74% indirectly owned and controlled by Tao Li, former Chairman of the Company, pursuant to which the Company provides \$1.8 million and \$2.7 million to Xinrong for its normal business operations. The largest amount of the outstanding loan was \$1.8 million and \$2.7 million since the loans made which was also the amount outstanding loan was \$1.8 million and 2.7 million, respectively. These unsecured loan are interest free for a three-year term and five-year term, respectively.

Section 402 of the Sarbanes-Oxley Act of 2002 (“Section 402”) amended the Securities Exchange Act of 1934, as amended (the “Exchange Act”) by adding a new Section 13(k) making it unlawful for any issuer, “directly or indirectly, including through any subsidiary, to extend or maintain credit, to arrange for the extension of credit, or to renew an extension of credit, *in the form of a personal loan* (emphasis added) to or for any director or executive officer (or equivalent thereof) of that issuer.”

The loans the Company lent to the Group Company and Xinrong as referenced above (the “Loans”) should not be considered prohibited under Section 402 because they are not “personal loans” under the statute, nor are they related to the concerns the statute was designed to address. Consequently, the Company believes the Loans comply with Section 13(k) of the Exchange Act. The Sarbanes-Oxley loan provision as cited above prohibits only “arrange for the extension of credits” “in the form of a personal loan” to directors and executive officers (emphasis added). A loan made to a company controlled by an executive officer or director would be prohibited by Section 402 if made primarily for the executive officer’s or director’s personal benefit. In contrast, if such a loan is made primarily for legitimate business purposes of the borrowing company (other than compensation of the controlling executive officer or director), it should not be prohibited by Section 402.

In our case, the Company lent a total of \$5.7 million to its affiliate companies (the “Borrowers”), two information technology developers. The Borrowers intend to apply the Loans to advance their businesses. Once the Borrowers grow and cumulate funds, the Borrowers intend to support the Company in its acquisition and growth opportunities as the Company identifies suitable business opportunities and demands large working capital. It is common practice in China that affiliated companies make loans to each other to achieve business development when funds are available in one entity but are in demand in another entity. Therefore, we believe the Loans are not “personal loans” because the primary purpose of the Loans, from the perspective of the Company, is to advance the business of the Company, as oppose to benefiting the directors of the Company.

The proceeds of the loans to “Xinrong”, an information technology developer, were used to research and develop certain applications for a police geographic detection system. Once the project is completed, this technology could be shared by Kingtone Information, although Xinrong, who has no obligation to share the technology with us. Xinrong will provide us necessary technology support in exchange for the loan made in 2015. The terms for the loans are three years and five years, but if the project is completed earlier than expected, the loans may be repaid earlier. In addition, if we demand early repayment, Xinrong should honor such a demand. The loans are interest-free. Mr. Tao Li indirectly owns 74% of Xinrong.

The proceeds of the loan made to Group Company were used for marketing expenses of the Group Company. The loans have enabled Group Company to reach a wider client base, but it has no obligation to cross-sell to Kingtone Information its clients who may need Kingtone Information’s products. With the loan from us, the Group Company could refer their clients to Kingtone Information to increase our market share. The term of the loan is for five years, but early repayment is permitted. Furthermore, if we demand early repayment, the Group Company should honor such a demand. Mr. Tao Li owned 66% of the Group Company. The other shareholders of the Group Company are not

shareholders of the Company.

When Sarbanes-Oxley loan provisions were put into legislation, among the reasons identified were concerns over the use of company funds to provide personal financing to insiders. Here, the former chairman of the Company, who controlled the Borrowers, did not receive any personal benefit from the Loans. The Loans are made on a company to company basis and for legitimate business purposes. Consequently, we believe the Loans comply with Section 13(k) of the Exchange Act.

### **C. INTERESTS OF EXPERTS AND COUNSEL.**

None.

## **ITEM 8. FINANCIAL INFORMATION.**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION.**

See “Item 18. Financial Statements.”

#### **Legal Proceedings**

We are not currently a party to any material legal proceeding and, to our knowledge, there are no material legal proceedings threatened against us. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

#### **Dividend Policy**

We currently intend to retain all of our available funds and future earnings for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Under the terms of our Amended and Restated Memorandum and Articles of Association the declaration and payment of any dividends in the future will be determined by our board of directors, in its discretion, and will depend on a number of factors, including our earnings, capital requirements and overall financial condition and our ability to receive dividends from our subsidiaries. If we pay any dividends, we will pay our ADS holders’ dividends with respect to their underlying shares to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

Our ability to receive dividends from our subsidiaries may limit our ability to pay dividends on our ordinary shares. See Risk Factors – Risks Related to Doing Business in China – Our holding company structure may limit the



payment of dividends” and “Item 10. Additional Information – D. Exchange Controls – Dividend Distribution”.

## **B. SIGNIFICANT CHANGES.**

Except as otherwise set forth in annual report, there have been no significant changes since September 30, 2015, the date of the financial statements in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. OFFER AND LISTING DETAILS.**

#### **Markets and Share Price History**

The primary trading market for our ordinary shares, as represented by American Depositary Shares or ADSs is the NASDAQ Capital Market, where our shares have been listed and traded under the symbol KONE since May 14, 2010.

The table below sets forth the high and low reported sales prices in dollars of our ordinary shares, which are represented by ADSs, as reported by NASDAQ in the periods as indicated:

	ADS High	Low
Annual Highs and Lows (as of the fiscal year end 09/30 for the five most recent full financial years)*		
2017	7.80	2.67
2016	13.85	1.62
2015	7.88	2.02
2014	16.74	1.95
2013	3.80	0.20
Quarterly Highs and Lows (for the two most recent full financial years and any subsequent period, based on calendar quarter end)*		
2017		
Fourth Quarter	4.10	2.67
Third Quarter	4.85	3.05
Second Quarter	5.62	2.81
First Quarter	7.80	4.16
2016		
Fourth Quarter	10.2	1.62
Third Quarter	3.1	1.97
Second Quarter	3.76	2.12
First Quarter	4.38	2.94
Monthly Highs and Lows (for the most recent six months)		
December 2017		
November 2017	8.00	3.13
October 2017	3.95	2.86
September 2017	3.68	2.67
August 2017	4.03	2.63
July 2017	4.10	3.56

\* The Company effected a 1-for-10 reverse stock split of its ordinary shares on November 6, 2012 (the “Reverse Split”). The ratio between each American Depositary Share (“ADS”) and its underlying ordinary share post-Reverse Split remains the same, namely, one ADR remains to represent one ordinary share post the Reverse Split. The price listed here after November 6, 2012 reflected the effect from the Reverse Split.

## B. PLAN OF DISTRIBUTION.

Not Applicable.

**C. MARKETS.**

Our ADSs are listed on the NASDAQ Capital Market under the symbol “KONE”.

**D. SELLING SHAREHOLDERS.**

Not applicable.

**E. DILUTION.**

Not applicable.

**F. EXPENSES OF THE ISSUE.**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION.**

### **A. SHARE CAPITAL**

Not applicable.

### **B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

The description of our Memorandum of Association and Articles of Association set forth in the section entitled “Description of Share Capital” contained in Amendment No. 3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on May 11, 2010 is incorporated by reference herein.

### **C. MATERIAL CONTRACTS.**

On January 25, 2018, the Company executed an Asset Exchange Agreement (“AEA”) with C Media Limited, a corporation organized under the laws of the Cayman Islands (“C Media”), whereby the Company agreed to purchase all the capital stock and equity interests of LK Technology Ltd, together with its wholly-owned subsidiaries MMB Limited and Mobile Media (China) Limited and all respective subsidiaries from C Media in exchange for (i) 185,412,599 ordinary shares of the Company, par value \$0.01 per share (“Ordinary Shares”), (ii) 1,000,000 preferred shares of Kingtone (“Preferred Shares”) and (iii) all issued and outstanding capital stock or equity interests of the Company’s subsidiary, Topsy Info-Tech Holdings Pte Ltd., and its wholly-owned subsidiary Xi’an Softech Co., Ltd., including all entities effectively controlled by Xi’an Softech Co., Ltd. through contractual arrangements and variable business entities.

In order to consummate the contemplated transactions described above, the Company must obtain shareholders’ consent (i) to authorize 1,000,000 Preferred Shares, (ii) to authorize additional Ordinary Shares so that total authorized Ordinary Shares is equal to 250,000,000 shares, (iii) to list such Ordinary Shares on NASDAQ, and (iv) to approve the transactions contemplated in the Asset Exchange Agreement. Additionally, NASDAQ must approve the contemplated transactions prior to consummation thereof. C Media has the right to terminate the AEA if the closing has not occurred (other than through the failure of C Media to comply fully with its obligations under the AEA) on or before July 31, 2018.

On January 25, 2018, five shareholders of the Company including its largest shareholder and its Chief Executive Officer executed a Securities Purchase Agreement, whereby such shareholders agreed to sell a total of 617,988 Ordinary Shares and 282,694 American Depositary Shares of the Company to Redstone YYL Management Limited, a company incorporated in the British Virgin Islands, in exchange for an aggregate purchase price of \$1,897,860.09. The consummation of the sale of securities is expected to occur no later than July 31, 2018.

#### **D. EXCHANGE CONTROLS.**

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

#### **Regulations of the Software Industry**

The software industry in the PRC is regulated pursuant to two primary policies — the Measures Concerning Software Products Administration (the “Software Products Measures”) and the Recognition Standard and Management measures of Software Enterprises (the “Standards and Measures”). As further discussed below, Kingtone Information as a registered software enterprise with registered software products can take advantage of certain favorable tax, investment, government and other programs and policies that are designed to encourage development of the software industry in the PRC.

##### ***Software Products Registration and Administration***

On March 1, 2009, the Ministry of Industry and Information Technology of the People's Republic of China (the “MIIT”) promulgated the Software Products Measures which became effective on April 10, 2009. Under the Software Products Measures, software products developed in China (including those developed in China on the basis of imported software) can enjoy certain favorable policies when the products have been registered and recorded pursuant to the “Certain Policies to Encourage the Development of Software and Integrated Circuit Industries” issued by the State Council on June 24, 2000 (the “2000 Software Encouragement Policies”). Kingtone Information has registered its software products, including its “Wireless emergency command and management system V1.0,” with the Shaanxi Provincial Department of Information Technology through Kingtone Information. Please refer to the specific favorable policies under the sub-section below entitled “Policies to Encourage the Development of Software and Integrated Circuit Industries.”

##### ***Software Enterprise Registration and Administration***

On October 16, 2000, the Ministry of Information Industry, the Ministry of Education, the Ministry of Science and Technology and the State Tax Bureau issued the “Standard and Measures” to encourage the development of the software industry in China and to enhance the competitiveness of the PRC information technology industry in the international market. The Standard and Measures provide strict conditions and standards, including but not limited to, the requirement of ownership of the software products, technical employees proportion, independent software technology and product research to recognize a company as a “software enterprise”. Such recognized software enterprises can enjoy the favorable policies pursuant to the 2000 Software Encouragement Policies. Kingtone Information has been recognized as a software enterprise since January 6, 2009. A software enterprise is subject to annual inspection, failure of which in a given year shall cause the enterprise to be disqualified for the relevant benefits.

## **Policies to Encourage the Development of Software and Integrated Circuit Industries**

The 2000 Software Encouragement Policies encourage the development of the software and integrated circuit industries in China and to enhance the competitiveness of the PRC information technology industry in the international market. The 2000 Software Encouragement Policies encourage such development through various methods, including:

Encouraging venture capital investment in the software industry and providing or assisting software enterprises to raise capital overseas;

Providing tax incentives, including an immediate tax rebate for taxpayers who sell self-developed software products, before 2010, of the amount of the statutory value-added tax that exceeds 3% and a number of exemptions and reduced enterprise income tax rates;

Providing government support, such as government funding in the development of software technology;

Providing preferential treatment, such as credit facilities with low interest rates to enterprises that export software products;

Taking various strategies to ensure that the software industry has sufficient expertise; and

Implementing measures to enhance intellectual property protection in China.

As discussed above, to qualify for favorable treatment, an enterprise must be recognized as a software enterprise by governmental authorities and must have registered software products. Because Kingtone Information is recognized as a software enterprise, it can enjoy the above favorable policies. For example, Kingtone Information currently receives an immediate tax rebate on the sale of software products that it creates equal to the amount of the statutory value-added tax that exceeds 3%.

## **Relevant Laws and Regulations of the Computer Information System**

### ***Management Measures on the Computer Information System Integration***

On February 13, 2001, the MIIT promulgated the Management Measures on the Computer Information System Integration Qualification (trial) or the Management Measures, which commenced to be enforced on February 13, 2001. The Management Measures provide that enterprises involved in providing the computer information system integration services shall apply for the qualification recognition to the MIIT or its provincial branch pursuant to the conditions required in the Management Measures and obtain the qualification certificate to provide information system integration service. The computer information system integration means the engagement in the overall plan, design, development, execution, protection of the computer application system projects and network system projects. Kingtone Information has obtained the computer information system integration certificate and we are qualified to provide the computer information system integration services.

### ***Regulations for Safety Protection of Computer Information System***

The State Security Bureau of PRC issued the “Administration of the Maintenance of Secrets in the International Networking of Computer Information Systems Provisions of the People’s Republic of China” to protect the safety of national secrets on January 25, 2000. Under the Administration, computer systems that contain information that is considered to be national secrets are forbidden to directly or indirectly connect to international or other public information networks. The State Security Bureau of PRC and its branch handle the secret maintenance work of the international networking of computer information systems. The company has the obligation to safeguard the national secrets of governmental authorities that it learns through the company’s services to such governmental authorities.



## **Relevant Regulations of the High-tech Enterprise**

The Ministry of Information Industry, the Ministry of Science and Technology and the State Tax Bureau collectively promulgated and issued the “Certifying Standard and Managing Measures for High-tech Enterprises” and “the High-tech Areas of Main National Support” on April 14, 2008 to certify the High-tech enterprise and encourage and support the development of the Chinese High-tech enterprises. Under the High-tech Enterprises Measures, the enterprise can enjoy the favorable tax policy when it is certified as a High-tech enterprise by the Ministry of Information Industry, the Ministry of Science and Technology and the State Tax Bureau or with its provincial branch according to the stipulated standard. The software and computer and network technology are recognized as the main national supported High-tech field. Kingtone Information is a High-tech enterprise and enjoys a favorable income tax rate of 15%.

## **Laws and Regulations of Intellectual Property Rights**

China has adopted legislation governing intellectual property rights, including patents, copyrights and trademarks. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

### ***Patents***

The “Patent Law of the People’s Republic of China” promulgated by the Standing Committee of the National People’s Congress, adopted in 1985 and revised in 1992, 2001 and 2008, protects registered patents. The State Intellectual Property Office of PRC handles granting patent rights, providing for a twenty-year patent term for inventions and a ten-year patent term for utility models and designs. As we disclosed in Item 4, of this Annual Report on Form 20-F, through Kingtone Information, we have been granted one invention patent “wireless video transmission system based on BREW platform” by the State Intellectual Property Office (“SIPO”) of PRC on September 23, 2009 and therefore such invention is entitled to all the protections provided under the Patent Law for twenty years.

### ***Computer Software Copyright and Administration***

On December 20, 2001, the State Council of PRC issued the “Regulation for Computer Software Protection of the People’s Republic of China” (the “Regulation for Computer Software Protection”) which became effective on January 1, 2002 to protect the interests of copyright owners, to promote the research and application and to encourage the

development of the Chinese software industry. Under the Regulation for Computer Software Protection, natural persons, legal persons or any other organizations shall have a copyright on the software developed by such persons no matter whether such software has been published. The protection period of software copyrights owned by the legal person or other organization is fifty years and expires on December 31 of the fiftieth year from the initial publication date of such computer software. Currently, Kingtone Information has twelve registration certificates for software copyrights.

### ***Trademarks***

The “Trademark Law of the People’s Republic of China” promulgated by the State Council of PRC, adopted in 1982 and revised in 1993 and 2001, protects registered trademarks. The Trademark Office under the Chinese State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks which are renewable for another ten years after the application to the Trademark Office by the owners of the trademarks. Trademark license agreements must be filed with the Trademark Office for record. China has a “first-to-register” system that requires no evidence of prior use or ownership. Kingtone Information has its registered trademarks as described in Item 4 of this Annual Report on Form 20-F. Accordingly, such trademarks are entitled to the protection under the Trademark Law.

## Foreign Currency Exchange

On August 29, 2008, the SAFE issued the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises, or Circular 142. Pursuant to Circular 142, RMB converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. The use of such Renminbi capital may not be changed without SAFE's approval and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used.

See "Risk Factors — Risks Related to Doing Business in China — PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our initial public offering to make loans or additional capital contributions to our PRC operating subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business".

## Dividend Distribution

We are a British Virgin Islands holding company and substantially all of our operations are conducted through Kingtone Information. We rely on dividends and other distributions from our PRC subsidiary and Kingtone Information to provide us with our cash flow and allow us to pay dividends on the shares underlying our ADSs and meet our other obligations. The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include:

1. Wholly Foreign-Owned Enterprise Law (1986), as amended; and
2. Implementation Rules on Wholly Foreign-Owned Enterprise Law (1990), as amended.

Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a FIE has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

## **Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions**

In October 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Notice 75, which became effective as of November 1, 2005, and was further supplemented by two implementation notices issued by the SAFE on November 24, 2005 and May 29, 2007, respectively. Under Circular 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to the registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change with respect to the offshore company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment, debt investment, or creation of any security interest over any assets located in the PRC.

Under SAFE Notice 75, PRC residents are further required to repatriate into the PRC all of their dividends, profits or capital gains obtained from their shareholdings in the offshore entity within 180 days of their receipt of such dividends, profits or capital gains. The registration and filing procedures under SAFE Notice 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction. Therefore, failure to comply with such registration may subject us to certain restrictions on, including but not limited to, the increase of the registered capital of our PRC subsidiary, making loans to our PRC subsidiary, and making distributions to us from our on-shore companies.

## **Regulations of Overseas Investments and Listings**

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly adopted the New M&A Rule, which became effective on September 8, 2006. This regulation, among other things, includes provisions that purport to require that an offshore SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange.

On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by SPVs. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process.

The application of the New M&A Rule with respect to overseas listings of SPVs remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

We believe that, based on our understanding of the current PRC laws, regulations and rules and the procedures announced on September 21, 2006, there is no requirement in this regulation that would require an application to be submitted to the MOFCOM or the CSRC for the approval of the listing and trading of our ADSs on the NASDAQ Capital Market.

See “Risk Factors — Risks Related to Doing Business in China — If we were required to obtain the prior approval of the China Securities Regulatory Commission, or CSRC, of the listing and trading of our ADSs on the NASDAQ Capital Market, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies.”

## **E. TAXATION**

*The following discussion sets forth the material British Virgin Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs and the ordinary shares represented by our ADSs, sometimes referred to collectively as the “securities”. It is based upon laws and relevant interpretations thereof in effect as of the date of this report, all of which are subject to change. This discussion does not deal with all possible tax consequences relating to an*

*investment in the securities, such as the tax consequences under state, local and other tax laws. As used in this discussion, “we,” “our” and “us” refers only to Kingtone Wirelesinfo Solution Holding Ltd.*

### **British Virgin Islands Taxation**

Under the law of the British Virgin Islands as currently in effect, a holder of the securities who is not a resident of the British Virgin Islands is not liable for British Virgin Islands tax on dividends paid with respect to the securities and all holders of the securities are not liable to the British Virgin Islands for tax on gains realized during that year on the sale or disposal of such ordinary shares. The British Virgin Islands does not impose a withholding tax on dividends paid by a company incorporated or re-registered under the BVI Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated under the BVI Act. In addition, shares of companies incorporated under the BVI Act are not subject to transfer taxes, stamp duties or similar charges.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands or between China and the British Virgin Islands.

## **People's Republic of China Taxation**

In 2007, the PRC National People's Congress enacted the new Enterprise Income Tax Law (the "EIT Law"), which became effective on January 1, 2008. The new EIT Law imposes a single uniform income tax rate of 25% on all Chinese enterprises, including foreign-invested enterprises, and levies a withholding tax rate of 10% on dividends payable by Chinese subsidiaries to their foreign shareholders unless any such foreign shareholders' jurisdiction of incorporation has a tax treaty with China that provides for a different withholding agreement. Under the new EIT Law, enterprises established outside China but deemed to have a "de facto management body" within the country may be considered "resident enterprises" for Chinese tax purposes and, therefore, may be subject to an enterprise income tax rate of 25% on their worldwide income. Pursuant to the implementation rules of the new EIT Law, a "de facto management body" is defined as a body that has material and overall management control over the business, personnel, accounts and properties of the enterprise. Although substantially all members of our management are located in China, it is unclear whether Chinese tax authorities would require (or permit) us to be treated as PRC resident enterprises. If we and/or Topsky are deemed a Chinese tax resident enterprise, we and/or Topsky may be subject to an enterprise income tax rate of 25% on our worldwide income, excluding dividends received directly from another Chinese tax resident enterprise, as well as PRC enterprise income tax reporting obligations. If we and/or Topsky are not deemed to be a Chinese tax resident enterprise, we and/or Topsky may be subject to certain PRC withholding taxes. See "Risk Factors — Risks Related to Doing Business in China — Our holding company structure may limit the payment of dividends." As a result of such changes, our and Topky's historical tax rates may not be indicative of our and Topky's tax rates for future periods and the value of our ADSs may be adversely affected. If we are deemed a PRC resident enterprise and investors' gain from the sales of the securities and dividends payable by us are deemed sourced from China, such gains and dividends payable by us may be subject to PRC tax. See "Risk Factors — Risks Related to Doing Business in China — If we and/or Topsky were deemed a "resident enterprise" by PRC tax authorities, we and/or Topsky could be subject to tax on our global income at the rate of 25% under the New EIT Law and our non-PRC shareholders could be subject to certain PRC taxes."

## **United States Federal Income Taxation**

### ***General***

The following is a discussion of the material U.S. federal income tax consequences to an investor of purchasing, owning and disposing of our securities. This discussion does not address any aspects of U.S. federal gift or estate tax or the state, local or non-U.S. tax consequences of an investment in the securities.

YOU SHOULD CONSULT YOUR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF THE SECURITIES IN YOUR PARTICULAR SITUATION.

This discussion applies only to those investors that purchase the securities in this offering and that hold the securities as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”). This section does not apply to holders that may be subject to special tax rules, including but not limited to:

1. dealers in securities or currencies;
2. traders in securities that elect to use a mark-to-market method of accounting;
3. banks, insurance companies or certain financial institutions;
4. tax-exempt organizations;
5. governments or agencies or instrumentalities thereof;
6. partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding the securities through such entities;



7.regulated investment companies or real estate investment trusts;

8.holders subject to the alternative minimum tax;

9.holders that actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote;

10.holders that acquired the securities pursuant to the exercise of employee stock options, in connection with employee stock incentive plans or otherwise as compensation;

11.holders that hold the securities as part of a straddle, hedging or conversion transaction; or

12.holders whose functional currency is not the U.S. dollar.

This section is based on the Code, its legislative history, existing and proposed U.S. Treasury regulations, published rulings and other administrative guidance of the U.S. Internal Revenue Service (the “IRS”) and court decisions, all as in effect on the date hereof. These laws are subject to change or different interpretation by the IRS or a court, possibly on a retroactive basis.

We have not sought, and will not seek, a ruling from the IRS as to any U.S. federal income tax consequence described herein. The IRS may disagree with the discussion herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulation, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to a beneficial owner of the securities that is for U.S. federal income tax purposes:

1.a citizen or resident of the United States;

2.a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or

3.organized) under the laws of the United States, any state thereof or the District of Columbia;

4.an estate whose income is subject to U.S. federal income tax regardless of its source; or

5. a trust if (a) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S.
6. persons are authorized to control all substantial decisions of the trust, or (b) if the trust has a valid election in effect under applicable U.S.

Treasury regulations to be treated as a U.S. person.

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

If a partnership (including for this purpose any entity treated as a partnership for U.S. tax purposes) is a beneficial owner of the securities, the U.S. tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of the securities that is a partnership or partners in such a partnership should consult their own tax advisors about the U.S. federal income tax consequences of holding and disposing of the securities.

This discussion assumes that any distributions made (or deemed made) on the securities and any consideration received by a holder in consideration for the sale or other disposition of the securities will be in U.S. dollars. This discussion also assumes that the representations contained in the Deposit Agreement are true and that the obligations in the Deposit Agreement and any related agreement will be complied with in accordance with their terms. Finally, this discussion assumes that each ADS will only represent ordinary shares in us, and will not represent any other type of security, such as a bond, cash or other property.

For U.S. federal income tax purposes, a holder of an ADS will be treated as the beneficial owner of the shares represented by such ADS and an exchange of an ADS for ordinary shares will not be subject to U.S. federal income tax. The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released, or intermediaries in the chain of ownership between holders of ADSs and the issuer of the securities underlying the ADSs may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, including individual U.S. Holders, as described below under “Tax Consequences to U.S. Holders — Taxation of Distributions.” Accordingly, the availability of foreign tax credits or the reduced tax rate for dividends received by certain non-corporate U.S. Holders, including individual U.S. Holders, could be affected by actions taken by parties to whom the ADSs are released, or by future actions by the U.S. Treasury.

### ***Tax Consequences to U.S. Holders***

#### ***Taxation of Distributions***

Subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of any cash distributions we make with respect to a U.S. Holder in respect of such U.S. Holder’s ADSs or shares will generally be treated as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Cash dividends will generally be subject to U.S. federal income tax as ordinary income on the day the U.S. Holder actually or constructively receives such income. With respect to non-corporate U.S. Holders for taxable years beginning before January 1, 2011, dividends may be taxed at the lower applicable long-term capital gains rate provided that (a) our ADSs or shares are readily tradable on an established securities market in the United States, or, in the event we are deemed to be a Chinese “resident enterprise” under the EIT Law (as described above under “People’s Republic of China Taxation”), we are eligible for the benefits of the income tax treaty between the United States and the PRC (the “U.S.-PRC Tax Treaty”), (b) we are not a PFIC, as discussed below, for either the taxable year in which the dividend was paid or the preceding taxable year, and (c) certain holding period requirements are met. Under published IRS authority, ADSs are considered for purposes of clause (a) above to be readily tradable on an established securities market in the United States only if they are listed on certain exchanges, which presently include the NASDAQ Capital Market. U.S. Holders should consult their own tax advisors regarding the availability of the lower rate for any dividends paid with respect to our ADSs or shares.

Dividends will not be eligible for the dividends-received deduction allowed to U.S. corporations in respect of dividends received from other U.S. corporations. Generally, if we distribute non-cash property as a dividend (other than pro rata distributions of our shares) out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), a U.S. Holder generally will include in income an amount equal to the fair market value of the property, on the date that it is distributed.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in its shares or ADSs and thereafter as capital gain. However, we do not plan on calculating our earnings and profits in accordance with U.S. federal income tax principles. U.S. holders therefore should generally assume that any distributions paid by us will be treated as dividends for U.S. federal income tax purposes.

If PRC taxes apply to dividends paid by us to a U.S. Holder (see "People's Republic of China Taxation," above), such taxes may be treated as foreign taxes eligible for credit against such holder's U.S. federal income tax liability (subject to certain limitations), and a U.S. Holder may be entitled to certain benefits under the U.S.-PRC Tax Treaty. The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

#### *Taxation of Dispositions of ADSs or Shares*

Subject to the PFIC rules discussed below, a U.S. holder that sells or otherwise disposes of its shares or ADSs will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the amount realized and such U.S. Holder's tax basis in its shares or ADSs. Prior to January 1, 2011, capital gains of a non-corporate U.S. holder are generally taxed at a maximum rate of 15% where the property is held for more than one year (and 20% thereafter). The ability to deduct capital losses is subject to limitations.

If PRC taxes apply to any gain from the disposition of our ADSs or shares by a U.S. Holder, such taxes may be treated as foreign taxes eligible for credit against such holder's U.S. federal income tax liability (subject to certain limitations), and a U.S. Holder may be entitled to certain benefits under the U.S.-PRC Tax Treaty. U.S. Holders should consult their own tax advisors regarding the creditability of any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

*Passive Foreign Investment Company*

We do not expect to be a PFIC for U.S. federal income tax purposes for our current tax year or in the foreseeable future. The determination of whether or not we are a PFIC in respect of any of our taxable years is a factual determination that cannot be made until the close of the applicable tax year and that is based on the types of income we earn and the value and composition of our assets (including goodwill), all of which are subject to change. Therefore, we can make no assurances that we will not be a PFIC in respect of our current taxable year or in the future.

In general, we will be a PFIC in any taxable year if either:

1. at least 75% of our gross income for the taxable year is passive income; or
2. at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), the excess of gains over losses from certain types of transactions in commodities, annuities and gains from assets that produce passive income. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

If we are treated as a PFIC in any year during which a U.S. Holder owns the securities, and such U.S. Holder did not make a mark-to-market election, as described below, the U.S. Holder will be subject to special rules with respect to:

1. any gain recognized by the U.S. Holder on the sale or other disposition of its shares or ADSs; and any excess distribution that we make to the U.S. Holder (generally, the excess of the amount of any distributions to such U.S. Holder during a single taxable year of such U.S. Holder over 125% of the average annual distributions received by

such U.S. Holder in respect of the shares or ADSs during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder holding period for the shares or ADSs).

Under these rules:

2. the gain or excess distribution will be allocated ratably over the U.S. Holder's holding period for the shares and ADSs;  
  
the amount allocated to the U.S. Holder's taxable year in which it realized the gain or excess distribution or to the
3. period in the U.S. Holder's holding period before the first day of our first taxable year in which we are a PFIC will be taxed as ordinary income;
4. the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year; and  
  
the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable
5. to each such other taxable year of the U.S. Holder.
6. Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

Alternatively, if a U.S. Holder, at the close of its taxable year, owns ordinary shares or ADSs in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election with respect to such shares for such taxable year. Our ADSs or shares will be “marketable” to the extent that they remain regularly traded on a national securities exchange, such as the NASDAQ Capital Market. If a U.S. Holder makes this election in a timely fashion, it will not be subject to the PFIC rules described above. Instead, in general, the U.S. Holder will include as ordinary income each year the excess, if any, of the fair market value of its shares or ADSs at the end of the taxable year over its adjusted basis in its shares or ADSs. Any ordinary income resulting from this election would generally be taxed at ordinary income tax rates and would not be eligible for the reduced rate of tax applicable to qualified dividend income. The U.S. Holder will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of its shares or ADSs over the fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder’s basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. U.S. Holders should consult their own tax advisor regarding potential advantages and disadvantages of making a mark-to-market election with respect to their ADSs or shares.

Alternatively, a U.S. Holder of stock in a PFIC may avoid the PFIC tax consequences described above in respect to our ADSs or shares by making a timely “qualified electing fund” election to include in income its pro rata share of our net capital gains (as long-term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends. However, the qualified electing fund election is available only if the PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not intend to furnish the information that a U.S. Holder would need in order to make a qualified electing fund election. Therefore, U.S. Holders will not be able to make or maintain such election with respect to their ADSs or shares.

If a U.S. Holder owns our shares or ADSs during any year that we are a PFIC, such holder must file U.S. Internal Revenue Service Form 8621 regarding such holder’s shares or ADSs and the gain realized on the disposition of the shares or ADSs. The reduced tax rate for dividend income, discussed in “Taxation of Distributions,” is not applicable to dividends paid by a PFIC. U.S. Holders should consult with their own tax advisors regarding reporting requirements with respect to their shares or ADSs.

### ***Tax Consequences to Non-U.S. Holders***

Dividends paid to a Non-U.S. Holder in respect of our ADSs or shares generally will not be subject to U.S. federal income tax, unless the dividends are effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

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

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



***Information Reporting and Backup Withholding***

In general, information reporting for U.S. federal income tax purposes generally should apply to distributions made on the securities within the United States to a non-corporate U.S. Holder and to the proceeds from sales and other dispositions of the securities by a non-corporate U.S. Holder to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the United States generally should be subject to information reporting in limited circumstances.

Dividend payments made to U.S. Holders and proceeds paid from the sale or other disposition the securities may be subject to information reporting to the IRS and possible U.S. federal backup withholding at a current rate of 28%. Certain exempt recipients, such as corporations, are not subject to these information reporting requirements. Backup withholding will not apply to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status must provide a duly executed IRS Form W-9.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS.

PROSPECTIVE PURCHASERS OF OUR SECURITIES SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR NON-U.S. JURISDICTION, INCLUDING ESTATE, GIFT, AND INHERITANCE LAWS AND APPLICABLE TAX TREATIES.

**F. DIVIDENDS AND PAYING AGENTS.**

Not applicable .

## **G. STATEMENT BY EXPERTS.**

Not applicable.

## **H. DOCUMENTS ON DISPLAY.**

We previously filed a registration statement on Form F-1 (File No. 333-166056) with the SEC relating to our initial public offering in May 2010. This annual report does not contain all of the information in the registration statement and the exhibits and financial statements included with the registration statement. References in this annual report to any of our contracts, agreements or other documents are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contracts, agreements or documents. In addition, we will file annual reports on Form 20-F and submit other information under cover of Form 6-K. As a foreign private issuer, we are exempt from the proxy requirements of Section 14 of the Exchange Act and our officers, directors and principal shareholders will be exempt from the insider short-swing disclosure and profit recovery rules of Section 16 of the Exchange Act. You may read and copy the registration statement, the related exhibits and other materials we file with the SEC at the SEC's public reference room in Washington, D.C. at 100 F Street, Room 1580, N.E., Washington, D.C. 20549. You can also request copies of those documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file with the SEC. The website address is <http://www.sec.gov>. You may also request a copy of these filings, at no cost, by writing us at 3rd Floor, Borough A, Block A. No. 181, South Taibai Road, Xi'an, Shaanxi Province, People's Republic of China 710065 or telephoning us at +86-29-88266383.

## **I. SUBSIDIARY INFORMATION**

For a listing of our subsidiaries, see "Item 4. Information on the Company – C. Organizational Structure."

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

### **Interest Rate Risk**

As of September 30, 2017, we had no short-term or long-term borrowings. If we borrow money in future periods, we may be exposed to interest rate risk. Our exposure to market risk for changes in interest rates relates primarily to the interest income generated by our cash deposits with our banks and held-to-maturity investments. We have not used any derivative financial instruments in our investment portfolio. Interest earnings instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed to material risks due to changes in interest rates. However, our future interest income may fall short of expectations due to changes in interest rates.

### **Foreign Exchange Risk**

Translation adjustments amounted to \$0.04 million and \$0.9 million loss as of September 30, 2017 and 2016, respectively. The Company translated balance sheet amounts with the exception of equity at September 30, 2017 at RMB 6.6545 to \$1.00 as compared to RMB 6.6702 to \$1.00 at September 30, 2016. The Company stated equity accounts at their historical rate. The average translation rates applied to income statement accounts for the year ended September 30, 2017 and September 30, 2016 were RMB 6.8122 and RMB6.5321 to US\$1.00, respectively. So far, the PRC government has been able to manage a stable exchange rate between RMB and the U.S. Dollar. We do not anticipate material translation adjustments due to large fluctuations in exchange rates between RMB and the U.S. Dollar. However, our future downward translation adjustments may occur and can be significant due to changes in such exchange rate.

To the extent that we need to convert U.S. dollars received in our May 2010 public offering into the RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount that we receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

The PRC government imposes strict restrictions on PRC resident companies regarding converting RMB into foreign currencies and vice versa under capital account transactions, such as receiving equity investments from outside of the PRC, making equity investments outside of the PRC, borrowing money from or lending money outside of the PRC, and repaying debt or remitting liquidated assets and/or accumulated profits outside of the PRC. These transactions have to be approved by the relevant PRC government authorities, including but not limited to the commerce bureau, the tax bureau and the State Administration of Foreign Exchange, or SAFE, and have to be conducted at banks

entrusted by the local SAFE branch. Kingtone Information has not conducted any foreign currency transactions during prior fiscal years since its inception. Softech was recently established and had not conducted any foreign currency transactions except for converting a relevantly small amount of foreign currency into RMB as registered capital pursuant to PRC regulations. In anticipation of this offering, we will invest or lend the proceeds as equity or loans into our PRC subsidiaries. As our business continues to grow, we may need to continuously finance our PRC subsidiaries by raising capital from outside of the PRC. The restriction on converting RMB into foreign currencies, and vice versa, may limit our ability to use capital resources from outside of the PRC. Such restrictions may also limit our ability to remit profits from our PRC subsidiaries outside of the PRC, therefore potentially limiting our ability to pay dividends to our shareholders. In addition, such restrictions will limit our ability to freely transfer temporary excess cash in our or our subsidiaries' bank accounts in and out of the PRC, therefore limiting our ability to conduct cross-border cash management activities to optimize the utilization of our cash.

## **Inflation**

Although China has experienced an increasing inflation rate, inflation has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the consumer price index in China was 0.46%, (0.77%), and 1.16% in 2001, 2002 and 2003, respectively. However, in connection with a 3.9% increase in 2004, the PRC government announced measures to restrict lending and investment in China in order to reduce inflationary pressures in China's economy. Following the government's actions, the consumer price index decreased to 1.8% in 2005 and to 1.5% in 2006. In 2007, the consumer price index increased to 4.8%. In response, China's central bank, the People's Bank of China, announced that the bank reserve ratio would rise half a percentage point to 15.5% in an effort to reduce inflation pressures. China's consumer price index growth rate reached 8.7% year over year in 2008. In 2009 and 2010, the change in the consumer price index in China was minus 0.7% and 3.3%.

China consumer price index in November 2017 was 3.8% higher than that of the same period in 2016. China consumer price index in December 2016 was 2.4% higher than that of the same period in 2015. China consumer price index in December 2015 was 4.8% higher than that of the same period in 2014. China consumer price index in December 2014 was 3.3% higher than that of the same period in 2013. The results of the PRC government's actions to combat inflation are difficult to predict. Adverse changes in the Chinese economy, if any, will likely impact the financial performance of a variety of industries in China that use, or would be candidates to use, our software products and services.

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

### **A. DEBT SECURITIES.**

Not applicable.

### **B. WARRANTS AND RIGHTS.**

Not applicable.

### **C. OTHER SECURITIES.**

Not applicable.

**D. AMERICAN DEPOSITARY SHARES.**

The Bank of New York Mellon, as depositary, will register and deliver ADSs. Each ADS will represent one (1) ordinary share (or a right to receive one (1) ordinary share) deposited with principal Hong Kong office of The Hong Kong and Shanghai Banking Corporation Limited, as custodian for the depositary. Each ADS will also represent any other securities, cash or other property that may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The Bank of New York Mellon's principal executive office is located at One Wall Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having ADSs registered in your name in the Direct Registration System, or (ii) by having an American depositary receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, also referred to as DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership will be confirmed by periodic statements sent by the depositary to the registered holders of uncertificated ADSs.

As an ADS holder, you will not be treated as one of our registered shareholders and you will not have direct shareholder rights. British Virgin Island's law governs our direct shareholders' rights. The depositary will be the holder of the shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A Deposit Agreement among us, the depositary and you, as an ADS holder, and all other persons indirectly holding ADSs, sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the Deposit Agreement and the ADSs.

The following is a summary of the material provisions of the Deposit Agreement. For more complete information, you should read the entire Deposit Agreement and the form of ADS, which contains the terms of the ADSs. The Deposit Agreement is filed as an exhibit to our registration statement filed on Form F-1. You may obtain the registration statement and the attached Deposit Agreement from the SEC's website at <http://www.sec.gov>. You may also obtain a copy of the Deposit Agreement at the SEC's Public Reference Room, which is located at 100 F Street, NE, Washington, DC20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330.

## **Fees and Expenses**

***Persons depositing or withdrawing shares or ADS holders must pay:***

***For:***

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates

\$.05 (or less) per ADS	Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
\$.05 (or less) per ADSs per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement) converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, share transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

## Payment of Taxes

Holders of our ADSs are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities represented by any of their ADSs. The depositary may refuse to register any transfer of a holder's ADSs or allow withdrawal of the deposited securities represented by the ADSs until such taxes or other charges are paid. It may apply payments owed to the holder or sell deposited securities represented by the ADSs to pay any taxes owed and the holder will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.



## **PART II**

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

None.

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

#### **Use of Proceeds.**

We completed our initial public offering on May 14, 2010 (the “IPO”), which generated net proceeds of approximately \$14.6 million. For the period from the completion of the IPO to September 30, 2017, the end date of the latest fiscal year, our use of the IPO net proceeds is as following: we used approximately \$1.6 million for our research and development, which consisted primarily of compensation and benefit expenses to engineers in our research and development center and material cost in research and development activities; approximately \$3.2 million for our general and administrative expenses, which consisted of listing fees, compensation to management and related agent fees; approximately \$3.3 million our selling and marketing expenses, which consisted primarily of compensation and benefit expenses to our sales and marketing personnel, travel and communication expenses, and selling and marketing-related office expenses. While we had been exploiting suitable opportunities for our growth, as the macro-economy has been slowing down in China, we have not extended more investment into our product development, instead, we had made certain loans to certain affiliate companies, as disclosed under Item 7B and Note 7 to the financial statement contained elsewhere in this report. As of September 30, 2017, the total amount of these loans was \$6.8 million, among which \$4.7 million are from the IPO net proceeds. As these companies are information technology developers, with the approval of our audit committee, we temporarily applied such portion of the IPO net proceeds to them in the belief they would return favor to us in the future while we continue the search for the suitable business opportunities. Lastly, as of September 30, 2017, we had a total of approximately \$0.9 million cash in hand.

The use of proceeds described above represents a material change in the use of proceeds described in our prospectus in connection with the IPO where the following use of proceeds was planned:

\$6.6 million for product development;



\$4.6 million to expand research and development center;

\$4.0 million to develop customer relations management (CRM) systems; and

the balance of \$3.2 million for working capital.

The changes are primarily a result of the changing macro-economic environment and the business judgment made by our management. We plan to terminate our related party loans once we identify any business opportunities that require additional funds, such as any right direction for product development, customer relations management (CRM) systems development, or the expansion of research and development center.

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

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

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, which included inquiries made to certain other of our employees. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this report, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that, as of September 30, 2015, the Company’s disclosure controls and procedures were not effective due to the material weakness described in the “Management’s Annual Report on Internal Control over Financial Reporting” section below.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the process designed by, or under the supervision of, our principal executive officer and principal financial officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Any system of internal control, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management assessed our internal control over financial reporting as of the year ended September 30, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2014 report entitled "Internal Control-Integrated Framework." The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Based on such assessment, management concluded that its internal control over financial reporting as of September 30, 2017 was not effective because of the following material weakness:

Lack of U.S. GAAP expertise. Although our accounting personnel are professional and experienced in accounting requirements and procedures generally accepted in the PRC, they do not have sufficient knowledge, experience and training in maintaining our books and records and preparing financial statements in accordance with U.S. GAAP standards and SEC rules and regulations. The staff needs additional training to become experienced in U.S. GAAP-based reporting, including the skills of U.S. GAAP-based period end closing, consolidation of financial statements, and U.S. GAAP conversion.

In order to address the above material weakness, our management plans to take the following steps:

We will employ, as needed, outside professionals to provide key accounting personnel ongoing technical trainings to ensure their proper understanding of U.S. GAAP and newly announced accounting standards.

The Company believes the foregoing measures will remediate the identified material weakness in future periods. The Company is committed to monitoring the effectiveness of these measures and making any changes that are necessary and appropriate.

Notwithstanding the conclusion that its internal control over financial reporting was not effective as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer believe that the financial statements and other information contained in this report present fairly, in all material respects, its business, financial condition and results of operations. Nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in the Company's financial statements as of September 30, 2015.

*Attestation report of the registered public accounting firm.*

This annual report does not include an attestation report of the Company's registered public accounting firm on internal control over financial reporting because the Company is a non-accelerated filer permanently exempted from section 404(b) of the Sarbanes-Oxley Act.

***Changes in Internal Control over Financial Reporting***

There were no changes in the Company's internal control over financial reporting that occurred during our fiscal year ended September 30, 2017 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**ITEM 16. [RESERVED]**

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

Our board of directors has determined that Mr. Xianyun Zhang qualifies as an audit committee financial expert. Our board of directors has determined that Mr. Zhang meets the definition of an "independent director" under the applicable NASDAQ Rules and under Rule 10A-3 of the Securities Exchange Act of 1934, as amended.

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

Our board of directors has adopted a code of business conduct and ethics applicable to our directors, officers and employees. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-166056) and posted the code on our website at <http://www.kingtoninfo.com/en/overview/ethics.aspx>.

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

***Audit Fees***

The aggregate fees billed by BDO China Shu Lun Pan Certified Public Accountants LLP for professional services rendered for the audit of our annual financial information included in our Annual Report on Form 20-F was \$105,500 for the fiscal year ended September 30, 2017, 2016 and 2015.

***Tax Fees***

We did not engage our principal accountants to provide tax or related services during the last two fiscal years.

***All Other Fees***

We did not engage our principal accountants to render services to us during the last two fiscal years, other than as reported above.

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

Not applicable.

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

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE.**

We are incorporated in the BVI and our corporate governance practices are governed by applicable BVI law as well as our memorandum and articles of association. In addition, because our ADSs are listed on NASDAQ, we are subject to NASDAQ's corporate governance requirements. NASDAQ Listing Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year end. However, NASDAQ Listing Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Listing Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement. We follow home country practice with respect to annual meetings and did not hold an annual shareholder meeting in fiscal 2017. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders' approvals.

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

Not applicable.



### **PART III**

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

We have elected to provide financial statements and related information specified in Item 18.

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

See “Index to Consolidated Financial Statements” for a list of all financial statements filed as part of this annual report. The Financial Statements are beginning on page F-1.

#### **ITEM 19. EXHIBITS.**

See the Exhibit Index following the signature page of this report, which is incorporated herein by reference.

## **SIGNATURES**

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

KINGTONE WIRELESSINFO  
SOLUTION HOLDING LTD

By: /s/ Peng Zhang

Peng Zhang

Chief Executive Officer

(principal executive officer)

February 9, 2018

## EXHIBIT INDEX

The following documents are filed as part of this Annual Report on Form 20-F.

Exhibit Number	Description
1.1*	<u>Amended and Restated Memorandum of Association and Articles of Association of Kingtone Wirelessinfo Solution Holding Ltd., dated March 25, 2010 and as currently in effect.</u>
2.1*	<u>Deposit Agreement among the Company, depositary and holders of the American Depositary Receipts.</u>
2.2*	Form of American Depositary Receipt.
2.3*	<u>English translation of Entrusted Management Agreement dated December 15, 2009 between Xi'an Softech Co., Ltd., Xi'an Kingtone Information Technology Co., Ltd. and the shareholders of Xi'an Kingtone Information Technology Co., Ltd.</u>
3.1*	<u>English translation of Shareholder's Voting Proxy Agreement dated December 15, 2009 between Xi'an Softech Co., Ltd., Xi'an Kingtone Information Technology Co., Ltd. and the shareholders of Xi'an Kingtone Information Technology Co., Ltd.</u>
4.1*	<u>English translation of Exclusive Technology Service Agreement dated December 15, 2009 between Xi'an Softech Co., Ltd. and Xi'an Kingtone Information Technology Co., Ltd.</u>
4.2*	<u>English translation of Exclusive Option Agreement dated December 15, 2009 between Xi'an Softech Co., Ltd., Xi'an Kingtone Information Technology Co., Ltd. and the shareholders of Xi'an Kingtone Information Technology Co., Ltd.</u>
4.3*	<u>English translation of Equity Pledge Agreement dated December 15, 2009 between Xi'an Softech Co., Ltd., Xi'an Kingtone Information Technology Co., Ltd. and the shareholders of Xi'an Kingtone Information Technology Co., Ltd.</u>
4.4*	<u>English translation of Loan Agreement dated September 14, 2009 between Xi'an Kingtone Information Technology Co., Ltd. and Xian City Commercial Bank.</u>
4.5*	<u>English translation of Mortgage Agreement dated September 14, 2009 between Xi'an Kingtone Information Technology Co., Ltd. and Xian City Commercial Bank.</u>
4.6*	<u>English translation of Form of Employment Agreement entered into between the Company and the Company's executive officers.</u>

- 4.11\* 2010 Omnibus Incentive Plan of the Company.
- 4.12\*\* English translation of Project Construction Contract dated August 10, 2010 between Xi'an Hu County Yuxing Agriculture Science & Technology Co., Ltd. and Xi'an Kingtone Information Technology Co., Ltd.
- 4.13 Asset Exchange Agreement by and between C Media Limited and the Company dated as of January 25, 2018
- 4.14 Securities Purchase Agreement by and among Redstone YYL Management Limited and five shareholders holding majority of the shares of the Company dated as of January 25, 2018
- 21.1\* List of Subsidiaries

Topsky Info-tech Holdings Pte Ltd, a Singapore company.

Xi'an Softech Co., Ltd., a PRC company

Xi'an Kingtone Information Technology Co., Ltd., a PRC company (a variable interest entity)

11.1\* Code of Ethics

12.1 Certification of Chief Executive Officer required by Rule 13a-14(a).

12.2 Certification of Chief Financial Officer required by Rule 13a-14(a).

13.1 Certification of Chief Executive Officer required by Rule 13a-14(a).

13.2 Certification of Chief Financial Officer required by Rule 13a-14(a).

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.

\*Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Reg. No. 333-166056) filed with the Commission and incorporated herein by reference.

\*\*Previously filed as exhibits to the Company's Transition Report on Form 20-F filed with the Commission on January 20, 2011 and incorporated herein by reference.

**Kington Wirelessinfo Solution Holding Ltd and Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Audit Committee of the Board of Directors and Shareholders of  
Kington Wirelessinfo Solution Holding Ltd and Subsidiaries

We have audited the accompanying consolidated balance sheets of Kingtone Wirelessinfo Solution Holding Ltd and Subsidiaries and Variable Interest Entity (“VIE”) (the “Company”) as of September 30, 2017 and 2016 and the related consolidated statements of operations and comprehensive income (loss), cash flows and shareholders’ equity for the years ended September 30, 2017, 2016 and 2015. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years ended September 30, 2017, 2016 and 2015 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 of the consolidated financial statements, the Company has incurred recurring losses that raise substantial doubt about its ability to continue as a going concern. The Company’s viability is dependent upon its ability to obtain success of its future operations. Management’s plan in regard to these matters is also described in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BDO China Shu Lun Pan Certified Public Accountants LLP

Beijing, the People's Republic of China

February 6, 2018

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**KINGTONE WIRELESSINFO SOLUTION HOLDING LTD AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Express in thousands of U.S. Dollars, except shares and per share data)**

	As of September 30,	
	2017	2016
<b>ASSETS</b>		
Current assets		
* Cash and cash equivalents	\$902	\$1,239
* Accounts and Notes Receivable, net of allowance	3,399	4,243
* Accrued interest	288	385
* Due from related companies	819	6,152
* Inventories, net	45	90
* Other receivables and prepayments	115	225
Total Current Assets	5,568	12,334
Non-current assets		
Due from related companies	6,167	
* Property and Equipment, net	10,370	10,863
* Intangible assets	509	527
* Other assets	387	-
Total Assets	\$23,001	\$23,724
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
* Accounts payable	\$917	\$1,277
* Advances from customers	368	381
* Other payables and accruals	142	195
* Taxes payable	1,278	1,406
* Dividend payable	777	775
Total Current Liabilities	3,482	4,034
Stockholders' equity		
Ordinary share (\$0.01 par value, 100,000,000 shares authorized, 1,405,000 shares issued and outstanding as of September 30, 2017 and 2016, respectively)	14	14
* Additional paid in capital	22,233	22,233
* Appropriated retained earnings	2,485	2,060
* Unappropriated retained earnings	(7,871 )	(7,227 )
* Accumulated other comprehensive income	2,658	2,610
Total Shareholders' Equity	19,519	19,690
Total Liabilities and Shareholders' Equity	\$23,001	\$23,724

See notes to the consolidated financial statements

\*All of the VIE's assets can be used to settle obligations of their primary beneficiary. Liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets (Note 3).

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**KINGTONE WIRELESSINFO SOLUTION HOLDING LTD AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****(Express in thousands of U.S. Dollars, except shares and per share data)**

	For the years ended September 30,		
	2017	2016	2015
Revenues			
Software	\$-	\$62	\$136
Wireless system solution	173	1,130	8,683
-Third Party	173	1,130	8,683
Total revenues	173	1,192	8,819
Cost of sales			
Software	25	40	61
Wireless system solution	324	948	5,557
-Third Party	324	948	5,557
Total cost of sales	349	988	5,618
Gross profit	(176 )	204	3,201
Operating expenses			
Selling and marketing expenses	101	134	153
General and administrative expenses	1,471	1,917	3,355
Research and development expenses	-	55	288
Total Operating expenses	1,572	2,106	3,796
Loss from operations	(1,748 )	(1,902 )	(595 )
Other income (expense)			
Interest income	289	400	29
Loss of net investment in sales-type leases	-	-	-
Other income, net	1,240	1,342	1,593
- Related party	1	6	45
-Third Party	1,239	1,336	1,548
Total other income, net	1,529	1,742	1,622
Income (Loss) before income tax expenses	(219 )	(160 )	1,027
Income tax expenses			
Net Income (Loss)	\$(219 )	\$(160 )	\$1,027
Other comprehensive income			
Foreign currency translation gain (loss)	48	(867 )	(686 )

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Comprehensive income(loss)	\$(171	) \$(1,027	) \$341
Income (Loss) per ordinary share:			
Basic and Diluted	\$(0.16	) \$(0.11	) \$0.73
Weighted average number of ordinary shares outstanding Basic and Diluted	1,405,000	1,405,000	1,405,000

See notes to the consolidated financial statements

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**KINGTONE WIRELESSINFO SOLUTION HOLDING LTD AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****(Express in thousands of U.S. Dollars, except shares and per share data)**

	Ordinary shares			Additional	Appropriated	Unappropriated	Accumulated	Total
	Ordinary	Amount	Paid-in	paid-in	retained	retained	other	Stockholders'
	shares		capital	Capital	earnings	earnings	comprehensive	Equity
Balance as of	1,405,000	14	-	22,233	1,615	(7,649	) 4,163	20,376
September 30, 2014								
Net income for the year	-	-	-	-	-	1,027	-	1,027
Foreign currency	-	-	-	-	-	-	(686	(686
translation loss							)	)
Balance as of	1,405,000	14	-	22,233	1,615	(6,622	) 3,477	20,717
September 30, 2015								
Net loss for the year	-	-	-	-	-	(605	) -	(605
Appropriated retained	-	-	-	-	445	-	-	445
earnings								
Foreign currency	-	-	-	-	-	-	(867	(867
translation loss							)	)
Balance as of	1,405,000	14	-	22,233	2,060	(7,227	) 2,610	19,690
September 30, 2016								
Net loss for the year	-	-	-	-	-	(644	) -	(644
Appropriated retained	-	-	-	-	425	-	-	425
earnings								
Foreign currency	-	-	-	-	-	-	48	48
translation loss								
Balance as of	1,405,000	14	-	22,233	2,485	(7,871	) 2,658	19,519
September 30, 2017								

See notes to the consolidated financial statements

**KINGTONE WIRELESSINFO SOLUTION HOLDING LTD AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Express in thousands of U.S. Dollars, except shares and per share data)**

	For the years ended September 30,		
	2017	2016	2015
Cash flows from operating activities			
Net income (loss)	\$(219 )	\$(160 )	\$1,027
Depreciation and amortization	577	538	608
Bad debt expense	(75 )	(8 )	1,405
Changes in operating assets and liabilities			
Accounts and notes receivable	910	(22 )	(1,163 )
Accrued interest	(284 )	(393 )	
Unbilled revenue	-	-	4,967
Other receivables and prepayments	110	(73 )	917
Inventories	45	70	1,967
Tax payable	(128 )	(75 )	330
Accounts payable	(353 )	(709 )	269
Advance from customers	(14 )	8	(7,947)
Other payables and accruals	(53 )	44	(14 )
Net cash provided by (used in) operating activities	516	(780 )	2,366
Cash flows from investing activities			
Payment to purchase property and equipment	(29 )	(66 )	(27 )
Proceeds from disposal of property and equipment	-	44	28
Net cash (used in) provided by investing activities	(29 )	(22 )	1
Cash flows from financing activities			
Repayment to related party	-	-	(3 )
Payment in loan to related companies	(800 )	(690 )	(3,711)
Net cash used in financing activities	(800 )	(690 )	(3,714)
Effect of exchange rate changes on cash and cash equivalents	(24 )	(12 )	(76 )
Net decrease in cash and cash equivalents	(337 )	(1,504 )	(1,423)
Cash and cash equivalents at beginning of year	1,239	2,743	4,166
Cash and cash equivalents at end of year	\$902	\$1,239	\$2,743
Supplemental disclosure of cash flow information			
Interest paid	\$-	\$-	\$-
Income taxes paid	\$-	\$105,409	\$-

See notes to the consolidated financial statements

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## **NOTE 1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Kington Wirelessinfo Solution Holding Ltd (“Kington Wireless”) was incorporated in the British Virgin Islands on October 27, 2009 under the name of Reizii Capital Management Limited. It has wholly-owned subsidiaries and a variable interest entity (“VIE”). Its wholly-owned subsidiaries include: Topsy Info-tech Holdings Pte Ltd. (“Topsy”), which was established in Singapore on November 3, 2009, and Xi’an Softech Co., Ltd. (“Softech”), which was established in Xi’an, Shaanxi Province, China on November 27, 2009 by Topsy. Its VIE is Xi’an Kington Information Technology Co., Ltd. (“Kington Information”) which was incorporated in Xi’an, Shaanxi province, China on December 28, 2001. Kington Wireless and its wholly-owned subsidiaries and VIE together are referred to as the “Company”.

On December 17, 2009, Reizii Capital Management Limited changed its name to Kington Wirelessinfo Solution Holding Ltd.

On March 23, 2010, the board of directors of Kington Wireless resolved to change the fiscal year end of Kington Wireless and its wholly-owned subsidiaries, Topsy and Softech, from November 30<sup>th</sup> to September 30<sup>th</sup> so as to have the same fiscal year end as Kington Information.

On May 14, 2010, the Company completed the initial public offering of its American Depositary Shares (“ADSs”) at a price of \$4.00 per ADS and listed its ADS on the NASDAQ Capital Market under the symbol “KONE.” The Company sold an aggregate of 4,000,000 ADSs, representing 4,000,000 ordinary shares and received net proceeds of approximately \$14.5 million, net of underwriting discounts and other offering expenses.

The Company is principally involved in developing and implementing mobile enterprise solutions for its customers in a broad variety of sectors and industries to improve its operating efficiency by facilitating mission-specific field and long-distance information management in wireless environments through its VIE, Kington Information.

Effective November 6, 2012, the Company conducted a 1-for-10 reverse stock split of all issued and outstanding shares of its ordinary shares (or “Reverse Stock Split,” as explained in more details under Note 21). Upon the effect of the Reverse Stock Split, the Company’s issued and outstanding shares reduced from 14,050,000 to 1,405,000.

## **NOTE 2. Going Concern**



The Company's consolidated financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of and for the year ended September 30, 2017, the Company has incurred significant operating losses and revenues decreased. The recurring loss raise substantial doubt concerning the Company's ability to continue as a going concern for a reasonable period of time. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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### **Management's Plan to Continue as a Going Concern**

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plans to obtain such resources for the Company include (1) obtaining contracts with high gross margin, (2) proceeds from the loans lent to its related parties, (3) rental income and (4) short-term or long-term borrowings from banks, stockholders or other party (ies) when needed. However, management cannot provide any assurance that the Company will be successful in accomplishing any of its plans.

Despite the Company's effort to accomplish the plans described in the preceding paragraph, there is no assurance that the Company's plans and actions will be successful. The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations.

### **NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***(a) Basis of presentation***

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements as of September 30, 2017 include the financial statements of Kingtone Wireless, its subsidiaries, and its VIE for which Kingtone Wireless is the primary beneficiary. All inter-company transactions and balances between Kingtone Wireless, its subsidiaries and its VIE are eliminated upon consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation have been included, and such adjustments are of a normal recurring nature.

#### ***(b) Foreign currency transaction***

The functional currency of the Company is United States dollars ("US\$" or "U.S. dollars"), and the functional currency of Topsky is Singapore dollars ("SG\$"). The functional currency of the Company's PRC subsidiaries, Softech and Kingtone Information, is Renminbi ("RMB"), and PRC is the primary economic environment in which the Company operates.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange differences are included in the determination of net income for the respective periods.

For financial reporting purposes, the financial statements of the Company's PRC subsidiaries which are prepared using RMB, are translated into Company's reporting currency, the "U.S. dollar". Assets and liabilities are translated using the exchange rate at each balance sheet date. Revenue and expenses are translated using average rates prevailing during each reporting period, and shareholders' equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

The exchange rates applied are as follows:

	2017	2016	2015
RMB exchange rate at balance sheets dates,	6.6545	6.6702	6.3638
Average RMB exchange rate for each period	6.8122	6.5321	6.1648

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation. The source of the exchange rates is OANDA (Forex Trading and Exchange Rates Services).

***(c) Use of estimates***

The preparation of financial statements in conformity with US GAAP 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made. Significant estimates and judgments made by management include: (i) estimates of profits and losses on contracts in process; (ii) accrual of estimated liabilities; and (iii) contingencies and litigation. However, actual results could differ from those estimates.

***(d) Cash and cash equivalents***

Cash and cash equivalents represent cash on hand and deposits held with banks. The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

***(e) Accounts and notes receivable***

Accounts and notes receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts as needed. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on aging data, historical collection experience, customer specific facts and economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company did not have any off-balance-sheet credit exposure related

to its customers.

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***(f) Inventories***

Inventories consist of raw materials, finished goods, and project-in-progress, which include direct labor, direct materials and overhead costs related to projects. Inventories are stated at lower of cost or market value. Cost is determined using first in first out method.

Where there is evidence that the market value of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the carrying value of inventories will be written down.

***(g) Property and equipment***

The Company states property and equipment at cost less accumulated depreciation. The Company computes depreciation using straight-line method over the estimated useful lives of the assets with 5% residual value.

Estimated useful lives of property and equipment:

	Useful Life
Property and improvements	20-35 years
Transportation equipment	5 years
Office equipment	5 years
Furniture	5 years
Electronic equipment	3-5 years

The Company eliminates the cost and related accumulated depreciation of assets sold or otherwise retired from the accounts and includes any gain or loss in the statement of income. The Company charges maintenance, repairs and minor renewals directly to expenses as incurred, and it capitalizes major additions and renovations to buildings and equipment.

***(h) Impairment of long-lived assets***

The Company applies the Accounting Standards Codification (“ASC”) No. 360-10 “Property, plant and equipment”, ASC No. 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

The Company tests long-lived assets, including property and equipment and intangible assets subject to periodic amortization, for recoverability at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the net carrying amount is greater than its fair value. Assets are grouped and evaluated at the lowest level for their identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the future estimated cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally measured by discounting expected future cash flows as the rate the Company utilizes to evaluate potential investments. The Company estimates fair value based on the information available in making whatever estimates, judgments and projections are considered necessary. No impairment of long-lived assets was recognized for the years ended September 30, 2017 and 2016, respectively.

***(i) Statutory surplus reserve***

The Company is required to set aside 10% of its income after income taxes prepared in accordance with PRC accounting regulations to the statutory surplus reserve until the balance reaches 50% of the paid-in capital or registered capital, after which further appropriation will be at the directors' recommendation.

***(j) Revenue recognition***

Revenues consist primarily of sales of wireless system software service solutions and other customized software with support contracts. The Company recognizes revenue when (1) pervasive evidence of an arrangement exists, (2) delivery has occurred and customer acceptance is reasonable assured (3) the fee is fixed or determinable, and (4) collectability is probable.

The Company generally provides wireless system software service solutions and customized software under short and long-term fixed-price contracts that require significant production and customization. The contract periods generally range from two months to one year in length. The Company recognizes income for these contracts following both the percentage-of-completion method, measured by contract milestones and on the basis of actual costs incurred versus the total estimated contract costs, and on the completed contract method in accordance with the ASC No. 605-35 "Construction-Type and Certain Production-Type Contracts". When Kingtone Information can make reasonable estimate contract cost and the contract with long-term contract period, Kingtone Information will base on percentage-of-completion method to recognize revenue.

Provided unapproved change orders or claims occur, in accounting for contracts, the Company follows ASC No. 605-35. The Company will recognize as revenue costs associated with unapproved change orders or claims to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated. Contract losses are provided for in their entirety in the period that they become known, without regard to the percentage-of-completion. However, the Company has not experienced significant unapproved change orders in the past.



The software contracts generally provide for post-contract customer support (“PCS”) for a period of one year from delivery of the software. The value of PCS revenue is not separately reported and is accounted for as part of the entire fee under the contract accounting methods described above since the PCS meets the criteria specified in ASC No. 985-605-25-71 as follows:

1. PCS is included in the total contract price;
2. PCS is for one year or less;
3. estimated costs are insignificant;
4. upgrades and enhancements during the PCS term have historically been and are expected to continue to be minimal and infrequent; and
5. the contract does not include any service elements that are accounted for separately.

The Company signed a lease encompassed a 20-year period from January 2014 and to February 2033 with Xi-an sino-german orthopedic hospital to rent their building. The rental will be about \$1.2 million for the first year and will yearly increase 2% - 3% based on the rental of previous year in the subsequent years. The Company recognizes revenue on straight line basis.

All other services are provided under separate agreements and fee arrangements and the related revenue is recognized over the period the services are provided.

Unbilled revenue consists of recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients as of the balance sheet date.

The Company presents all sales revenue net of a value-added tax (“VAT”).

The Company recognizes revenue using the fair value of the wireless system software service solutions and other customized software by reference to the retail market price of the wireless system software service solutions and other customized software. These revenues are recorded as “Software Revenue”.

***(k) Cost of Sales***

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of sales. Cost of sales (exclusive of depreciation and amortization) primarily includes the cost of the hardware purchased from the third parties, the labor costs of those responsible for the software development and project implementation and the applicable share of overhead expense directly related to the execution of services and delivery of projects.

The Company's PRC subsidiary and VIE are subject to business tax on revenues related to certain types of services at various rates. Business tax on revenues earned from provision of services to customers is recorded as an additional item to cost of sales in the same period in which the related revenue is recognized.

The Company is responsible for the cost of providing a warranty. In the past warranty costs have been insignificant.

***(l) Research and development costs***

Research and development costs include salaries, consultant fees, supplies and materials, as well as costs related to other overhead expenses such as depreciation, facilities, utilities and other R&D departmental expenses. Research and development costs are expensed as incurred in performing research and development activities in accordance with ASC No. 730-10-5, Accounting for Research and Development Costs.

***(m) Advertising expenses***

Advertising expenses, which generally represent the cost of promotions to create or stimulate a positive image of the Company or a desire to buy the Company's products and services, are expensed as incurred. The Company incurred no advertising expenses in each of the periods presented.

***(n) Share-based compensation***

Share options granted to employees and independent directors are accounted for under ASC 718, "*Share-Based Payment*". In accordance with ASC 718, the Company determines whether a share option should be classified and accounted for as a liability award or an equity award. All grants of share options to employees classified as equity awards are recognized in the financial statements based on their grant date fair values. All grants of share options to employees classified as liability awards are re-measured at the end of each reporting period with an adjustment for fair value recorded to the current period expense in order to properly reflect the cumulative expense based on the current fair value of the vested options over the vesting period. The Company has elected to recognize compensation expenses using the Black-Scholes-Merton (BSM) option-pricing model estimated at the grant date based on the award's fair value and is recognized as expense on a straight-line basis for each separately vesting portion of the award (the graded vesting attribution method).

Restricted stock units (RSUs) are measured based on the fair market value of the underlying stock on the dates of grant. Shares are issued on the vesting dates net of the statutory withholding requirements to be paid by the Company on behalf of its employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding. Also, the Company recognizes stock-based compensation using the graded vesting attribution method.

***(o) Taxation***

a) Income tax

The Company is incorporated in the BVI. Under the current law of the BVI, the Company is not subject to tax on i). income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no BVI withholding tax will be imposed.

ii). Topsky was incorporated in Singapore and does not conduct any substantial operations of its own. No provision for Singapore profits tax has been made in the financial statements as Topsky has no assessable profits for the years ended September 30, 2017, 2016 and 2015. Additionally, upon payments of dividends by Topsky to its shareholders, no Singapore withholding tax will be imposed.

The Company's PRC subsidiary and VIE, being incorporated in the PRC, are governed by the income tax law of iii).the PRC and is subject to PRC enterprise income tax ("EIT"). Effective from January 1, 2008, the EIT rate of PRC reduced from 33% to 25%, and applies to both domestic and foreign invested enterprises.

According to a filing document from Xi'an State Tax authorities of the High-technology zone, Kingtone Information was granted a reduced income tax rate of 15% from January 1, 2008 on the basis of being a high-tech company. In September 2014, Kingtone Information was verified as a "high-technology enterprise" until September 4, 2017, and therefore it had benefited from the preferential tax rate of 15%. From September 5, 2017, income tax rate for Kingtone Information has been 25%.The effective tax rate of Kingtone Information in 2017 was 0% due to the operating loss during the fiscal year of 2017.

	For the years ended					
	September 30,					
	2017		2016		2015	
PRC federal statutory tax rate	25	%	15	%	15	%
Income (Loss) before tax	(219 )		(160 )		1,027	
NOL carrying forward	219		160		(1,027)	
Computed expected income tax expense	-		-		-	
Non-deductible expenses	-		-		-	
Effect of tax holidays	-		-		-	
Income tax expenses	-		-		-	

The tax authority of the PRC conducts periodic and ad hoc tax filing reviews on business enterprises operating in the PRC after those enterprises have completed their relevant tax filings. hence, the Company's tax filings may not be finalized until after such audit has taken place. The PRC tax authority may take a viewpoint on the Company's tax filings that leads to additional tax liabilities.The loss of \$219,000 will be carried forward for the next five years.

b) Value-added tax and business tax

***PRC Value-added Tax***

The Company's products are only sold in the PRC and therefore are generally subject to a Chinese VAT at a rate of 17%. The VAT may be offset by VAT the Company pays on raw materials and other materials included in the cost of producing its finished products. Revenues derived from any exclusive service projects are subject to a Chinese VAT at a rate of 6%, under a reform program to replace the business tax with VAT in the PRC. This is in parallel to the 17% VAT aforementioned. Furthermore, in either scenario, accrued VAT payables are subject to a 10%-13% surtax, which includes urban maintenance and construction taxes and additional education fees.

***PRC Business Tax***

Revenues from services provided by Kingtone Information are subject to a PRC business tax of 5% for rental revenue and 5% for wireless system solution, with a surtax of 10%-13%. Kingtone Information pays business tax on gross revenues.

c) Uncertain tax positions

The Company adopted ASC No. 740-10 *Income Taxes*, on January 1, 2007. ASC No. 740-10 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. For the years ended September 30, 2017, 2016 and 2015, the Company did not have any interest and penalties associated with tax positions and the Company did not have any significant unrecognized uncertain tax positions.

***(p) Comprehensive income***

Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets are the cumulative foreign currency translation adjustments.

***(q) Commitments and contingencies***

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, product and environmental liability, and tax matters. In accordance with ASC No. 450-10, *Accounting for Contingencies*, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Historically, the Company has not experienced any material service liability claims.

***(r) Fair value measurements***

The carrying amounts of cash and cash equivalents, accounts receivable from third parties and related parties, amounts due from and due to related parties, accounts payable and other payables approximate their fair values due to their short-term nature.

The Company adopted ASC No. 820, *Fair Value Measurements and Disclosures*, on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). ASC No. 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC No. 820-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and assumptions that market participants would use when pricing the asset or liability.

ASC No. 820-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC No. 820-10 establishes three levels of inputs that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company does not have level 2 or level 3 financial assets or liabilities.

**(s) *Segment reporting***



The Company follows ASC No. 280, *Segment Reporting*. The Company's chief operating decision-maker, who has been identified as the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Company as a whole and hence, the Company has only one reportable segment. As the Company's long-lived assets are located in the PRC and substantially all the Company's revenues are derived from within the PRC, no geographical segments are presented.

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*(t) Significant risks**Credit risk*

Financial instruments	For the years ended	
	September 30, 2017	2016
Financial institutions located in the PRC	396,602	490,819
Financial institutions located in Singapore	504,909	748,517
	901,511	1,239,336

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents, accounts receivable, other receivables and amounts due from related parties. As of September 30, 2017 and September 30, 2016, US\$396,602 and US\$490,819, respectively, were deposited with major financial institutions located in the PRC. As of September 30, 2017 and September 30, 2016, US\$504,909 and \$748,517, respectively, were deposited with major financial institutions located in Singapore. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors' interests. However, China promulgated an Enterprise Bankruptcy Law in August 2006 that came into effect on June 1, 2007, which contains a separate article expressly stating that the State Council may promulgate implementation measures for the bankruptcy of Chinese banks based on the Enterprise Bankruptcy Law. Therefore, under the Enterprise Bankruptcy Law, a Chinese bank may theoretically go into bankruptcy. In addition, since China's accession to the World Trade Organization in 2001, foreign banks have been gradually permitted to operate in China and have been significant competitors against Chinese banks in many aspects, especially since the opening of the RMB business to foreign banks in late 2006. Therefore, the risk of bankruptcy of those Chinese banks in which the Company has deposits has increased. In the event of bankruptcy of one of the Chinese banks which holds the Company's deposits, it is unlikely to claim its deposits back in full since it is unlikely to be classified as a secured creditor based on PRC laws.

The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts primarily based upon the aging of the receivables and factors surrounding the credit risk of specific customers.

***Business, political and economic risks***

The Company participates in a relatively young and dynamic industry that is heavily reliant on and also susceptible to complementary and/or competitive technological advancements. The Company believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, result of operations or cash flows:

**(i) Business Risk.**

Third parties may develop technological or business model innovations that address content delivery requirements in a manner that is, or is perceived to be, equivalent or superior to the Company's services. If competitors introduce new products or services that compete with, or surpass the quality, price or performance of the Company's services, the Company may be unable to renew its agreements with existing customers or attract new customers at the prices and levels that allow the Company to generate reasonable rates of return on its investment.

**(ii) Political, economic and social uncertainties.**

The Company's operations could be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

**(iii) Regulatory restrictions.**

The applicable PRC laws, rules and regulations currently prohibit foreign ownership of companies that provide content and application delivery services. Accordingly, the Company's subsidiary, Softech, is currently ineligible to apply for the required licenses for providing content and application delivery services in China. As a result, the Company operates its business in the PRC through its VIE, which holds the licenses and permits that are required to provide content and application delivery services in the PRC. The PRC Government may also choose at any time to block access to the Company's customers' content which could also materially impact the Company's ability to generate revenue.

***Foreign currency risk***

A majority of the Company's sales and expenses transactions and a significant portion of the Company's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Company in China must be processed through the PBOC or any other China foreign exchange regulatory body, which require certain supporting documentation in order to affect the remittance.

In addition, any significant revaluation of RMB may have a material adverse effect on our financial condition. For example, starting from the second half year of 2016, RMB started to depreciate vs. U.S. dollars and the trend continued in the beginning of year 2017, which caused our assets depreciated accordingly while we translated our balance sheet from RMB into U.S. dollars. Revenue for the whole year as well as net income were negatively impacted by such RMB depreciation.

**(u) Earnings per share (“EPS”)**

EPS is calculated in accordance with ASC No. 260, *Earnings per share*. Basic EPS excludes dilution and is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding for the period. Diluted EPS reflects potential dilution in the event that securities or other contracts to issue ordinary shares (convertible preferred stock, forward contract, warrants to purchase ordinary shares, contingently issuable shares, ordinary share options and warrants and their equivalents using the treasury stock method) were to be exercised or converted into ordinary shares. The Company excludes potential ordinary shares in the diluted EPS computation in periods of losses from continuing operations, as their effect would be anti-dilutive.

**(v) Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” (“ASU 2015-14”) in August 2015. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) in March 2016, ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) in April 2016, ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), and ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” (“ASU 2016-20”), respectively. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-10 clarifies guidelines related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The updates in ASU 2016-10 include targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The amendments in ASU 2016-20 represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The effective date and transition requirements for

ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as ASU 2014-09. We do not expect the adoption of ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 to have a material impact on our consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU 2016-02 is permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): “Classification of Certain Cash Receipts and Cash Payments”, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following nine specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned; (6) Life Insurance Policies; (7) Distributions Received from Equity Method Investees; (8) Beneficial Interests in Securitization Transactions; and (9) Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): “Intra-Entity Transfers of Assets Other Than Inventory”. The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and remove the exception to postpone recognition until the asset has been sold to an outside party. The amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

Also in October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): “Interest Held through Related Parties That Are under Common Control”, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity, or VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.



In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): “Restricted Cash”(“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 will become effective for us beginning April 1, 2018, or fiscal 2019. ASU 2016-18 is required to be applied retrospectively. Upon adoption, amounts described as restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for us in the first quarter of 2018 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation—Stock compensation (Topic 718): Scope of modification accounting” (“ASU 2017-09”). The purpose of the amendment is to clarify which changes to the terms or condition of a share-based payment award require an entity to apply modification accounting. For all entities that offer share based payment awards, ASU 2017-09 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2017-09 on its consolidated financial statements.

#### **NOTE 4. VARIABLE INTEREST ENTITIES**

Since the inception of Kingtone Wireless on October 27, 2009, the controlling shareholders of Kingtone Wireless have also owned more than 50% of Kingtone Information since its inception on December 28, 2001. Mr. Tao Li, the controlling shareholder of Kingtone Information, obtained beneficial ownership and the right to acquire a majority of the outstanding shares of Kingtone Wireless pursuant to that certain Term Sheet, dated October 27, 2009, by and between certain shareholders of Kingtone Information (including Mr. Li) and Ms. Sha Li, the sole shareholder of Kingtone Wireless at such time (the “Term Sheet”). Such parties subsequently entered into Call Option Agreements dated December 15, 2009 upon the terms and conditions set forth in the Term Sheet. On December 15, 2009, Kingtone Wireless through its subsidiary Softech entered into a series of agreements (the “Restructuring Agreements”) with Kingtone Information to qualify Kingtone Information as a VIE and to meet foreign ownership limitations established by the PRC (the “Reorganization”). The Restructuring Agreements are as follows:

##### ***Entrusted Management Agreement***

Pursuant to the terms of a certain Entrusted Management Agreement dated December 15, 2009 among Kingtone Information, Softech and the shareholders of Kingtone Information (the “Entrusted Management Agreement”), Kingtone Information and its shareholders agreed to entrust the operations and management of its business to Softech. According to the Entrusted Management Agreement, Softech possesses the full and exclusive right to manage Kingtone Information’s operations, assets and personnel, has the right to control all of Kingtone Information’s cash flows through an entrusted bank account, is entitled to Kingtone Information’s net profits as a management fee, is obligated to pay all of Kingtone Information’s payables and loan payments, and bears all losses of Kingtone Information. The Entrusted Management Agreement will remain in effect until (i) the parties mutually agree to terminate the agreement; (ii) the dissolution of Kingtone Information or (iii) Softech acquires all of the assets or equity of Kingtone Information (as more fully described below under “Exclusive Option Agreement”).

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### ***Exclusive Technology Service Agreement***

Pursuant to the terms of a certain Exclusive Technology Service Agreement dated December 15, 2009 between Kingtone Information and Softech (the “Exclusive Technology Services Agreement”), Softech is the exclusive technology services provider to Kingtone Information. Kingtone Information agrees to pay Softech all fees payable for technology services prior to making any payments under the Entrusted Management Agreement. Any payment from Kingtone Information to Softech must comply with applicable Chinese laws. Further, the parties agree that Softech shall retain sole ownership of all intellectual property developed in connection with providing technology services to Kingtone Information. The Exclusive Technology Services Agreement shall remain in effect until (i) the parties mutually agree to terminate the agreement; (ii) the dissolution of Kingtone Information or (iii) Softech acquires Kingtone Information (as more fully described below under “Exclusive Option Agreement”).

### ***Shareholders’ Voting Proxy Agreement***

Pursuant to the terms of a certain Shareholders’ Voting Proxy Agreement dated December 15, 2009, by and among Softech and the shareholders of Kingtone Information (the “Shareholders’ Voting Proxy Agreement”), each of the shareholders of Kingtone Information irrevocably appoints Softech as their proxy to exercise on each of such shareholder’s behalf all of their voting rights as shareholders, pursuant to PRC law and the Articles of Association of Kingtone Information, including the appointment and election of directors of Kingtone Information. Softech agrees that it shall maintain a board of directors, the composition of which will be the members of the board of directors of Kingtone Wireless, except those directors that are employed solely for the purpose of satisfying listing or financing requirements of Kingtone Wireless. The Shareholders’ Voting Proxy Agreement will remain in effect until Softech acquires all of the assets or equity of Kingtone Information.

### ***Exclusive Option Agreement***

Pursuant to the terms of a certain Exclusive Option Agreement, dated December 15, 2009, by and among Softech, Kingtone Information and the shareholders of Kingtone Information (the “Exclusive Option Agreement”), the shareholders of Kingtone Information granted Softech an irrevocable and exclusive purchase option (the “Option”) to acquire Kingtone Information’s equity interests and/or remaining assets, but only to the extent that the acquisition does not violate limitations imposed by PRC law on such transactions. As discussed above, current PRC law does not allow foreigners to hold equity interests in a PRC entity that engages in business dealings with classified government information. Accordingly, the Option is exercisable at any time at Softech’s discretion so long as such exercise and subsequent acquisition of Kingtone Information does not violate PRC law. The consideration for the exercise of the Option is to be determined by the parties and memorialized in the future by definitive agreements setting forth the kind and value of such consideration. To the extent Kingtone Information shareholders receive any of such consideration, the Option requires them to transfer (and not retain) the same to Kingtone Information or Softech. The

Exclusive Option Agreement may be terminated by mutual agreement or by 30 days written notice by Softech.

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***Equity Pledge Agreement***

Pursuant to the terms of a certain Equity Pledge Agreement, dated December 15, 2009, by and among Softech and the shareholders of Kingtone Information (the “Pledge Agreement”), the shareholders of Kingtone Information pledge all of their equity interests in Kingtone Information, including the proceeds thereof, to guarantee all of Softech’s rights and benefits under the Entrusted Management Agreement, the Exclusive Technology Service Agreement, the Shareholders’ Voting Proxy Agreement and the Exclusive Option Agreement. Prior to termination of the Pledge Agreement, the pledged equity interests cannot be transferred without Softech’s prior written consent. The Pledge Agreement may be terminated only by written agreement of the parties.

As a result of these contractual arrangements, Kingtone Wireless is able to exercise control over Kingtone Information and is entitled to substantially all of the economic benefits of Kingtone Information through its subsidiary, Softech. Therefore, Kingtone Wireless had consolidated Kingtone Information’s financial statements in accordance with ASC 810-10 (“*Consolidation of Variable Interest Entities*”) since the date of the Reorganization. The controlling shareholder also controlled Kingtone Wireless and Kingtone Information before and after the Reorganization, therefore the Reorganization is accounted for as a transaction between entities under common control in a manner similar to pooling of interests.

The following financial statement amounts and balances of the VIE were included in the accompanying consolidated financial statements as of and for the years ended September 30, 2017 and 2016:

	As of September 30,	
	2017	2016
	US\$(‘000)	US\$(‘000)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 397	\$ 491
Accounts and notes receivable, net of allowance	3,399	4,243
Unbilled revenue	677	385
Amounts due from related companies	6,986	6,152
Inventories	45	90
Other receivables and prepayments	114	95
Total Current Assets	11,618	11,456
Property and equipment, net	10,370	10,863
Intangible assets	509	527
Total Assets	\$ 22,497	\$ 22,846

**LIABILITIES**

Current liabilities

Accounts payable	\$ 917	\$ 1,277
Advances from customers	368	381
Other payables and accruals	42	96
Taxes payable	1,278	1,406
Amounts due to related party		-
Dividend payable	777	775
Total Current Liabilities	3,382	3,935
Total Liabilities	\$ 3,382	\$ 3,935

	For the years ended September 30,		
	2017	2016	2015
	US\$('000)	US\$('000)	US\$('000)
Revenue	\$ 173	\$ 1,192	\$ 8,819
Net Income	\$ 27	\$ 299	\$ 1,527

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## Parent-only Schedule

The management believes Schedule I (Condensed Financial Information of Registrant) is not required because the amount of restricted net assets of our PRC subsidiaries and VIEs as a result of the statutory reserve required to be maintained was \$2.5 million (or 10% of the Company's total consolidated net assets as of September 30, 2017) which is less than 25%. Therefore, the Company determined the parent company schedule information is not required to be presented under Rule 5-04 of Regulation S-X.

One of our wholly owned subsidiaries and the VIE are corporations incorporated under the laws of the PRC and subject to the PRC laws and regulations. Relevant PRC laws and regulations permit PRC companies to pay dividends only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The Company's subsidiary and VIE in China are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws applicable to China's Foreign-Invested Enterprises ("FIEs"), the Company's subsidiaries must make appropriations from after-tax profit (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to non-distributable reserve funds, including to (i) a general reserve fund, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. At least 10% of after-tax profits calculated in accordance with PRC GAAP is appropriated for the general reserve fund, although such appropriation is not required if the general reserve fund has reached 50% of the registered capital of the Company. Appropriations for the other two reserve funds is at the Company's discretion. Additionally, the Company's VIE, in accordance with the Chinese corporate law, must make appropriations from its after-tax profit (as determined under PRC GAAP) to non-distributable reserve funds, including to (i) a statutory surplus fund and (ii) a discretionary surplus fund. At least 10% of the after-tax profits calculated in accordance with PRC GAAP is appropriated for the statutory surplus fund, although appropriation is not required if the reserve fund has reached 50% of the registered capital of the VIE. The general reserve fund and statutory surplus fund are restricted for setting off against losses, expansion of production and operations or increase in registered capital of the respective company. As a result of these PRC laws and regulations, the general reserve, statutory surplus and registered capital of the Company's PRC subsidiaries and VIE are restricted in terms of being transferred to the Company either in the form of dividends, loans or advances. The amount of such restricted net assets for all PRC subsidiaries and for the VIE was equal to \$2.5 million, or 10% of the Company's total consolidated net assets, as of September 30, 2017.

The Company performed an evaluation to identify circumstances where third parties may limit its subsidiaries' or VIE's ability to loan, advance or dividend funds to the parent, including review of all loan agreements to which its subsidiaries or VIE is a party. The Company did not find such restrictions contained in the agreements.

There are no other specific third party restrictions on the ability of the Company's subsidiary or VIE to transfer funds outside of the entity. As a result, there are no other restricted net assets as such term is defined under Rule 4-08(e) (3) of Regulation S-X.

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**NOTE 5. ACCOUNTS AND NOTES RECEIVABLE, NET**

Accounts and notes receivable and allowance for doubtful accounts consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Accounts receivable	\$ 3,601	\$ 4,595
Less: allowance for doubtful accounts	(277 )	(352 )
Accounts receivable, net	3,324	4,243
Notes receivable	75	
Total accounts and notes receivable	\$ 3,399	\$ 4,243

An analysis of allowance for the doubtful accounts is as follows:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Balance at the beginning of the year	\$ (352 )	\$ (369 )
Bad debt expense	75	8
Write offs	-	9
Balance at the end of the year	\$ (277 )	\$ (352 )

For the year ended September 30, 2017, the Company made US\$0.3 million allowance for doubtful accounts and charged such accounts to bad debt expenses since these accounts receivable was non-collectible. For the year ended September 30, 2016, the Company had made US\$0.4 million allowance for doubtful accounts and charged such accounts to bad debt expenses since these accounts receivable were non-collectible.

The Company had \$75,000 notes receivable for the year ended September 30, 2017 and there were no notes receivable for the year ended September 30, 2016.

As of September 30, 2017 and 2016, all accounts and notes receivable were due from third party customers.

Any additions, deductions and amounts recovered of the Company's allowance for doubtful accounts are recorded within general and administration expenses for the respective periods.

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**NOTE 6. AMOUNTS DUE FROM RELATED COMPANIES**

Amounts due from related companies consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Shaanxi Tech Team Jinong Humid Acid Product Co., Ltd	\$ 450	\$ 44
Xi'an Tech Team Investment Holdings (Group) Co., Ltd.	1,827	1,823
Xi'an Xinrong Engineering and Industry (Group) Co., Ltd	4,296	4,285
900LH.com Food Co., Ltd.	165	-
Others	248	-
Total	\$ 6,986	\$ 6,152

All the entities referred to above are indirectly owned and controlled by Tao Li, Chairman of the Company. The Company provided short-term financing to such parties.

As of September 30, 2017, we had an outstanding loan of approximately \$0.5 million to Shaanxi Tech Team Jinong Humid Acid Product Co., Ltd, which was indirectly owned and controlled by Tao Li, Chairman of the Company. The largest amount of the outstanding loan was \$83,000 during the past three years. The loan was an interest-free unsecured rental expense, payable on demand.

As of September 30, 2017, we had an outstanding loan of approximately \$1.8 million to Xi'an Tech Team Investment Holdings (Group) Co., Ltd, which is 66% indirectly owned and controlled by Tao Li, Chairman of the Company. The largest amount of the outstanding loan was \$1.2 million during the past three years. This loan was made under an unsecured verbal agreement for a term of five years, beginning on December 28, 2014, and the interest rate was 4.75%, the same as the 3 to 5 years interest rate of the central bank.

On November 1, 2013, and on August 10, 2016, the Company made loans to Xi'an Xinrong Engineering and Industry (Group) Co., Ltd ("Xinrong"), which is 74% indirectly owned and controlled by Tao Li, Chairman of the Company, pursuant to which the Company provided \$1.8 million and \$2.7 million to Xinrong for its normal business operations. The largest amount of the outstanding loan amount since the loan was made (which was also the amount outstanding as of September 30, 2017) was \$1.8 million and \$2.7 million, respectively. The unsecured loans have a three-year term and a five-year term, respectively, and the interest rate was 4.75%, the same as the 3 to 5 years interest rate of the

central bank.

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**NOTE 7. INVENTORIES**

Inventories consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Raw material	\$ -	\$ -
Finished goods	45	45
Project-in-progress	-	45
Total	\$ 45	\$ 90

The Company reviews its inventories periodically for possible obsolete or damaged goods and to determine if any allowance is necessary for potential obsolescence. As of September 30, 2017, the Company made approximately \$0.3 million allowance for obsolete inventory. There was no allowance for inventory as of September 30, 2016.

**NOTE 8. OTHER RECEIVABLES AND PREPAYMENTS**

Other receivables and prepayments consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Advances to employees	\$ -	\$ 130
Deposits on projects	86	22
Prepayment to suppliers	29	24
Others	-	49
Total	\$ 115	\$ 225

**NOTE 9. PROPERTY AND EQUIPMENT, NET**

Property and equipment consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Buildings and improvements	\$ 14,237	\$ 14,204
Vehicles	379	378
Other equipment and devices	327	296
Total property and equipment	14,943	14,878
Less: accumulated depreciation	(4,573 )	(4,016 )
Property and equipment, net	<b>\$ 10,370</b>	<b>\$ 10,863</b>

For the years ended September 30, 2017, 2016 and 2015, depreciation expenses were US\$545,803, US\$534,377 and US\$615,000, respectively.

**NOTE 10. INTANGIBLE ASSETS, NET**

The intangible assets consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Land-use rights	\$ 637	\$ 636
Less: accumulated amortization	(128 )	(109 )
Intangible assets, net	\$ 509	\$ 527

Amortization expenses for the years ended September 30, 2017, 2016 and 2015 were US\$18,465, US\$18,421 and US\$19,932 respectively. Estimated amortization expenses relating to the existing intangible assets for the aggregated and each of the next five years and thereafter are as follows:

For the years ended	US\$ ('000)
September 30, 2018	\$ 20
September 30, 2019	20
September 30, 2020	20
September 30, 2021	20
September 30, 2022	20
Thereafter	447
Total	\$ 527

**NOTE 11. ACCOUNTS PAYABLE**

Accounts payable consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Payable to third-party suppliers	\$ 917	\$ 1,277
	\$ 917	\$ 1,277

The decreased in accounts payable was primarily due to the decreased amount of inventory purchase, which was result of fewer new projects signed during the year ended September 30, 2017.

**NOTE 12. ADVANCE FROM CUSTOMERS**

Advances from customers consisted of the following:

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Advance from third-party customers	\$ 368	\$ 381
	\$ 368	\$ 381

**NOTE 13. OTHER PAYABLES AND ACCRUALS**

Other payables and accruals consisted of the following:

As of September 30,	As of September 30,
------------------------	------------------------



	2017	2016
	US\$('000)	US\$('000)
Accrued employee benefits	\$ 42	\$ 44
Other payables	100	152
Total	\$ 142	\$ 195

#### NOTE 14. TAXES PAYABLE

Taxes payable consisted of the following:

	As of September 30, 2017	As of September 30, 2016
	US\$('000)	US\$('000)
Enterprise income tax payable	\$ 319	\$ 319
Individual income tax	498	497
Other taxes payable	461	590
Total	\$ 1,278	\$ 1,406

**NOTE 15. DIVIDENDS PAYABLE**

	As of September 30, 2017 US\$('000)	As of September 30, 2016 US\$('000)
Dividend due to shareholders	\$ 777	\$ 775
	\$ 777	\$ 775

In fiscal year 2009, the shareholders of Kingtone Information made a resolution to distribute US\$4,096,000 to all shareholders in proportion to their shareholding percentage. In fiscal year 2010, two shareholders received their dividend payment. The balance represents outstanding unpaid dividends to the remaining shareholders.

**NOTE 16. RELATED PARTY TRANSACTIONS****1. Office Rental**

For the year ended September 30, 2017, Kingtone Information leased its self-owned office space at 3/F, Area A, Block A, No. 18 South Taibai Road, Xi'an 710065, People's Republic of China with Shaanxi TechTeam Jinong Humic Acid Product Co., Ltd. ("Jinong"), a wholly-owned subsidiary of China Green Agriculture, Inc. ("CGA") starting from July 1, 2010. Our Chairman Tao Li is also Chairman and President of CGA. The monthly rent was US\$3,867(RMB24, 480) for a two-year term starting from July 1, 2012 to June 30, 2014. From July 1, 2014 to June 29, 2016, the monthly rent was US\$3,970 (RMB24, 480). On June 29, 2016, the lease was renewed with Jinong for a monthly rent of US\$3,679 (RMB24, 480) for another two-year term beginning July 1, 2016.

	For the years ended September 30,		
	2017	2016	2015
	US\$('000)	US\$('000)	US\$('000)
Total rental income	\$ 44,145	\$ 44,972	\$ 44,852

The Company's Beijing office is located in two Suites (2208 and 2209) at Building 16, An Hui Dong Li, Chaoyang District, Beijing. It covers a combined total floor space of 184.8 square meters. Tao Li owns this space and allows the Company to use it for no consideration for an unspecified term.

**2. Short-Term Loans**

The short-term loans between the Company and its related parties are disclosed under Note 6 to the consolidated financial statements herein.

### **3. Long-Term Loans**

The long-term loans between the Company and its related parties are disclosed under Note 6 to the consolidated financial statements herein.

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## **NOTE 17. MAJOR CUSTOMERS AND VENDORS**

One customer, Jingban Project, accounted for 0%, 21% and 65% of total sales for the years ended September 30, 2017, 2016 and 2015, respectively. The outstanding accounts receivable balance for this customer was 66%, 49% and 36% of the total accounts receivable balance as of September 30, 2017, 2016 and 2015, respectively.

One vendor accounted for over 10% of total purchases for the year ended September 30, 2017, and two vendors accounted for over 10% of total purchases for the years ended September 30, 2016 and 2015, respectively.

## **NOTE 18. COMMITMENTS AND CONTINGENCIES**

The Company had one VIE as of September 30, 2017. In the opinion of the management, (i) the ownership structure of the Company and the VIE are in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIE and its shareholder are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Company's business operations are in compliance with existing PRC laws and regulations in all material respects. However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a view inconsistent with the Company's opinion. If the current ownership structure of the Company and its contractual arrangements with the VIE are found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its ownership structure and operations in the PRC to comply with the changing and new PRC laws and regulations and continue consolidation with its VIE.

In 2009, each of our executive officers entered into a five-year employment agreement with Softech, our wholly-owned PRC subsidiary. In 2015, certain of our executive officers have renewed the employment agreement for 5 years ending in 2019. Softech may terminate a senior executive officer's employment for cause, at any time, without prior notice or remuneration, for certain acts of the officer, including, but not limited to, material violation of our regulations, failure to perform agreed-upon duties, embezzlement causing material damage to the Company, and conviction of a crime. A senior executive officer may terminate his or her employment at any time by delivering a 30-day prior written notice. Each senior executive officer is entitled to certain benefits upon termination, including a severance payment equal to a certain specified number of months of his or her salary as of termination, provided that he or she resigns for certain good reasons specified by his or her employment agreement or the relevant rules or Softech terminates his or her employment without "cause". The details of the terms and annual salary of our executive officers are set forth below:

Name	Title	Annual Base Salary (in RMB with US\$ equivalence))		Term
Peng Zhang	Chief Executive Officer	RMB 180,000	\$ 28,285	Until 2019
Li Wu	Chief Financial Officer	RMB 132,000	\$ 20,742	Until 2019
Wei Zhang	Executive President	RMB 120,000	\$ 18,857	Until 2019
Xiang Bu	Manager	RMB 120,000	\$ 18,857	Until 2019
Zhenyu Chen	Manager	RMB 120,000	\$ 18,857	Until 2019

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## NOTE 19. SHARE-BASED COMPENSATION

In order to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of the Company's business, its board of directors and its shareholders approved and adopted an Omnibus Incentive Plan in April 2010 (the "2010 Plan"). Under the 2010 Plan, the Company may grant options or restricted awards to its employees, directors and consultants to purchase an aggregate of no more than 1,500,000 ordinary shares (on a pre-Reverse Split basis) of the Company, subject to different vesting requirements. The 2010 Plan is administered by the Compensation Committee (the "Plan Administrator"). The officers of the Company have been authorized and directed by the Plan Administrator to execute Option Agreements with those persons selected by the Plan Administrator and issue ordinary shares of the Company upon exercise of any options so granted pursuant to the terms of an Option Agreement.

All options granted under the 2010 Plan have a term of ten years from the option grant date and vest according to the terms and conditions set forth in each grant agreement. On May 14, 2010, the Company granted 180,000 options to a combination of employees and directors of the Company, at an exercise price of US\$4.00 on a pre-Reverse Stock Split basis.

Restricted stock granted under the 2010 Plan is subject to a different vesting period. On May 14, 2010, the Company granted 100,000 restricted shares to an officer. Of the 100,000 restricted shares 50,000 vested on April 23, 2011 and the remaining 50,000 were to vest on April 23, 2012. However, the officer resigned on May 31, 2011, and the remaining 50,000 restricted shares to be vested on April 23, 2012, as well as the officer's unvested options, were forfeited in accordance with their terms. In addition, since the two independent directors Ms. Shi and Mr. Fong resigned on July 11, 2011 and June 24, 2011 respectively, their unvested options were forfeited in accordance with their terms. The reference of number of restrictive shares is on a pre-Reverse Stock Split basis.

The Company did not grant any equity awards for the year ended September 30, 2017 and 2016.

The Black-Scholes option pricing model was applied in determining the estimated fair value of the options granted to employees and non-employees. The model requires the input of highly subjective assumptions including the estimated expected stock price volatility, the expected price multiple at which employees are likely to exercise share options. For expected volatilities, the Company has made reference to the historical price volatilities of ordinary shares of several comparable companies in the same industry as the Company. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury Bills yield in effect at the time of grant. The Company's management is ultimately responsible for the determination of the estimated fair value of its ordinary shares. The Company calculated the estimated fair value of the options on the grant date (May 14, 2010) with the following assumptions:

	May 14, 2010	
Risk-free interest rates	1.63	%
Expected term	10 years	
Expected volatility	90	%
Expected dividend yield	0	%
Fair value of underlying ordinary share (per share) (*)	US\$ 3.94	

(\*represents initial public offering close price)

The Company recognized compensation expense for options granted as general and administrative expense on a straight-line basis for each separately vesting portion of the award (the graded vesting attribution method). The fair value of options on the grant date of May 14, 2010 was \$1.89 per share. The share-based compensation expenses for options were US\$0, US\$0 and US\$0 for the years ended September 30, 2017, 2016 and 2015, respectively.

The Company records share-based compensation expenses for restricted shares granted to non-employees in exchange for services at fair value as of the grant date, which was \$3.94 based on the graded vesting attribution method. The share-based compensation expenses for restricted shares were US\$0, US\$0 and US\$0 for the years ended September 30, 2017, 2016 and 2015, respectively.

The following table summarizes outstanding options as of September 30, 2017, related weighted average fair value and life information. Options outstanding for all periods have been retroactively restated to reflect the 1-for-10 reverse stock split effected on November 6, 2012:

Options Outstanding

Options Exercisable

<b>Exercise Price Per Share</b>	<b>Number outstanding as of September 30, 2017</b>	<b>Weighted Average Fair Value</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Number Exercisable as of September 30, 2017</b>	<b>Weighted Average Exercise Price</b>
\$40.00	12,334	\$1.89	2.62	12,334	\$1.89

A summary of option activity under the employee share option plan as of September 30, 2017 and changes during the year then ended is presented as follows:

<b>Options</b>	<b>Number of shares</b>	<b>Exercise Price</b>	<b>Remaining Life (Years)</b>	<b>Aggregated Intrinsic Value</b>
Outstanding as of October 1, 2016	12,334	\$ 40.00	3.62	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Outstanding as of September 30, 2017	12,334	\$ 40.00	2.62	-



## **NOTE 20. STATUTORY RESERVES**

Under PRC law, Softech and Kingtone Information are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The entities are required to allocate at least 10% of their after tax profits on individual company basis as determined under PRC GAAP to the general reserve and have the right to discontinue allocations to the general reserve if such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the entity. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

As of September 30, 2017, the Company had appropriated US\$426,051, and as of 2016 and 2015, the Company had appropriated US\$444,318 and US\$0.00, respectively, in its statutory reserves.

## **NOTE 21. ORDINARY SHARES**

The Company's Memorandum and Articles of Association, as amended, authorize the Company to issue 100,000,000 shares of US\$0.001 par value per ordinary share. Each ordinary share is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors. The Company had 10,000,000 ordinary shares issued and outstanding prior to the May 2010 public offering. In May 2010, the Company issued 4,000,000 shares of ADSs, representing 4,000,000 ordinary shares, through its depositary, Bank of New York Mellon on the NASDAQ Capital Market, at a consideration of US\$4.00 per share for a gross consideration of US\$16,000,000. The total direct cost related to this transaction amounted \$1,496,000, including underwriter fees, attorney fees, audit fees, etc. In 2011, the Company issued 50,000 shares of ADSs, representing 50,000 ordinary shares, as the restricted shares granted to an employee.

Effective November 6, 2012, the Company undertook a combination, or reverse split of the ordinary shares issued by the Company at par value of \$0.001 per share such that the Company shall issue one (1) ordinary share (each, a "New Share" and collectively, the "New Shares") for every ten (10) ordinary shares held by its members ("Old Shares") (the "Reverse Stock Split"). The par value of each New Share was \$0.01, equal to the aggregate of the par value of ten Old Shares combined. The ratio between each American Depositary Share ("ADS") and its underlying ordinary share post-Reverse Stock Split remains the same, namely, one ADR remains to represent one New Share.

As of September 30, 2017, there were 1,405,000 ordinary shares issued and outstanding.

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**NOTE 22. EARNINGS PER ORDINARY SHARE**

	For the years ended September 30,		
	2017	2016	2015
Numerator used in basic net income per share:			
Net Income (loss)	\$(218,486 )	\$(160,000 )	\$1,027,000
Shares			
Weighted average number of ordinary shares outstanding	1,405,000	1,405,000	1,405,000
Weighted average number of ordinary shares outstanding used in computing diluted earnings per ordinary share	1,405,000	1,405,000	1,405,000
Loss per ordinary share- basic and diluted	\$(0.16 )	\$(0.11 )	\$0.73

As of September 30, 2017, the Company had zero restricted shares and 12,334 outstanding options that could potentially dilute basic income per share in the future, but which were excluded in the computation of diluted income/loss per share in the periods presented, as their effect would have been anti-dilutive since the grant price of these restricted shares and the exercise price of these option were higher than the average market price during period presented.

**NOTE 23. SUBSEQUENT EVENT**

As of January 26, 2018, the related companies had repaid a total of \$6,986 thousand to the Company, the balance of current portion and non-current portion of due from related companies was nil after the repayments.

On January 25, 2018, the Company executed an Asset Exchange Agreement (“AEA”) with C Media Limited, a corporation organized under the laws of the Cayman Islands (“C Media”), whereby the Company agreed to purchase all the capital stock and equity interests of LK Technology Ltd, together with its wholly-owned subsidiaries MMB Limited and Mobile Media (China) Limited and all respective subsidiaries from C Media in exchange for (i) 185,412,599 ordinary shares of the Company, par value \$0.01 per share (“Ordinary Shares”), (ii) 1,000,000 preferred shares of Kingtone (“Preferred Shares”) and (iii) all issued and outstanding capital stock or equity interests of the Company’s subsidiary, Topsky Info-Tech Holdings Pte Ltd., and its wholly-owned subsidiary Xi’an Softech Co., Ltd., including all entities effectively controlled by Xi’an Softech Co., Ltd. through contractual arrangements and variable business entities.

In order to consummate the contemplated transactions described above, the Company must obtain shareholders’ consent (i) to authorize 1,000,000 Preferred Shares, (ii) to authorize additional Ordinary Shares so that total authorized Ordinary Shares is equal to 250,000,000 shares, (iii) to list such Ordinary Shares on NASDAQ, and (iv) to approve the

transactions contemplated in the Asset Exchange Agreement. Additionally, NASDAQ must approve the contemplated transactions prior to consummation thereof. C Media has the right to terminate the AEA if the closing has not occurred (other than through the failure of C Media to comply fully with its obligations under the AEA) on or before July 31, 2018.