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

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**FORM 20-F**

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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 March 31, 2015

OR

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

OR

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

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

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

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**GLOBAL-TECH ADVANCED INNOVATIONS INC.**

(Exact Name of Registrant as Specified in its charter and Translation of Registrant's Name into English)

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**British Virgin Islands**

(Jurisdiction of incorporation or organization)

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**12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong**

(Address of principal executive offices)

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(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

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

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common Shares, par value \$0.04 per share	The NASDAQ Stock Market LLC

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

**Not Applicable**

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

**Not Applicable**

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:

**3,044,227 Common Shares, par value \$0.04 per share**

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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 that the registrant has elected to follow.  Item 17  Item 18

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

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## TABLE OF CONTENTS [TO BE UPDATED]

	<u>Page</u>
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	2
<u>A. Directors and senior management</u>	2
<u>B. Advisers</u>	2
<u>C. Auditors</u>	2
<u>Item 2. Offer Statistics and Expected Timetable</u>	2
<u>A. Offer statistics</u>	2
<u>B. Method and expected timetable</u>	2
<u>Item 3. Key Information</u>	3
<u>A. Selected financial data</u>	3
<u>B. Capitalization and indebtedness</u>	4
<u>C. Reasons for the offer and use of proceeds</u>	4
<u>D. Risk factors</u>	4
<u>Item 4. Information on the Company</u>	12
<u>A. History and development of the Company</u>	12
<u>B. Business overview</u>	12
<u>C. Organizational structure</u>	20
<u>D. Property, plant and equipment</u>	21
<u>Item 4A. Unresolved Staff Comments</u>	22
<u>Item 5. Operating and Financial Review and Prospects</u>	22
<u>A. Operating results</u>	22
<u>B. Liquidity and Capital Resources</u>	28
<u>C. Research and development, patents and licenses, etc.</u>	31
<u>D. Trend information</u>	31
<u>E. Off-balance sheet arrangements</u>	31
<u>F. Tabular Disclosure of Contractual Obligations</u>	31
<u>Item 6. Directors, Senior Management and Employees</u>	32
<u>A. Directors and senior management</u>	32
<u>B. Compensation</u>	33
<u>C. Board practices</u>	33
<u>D. Employees</u>	34
<u>E. Share ownership</u>	35
<u>Item 7. Majority Shareholders and Related Party Transactions</u>	38
<u>A. Major shareholders</u>	38
<u>B. Related party transactions</u>	38
<u>C. Interests of experts and counsel</u>	39
<u>Item 8. Financial Information</u>	39
<u>A. Consolidated statements and other financial information</u>	39
<u>B. Significant changes</u>	39
<u>Item 9. The Offer and Listing</u>	40
<u>A. Offer and listing details</u>	40
<u>B. Plan of distribution</u>	40
<u>C. Markets</u>	40
<u>D. Selling shareholders</u>	40
<u>E. Dilution</u>	41
<u>F. Expenses of the issue</u>	41

<u>Item 10. Additional Information</u>	41
<u>A. Share capital</u>	41
<u>B. Memorandum and articles of association</u>	41
<u>C. Material contracts</u>	44
<u>D. Exchange controls</u>	44
<u>E. Taxation</u>	44
<u>F. Dividends and paying agents</u>	48
<u>G. Statement by experts</u>	49
<u>H. Documents on display</u>	49
<u>I. Subsidiary information</u>	49
<u>Item 11. Quantitative and Qualitative Disclosures about Market Risk</u>	49
<u>Item 12. Description of Securities Other than Equity Securities</u>	50
<u>A. Debt securities</u>	50
<u>B. Warrants and rights</u>	50
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	50
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	50
<u>Item 15. Controls and Procedures</u>	50
<u>Item 16. [Reserved]</u>	51
<u>Item 16A. Audit Committee Financial Expert</u>	51
<u>Item 16B. Code of Ethics</u>	52
<u>Item 16C. Principal Accountant Fees and Services</u>	52
<u>Item 16F. Change in Registrant’s Certifying Accountant</u>	52
<u>Item 16G. Corporate Governance</u>	52
<u>Item 17. Financial Statements</u>	54
<u>Item 18. Financial Statements</u>	54
<u>Item 19. Exhibits</u>	54
<u>Index to Consolidated Financial Statements</u>	F-1
<u>Exhibit Index</u>	E-1

The terms “Global-Tech,” “we,” “the Company,” the “Group,” “us” and “our” as used in this annual report on Form 20-F, or annual report, refer to Global-Tech Advanced Innovations Inc. (formerly known as Global-Tech Appliances Inc.), a British Virgin Islands corporation, and its consolidated subsidiaries, except where the context requires otherwise. The terms “China,” “Hong Kong” and “Macau” as used in this annual report refer to the People’s Republic of China (the “PRC”), the Hong Kong Special Administrative Region of China and the Macau Special Administrative Region of China, respectively.

“Discontinued operation(s)” refers to our home appliance and EMS business segments, which were discontinued in January 2012 and December 2013, respectively.

References throughout this annual report to a fiscal year refer to the fiscal year ended on March 31 of that year. “Fiscal 2015,” for example, refers to the fiscal year ended March 31, 2015.

Our financial statements are reported in U.S. dollars (see Note 3(q) of Notes to Consolidated Financial Statements) and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references to “dollars” or “\$” in this annual report are to U.S. dollars. All references to “HK\$” are to Hong Kong dollars and “RMB” are to Chinese Renminbi.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements that are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions and involve inherent risks and uncertainties. We use words such as “expect,” “anticipate,” “project,” “believe,” “plan,” “intend,” “seek,” “should,” “estimate,” “future,” or variations of such words and other similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Forward-looking statements contained herein (including future cash contractual obligations, liquidity, cash flow, orders, results of operations, and trends, among other matters) or in other statements made by us are made based on management’s expectations and beliefs concerning future events impacting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by forward-looking statements. We believe that the following factors, among others (including those described in Item 3.D. “Risk Factors”), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf:

- a determination that we are a Passive Foreign Investment Company;
- operations strategy;
- the cyclical nature of the markets which we serve and the vulnerability of those markets to economic downturns;
- impairment charges and other charges related to discontinued operations;
- our exit from the home appliance and EMS businesses;
- the loss of, or a significant reduction or delay in purchases by our customers;
- competition in our markets;
- financial distress of third parties;
- general economic, political, business and market risks associated with our global operations;
- fluctuations in foreign currency exchange and interest rates;
- our ability to control our costs while maintaining customer relationships and core business resources;
- litigation and disputes involving us, including the extent of product liability, warranty, pension, employment and other similar claims asserted against us;
- labor costs and disputes and the deterioration of our relations with our employees;
- additional liabilities related to taxes;
- our ability to continue our technical innovation in our product lines;
- our ability to protect our intellectual property and know-how;
- claims that our products or processes infringe intellectual property rights of others;
- fluctuations in the price of our stock; and
- other factors described in this annual report.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this annual report and are expressly qualified in their entirety by the cautionary statements included in this annual report. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

#### **A. *Directors and senior management.***

Not applicable.

#### **B. *Advisers.***

Not applicable.

#### **C. *Auditors.***

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable**

#### **A. *Offer statistics.***

Not applicable.

#### **B. *Method and expected timetable.***

Not applicable.

### Item 3. Key Information

#### A. Selected financial data.

The selected consolidated statement of operations data for the fiscal years ended March 31, 2013, 2014 and 2015 and the selected consolidated balance sheets data as of March 31, 2014 and March 31, 2015 set forth below have been prepared in accordance with U.S. GAAP and are derived from our consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated statement of operations data for the fiscal years ended March 31, 2011 and 2012 and the selected consolidated balance sheets data as of March 31, 2011, 2012 and 2013 set forth below have been prepared in accordance with U.S. GAAP and are derived from our consolidated financial statements and notes thereto not included elsewhere in this annual report. The selected consolidated financial data set forth below should be read in conjunction with “Item 5—Operating and Financial Review and Prospects,” the consolidated financial statements and the notes thereto and other financial information which appear elsewhere in this annual report.

	Fiscal Year Ended March 31,				
	2011 <sup>(2)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015
	(In thousands, except for per share data)				
<b>Statement of operations data:</b>					
Net sales	\$ 42,727	\$ 55,213	\$ 66,827	\$ 62,693	\$ 78,021
Cost of goods sold	(38,190)	(48,385)	(56,855)	(57,999)	(74,867)
Gross profit	4,537	6,828	9,972	4,694	3,154
Selling, general and administrative expenses	(8,166)	(7,027)	(12,384)	(13,148)	(12,424)
Other operating income, net	1,138	29	—	—	—
Operating loss	(2,491)	(170)	(2,412)	(8,454)	(9,270)
Interest income, net	537	95	1,504	685	439
Other income, net	441	1,125	583	2,397	2,146
Income (Loss) from continuing operations before income taxes	(1,513)	1,050	(325)	(5,372)	(6,685)
Income tax (expense) benefit	(204)	(1,229)	842	256	209
Income (Loss) from continuing operations	(1,717)	(179)	517	(5,116)	(6,476)
Income (Loss) from discontinued operations, net of taxes <sup>(1)</sup>	(2,471)	1,596	(2,588)	(5,547)	—
Net income (loss)	(4,188)	1,417	(2,071)	(10,663)	(6,476)
Net income (loss) attributable to non-controlling interests	175	(6)	108	108	55
Net income (loss) attributable to shareholders of Global-Tech Advanced Innovations Inc.	<u>\$ (4,013)</u>	<u>\$ 1,411</u>	<u>\$ (1,963)</u>	<u>\$ (10,555)</u>	<u>\$ (6,421)</u>
<b>Basic and diluted earnings (loss) per share of common stock:</b>					
Income (Loss) from continuing operations	\$ (0.51)	\$ (0.06)	\$ 0.21	\$ (1.65)	\$ (2.11)
Income (Loss) from discontinued operations	(0.81)	0.52	(0.86)	(1.82)	—
Basic and diluted net income (loss) per share of common stock	<u>\$ (1.32)</u>	<u>\$ 0.46</u>	<u>\$ (0.65)</u>	<u>\$ (3.47)</u>	<u>\$ (2.11)</u>
Basic and diluted weighted average number of shares of common stock	<u>3,039</u>	<u>3,039</u>	<u>3,040</u>	<u>3,042</u>	<u>3,044</u>

(1) In January 2012 and December 2013, the Company discontinued the operation of its home appliance and EMS business segments, respectively.

(2) Comparative figures have been reclassified to conform with current year's presentation.

	At March 31,				
	2011	2012	2013	2014	2015
	(In thousands)				
<b>Balance sheets data:</b>					
Working capital <sup>(1)</sup>	\$ 45,170	\$ 54,000	\$ 45,383	\$36,343	\$32,111
Total assets	119,936	109,040	108,226	99,667	94,984
Net assets <sup>(2)</sup>	76,512	80,259	76,534	66,174	59,752
Total debt <sup>(3)</sup>	12,585	4,000	4,826	7,280	6,780
Shareholders' equity	76,337	80,091	76,258	65,790	59,312

(1) Working capital is the excess of current assets over current liabilities.

(2) Net assets are the excess of total assets over total liabilities and non-controlling interests.

(3) Total debt is the summation of short-term borrowings, current portion of long-term bank borrowings and non-current portion of long-term bank borrowings.

**B. Capitalization and indebtedness.**

Not applicable.

**C. Reasons for the offer and use of proceeds.**

Not applicable.

**D. Risk factors.**

**Passive foreign investment company.** Based on our financial statements, the valuation of our assets and the interpretation that rental income from our non-US based factories and equipment is considered passive, we believe that it may be determined in the future that we are a passive foreign investment company ("PFIC"). We have experienced recent changes in the composition of our income and assets resulting from the discontinuation of our home appliance and EMS businesses, and could experience further changes that may result from increases in the Company's cash reserves and/or the generation of rental income from the lease of portions of our facilities. If we become a passive foreign investment company, such characterization could result in adverse U.S. tax consequences to our investors if they are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements.

If we are a PFIC for any taxable year during which a U.S. investor holds our common shares, unless the U.S. investor made a mark-to-market election, the U.S. investor would be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of common shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or a U.S. investor's holding period for the common shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. investor's holding period for the common shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate U.S. investors will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2016, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets (which include cash) by (determined on a quarterly average) value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the then prevailing market value of our common shares, which is subject to change. We have calculated our position for fiscal 2015 and our plan for 2016 and believe we are not currently a PFIC and do not expect to be in fiscal 2016. See "Item 10. Additional Information—E. Taxation—Material United States Federal Income Tax Consequences."



***Downturns in economic and financial conditions.*** Demand for our products depends in large part upon worldwide consumers of telecom products. While general economic conditions have shown improvement in many parts of the world, there has been continued economic weakness in many key markets. Additionally, growth in the PRC has slowed and government policies continue to evolve. A downturn in economic conditions in the PRC or elsewhere may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, and may reduce their ability to pay for our products and services after purchase. Economic conditions that could impact our business include, but are not limited to, recessionary conditions, slow or negative economic growth rates, the impact of state and sovereign debt defaults. Similarly, our suppliers may not be able to supply us with needed raw materials or components on a timely basis, may increase prices or go out of business, which could result in our inability to meet customer demand, or fulfill our contractual obligations or could affect our gross margins. If the economy or markets in which we operate deteriorate or financial markets weaken, our business, financial condition and results of operations could be adversely impacted.

***Operations Strategy.*** In recent years the Company has experienced inflationary pressures that have severely impacted its ability to operate a manufacturing enterprise in the location in the PRC that was originally established for that purpose in 1995. The government has consistently changed the rules to provide a better living standard for migrant workers, de-emphasized low value added export industries and increased energy costs to try and reduce pollution. Additionally, there is a shortage of technical talent and retaining such talent is a major challenge for management.

The net effect is that government sponsored/supported high technology enterprises can better flourish in this environment. Despite receiving some local government high technology grants for our electronic components business, they are not sufficient to offset the costs of operating in Dongguan, PRC. Our primary goal therefore is to secure the best use for the real estate we have and this will require cooperation from the local government. To date the government has approved our program including our rental arrangements but there is no assurance that they will continue to do so.

***Overcapacity in manufacturing.*** In nearly all sectors of the Chinese economy, there is a significant oversupply in manufacturing capacity due to over-investment and declining exports. In these circumstances only the low cost or connected producer survives. For those companies whose facilities are located in Guangdong province, only the most efficient and productive operations can compete. There is no assurance we can improve our efficiency and productivity sufficiently to compete. In the event we are not able to compete, our business and financial position would be materially impacted.

***Rental income.*** Our cash flow and ability to maintain our manufacturing compound in Dongguan is dependent on our ability to rent out vacant space at reasonable market rates. In the event that we are no longer able to rent out vacant space, the costs of maintaining the facility would have a material impact on our financial position.

At present our rental income, assuming our tenants remain financially viable, is sufficient to cover the costs of the facility but if we do not develop an appropriate use of our land and buildings in the future that is approved and supported by the local authorities, our financial position will be adversely impacted.

***Insolvency or financial distress of third parties.*** Under Chinese law, a landlord may be held responsible to pay past due wages, social insurance and severance in the event any of its tenants become financially insolvent. If any of our tenants become insolvent, particularly our EMS lessee, and the government were to hold us responsible for any of the costs listed above, our overall cost could materially exceed the deposits we hold from our tenants. If this happens, we may incur losses, or our results of operations, financial position or liquidity could otherwise be adversely affected.

***Inflation and increased labor costs.*** The economy in China has grown significantly over the past 20 years, which has resulted in an increase in inflation and the average cost of labor, especially in the coastal cities. China's overall economy and the average wage in the PRC are expected to continue to grow. Increases in China's inflation and material increases in the cost of labor continue to diminish our competitive advantage and, unless we are able to pass on these increased labor costs to our customers by increasing prices for our products and services, our profitability and results of operations could be materially and adversely affected.

***Additional Land Use Rights Payments.*** Following our exit from the home appliance and EMS businesses, approximately 122,000 square meters of production space and 10,000 square meters of dormitories were no longer needed for our operation. We began leasing a portion of this space to independent third parties in fiscal 2013 and, as of the date of this annual report, we had leased 115,328 square meters of our former production space.

The land use right certificates obtained by the Company for the land where the leased facilities are located include a statement as to the approved use of the land. The Dongguan City local government retains the right to demand additional fees from the Company in the event that it is deemed that the Company's leasing of certain of its facilities is inconsistent with the approved use of the land stated on the land use right certificates. No formal fee schedule exists; thus the Company cannot quantify the amount of such fees, should the local government elect to demand the payment of such fees. No accruals have been made as these fees are neither probable nor quantifiable. In the event that we are required to pay additional land use rights, it would have an adverse effect on our financial condition and operations.

**Conflict Minerals.** In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”), the SEC adopted new requirements for companies that use certain minerals and derivative metals (referred to as “conflict minerals”, regardless of their actual country of origin) in their products. These new requirements will require companies to investigate, disclose and report whether or not such metals originated from the Democratic Republic of Congo or adjoining countries. In October 2012, the National Association of Manufacturers and the U.S. Chamber of commerce filed a petition for review in the U.S. Court of Appeals for the District of Columbia in response to a section of Dodd-Frank regulation that requires public companies to disclose whether their products have been manufactured with these conflict minerals in countries where the sale of these minerals fuel humanitarian violence. In April 2014, the Court found that certain aspects of the requirements violated the first Amendment. In January 2013, the SEC’s conflicts minerals disclosure rules were to become effective, requiring companies to make their first conflict minerals disclosures on or before May 31, 2014 for the 2013 calendar year. However, the SEC issued a Partial Stay of the Conflict Mineral Rules on May 2, 2014 and we will continue evaluating the disclosure requirements in order to comply with the SEC rules, as they are ultimately prescribed.

As there may be only a limited number of suppliers offering “conflict free” metals, we cannot be certain that our suppliers will be able to obtain necessary metals in sufficient quantities or at competitive prices. Also, since our supply chain is complex and some suppliers will not share their confidential supplier information, we may face challenges with our customers and suppliers if we are unable to sufficiently verify that the metals used in our products are “conflict free”. Some customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it becomes unsalable as a result of these regulations.

**Credit terms in the PRC.** Some of the Company’s major customers in the PRC are granted credit terms of up to 210 days and a significant number are granted more than 90 days as is customary in the telecom industry in the PRC; however, receivables for some of the Company’s customers may extend beyond the stated credit terms. An increase in receivables that extend beyond stated credit terms or a customer’s refusal or inability to pay would have a material adverse effect on our profitability and results of operations.

**Dependence on major customers.** Our five largest Electronic Components customers represent approximately 45.6% of consolidated net sales in fiscal 2015. We have no contractual arrangements with these customers and only sell to them based on purchase orders received. We expect that a limited number of customers will continue to represent a substantial portion of our sales for the foreseeable future. The loss of any of our major customers or a decrease or delay in orders or anticipated spending by such customers could materially reduce our revenues and profitability. Our largest customers could also engage in business combinations, which could increase their size, reduce their demand for our products as they recognize synergies or rationalize assets and increase or decrease the portion of our total sales concentration to any single customer.

**Penalties for workforce reductions.** In June 2007, the National People’s Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers’ rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, this new law requires an employer to conclude an “open-ended employment contract” with any employee who either has worked for the employer for 10 years or more or who has had two consecutive fixed-term contracts. An “open-ended employment contract” is in effect a lifetime, permanent contract, which is terminable only in specified circumstances, such as a material breach of the employer’s rules and regulations, or for a serious dereliction of duty. Under the new law, downsizing by 20% or more of an individual entity may occur only under specified circumstances, such as a restructuring undertaken pursuant to China’s Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations. Also, in the event of a layoff of more than 20 employees at one time, the entity is required to communicate with its labor union and report to the District Labor Bureau. We complied with all of the requirements when discontinuing our home appliance and EMS businesses at significant cost. Any further workforce reductions not caused by natural attrition would have a material impact on our financial results.

**Security of bank accounts in the PRC.** The Company has a number of bank accounts in the PRC to satisfy lines of credit, exchange regulations and banking facilities and to support its operations. None of these accounts are government-insured. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by PRC banks and financial authorities and it remains unclear whether the stimulus plans and other measures implemented by the Chinese government will be enough to avert an economic downturn. The People’s Bank of China (“PBoC”) has recently expressed its intentions not to support the interbank market and its desire for tighter monetary policies. In the event of a credit crisis, our accounts would be vulnerable to loss, which would have a material adverse effect on our business and financial condition.

**PRC Social Insurance Law.** In October 2010, China promulgated the Social Insurance Law of the People’s Republic of China (the “Social Insurance Law”), which became effective as of July 1, 2011. Before its promulgation, China’s social insurance policies were implemented through a web of rules and regulations at both national and local levels. The Law unifies previous, scattered laws that relate to social insurance matters. The Social Insurance Law expressly clarifies that the social insurance system in China includes pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, all of which are mandatory for employees of companies operating in the PRC. Both employers and employees are required to make contributions for pension, medical and unemployment insurance, while only employers are required to make contributions for work-related injury insurance and maternity insurance. Additionally, under certain circumstances, employers must provide housing subsidies for its workers.

The Social Insurance Law does not specify the contribution rates or the basis for calculating each kind of social insurance, which leaves room for local governments to implement the Social Insurance Law based upon their local economic realities and consistent with the national policy. Currently, contribution rates are determined at the provincial or municipal level and many local governments have not yet established contribution rates.

Previously, the Company adhered to a policy of accruing and expensing social insurance premiums equivalent to two years of such costs at published rates, without regard to actual payments. The Company has assessed the potential for retroactive application of the Social Insurance Law and concluded that such retroactive application is neither likely nor calculable. In prior years, new accruals were offset by a resulting reversal of accruals made two years prior. However, should the local government rates or applicability ultimately differ from those used by the Company, it could have a material adverse effect on our financial results and financial condition.

In fiscal 2012 and fiscal 2014, in connection with our exit from the home appliance and EMS businesses respectively, previous accruals for the social insurance expenses for their segments were reversed to offset severance and other costs relating to the termination of employees previously assigned to their respective businesses.

**Cost and availability of labor.** There is an emerging trend of a shortage of supply of migrant workers in China, particularly in Guangdong Province where our factory is located. Both in numbers and in skill, the labor force in China cannot keep up with the current speed of economic development and labor organizations have begun to initiate industrial action to raise wages. We continually adjust salaries and fringe benefits in order to attract and retain an adequate labor force. This trend of labor shortages is expected to continue and will likely result in further increases in wages as companies seek to retain their existing work forces. In the coming year, we expect that both a potential shortage of labor and increasing costs will impact our manufacturing operations, which has affected and will continue to adversely affect gross margins.

**Cancellation or delays in purchase orders placed by our customers.** Sales to our customers are primarily based on purchase orders and forecasts we receive. We generally purchase and stock components upon receiving orders; however, we will purchase components for certain customers based on their rolling forecasts. We are required to purchase components on an occasional or continuous basis in the expectation of receiving purchase orders for products that use such components. In the event the actual orders are delayed or cancelled, we would have increased inventory levels or possible write-downs of our inventory that could materially and adversely affect our business and results of operations.

**Foreign sales, operations and assets.** Substantially all of our products are currently manufactured in China and over 99% of the net book value of our total long-lived assets is located there. We sell products to companies based principally in China and Asia. Consequently, our international operations and sales may be subject to the following risks, among others:

- political and economic risks, including political instability, currency controls and exchange rate fluctuations;
- changes in import/export regulations;
- changes in the rate of inflation;
- changes in tariff and freight rates; and
- changes in tax rates.

In particular, changes in tariff structures or other trade policies could adversely affect our customers or suppliers or decrease our competitors' costs of production.

**Governmental regulation.** Our operations and assets in China are subject to significant political, economic, legal and other uncertainties. Any of the followings could result from policy changes by the Chinese government and could have a material adverse effect on our business, results of operations and financial condition:

- legal or regulatory changes, or changes in interpretation of current laws or regulations;
- new labor laws restricting flexibility in employment and added social security costs;
- confiscatory or increased taxation;
- restrictions on currency conversion, imports and sources of supply;
- import duties;
- currency devaluations; or
- expropriation of private enterprise.

Under its current leadership, the Chinese government has been pursuing economic reform policies, including the encouragement of private economic activity and greater economic decentralization. In 2001, China was admitted to the World Trade Organization (“WTO”), and is now entitled to the full trading rights afforded a WTO member country. There can be no assurance, however, that China will continue to pursue and implement favorable economic reform policies, that such policies will be successful if pursued or that such policies will not be significantly altered from time to time without prior notice.

The municipal authorities in each township in China have a certain amount of discretion to impose or waive a large number of fees and taxes including value-added tax, real estate tax, stamp duty, licenses and permits. In the Company’s manufacturing location, it is subject to the laws and regulations of the township of Dongguan, Guangdong Province and the PRC. To the extent the government authorities decide to exercise their discretion to increase or impose new fees, our operations could be materially affected.

**Change in PRC taxation.** Under PRC tax law before 2008, the Company was subject to a lower overall effective tax rate than some U.S. domiciled corporations because of the location of its business operations. However, on March 16, 2007, the Chinese government enacted a unified enterprise income tax law or EIT, which became effective on January 1, 2008. Prior to the EIT, as a foreign invested enterprise, or “FIE”, some of our subsidiaries enjoyed preferential tax treatment. Under the EIT, most domestic enterprises and FIEs are subject to a single PRC enterprise income tax rate of 25%. One of our subsidiaries in China is qualified as a High and New Technology Enterprise (“HNTE”) and subject to a preferential tax rate of 15% effective January 1, 2012 as long as it retains its HNTE classification. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various administrative regions and countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by the tax authorities and to possible changes in law, which may have retroactive effect. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes, which could have a material impact on our financial position and results of operations.

**PRC taxation on deemed income.** The PRC tax authorities could determine that any inter-company payable account in accordance with PRC GAAP could be deemed income if such inter-company payables cannot be settled and are therefore income subject to taxation. In accordance with FASB ASC 740, we evaluated our position and determined that such inter-company payables will be settled, and particularly, since prior year tax assessments have been confirmed with the PRC tax authorities, deeming such inter-company payables as income is not likely. However, if the PRC tax authorities deem the inter-company payables of our PRC subsidiaries as income, it would have a material impact on our financial position and results of operations.

**PRC taxation on worldwide income.** We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our worldwide income. The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Also, on April 22, 2009, the State Administration of Tax (“SAT”) issued a Tax Circular, *Guoshuifa (2009) No. 82, Notice on the Recognition of Overseas Incorporated Domestically Controlled Enterprises as PRC Resident Enterprises Based on the Place of Effective Management Criteria*, or Circular 82, with retrospective effect from 1 January 2008. According to Circular 82, any enterprise established under the law of a country or region other than the PRC but whose main investor is a PRC enterprise or Group shall be recognized as a resident enterprise for PRC tax purposes if all the following criteria are met: (i) the senior executives responsible for its daily production or business operations and the place where such responsibilities are carried out are mainly located in China; (ii) decisions about its finances (such as borrowing, lending, financing and managing financial risk) and human resources (such as staff recruitment, termination, and remuneration policies) are made or approved by organizations or individuals located in China; (iii) its major properties, accounting books and records, company seal, board minutes and resolutions, shareholders’ meeting minutes, etc. are kept in China; and (iv) 50% or more of its voting directors or its senior executives habitually reside in China. The principle of “substance over form” applies when determining the place of effective management. Although Circular 82 was issued to regulate the PRC tax resident judgment of companies established overseas and controlled by PRC companies, which is not applicable in our case, the criteria in Circular 82 should be used as a reference to the SAT’s view on this issue. We believe the risk of being recognized as a PRC resident enterprise under the EIT Law is very low. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our results of operations.

**Potential taxes on dividends and sale of our stock.** Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent that such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC “resident enterprise,” it is unclear whether dividends we pay with respect to our common shares, or the gain our investors may realize from the transfer of our common

shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises,” or if our investors are required to pay PRC income tax on the transfer of our common shares, the value of their investment in common shares may be materially and adversely affected.

**Unsecured cash, cash equivalents and short-term investments.** We have cash and short-term cash equivalent instruments, available-for-sale investments which are invested with third party financial institutions that may not be insured or exceed the insurance limits of the Federal Deposit Insurance Corporation (“FDIC”) or other government insurance agencies. While we make an effort to monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or become subject to other adverse conditions in the financial markets. Additionally, there are restrictions in the PRC concerning transfer of funds outside the PRC. We have not experienced any loss in our cash and cash equivalents to date or lack of access to cash in our operating accounts. We also invest excess cash in immediately available and short-term interest bearing cash equivalent instruments. If a commercial bank or financial institution in which we have our funds deposited should become insolvent or be taken over by the FDIC or other governmental insurance agencies, we could have significant unrecoverable cash deposits. A loss in cash deposits would have an adverse impact on our business, results of operations and financial condition.

**New products and rapid technological change.** The technology incorporated in many of our products, particularly consumer electronics, is characterized by rapid change in the marketplace. In addition, the emergence of new technologies can quickly render existing products obsolete or unmarketable. Our ability to anticipate changes in technology and industry standards or consumer demand and successfully develop and introduce new or enhanced products that gain market acceptance will be a critical factor in our ability to grow and remain competitive. There can be no assurance that we will timely or successfully complete the development of new or enhanced products or successfully manage the transition from one product release to the next, or that our future products will achieve market acceptance. The failure to realize such goals could have a material adverse effect on our business, results of operations and financial condition.

**Proprietary technology; patent protection.** We rely on a combination of internal procedures, non-disclosure agreements, intellectual property rights assignment agreements, as well as licenses, patents, trademarks and copyright law to protect our intellectual property and know-how. Our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged. For example, we frequently explore and evaluate potential relationships and projects with other parties, which often requires that we provide the potential partner with confidential technical information. While confidentiality agreements are typically put in place, there is a risk the potential partner could violate the confidentiality agreement and use our technical information for its own benefit or the benefit of others or compromise the confidentiality. In addition, the laws of certain foreign countries in which our products may be sold or manufactured do not protect our intellectual property rights to the same extent as the laws of the United States. For example, laws in China may not protect our intellectual property rights to the same extent as in the United States. Failure or inability to protect our proprietary information could result in a decrease in our sales or profitability. The protection of our intellectual property may require expensive investment in protracted litigation and the investment of substantial management time and there is no assurance we ultimately would prevail or that a successful outcome would lead to an economic benefit that is greater than the investment in the litigation. In addition, we may be unable to prevent third parties from using our intellectual property rights and know-how without our authorization or from independently developing intellectual property that is the same as or similar to ours, particularly in those countries where the laws do not protect our intellectual property rights as fully as in the United States. We compete in a number of industries that are small or specialized, which makes it easier for a competitor to monitor our activities and increases the risk that ideas will be stolen. The unauthorized use of our know-how by third parties could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business or increase our expenses as we attempt to enforce our rights.

**Potential patent infringement or similar claims.** Although it is our intention to avoid infringing or otherwise violating the intellectual property rights of others, third parties may nevertheless claim (and in the past have claimed) that our processes and products infringe their intellectual property and other rights. We compete with other companies for contracts in some small or specialized industries, which increases the risk that the other companies will develop overlapping technologies leading to an increased possibility that infringement claims will arise. Whether or not these claims have merit, we may be subject to costly and time-consuming legal proceedings, and this could divert our management’s attention from operating our businesses. In order to resolve such proceedings, we may need to obtain licenses from these third parties or substantially re-engineer or rename our products in order to avoid infringement. In addition, we might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer or rename our products successfully.

**Product liability.** We may be subject to substantial product liability costs if claims arise out of problems associated with our products. We provide a warranty for limited manufacturing defects to certain of our customers and repair products rejected by customer QC. We do not provide warranties, however, that extend to the ultimate consumers of the product. Nevertheless, there can be no assurance that we will not be subject to a suit by a consumer who uses one of our products if the product causes an injury to any

person or does not perform properly. We maintain product liability insurance in an amount we believe is sufficient. There can be no assurance, however, that our insurance coverage will be adequate or that all product liability claims will be covered by our current product liability insurance. In addition, these policies must be renewed annually. To date, we have not been subject to any material product liability claim. While we have been able to obtain product liability insurance in the past, premiums continue to increase in cost and may not be available in the future on terms acceptable to us, if at all. The failure to maintain insurance coverage, or a successful claim against us not covered by or in excess of the insurance coverage, could have a material adverse effect on our business, results of operations and financial condition. In addition, product liability claims, regardless of their merit or eventual outcome, may have a material adverse effect on our business reputation.

**Product safety; delays in regulatory approval.** Prior to the commercial introduction of our products into the market, we always obtain approval of our products by at least one of the organizations engaged in testing product safety and/or other appropriate agencies. The application process for securing these approvals requires a significant commitment of time and resources by our technical staff and could delay the introduction of our products. Our inability to obtain regulatory approval within the projected timeframe for commercial introduction of our products or other product introduction delays could have a material adverse effect on our business, results of operations and financial condition.

**Risks of manufacturing in China; property damage.** All of our products are manufactured at our factory complex located in Dongguan, China. In addition to the political and economic risks of operations in China, firefighting and disaster relief assistance in China is not as sophisticated as in certain Western countries. We currently maintain property damage insurance in the aggregate of approximately \$146.6 million which covers our inventory, furniture, equipment, machinery and buildings and also maintain business interruption insurance in the aggregate of approximately \$23.8 million for losses relating to our factory. Material damage to, or the loss of, our facilities due to fire, severe weather, flood, force majeure or other act of God or cause, even if insured against, would have a material adverse effect on our business, results of operations and financial condition.

**Impact of environmental regulations.** We are subject to Chinese laws that regulate environmental quality, the utilization of natural resources and the reduction of pollution. Environmental regulation in China is currently evolving and could become more stringent or more stringently enforced in the future, which could require us to make substantial additional capital expenditures in the future to maintain compliance. As a manufacturer, we are subject to annual inspections by the local branch of the State Environment Protection Administration (“SEPA”). Although compliance with environmental regulations has not had a material adverse effect on us in the past, failure to comply with these laws or to pass an inspection in the future could have a material adverse effect on our business, results of operations and financial condition.

**Dependence on distributions from operating subsidiaries and currency fluctuation.** We have no direct business operations, other than our ownership of our subsidiaries. If we decide to pay dividends in the future, as a holding company, our ability to pay dividends and meet other obligations would depend upon the receipt of dividends or other payments from our operating subsidiaries and our other holdings and investments. In addition, our operating subsidiaries may also be subject to restrictions on their ability to make distributions to us, including, among others, restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions, particularly as it relates to our PRC subsidiaries. Since we do not engage in hedging or other similar transactions, extraordinary currency fluctuations could have a material adverse effect on our business, results of operations and financial condition.

**Concentration of ownership.** Wing Shing Holdings Company Limited, a British Virgin Islands company (“Wing Shing Holdings”), directors and family members of directors of the Company beneficially own approximately 67.4% of our outstanding common shares (issued net of treasury shares). The share ownership of Wing Shing Holdings is held 44.0% by the estate of Kwong Ho Sham who, prior to his passing, served as the Chairman of the Company’s Board of Directors, and 56.0% by our Chief Executive Officer, John Sham, who currently serves as a director. Voting control of Wing Shing Holdings is effectively held by John Sham. As a result, Wing Shing Holdings and its shareholders and their family members are in a position to control our activities and policies, including possessing the voting power to elect our board of directors and approve all matters requiring shareholder approval and the ability to generally direct our affairs. In June 2011, Kwong Ho Sham established a trust that would own his portion of Wing Shing Holdings’ shares in the Company. Upon his passing, 303,070 shares currently owned by Wing Shing Holdings would go into this trust and 385,727 shares owned by Wing Shing Holdings would be transferred to John C.K. Sham. As of June 2015, the transfers had not been officially executed but are expected to occur during fiscal 2016. John C.K. Sham, as a trustee of his father’s charitable trust, declines beneficial ownership of any of the trust’s shares.

**Unexpected loss of our C.E.O. or other key personnel.** Our continued success requires us to hire, retain and develop our leadership bench and other highly skilled personnel. The unexpected loss of our Chief Executive Officer, John C.K. Sham, turnover in key personnel, or our failure to develop and implement an adequate succession plan to backfill current leadership could deplete our institutional knowledge base, erode our competitive advantage and jeopardize our continued viability.

**Service and enforcement of legal process.** We are organized under the laws of the British Virgin Islands. All but one of our directors and executive officers reside outside the United States, and most of our assets are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process on these persons within the United States or to enforce against these persons judgments obtained in U.S. courts, including judgments predicated on the civil liability provisions of the federal

securities laws of the United States. In particular, judgments of U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States may be difficult to enforce in British Virgin Islands courts and it is uncertain whether British Virgin Islands courts will enter judgments in original actions brought in British Virgin Islands courts predicated solely upon the civil liability provisions of the federal securities laws of the United States.

**British Virgin Islands company.** Our corporate affairs are governed by our memorandum and articles of association and by the International Business Companies Act of the British Virgin Islands. Principles of law relating to such matters as the validity of corporate procedures, the fiduciary duties of management and the rights of our shareholders may differ from those that would apply if we were incorporated in the United States or another jurisdiction. The rights of shareholders under British Virgin Islands law are not as clearly established as are the rights of shareholders in many other jurisdictions. Thus, our shareholders may have more relative difficulty protecting their interests against certain actions by our board of directors or principal shareholders than similarly situated shareholders of a corporation incorporated in another jurisdiction. Please see details under “Item 10—Additional Information.”

**Director actions without shareholder approval.** Under our memorandum and articles of association and the laws of the British Virgin Islands, our memorandum and articles of association may be amended by our board of directors without shareholder approval. This includes:

- increasing or reducing our authorized capital;
- authorizing the issuance of different classes of shares, including preference shares; and
- increasing or reducing the par value of our shares.

Our ability to amend our memorandum and articles of association by a resolution of directors or a resolution of members could have the effect of delaying, deterring or preventing a change in control of the Company without any further action by the shareholders including, but not limited to, a tender offer to purchase our common shares at a premium over then current market prices.

**Our status as a foreign private issuer.** We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934 as amended (the “Exchange Act”). As such, we are exempt from certain of the reporting requirements under the Exchange Act and corporate governance standards of the Nasdaq Stock Market (“Nasdaq”). Because of these exemptions, investors are not afforded the same protection or information generally available to investors holding shares in public companies organized in the United States or traded on the Nasdaq. However, Nasdaq does not exempt foreign private issuers from independent audit committee requirements and we are required to disclose any significant ways our current corporate governance practices differ from those followed by domestic companies under Nasdaq listing standards. In addition, our Chief Executive Officer must notify Nasdaq if one of our executive officers becomes aware of any material non-compliance with any applicable Nasdaq corporate governance listing standards to Nasdaq. Please see “Item 16G—Corporate Governance” for more information.

**Reciprocal enforcement of foreign judgments.** No treaty exists between Hong Kong and the United States providing for the reciprocal enforcement of foreign judgments. Accordingly, Hong Kong courts might not enforce judgments predicated on the federal securities laws of the United States, whether arising from actions brought in the United States or, if permitted, in Hong Kong.

**Delisting of our common shares.** Our Common Stock is currently quoted on the Nasdaq Global Market. The Company must satisfy certain minimum listing maintenance requirements to maintain such quotation, including a series of financial tests relating to shareholders equity or net income or market value, public float, number of market makers and shareholders, market capitalization, and maintaining a minimum bid price of \$1.00 per share for the Common Stock. If our Common Stock is delisted from the Nasdaq Global Market, then our Common Stock may trade on the Over-the-Counter-Bulletin Board, which is viewed by most investors as a less desirable and less liquid market place. Delisting from the Nasdaq Global Market could make trading our Common Stock more difficult and increase expenses for the Company to raise additional capital and may have an adverse impact on the overall value of our Common Stock.

**Inherent limitation on Internal Control.** Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management decision. Because of such limitations, 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 may be possible to design into the process safeguards to reduce, though not eliminate, this risk.

**Inherent uncertainty in preparation of financial statements.** The consolidated and condensed consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets, liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to changes in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operations.

**Increased global IT security threats.** Increased global IT security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. While we attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products, solutions and services remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to the compromising of confidential information, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations.

**Changes in foreign exchange regulations of China could adversely affect our operating results.** Some of our earnings are denominated in yuan, the base unit of the RMB. The People's Bank of China and the State Administration of Foreign Exchange ("SAFE") regulate the conversion of RMB into foreign currencies. Under the current unified floating exchange rate system, the People's Bank of China publishes a daily exchange rate for RMB based on the previous day's dealings in the inter-bank foreign exchange market. Financial institutions may enter into foreign exchange transactions at exchange rates within an authorized range above or below the exchange rate published by the People's Bank of China according to the market conditions. Since 1996, the PRC government has issued a number of rules, regulations and notices regarding foreign exchange control designed to provide for greater convertibility of RMB. Under such regulations, any FIE must establish a "current account" and a "capital account" with a bank authorized to deal in foreign exchange. Currently, FIEs are able to exchange RMB into foreign exchange currencies at designated foreign exchange banks for settlement of current account transactions, which include payment of dividends based on the board resolutions authorizing the distribution of profits or dividends of the company concerned, without the approval of SAFE. Conversion of RMB into foreign currencies for capital account transactions, which include the receipt and payment of foreign currencies for loans and capital contributions, continues to be subject to limitations and requires the approval of SAFE. There can be no assurance that we will be able to obtain sufficient foreign currencies to make relevant payments or satisfy other foreign currency requirements in the future.

**Changes in currency exchange rates involving the RMB have affected and could continue to significantly affect our financial results.** For fiscal 2015 and earlier years, our functional currencies are U.S. dollars and Hong Kong dollars. Since much of our business is carried on in RMB, our financial results are continually affected by currency fluctuations, resulting in total foreign exchange gains and losses.

**Regulatory initiatives in the United States, such as the Dodd-Frank Act and the Sarbanes-Oxley Act have increased, and may continue to increase the time and costs of being a U.S. public company and any further changes would likely continue to increase our costs.** In the United States, changes in corporate governance practices due to the Dodd-Frank Act and the Sarbanes-Oxley Act, changes in the continued listing rules of the New York Stock Exchange, new accounting pronouncements and new regulatory legislation, rules or accounting changes have increased our cost of being a U.S. public company and may have an adverse impact on our future financial position and operating results. These regulatory changes and other legislative initiatives have made some activities more time-consuming and have increased financial compliance and administrative costs for public companies, including foreign private issuers like us. In addition, any future changes in regulatory legislation, rules or accounting may cause our legal and accounting costs to further increase. These new rules and regulations require increasing time commitments and resource commitments from our company, including from senior management. This increased cost could negatively impact our earnings and have a material adverse effect on our financial position results of operations.

#### **Item 4. Information on the Company**

##### **A. History and development of the Company.**

Our legal name is Global-Tech Advanced Innovations Inc. (formerly known as Global-Tech Appliances Inc.). The Company was organized as an international business company under the laws of the British Virgin Islands on May 2, 1991 and became a publicly traded entity on April 7, 1998. The address of our registered office in the British Virgin Islands is TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, and the telephone number at that address is (284) 494-5296.

The address of our principal place of business, and the location of our executive and administrative offices, is 12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong, and the telephone number at that address is (852) 2814-0601. Our e-mail address is [investorrelations@global-webpage.com](mailto:investorrelations@global-webpage.com). Our website is located at <http://www.global-webpage.com>. The information contained on our website does not constitute a part of this annual report.

##### **B. Business overview.**

Historically, the Company's primary business was the export of a wide range of small electrical appliances to North American and European markets. However, the Company's continuing efforts to diversify its business, together with the discontinuation of our



home appliance business, resulted in nearly all of our revenues from continuing operations for fiscal 2015 being derived from the Chinese domestic telecommunications market. It is anticipated that the majority of the Company's future business is likely to be focused on opportunities in the PRC.

In fiscal 2015, we reported our results of operations in two segments: (i) electronic components and (ii) others. Through December 2013 we had a third reportable segment: electronic manufacturing services ("EMS") and through December 2011 a fourth reportable segment: home appliances. These segments were managed separately and were characterized by different originations, processes and locations. As a result of our exit from the home appliance business in January 2012 and EMS in December 2013, we began reporting these operations as discontinued operations as of March 31, 2012 and March 31, 2014, respectively. Because our segment results are reported on a continuing operations basis, we have two remaining reportable segments for fiscal 2015 and 2014: (i) electronic components and (ii) others.

The electronic components and EMS businesses became reportable segments in fiscal 2007 and fiscal 2010, respectively, as a result of the separation of management functions for the businesses. The "others" segment is comprised of a number of product lines/units, which individually are not yet material and have not met the quantitative thresholds for a reportable segment, and development programs that have not materialized to date into full product businesses. The results of each segment are routinely evaluated in assessing performance and allocating resources amongst the segments.

As discussed more fully under "Discontinued Operations" below and in Note 18, "Discontinued Operations", in the accompanying consolidated financial statements, our home appliance and EMS businesses are reported as discontinued operations.

### ***Recent Developments***

#### *Discontinued Operations*

As previously disclosed and discussed elsewhere in this annual report, the Company completed its exit from the EMS business in December 2013.

Prior to its exit from the EMS business, the Company performed electronic manufacturing services for its PRC telecom customers. Using Surface Mount Technology ("SMT") equipment, we produced printed circuit boards utilizing the telecom provided chip and then assembled the whole mobile phone for them using customer supplied materials. Initial pricing for producing printed circuit boards was sufficient to invest in the necessary equipment and clean room. However, due to competition and the economic clout of the customers, pricing deteriorated in fiscal 2012 and further in fiscal 2013. At the same time our labor and utility costs were increasing by 15 to 20% per annum.

The assembly process was primarily offered to our telecom customers to encourage them to increase their subcontracting of printed circuit boards to us where our operation was profitable. Assembly was marginally profitable on a stand-alone basis assuming reasonable productivity at the time we established this operation. However not only did labor costs rise but constant labor turnover caused productivity issues to the extent that assembly losses exceeded any contribution from SMT. In the year preceding the Company's exit from the EMS business, significant losses were incurred primarily due to labor cost inflation and deteriorating productivity from excessive labor turnover. Due to competition and the dominance of the Company's PRC based telecom customers, no pricing relief was likely and costs were likely to continue increasing. With no opportunity to raise prices, the only solution was to shut down the operation. Due to impairment charges and severance, a substantial charge related to the discontinuance of the EMS business was incurred in fiscal 2014.

#### *Lease of Former Home Appliance and EMS Facilities*

With the discontinuation of the home appliance segment, certain portions of our facilities in Dongguan, PRC were no longer needed for our operation. We began leasing the space to independent third parties during fiscal 2013 and as of March 31, 2015, 76,170 square meters of former home appliance production space had been leased. The average rent is RMB10 per square meter per month and the net rental income exceeded the building depreciation and maintenance of the idle facilities in fiscal 2015.

With the discontinuation of the EMS segment, the surface mount and assembly equipment, clean rooms, offices and dormitories totaling 39,158 square meters were offered for lease to an independent third party to operate. In April 2014, we entered into a five-year lease totaling RMB63.4 million, equivalent to US\$10.2 million for the EMS facility. The annual rent is sufficient to offset the equipment depreciation and maintenance of the former EMS facility and therefore no impairment was required at the time of the discontinuance of the EMS segment.

While we received a two months deposit and there are severe early termination penalties in the contract, we still rely on our lessee being successful in their business to continue receiving rental income. In the event their business is not successful they could enter bankruptcy or liquidate their company and we would have to terminate the lease and seek alternative uses for the facility and potentially be subject to a significant impairment charge. In early 2015, we have also leased 322 square meters of former warehouse space in Hong Kong for HK\$31,200 per month.

## **Electronic Components**

We continue to acquire new technologies in an effort to expand our capabilities in manufacturing finished products and components. These transactions are part of our long-term business strategy to gradually diversify and transform a portion of our manufacturing facility into a facility capable of producing higher-value, technology-oriented products that will allow us to leverage our existing research and development and technical management staff in Hong Kong, as well as our manufacturing infrastructure in China.

Initially we acquired Lite Array, Inc. a U.S. based technology company involved in thin film electroluminescent (“TFEL”) and organic light emitting diode (“OLED”) displays. We sold Lite Array’s TFEL factory in China in 2003, but maintained its OLED program which we subsequently abandoned. Due to declining retail prices for OLED displays, revisions to our OLED strategy became necessary. We combined our efforts with Anwell Technologies Limited (“Anwell”), a public company in Singapore, by establishing a jointly controlled entity to develop a more cost effective process for producing OLED equipment, rather than just marketing OLED displays. Our main interest in developing OLED displays was focused on cellular phone displays, and as a result of our business contacts in the telecommunications industry in the PRC, we determined that making camera modules for cell phones was a promising business opportunity for us.

In late fiscal 2005, we established a new entity, Global Optics Limited, to produce and market complementary metal oxide semiconductor (“CMOS”) camera modules (“CCMs”) to cell phone manufacturers in China and to develop other products incorporating optical systems. In fiscal 2015, our net sales of CCMs and other electronic products were \$75.9 million, which represents a 25.3% increase over fiscal 2014 net sales of \$60.6 million.

We believe the opportunity to sell CCMs and other electronic components to cellular phone and tablet computer manufacturers in the PRC continues to be a viable business for us, albeit currently at commodity-type margins and subject to intense competition. Up to fiscal 2013 utilizing chip scale packaging (CSP) process, we sourced the sensors and lenses exclusively so that we could apply our resources to the operation of a top quality clean room in our manufacturing facility in the PRC for low-cost assembly. Concurrently we concentrated on software development, customer integration design and product enhancements, particularly higher pixel count cameras and improved optics. We also continued developing products that incorporate CCMs for non-telecommunication applications, our primary focus being on document photo scanners, security products and medical instruments. During fiscal 2013, we invested in chip-on-board (“COB”) equipment to produce existing sensors and higher pixel sensors more cost effectively. As our mix of business changed to higher pixel units, the cost effectiveness of COB, the only suitable process for higher pixels, became essential for the future of this business. In fiscal 2015, 29% (fiscal 2014 – 12%) of our units were produced using COB processing and the balance CSP. High yields are critical in the COB process and our results have been unsatisfactory primarily due to labor turnover, increased overhead, particularly supervisory labor, and a steeper learning curve than anticipated.

All of our customers for electronic components are presently in the PRC or Hong Kong and we sell in Renminbi or U.S. dollars.

## **Strategy**

Our primary strategy for electronic components is to provide our telecom manufacturing customers in the PRC and other Asian countries with superior cameras for their cell phones. As more consumers, both in Asia and the export markets our customers serve, require increasingly sophisticated products with enhanced features, we must develop the software and camera modules necessary to satisfy these demands. Additionally our sales of CCMs to tablet computer and PC manufacturers are growing and we continue incorporating CCMs into finished products we design and market.

**Partnership with vendors.** The sensors and lenses utilized in CMOS cameras are highly specialized and are only available from a small number of vendors. While the Company has no binding agreements with its vendors, we have established a long-standing and mutually beneficial relationship with a major CSP sensor company that views our PRC based operations as an opportunity to access many of the PRC cellular phone manufacturers. It is by virtue of this relationship, as well as relationships with other vendors, that the Company receives valuable technical support essential to the business and product development programs. These relationships are critical to the development of new products and the expansion of existing product lines.

**Innovative product development.** Each CCM application requires its own software and integration programs. We submit multiple samples to our customers to test and evaluate. This process ensures application effectiveness and superior optical performance are achieved. We also concentrate on developing higher pixel count and clearer resolution CCMs as customer demands for such features continue to rise. Recently, we have begun designing and selling a range of security devices and document scanners incorporating CCMs that we market primarily in the PRC. One of our other key development programs is dedicated to designing specific attributes in our CCMs for medical device applications.

**Superior quality PRC based manufacturing.** Utilizing our clean room expertise derived from OLED production, we have been able to produce high quality CCMs that demonstrate excellent reliability. This allows our PRC based customers to purchase CCMs in the PRC rather than importing them from Korea or Taiwan, and remain confident in the quality of the products they are receiving.

**Expansion of manufacturing capabilities.** We have invested in all of the equipment necessary to assemble modules in a class 1000 clean room. We have added precision mounting equipment and a full range of testing apparatus to support and maintain high quality production. We continually expanded our facility from inception through fiscal 2015 as demand for CCMs continued to grow, and now have sufficient capacity to support steady growth in this business with limited additional investment. Our primary CMOS technology is still CSP, which supplies us with an integrated sensor and lens but in late fiscal 2013, we began investing in COB, or chip-on-board technology and expect time to be the dominant process going forward. This required construction of a class 10 clean room and investment in new equipment and processes. The investment is intended to enable us to produce higher pixel CCMs more efficiently.

## **Products**

We started manufacturing CCMs early in fiscal 2006 primarily utilizing 0.3 megapixel CMOS sensors. Sales of CCMs and related products in fiscal 2015, 2014 and 2013 were \$75.9 million, \$60.6 million and \$65.2 million, respectively. As pricing for VGA cell phone cameras continued to decline at a rate exceeding 20% per annum, we developed higher pixel count camera modules and introduced 1.3 and 2.0 megapixel versions in fiscal 2009, 3.0 and 5.0 megapixel versions in fiscal 2010, 8.0 megapixel versions in fiscal 2013 and 13.0 megapixel versions in fiscal 2015. The original VGA camera has developed into a low margin commodity, which adversely impacts unit revenues and overall profitability. However, we will continue to provide our customers with these products as well as developing higher pixel units in fiscal 2016. Our aim in fiscals 2012 and 2013 was to reduce the share of 0.3 megapixel units to less than 50% of our unit volume, which we achieved. In fiscal 2014, we concentrated on growing our 5.0 and 8.0 pixel cameras with limited success as the market price for 2.0 units dropped sufficiently to make them very attractive for our customers to reduce costs for their basic mobile phones. In fiscal 2015, we achieved significant volumes with 5.0 and 8.0 units but at much reduced prices from the prior year. We expect continuing price erosion in fiscal 2016 as capacity in the PRC currently appears to exceed demand but will continue our efforts to market more complex camera modules to improve margins.

## **Product Design and Development**

The development group for electronic components consists of a dedicated team of software and optical engineers supported by a large number of process, electronic and clean room engineers in our factory in Dongguan. We also rely extensively on our principal sensor supplier for new technology and expanded features.

Our expenditures for design and development of electronic components were \$0.7 million, \$0.3 million and \$0.2 million in fiscal 2015, 2014 and 2013, respectively.

## **Manufacturing**

We operate clean rooms in two of the buildings in our manufacturing complex in Dongguan. We built one class 1000 clean room in 2007 and have expanded every year since including building a 669 square meters class 10 clean room for COB production in fiscal 2013. Our production area for Guangdong Lite Array Company Limited (“DGLAD”) which includes our SMT production area with a maximum of class 100,000 total is 4,864 square meters and the other working area is 2,437 square meters of which production and working areas for CCMs are 2,927 and 374 square meters respectively.

We have in place the capacity to produce up to 3 million CCMs using CSP and 1.5 million using COB per month which is sufficient to support anticipated demand for peak periods in the near term. We currently operate three COB lines whereas some of our larger competitors operate thirty. Major customers can be concerned about capacity constraints, but we have the space and necessary financial resources to expand the number of lines we operate to address any of their concerns if we can do so profitably.

We ship our CCMs directly to our PRC customers, most of whom are located in Guangdong province, or ship to export customers from our warehouse in Hong Kong. Title for sales to PRC customers is transferred when the delivery note is “acknowledged” by the customer. Title for shipments to export customers from our warehouse passes when the customer takes physical delivery of the goods.

## **Quality Control**

Superior quality control procedures are essential for the manufacture of electronic components. The average life expectancy of cell phones requires that each critical component performs reliably for many years. We test every CCM before shipment and our customers test every one during their assembly process. Any rejects are returned to us for further inspection, and if appropriate, rework. This is considered as a standard operating procedure in the industry. Any CSP sensors that are defective, such that the CCM cannot be repaired, are returned to the vendor. Rejected COB sensors have to be scrapped and this has had an impact on profitability in the last two years.

## **Suppliers**

We obtain lenses, connectors and other components from a number of different vendors in Taiwan, Korea and the PRC and are not reliant on any one vendor. However, we have developed a close relationship with one vendor and purchase a majority of our CMOS sensors from them. We have pre-approved and certified alternative vendors who could satisfy all of our demand if necessary at minimal additional cost.

## **Major customers**

Our largest CCMs customer in fiscal 2015 is Wingtech Group with sales amounting to 11.1%, 13.2% and 6.9% of segment sales or 10.8%, 12.2% and 5.5% of consolidated net sales in fiscals 2015, 2014 and 2013, respectively.

Our top five customers represented 45.6% of our consolidated net sales in fiscal 2015 and 46.9% of segment net sales.

## **Marketing**

Marketing is designed to provide widespread exposure to our innovative, high-quality products and cost-effective production capabilities. Generally, we emphasize personal contact with our customers and potential customers in our facilities. While our customers rely on us for high-quality products, the ultimate consumers of the products rely on the customers' brand name and generally do not know the identity of the manufacturer. The primary concern of our customers in maintaining a relationship with us is buying better performing products at competitive prices. We believe that innovation is the key for both our customers and us in this regard.

While price and production capacity are still the main criteria in securing sales, our software and integration capabilities are still significant to our telecom customers and this helps to offset some of the commodity nature of this business. Additionally, as a result of technical advances in our development programs, we are now able to market our products to top tier consumer electronic brands in China as well as governmental and financial agencies. We continue upgrading our scanning software to enable bureaucracies to record a wider variety of documents and script and are attempting to obtain local and national government accreditation for our products.

## **Competition**

Competition in the electronic components market is intense and growing with many new well-financed entrants. However, since the market for cellular phone cameras continues to expand in China and its export markets, we believe that in the future demand will continue to meet or exceed our capacity; provided, however, that margins may continue to deteriorate without major productivity improvements and cost reductions. Improvements in our competitive position will only come through technical enhancements to our products and this remains the focus of our development efforts.

While competition is strong in the scanner market, especially given the number of products already on the market, we believe our software incorporates a number of superior features. Growth in demand for scanners will be somewhat dependent on the specifications reflected in government procurement practices.

## **Intellectual Property Rights**

We currently hold 127 patents, primarily registered in the PRC. We rely primarily upon a combination of trademark, copyright, know-how, trade secrets and contractual restrictions to protect our intellectual property rights. There can be no assurance that steps taken by us to protect these proprietary rights will be adequate to prevent misappropriation of the technology or the independent development of similar technology by others.

## **Others**

The primary emphasis in Others over the previous three fiscal years has been to develop a medical instrument business primarily for the PRC domestic market. We also continue to experiment and carry out modest development work in other areas.

Dongguan Microview Medical Technology Company Limited was incorporated in China to provide an operating entity to house our medical instrument business, which has moved from the development stages into an operational business. This business requires a manufacturing environment certified by Chinese FDA authorities and all medical products are subject to numerous approval processes. Our initial product, a disposable cannula incorporating a CMOS camera along with an integrated workstation, recently received Chinese FDA approval. Our product is now used in over 213 hospitals in China and in nine provinces (Guangxi, Hebei, Jiangsu, Shandong, Guangdong, Xinjiang, Anhui, Chongqing and Shanghai), the official hospital reimbursement rate has been established which is required for any medical product for system wide use. Growth in demand for cannulas depends on the number of doctors trained to use our instruments and we currently are increasing the number of physician trainers we retain. Our workstation is designed to support other similar disposable micro-surgery instruments. During fiscal 2015 we received Chinese FDA certification for two medical instruments and have an additional medical instrument currently undergoing field trials as part of the Chinese FDA certification process.

Additionally in fiscal 2015 the FDA in the US determined that our disposable cannula is substantially equivalent to legally marketed devices and accordingly we may market the device subject to the general controls provisions of the Federal Food, Drug and Cosmetic Act.

## **Strategy**

The market for medical instruments in China is growing substantially but entry into the market is restricted by established hospital and distributor systems and product and procedure pricing is subject to approval of the provincial government where each hospital is located. Additionally, securing PRC FDA approval of our products requires extensive trials, which can be time consuming and expensive. To date our disposable cannula, endoscopic trocar, hysteroscope and workstation have received the necessary PRC FDA approvals and we are gradually achieving entry into the local market. We intend to expand our product offerings, all of which will be compatible with the workstation developed for our initial cannula. As with the cannula, Governmental approval and acceptance by distributors and provincial approval of product pricing will dictate the success of future products. Our growth will also depend on the willingness of consumers in the PRC and elsewhere to pay a premium for products that improve the safety of existing procedures.

Our strategy for our products in export markets from the PRC is to obtain approval from the relevant regulators and then establish a distribution network of independent medical supply companies.

## **Product Design and Development**

The principle development work in “Others” over the last two years has been devoted to medical instruments and some solar devices. Development expenses for “Others” were approximately \$443,000, \$182,000 and \$174,000 in fiscal 2015, 2014 and 2013, respectively.

## **Discontinued Operations**

**Home Appliances.** The home appliance segment became a discontinued operation in fiscal 2012. The operation was closed down in January 2012 and any remaining contractual product obligations were subcontracted to alternate manufacturers. Most of the equipment was fully depreciated or written down to scrap value which is minimal. The equipment is being stored and available for sale. In the event any such equipment was sold, the Company would recognize a gain in discontinued operations. Due to the high cost of labor and the continuing migration of PRC manufacturing, the Company is not competitive and therefore will not re-establish the business.

**EMS.** Prior to its discontinuation of the EMS segment, the Company performed electronic manufacturing services for its PRC telecom customers. Using surface mount technology (“SMT”) equipment, we produced printed circuit boards utilizing the telecom provided chip and then assembled the whole mobile phone for them using customer supplied materials. Initial pricing for producing printed circuit boards was sufficient to invest in the necessary equipment and clean room. However, due to competition and the economic clout of the customers, pricing deteriorated in fiscal 2012 and fiscal 2013. At the same time labor and utility costs were increasing by 15 to 20% per annum.

The assembly process was primarily offered to our telecom customers to encourage them to increase their subcontracting of printed circuit boards to us where our operation was profitable. Assembly was marginally profitable on a standalone basis assuming reasonable productivity at the time we established this operation. However not only did labor costs rise but constant labor turnover caused productivity issues to the extent that assembly losses exceeded any contribution from SMT. With no opportunity to raise prices, the only solution was to shut down the operation. Due to impairment charges and severance, a substantial charge was incurred in fiscal 2014.

Both home appliance and EMS were businesses that could not be competitive in the long run, when operated from Dongguan, a high cost area in China. Relocating to a less costly area was not likely to generate sufficient margins to cover the cost of the move.

## **Rental Operation**

Following the discontinuation of the home appliance and EMS businesses, a determination as to the future use of the facilities that previously housed these operations was necessary. At the time these facilities were originally constructed, they were located on the periphery of Qingxi City, an almost exclusively industrial area. Since that time, the areas surrounding these facilities have seen slow but continual development and a shift away from traditional manufacturing.

Based on the shift in the property use of the surrounding areas, the continued use of a number of these facilities for traditional manufacturing operations was no longer appropriate. Accordingly, these facilities were leased to a number of independent entities as storage space. Typical leases are for one year at approximately RMB120 (US\$19) per square meter per annum.

In early fiscal 2015, we entered into five-year lease agreements with an independent third party that is operating our EMS facility including offices, clean rooms, equipment and production areas. The terms of the lease protect us in the case of any default. (See Exhibit 4-16 and 4-17 for details of the leases.) However, in the event of the bankruptcy or financial liquidation of the lessee company, we may not be able to collect damages and the deposit we retain may not be sufficient to cover the cost of recovering our facility. To the extent any rents are past due, they are not recognized until received.

The facilities housing our remaining operations occupy a small contiguous area in one corner of the compound and will not preclude any future development if and when such a determination is made.

Management's short-term plans are to generate sufficient rental income at the property to cover maintenance, depreciation, local taxes and common charges associated with the leased space. In fiscal 2015, our rental income exceeded our costs by approximately \$1 million. At present we have no plans to develop the property further but expect at some time in the future opportunities will arise to get more profitable use of the significant contiguous land area we occupy.

### **Foreign Issuer Considerations**

Because we are a foreign issuer incorporated in the British Virgin Islands and we conduct our operations and own assets primarily in China and Hong Kong, our operations and assets are subject to significant political, economic, legal and other uncertainties in China, Hong Kong and, in some instances, the British Virgin Islands. These uncertainties include the following:

**Chinese government regulation.** Our operations and assets in China are subject to significant political, economic, legal and other uncertainties. Changes in policies by the Chinese or local governments resulting in:

- changes in laws and regulations, or the interpretation and enforcement of existing laws and regulations,
- confiscatory or increased taxation,
- restrictions on currency conversion, imports and sources of supply,
- import duties,
- currency revaluation, or
- the expropriation of private enterprise

The occurrence of any of the events listed above could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies, including the encouragement of private economic activity and greater economic decentralization. There can be no assurance, however, that the Chinese government will continue to pursue such policies, that such policies will be successful if pursued or that such policies will not be significantly altered from time to time without notice. Following the Chinese government's program of privatizing many state-owned enterprises, the government has attempted to augment its revenues through increased tax collection. Continued efforts to increase tax revenues could result in increased taxation expense being incurred by us. Economic development may be limited as well by:

- the imposition of austerity measures intended to reduce inflation, increase taxes or reform unprofitable state owned enterprises,
- the inadequate development of infrastructure, and
- the potential unavailability of adequate power and water supplies, transportation, communications and raw materials and parts.

The Chinese government regulates the import into China of certain raw materials used by us in our manufacturing process and taxes the importation of certain capital equipment. The approval of imports by the government is based to some extent on the lack of qualified domestically produced products and strategic plans for the development of local Chinese industry. There can be no assurance that the government's policies will continue to allow the raw materials we require to be imported into China. There also can be no assurance that the government's policies will not impose import fees, which would raise the cost of raw materials or capital equipment. Imposing such fees could have a material adverse effect on our business, results of operations and financial condition.

**Chinese legal system.** China's legal system is a civil law system that is based on written statutes and in which decided legal cases have little precedential value. China does not have a well-developed, consolidated body of laws governing foreign investment enterprises. As a result, the administration of laws and regulations by government agencies may be subject to considerable discretion. As legal systems in China develop, foreign business entities may be adversely affected by new laws, changes to existing laws or interpretations of existing laws and preemption of provincial or local laws by national laws. In circumstances where adequate laws exist, it may not be possible to obtain swift and equitable enforcement of the laws.

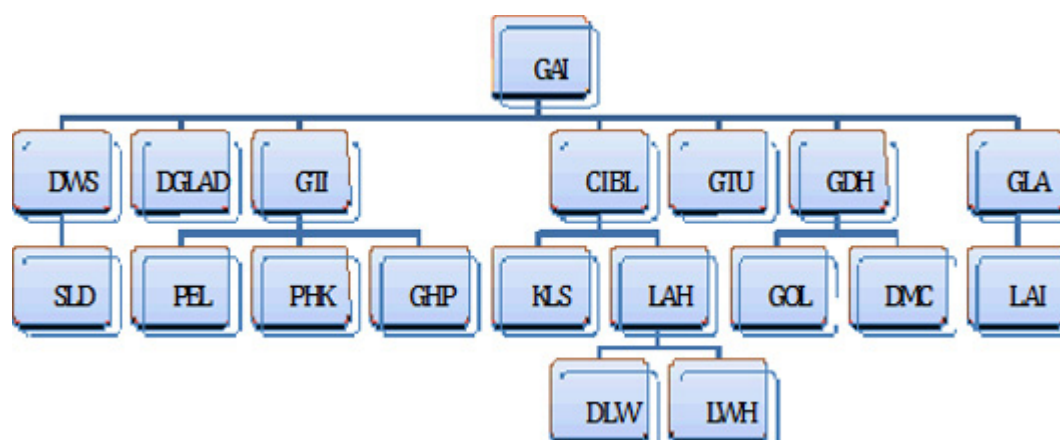
**Chinese environmental law.** Environmental protection in China is regulated in accordance with the Environmental Protection Law of the People's Republic of China, which became effective on December 26, 1989. The law sets national standards for environmental quality and monitoring, as well as the utilization of natural resources and the reduction of pollution. As a manufacturer, we are subject to annual inspections by the local branch of the SEPA. We have passed our most recent inspection and believe that we are in material compliance with all applicable environmental laws. There can be no assurance, however, that we will continue to pass future inspections or that we will continue to be in material compliance with all applicable environmental laws in the future. Environmental regulation is evolving in China and the imposition of additional or more stringent environmental laws by China, or more stringent enforcement of existing laws, could cause us to have to make substantial additional capital expenditures to maintain compliance in the future. The necessity to make such additional capital expenditures could have a material adverse effect upon our results of operations and financial condition.

**Conditions in Hong Kong.** Hong Kong, the jurisdiction of incorporation of six of our subsidiaries and the location of our headquarters, was restored to China on July 1, 1997. We conduct marketing, administration and other activities in Hong Kong. Recent political issues have had no impact on our operation but we may be adversely affected by factors affecting Hong Kong's political situation in the future and its economy or its international political and economic relations.

No treaty exists between Hong Kong and the United States providing for the reciprocal enforcement of foreign judgments. Accordingly, Hong Kong courts might not enforce judgments predicated on the federal securities laws of the United States, whether arising from actions brought in the United States or, if permitted, in Hong Kong.

### C. Organizational structure.

The following chart sets forth the significant subsidiaries owned, directly or indirectly, by the Company as of June 30, 2015.



<u>Name</u>	<u>Abbreviation</u>	<u>Principal Activities</u>	<u>Place of Incorporation</u>	<u>Percentage of Equity Interest Held</u>
Global Display Holdings Limited	GDH	Investment Holding	British Virgin Islands	100.0
Kwong Lee Shun Trading Company Limited	KLS	Leasing of a property	Hong Kong	100.0
GT Investments (BVI) Limited	GTI	Investment Holding	British Virgin Islands	100.0
Consortium Investment (BVI) Limited	CIBL	Investment Holding	British Virgin Islands	100.0
Global Optics Limited	GOL	Trading of raw materials and electronic and optical components	Hong Kong	100.0
Dongguan Wing Shing Electrical Products Factory Company Limited	DWS	Factory complex rental and maintenance	China	100.0
Guangdong Lite Array Company Limited (formerly known as Dongguan Lite Array Company Limited)	DGLAD	Developing, manufacturing and marketing of electronic and optical components	China	100.0
Dongguan Microview Medical Technology Company Limited	DMC	Manufacturing and distribution of medical instruments	China	100.0
Joke Media Limited	SLD	Media services	China	100.0
Lite Array Holdings Limited	LAH	Investment Holding	British Virgin Islands	30.0
Litewell Technology (HK) Limited	LWH	Design and trading of OLED production equipment and corresponding materials	Hong Kong	30.0
Dongguan Litewell (OLED) Technology Limited	DLW	Research & Development of OLED equipment	China	30.0
Global Household Products Limited	GHP	Inactive	Hong Kong	100.0
Pentalpha Medical Limited	PEL	Inactive	Hong Kong	100.0
Pentalpha Hong Kong Limited	PHK	Inactive	Hong Kong	100.0
Global-Tech USA, Inc.	GTU	Provision of consultation	United States	100.0



		services		
Global Lite Array (BVI) Limited	GLA	Investment Holding	British Virgin Islands	76.75
Lite Array, Inc.	LAI	Inactive	United States	76.75

Global-Tech (“GAI”) is a holding company, which does not engage in daily business operations other than owning subsidiaries and holding investments in operating and trading companies. GT Investments (BVI) Limited is the immediate holding company of Pentalpha Hong Kong Limited, Pentalpha Medical Limited and Global Household Products Limited.

Consortium Investment (BVI) Limited is the immediate holding company of Lite Array Holdings Limited and Kwong Lee Shun Trading Company Limited. On March 17, 2006, CIBL entered into an agreement with Anwell, a publicly listed company in Singapore, to form a joint venture company which Anwell invested in by purchasing a 70% interest in LAH. LAH is the holding company of Litewell Technology (HK) Limited and Dongguan Litewell (OLED) Technology Limited. LAH and its subsidiaries' fiscal year end is December 31, which is different from the Company.

Global Display Holdings Limited is the immediate holding company of Global Optics Limited and Dongguan Microview Medical Technology Company Limited.

Global Lite Array (BVI) Limited is the immediate holding company of Lite Array, Inc.

Guangdong Lite Array Company Limited was formerly known as Dongguan Lite Array Company Limited.

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

##### **China**

Our manufacturing facility located in Dongguan, China has a land use area of 207,300 square meters. We have the right to use such land, which we acquired from the Dongguan local government.

We have obtained a land use right certificate for a substantial portion of land with an aggregate area of 183,900 square meters as well as the related property ownership certificates for our production premises. The formal grant of land rights is required should we decide to sell this property. Although we presently have no intention to pursue this option, the local government still has the right to demand additional transfer fees before issuance of any land use right certificates. The application for the remaining portion of land is currently in process with the appropriate governmental agencies in China. The land use rights lease for the Dongguan facility between the Company and the People's Government of Qingxi Township, Dongguan City, Guangdong Province is for a term of 50 years ending August 7, 2043. Upon expiration of the 50-year lease term of the land, we have the right to extend the lease for an additional 20 years upon payment of a fee of approximately \$23.00 per square meter for the whole land use right extension.

The manufacturing complex includes 40 buildings, of which 12 buildings are dormitories with accommodation for up to 4,500 employees and cafeterias and recreational areas. The remaining buildings used to house manufacturing, quality control, warehousing, product development and administrative functions. We have obtained a portion of the property ownership certificates for buildings (29 out of total of 40 properties) and have freely transferable land use rights for a period of 50 years for the land upon which our buildings and facilities are located. Excluding dormitories, cafeterias and recreation areas, roads and a portion of land reserved for future expansion, our completed production area is approximately 174,000 square meters.

As a result of our exit from the home appliance and EMS businesses, approximately 122,000 square meters of production space and 10,000 square meters of dormitories were no longer needed for our operation. We began leasing a portion of this space to independent third parties in fiscal 2013 and as of March 31, 2015, we had leased 101,330 square meters of production space to be used as warehouse and manufacturing space.

We purchased office space of approximately 1,000 square meters for RMB27.7 million (equivalent to US\$4.5 million) in Shenzhen and relocated our electronic components sales staff and administrative personnel from a leased office in Shenzhen in August 2013.

We also rent an office in Guangzhou, the PRC for our medical group of approximately 121 square meters at an annual rent of approximately US\$13,000.

##### **Hong Kong**

In April 2008, we entered into three renewal lease agreements with Wing Shing Products Company Limited ("Wing Shing Products"), a company owned in part by our Chief Executive Officer, John Sham, with a total area of 25,690 square feet of space leased for our executive offices, administrative group and warehouse at a rate of approximately \$173,000 per annum. On January 1, 2012, we amended the lease agreement with Wing Shing Products that reduced the total area to 11,010 square feet at a rate of approximately \$70,786 per annum. In April 2012, we amended the lease agreement with Wing Shing Products to increase the rent to \$113,043 per annum. For the period beginning in February 2013 through March 2014, we reduced the space we leased to 7,340 square feet at an annual rent of \$75,420 per annum. Effective April 1, 2014, Wing Shing Products increased the annual rent to US\$92,800 per annum which represents the fair market value for such space.

We believe that our administrative office space in Hong Kong and China will be adequate for the operation of our business for the foreseeable future. We believe that our manufacturing facility in Dongguan will also be adequate for the operation of our business for the foreseeable future. We anticipate that any further expansion of our Electronic Component business could increase utilization at the Dongguan facility and eventually require us to renovate one of the buildings formerly used in the operation of our home appliance business.

**Item 4A. Unresolved Staff Comments.**

Not applicable.

**Item 5. Operating and Financial Review and Prospects.**

Except for statements of historical facts, this section contains forward-looking statements such as “expect,” “anticipate,” “project,” “believe,” “plan,” “intend,” “seek,” “should,” “estimate,” “future” or variations of such words and other similar expressions to identify forward looking statements. You should not place undue reliance on these forward-looking statements. Forward-looking statements are not a guarantee of our future performance or results and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the sections of this Report entitled Item 3D—“Risk factors” and Item 4B—“Business overview.” This section should be read in conjunction with our Consolidated Financial Statements included in Item 18 of this annual report.

**Management’s Discussion and Analysis of Financial Condition and Results of Operations.****A. Operating Results.****Fiscal Year Ended March 31, 2015 Compared with Fiscal Year Ended March 31, 2014**

In fiscal 2015, we reported our results of operations in two segments: (i) electronic components and (ii) others. Through December 2013, we had a third reportable segment: EMS. As a result of our exit from the EMS business in December 2013, we began reporting the operation as a discontinued operation as of March 31, 2014. The segment was managed separately and was characterized by different originations, processes and locations. Through December 2011 we had a fourth reportable segment: home appliances. As a result of our exit from the home appliance business in January 2012, we began reporting this operation as a discontinued operation as of March 31, 2012. Because our segment results are reported on a continuing operations basis, we have two remaining reportable segments for fiscal 2014: (i) electronic components; and (ii) others.

The following discussion of our financial condition and results of operations excludes the results of our discontinued operations unless otherwise noted. See Note 18, “Discontinued Operations” in the accompanying consolidated financial statements for further discussion of these operations.

## Electronic Components segment

	Fiscal Years Ended		
	March 31,		
	2015	2014	2013
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(96.8)	(92.4)	(86.2)
Gross profit	3.2	7.6	13.8
Selling, general and administrative expenses	(9.6)	(10.8)	(8.6)
Operating income (loss)	(6.4%)	(3.2%)	5.2%

**Net sales.** Our net sales include sales of electronic components (primarily CCMs), products incorporating CCMs and raw materials for customer prototypes. Net sales consist of gross amounts invoiced less discounts and VAT, if applicable. Sales are typically denominated in RMB for sales in the PRC and denominated in US\$ for export sales. Our most significant material costs are typically denominated in dollars but all our other costs are in local currency.

The CCM business, which constitutes the bulk of our net sales of electronic components, was established in mid-fiscal 2006, and expanded rapidly until the worldwide economic slowdown in the fall of 2008. Recently, the business had seen gradual improvement as the Chinese telecommunication market resumed growth but pricing continued to deteriorate. Net sales in fiscal 2015 increased by 25.3% to \$78.0 million, of which \$75.9 million was CCMs, from net sales of \$65.6 million, of which \$60.6 million was CCMs, in fiscal 2014 primarily due to a more favorable mix of business as well as increased volume offset by price reductions.

Unit sales of CCMs in fiscal 2015 increased by 23.6% to 30.4 million units from 24.6 million units in fiscal 2014. Of the 30.4 million units sold in fiscal 2015, 29% were produced on our COB lines and the balance using the CSP process. Sales of higher pixel units (greater than 5.0 megapixel) in fiscal 2015 were 29.6% of unit sales compared to 14.5% in fiscal 2014. Average unit prices increased approximately 3% from the prior year due to the favorable mix.

Despite our efforts to promote our higher pixel camera modules for laptops and note pads, our telecom business was still responsible for the majority of sales revenue, where competition continues to be intense and many new competitors have been established.

While we expect our CCM volume will not increase in fiscal 2016, improvement in the mix of the business, price stability and cost reductions will be critical to improving profitability.

Our product sales of scanners and security devices incorporating CCMs met our modest expectations in fiscal 2015, and amounted to \$4.9 million of business compared to \$3.7 million in the prior year. We expect a modest increase in this business in fiscal 2016 primarily from our range of document scanners and our ID reader that was introduced in 2015, but establishing a more effective distribution network will be essential for this business to grow materially.

**Gross profit.** Gross profit in fiscal 2015 was \$2.4 million or 3.2% of net sales compared to \$4.6 million or 7.6% of net sales in fiscal 2014. Material costs were 79.5% of sales compared to 75.8% in the prior year most of which was due to material costs not dropping as much as sales prices. The COB operation is more labor intensive than CSP and total labor cost rose to 11.2% of sales from 10.2% in the prior year. Needed productivity gains were not attained and efficiency fell well short of standard in the COB operation. Additionally overhead excluding depreciation which includes indirect labor increased 26% from the prior year. Early in calendar 2015, the cost structure was addressed but significant productivity gains will be needed in 2016 to improve profitability.

**Selling, general and administrative expenses.** SG&A expenses in fiscal 2015 were \$7.3 million or 9.6% of net sales compared to \$6.5 million or 10.8% of net sales in fiscal 2014. The primary components of SG&A are personnel costs, occupancy costs for our PRC staff where the entire CCM operation is located, and development and prototyping expense. Our personnel costs rose primarily due to the impact of continuing wage inflation. We spent \$0.7 million on development programs in fiscal 2015 and do not expect it to increase significantly in fiscal 2016.

**Operating income (loss), net.** Operating loss in fiscal 2015 was approximately \$4.9 million or 6.4% of net sales compared to an operating loss of approximately \$1.9 million or 3.2% in fiscal 2014.

Interest expense in fiscal 2015 was \$0.2 million compared to \$0.1 million in fiscal 2014 due to higher short-term borrowings to finance working capital.

**Other income (expense), net.** Other income (expense), net in fiscal 2015 was a gain of approximately of \$1.2 million compared to a gain of \$1.0 million in fiscal 2014. The primary component of other income (expenses), net in both years was government grants that support “high-tech” activities in the PRC domestic market.

**Segment income (loss).** Segment loss in fiscal 2015 was \$3.9 million compared to a segment loss of \$1.1 million in fiscal 2014.

### **Others segment**

Net sales of other products in fiscal 2015 were approximately \$2.1 million compared to \$2.1 million in 2014, of which \$1.8 million was from sales of disposable medical devices unchanged from the prior year.

We generated a gross profit of approximately of \$734,000 in fiscal 2015, compared to approximately \$99,000 in fiscal 2014 due to management fees being allocated elsewhere and a reversal of warranty accruals. Selling, general and administrative expenses decreased \$0.2 million from 2014.

The operating loss in fiscal 2015 was approximately \$2.1 million compared to approximately \$3.1 million in fiscal 2014 due primarily to the higher gross profit.

Other income (expense), net in Others of \$0.9 million includes net rental income of \$1.0 million. In fiscal 2015 gross rents were \$3.4 million and allocable expenses, primarily depreciation and taxes were \$2.5 million. In fiscal 2014, such expenses were reflected in corporate and discontinued operations therefore only gross rents of \$1.3 million were reflected in other income (expense), net in the Others segment.

The segment loss in fiscal 2015 was \$1.2 million compared to a loss of \$1.5 million in fiscal 2015. The primary cause of the loss in both years is due to our continuing development, marketing and registration expenses for our medical instrument business.

### **Corporate**

**Selling, general and administrative expenses.** Non-allocated corporate expenses were \$2.3 million in fiscal 2015 compared to \$3.5 million in fiscal 2014. The primary reason for the decline was due to a decrease in salaries allocated to corporate and a reduction in corporate staff of \$0.6 million and allocation of certain real estate expenses and other allocable against gross rental income in fiscal 2015.

**Interest income, net.** Interest income, net was approximately \$0.7 million in fiscal 2015 and \$0.8 million in fiscal 2014, including \$2,000 accrual and \$84,000 reversal of potential interest related to potential tax adjustments for fiscal 2015 and 2014, respectively. In fiscal 2015, we had an average invested fund balance, which includes cash and cash equivalents, restricted cash, time deposits and available-for-sale investments, of approximately \$37.0 million, with an average rate of return of 2.0% as compared to an average invested balance of approximately \$39.2 million, with an average rate of return of 2.0% in fiscal 2014.

**Income tax.** Our financial statements include a provision for income tax benefit of approximately \$0.2 million in fiscal 2015 which mainly represents a reversal of potential tax provisions, compared to a benefit of \$0.2 million in fiscal 2014 which also primarily represents a reversal of potential tax provisions.

We are not subject to taxation in the British Virgin Islands, however we are subject to income tax in each jurisdiction where our subsidiaries do business. Certain of our income is earned in China, where the standard tax rate is 25.0%, and in Hong Kong, where the corporate tax rate is 16.5% for both fiscal 2015 and 2014, on income from operations but excluding interest, dividend income and capital gains. In Hong Kong, estimated taxes for each fiscal year are paid during the year based on the prior year's taxable earnings from operations. An adjustment in the form of additional taxes paid or refunds to us is then made in the following fiscal year based on actual taxable earnings. Therefore, in each fiscal year, our statement of operations and comprehensive income reflects a provision for estimated taxes for the current fiscal year and adjustments for over- or under-provision with respect to the prior fiscal year.

Our Chinese subsidiaries are subject to income tax based upon the taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. During the 5<sup>th</sup> Session of the 10<sup>th</sup> National People's Congress of the PRC, which was concluded on March 16, 2007, a unified enterprise income tax law, or EIT, was approved and became effective on January 1, 2008. The EIT Law introduced a wide range of changes which included the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%. Subsequently, Guangdong Lite Array qualified as a High and New Technology Enterprise ("HNTE") which entitles it to pay a preferential tax rate of 15% so long as it remains classified as an HNTE. Taxes in China are based upon the financial statements of our four PRC subsidiaries based upon their preparation in accordance with PRC GAAP. Certain inter-company transactions could be interpreted by the local authorities as taxable transactions. In accordance with the provisions of FASB ASC 740, such transactions have been assessed and reflected in the computation of income taxes payable. To the extent that we have income effectively connected with the conduct of a U.S. trade or business in any fiscal year, we would be subject to U.S. taxes at an effective rate up to 55%. We do not believe that our current method of operations subjects us to U.S. taxes.

**Loss from continuing operations.** The loss from continuing operations in fiscal 2015 was \$6.4 million compared to a loss of \$5.0 million in fiscal 2014.

**Loss from discontinued operations.** Loss from discontinued operations, net of tax was nil in fiscal 2015 compared to \$5.5 million in fiscal 2014. Discontinued operations represent the EMS segment that ceased operation in December 2013.

**Net loss.** Net loss for the group for fiscal 2015 was approximately \$6.4 million, or \$2.11 per share, as compared to a net loss of \$10.6 million, or \$3.47 per share for fiscal 2014.

**A. Operating Results.**

**Fiscal Year Ended March 31, 2014 Compared with Fiscal Year Ended March 31, 2013**

In fiscal 2014, we reported our results of operations in two segments: (i) electronic components and (ii) others. Through December 2013, we had a third reportable segment: EMS. As a result of our exit from the EMS business in December 2013, we began reporting the operation as discontinued operations as of March 31, 2014. The segment was managed separately and was characterized by different originations, processes and locations. Through December 2011 we had a fourth reportable segment: home appliances. As a result of our exit from the home appliance business in January 2012, we began reporting this operation as a discontinued operation as of March 31, 2012. Because our segment results are reported on a continuing operations basis, we have two remaining reportable segments for fiscal 2014: (i) electronic components; and (ii) others.

The following discussion of our financial condition and results of operations excludes the results of our discontinued operations unless otherwise noted. See Note 18, “Discontinued Operations” in the accompanying consolidated financial statements for further discussion of these operations.

## Electronic Components segment

	Fiscal Years Ended		
	March 31,		
	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(92.4)	(86.2)	(87.9)
Gross profit	7.6	13.8	12.1
Selling, general and administrative expenses	(10.8)	(8.6)	(7.5)
Operating income (loss)	(3.2%)	5.2%	4.6%

**Net sales.** Our net sales include sales of electronic components (primarily CCMs), products incorporating CCMs and raw materials for customer prototypes. Net sales consist of gross amounts invoiced less discounts and VAT, if applicable. Sales are typically denominated in RMB for sales in the PRC and denominated in US\$ for export sales. Our most significant material costs are typically denominated in dollars but all our other costs are in local currency.

The CCM business, which constitutes the bulk of our net sales of electronic components, was established in mid-fiscal 2006, and expanded rapidly until the worldwide economic slowdown in the fall of 2008. Recently, the business had seen gradual improvement as the Chinese telecommunication market resumed growth but pricing continued to deteriorate. Net sales in fiscal 2014 decreased by 7.1% to \$60.6 million from net sales of \$65.2 million in fiscal 2013 primarily due to a less favorable mix of business as well as price reductions.

Unit sales in fiscal 2014 increased by 8.0% to 24.6 million units of which 31% were commodity type VGA units and approximately 14% were produced using our new chip on board process.

Despite our efforts to promote our higher pixel camera modules for laptops and note pads, our telecom business was still responsible for the majority of sales revenue, where competition continues to be intense.

While we expect volume to increase significantly in fiscal 2015, the mix of the business will be critical to improving profitability.

Our product sales of scanners and security device incorporating CCMs did not meet our expectations in fiscal 2014, but amounted to \$3.7 million of business compared to \$3.8 million in the prior year. We expect a modest increase in this business in fiscal 2015 primarily from our range of document scanners, but establishing a more effective distribution network will be essential for this business to grow materially.

**Gross profit.** Gross profit in fiscal 2014 was \$4.6 million or 7.6% of net sales compared to \$9.0 million or 13.8% of net sales in fiscal 2013. Gross profit in the CSP process is directly related to the mix of business since unit labor and overhead is the same for each type of CCM. Therefore, the higher the pixel count (and thus a higher price), the greater the contribution which is why improving the mix of the business has a major impact on gross profit. In the COB process yields and productivity are key to profitability.

In the CSP process, sensors and lenses are the key components. Their prices have declined at a similar rate to our core prices and material costs as a percentage of sales were similar in fiscal 2014 and 2013 at approximately 76% of sales.

In the COB process chip yield is critical to reducing material cost. Fiscal 2014 was our first full fiscal year of COB production thus productivity and yields were less than expected particularly after Chinese New Year as there was significant employee turnover.

Our labor cost increased by 50% over the prior year, overhead by 21% and depreciation doubled over the prior year, most of the increases being associated with the establishment of the COB operation. These increased costs, along with declining prices seriously impacted our gross margin. With competition continuing to drive down prices to get more business, we have to reduce our costs by improving productivity and continue bringing innovation to our product line.

For this segment to regain profitability in fiscal 2015, we have to increase volume production with no further increase in costs, improve yields and the mix of the business. Plans have been developed to achieve these goals but further price deterioration beyond what we anticipate would have an adverse impact on our plans.

**Selling, general and administrative expenses.** SG&A expenses in fiscal 2014 were \$6.5 million or 10.8% of net sales compared to \$5.6 million or 8.6% of net sales in fiscal 2013. The primary components of SG&A are personnel costs, occupancy costs for our PRC staff where the entire CCM operation is located, and development and prototyping expense. Our personnel costs rose primarily due to the impact of continuing wage inflation. We spent \$0.3 million on development programs in fiscal 2014 and do not expect it to increase significantly in fiscal 2015.

**Operating income (loss), net.** Operating loss in fiscal 2014 was approximately \$1.9 million or 3.2% of net sales compared to an operating income of approximately \$3.4 million or 5.2% in fiscal 2013.

Additionally our overhead increased much more than plan as indirect labor was added to help improve productivity.

**Other income (expenses), net.** Other income (expense), net in fiscal 2014 was a gain of approximately of \$1.0 million compared to a gain of \$0.4 million in fiscal 2013. The primary component of other income (expenses), net in both years was government grants that support “high-tech” activities in the PRC domestic market.

**Segment income (loss).** Segment loss in fiscal 2014 was \$1.1 million compared to a segment profit of \$3.7 million in fiscal 2013.

#### **Others segment**

Net sales of other products in fiscal 2014 were approximately \$2.1 million, and were primarily from sales of disposable medical devices, motors and small appliances. Net sales of other products in fiscal 2013 were approximately \$1.6 million, which were primarily from sales of disposable medical devices, motors and small appliances.

We generated a gross profit of approximately of \$99,000 in fiscal 2014, compared to approximately \$1.0 million in fiscal 2013.

The operating loss in fiscal 2014 was approximately \$3.1 million, compared to approximately \$1.4 million in fiscal 2013. Selling, general and administrative expenses increased \$0.7 million from 2013 due to the accounting for many of our common charges in our Dongguan facility that had previously been absorbed by the home appliance business as well as added personnel for our medical device business and an increase in government fees and taxes. The segment loss in fiscal 2014 was \$1.5 million, compared to \$1.2 million in fiscal 2013. In both years the primary cause for losses was our initial development and distribution programs for medical products and in fiscal 2014 the additional common charges further increased the loss.

#### **Corporate**

**Selling, general and administrative expenses.** Non-allocated corporate expenses were \$3.5 million in fiscal 2014 compared to \$4.3 million in fiscal 2013. The primary reason for the decline was due to a decrease in stock compensation expenses in fiscal 2014.

**Interest income, net.** Interest income, net was approximately \$0.8 million in fiscal 2014 and \$1.6 million in fiscal 2013, including \$84,000 and \$0.8 million reversal of potential interest related to potential tax adjustments. In fiscal 2014, we had an average invested fund balance, which includes cash and cash equivalents, restricted cash, time deposits and available-for-sale investments, of approximately \$39.2 million, with an average rate of return of 2.0% as compared to an average invested balance of approximately \$48.0 million, with an average rate of return of 1.75% in fiscal 2013.

**Other income (expenses), net.** In fiscal 2014, other income (expenses), net from continuing operations was \$2.4 million compared to \$0.6 million in fiscal 2013. Rental income in fiscal 2014 was \$1.3 million compared to \$0.2 million in the prior year and government grants were \$0.8 million in fiscal 2014 compared to \$0.4 million in fiscal 2013. In fiscal 2014, we incurred a foreign exchange loss of \$0.1 million compared to an immaterial gain in fiscal 2013. (See Note 16—Other income (expenses), net of Notes to Consolidated Financial Statements for a detailed breakdown of the components of Other income (expenses), net).

**Income tax.** Our financial statements include a provision for income tax benefit of approximately \$0.2 million in fiscal 2014 which mainly represents a reversal of potential tax provisions, compared to a benefit of \$0.8 million in fiscal 2013 which also primarily represents a reversal of potential tax provisions.

We are not subject to taxation in the British Virgin Islands, however we are subject to income tax in each jurisdiction where our subsidiaries do business. Certain of our income is earned in China, where the standard tax rate is 25.0%, and in Hong Kong, where the corporate tax rate is 16.5% for both fiscal 2014 and 2013, on income from operations but excluding interest, dividend income and capital gains. In Hong Kong, estimated taxes for each fiscal year are paid during the year based on the prior year’s taxable earnings from operations. An adjustment in the form of additional taxes paid or refunds to us is then made in the following fiscal year based on actual taxable earnings. Therefore, in each fiscal year, our statement of operations and comprehensive income reflects a provision for estimated taxes for the current fiscal year and adjustments for over- or under-provision with respect to the prior fiscal year.

Our Chinese subsidiaries are subject to income tax based upon the taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. During the 5<sup>th</sup> Session of the 10<sup>th</sup> National People’s Congress of the PRC, which was concluded on March 16, 2007, a unified enterprise income tax law, or EIT, was approved and became effective on January 1, 2008. The EIT Law introduced a wide range of changes which included the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%. Subsequently, Guangdong Lite Array qualified as a High and New Technology Enterprise (“HNTE”) which entitles it to



pay a preferential tax rate of 15% so long as it remains classified as an HNTE. Taxes in China are based upon the financial statements of our four PRC subsidiaries based upon their preparation in accordance with PRC GAAP. Certain inter-company transactions could be interpreted by the local authorities as taxable transactions. In accordance with the provisions of FASB ASC 740, such transactions have been assessed and reflected in the computation of income taxes payable. To the extent that we have income effectively connected with the conduct of a U.S. trade or business in any fiscal year, we would be subject to U.S. taxes at an effective rate up to 55%. We do not believe that our current method of operations subjects us to U.S. taxes.

**Loss from continuing operations.** The loss from continuing operations in fiscal 2014 was \$5.0 million compared to income of \$0.6 million in fiscal 2013.

**Loss from discontinued operations.** Loss from discontinued operations, net of tax was \$5.5 million in fiscal 2014 compared to \$2.6 million in fiscal 2013. Discontinued operations represent the home appliance and EMS segments that ceased operation in January 2012 and December 2013, respectively.

**Net loss.** Net loss for the group for fiscal 2014 was approximately \$10.6 million, or \$3.47 per share, as compared to a net loss of \$2.0 million, or \$0.65 per share for fiscal 2013.

## **B. *Liquidity and Capital Resources.***

Our primary source of financing historically has been cash generated from operating activities. During fiscal 2015 we used cash from operating activities of approximately \$0.1 million due to the losses we incurred not being totally offset by reductions in working capital and depreciation.

Working capital as of March 31, 2015 was \$32.1 million compared to \$36.3 million as of March 31, 2014. Cash and cash equivalents, time deposits, restricted cash and short-term investments decreased \$2.2 million. Our cash and cash equivalents, time deposits and restricted cash amounted to \$37.0 million as of March 31, 2015. Of this \$18.6 million (of which \$16.6 million was originally denominated in RMB, equivalent to RMB103.0 million) was in banks in the PRC, \$14.2 million in banks in Hong Kong and the balance with financial institutions in the US. Our short-term bank loans in the PRC amounted to RMB29.7 million and RMB38.9 million (equivalent to \$4.8 million and \$6.3 million respectively) as of March 31, 2015 and 2014, respectively. As of March 31, 2015, we had short-term bank loans in Hong Kong amounting to \$2.0 million (equivalent to HK\$15.5 million). Our borrowing capacity is limited to the amount of cash we have on deposit so we have not effectively been extended credit and we are not likely to be extended credit in the PRC in the future. All of our cash and related short-term deposits and short-term investments are in very short-term safe securities.

Accounts and bills receivable were \$20.5 million at the end of fiscal 2015, compared to \$21.2 million at the end of fiscal 2014. Receivables at March 31, 2015 represented 96 days of net sales compared to 118 days of sales from continued and discontinued operations at March 31, 2014. Accounts and bills receivable for electronic components represented 99 days and 128 days of sales in fiscal 2015 and 2014. Our large CCM customers in China are granted credit terms and as is customary in the PRC, the bills they issue typically mature after 90 days, therefore we expect our domestic receivables to be aged similarly in fiscal 2016.

Our aggregate capital expenditure during fiscal 2015, most of which was for expansion of our COB facility, was \$1.5 million. Capital expenditures in fiscal 2014 were \$6.0 million and consisted mainly of our purchase of an office in Shenzhen for RMB27.7 million (equivalent to \$4.5 million). Our capital commitments as of March 31, 2015 and 2014 were approximately \$205,435 and \$126,792, respectively.

The Company has credit facilities with a number of banks amounting to the total equivalent of \$17.8 million as of March 31, 2015. The amounts payable each month on the revolving credit facilities varies depending upon the amounts drawn at the time. Our outstanding borrowings traditionally vary according to our seasonal working capital requirements but as of March 31, 2015, banking facilities of \$10.3 million were utilized. (See Note 14—Short-term bank loans and Banking Facilities of Notes to Consolidated Financial Statements.)

We are in compliance with all of the covenants entered into with our banks in connection with the revolving credit agreements and have been in compliance during all periods presented. In addition, we have not entered into any cross-default provision in our debt agreements with our banks. However, since the agreements are subject to periodic review by our banks, which may result in changes of their terms and conditions, there can be no assurance that our agreements will not be subject to cross-default provisions in the future.

We anticipate that cash from operating activities and our quick assets will be adequate to satisfy our capital requirements for at least the next two years.

**Inflation.** For the last five years inflation in Hong Kong has ranged from (1.6)% to 7.9% (approximately 4.4% during calendar 2014 and 4.4% for the first four months of 2015). Currently inflation in Hong Kong has little effect on our operations as much more of our costs are fixed and wage increases are discretionary.

While the appreciation of the Renminbi in prior years has had an impact on the Company's competitiveness, we also have been impacted by wage and utility inflation in China, particularly in the last two years. While the official inflation rate has abated recently due to the slowdown in manufacturing, it is still reported as approximately 3% per annum.

**Currency and exchange rates.** The functional currency of the Company is the U.S. dollar. The functional currencies of our subsidiaries in locations outside the U.S. are either the respective local currencies or the U.S. dollar. Most of our sales are denominated in RMB since only our export sales are made in US\$. With the growth of our PRC Telecom business and the discontinuance of home appliance business, most of our revenues in the future will be in RMB. The majority of our expenses, including salaries and wages and other production and administrative costs are denominated in Hong Kong dollars and RMB. Certain raw materials and capital equipment are purchased using a variety of currencies including the U.S. dollar, RMB, Japanese yen and the EURO, but the majority of purchases are made in RMB. In prior years, we have not been significantly affected by exchange rate fluctuations and therefore have not needed to hedge our positions. However, in the event that the Renminbi continues to appreciate against the U.S. dollar we may need to reconsider whether hedging our positions is appropriate. (See Note 3(q) of Notes to Consolidated Financial Statements.)

**Application of Critical Accounting Policies.** The Company believes the following critical accounting policies and estimates used in the preparation of its consolidated financial statements can affect its results of operations. The policies set forth below require management's most subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain.

- **Valuation of long-lived assets.** The Company evaluates long-lived assets, such as property, plant and equipment or any other asset group, for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable in accordance with FASB ASC 360 "Property, Plant and Equipment". When these events occur, the Company evaluates the impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the excess of the carrying amount of the assets over their recoverable amount. During the fiscal years ended March 31, 2015, 2014 and 2013, impairment losses of US\$7,907, US\$2,103,780 and nil, respectively relating to property, plant and equipment were recognized in the consolidated statements of operations and comprehensive income.
- **Warranty cost.** The Company estimates the warranty cost for defective products based on various factors including the likelihood of defects, an evaluation of our quality controls over the manufacturing processes, technical analysis, industry information on comparable companies and our history. Based on the above criteria, the Company has accrued for warranty costs of US\$871,000, US\$869,734 and \$403,627 as of March 31, 2015, 2014 and 2013, respectively. The basis and the amount of the warranty accrual are reviewed and adjusted to reflect actual experience.
- **Deferred tax valuation allowance.** The Company accounts for income taxes in accordance with FASB ASC 740 "Income Taxes", using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. For financial reporting purposes, the Company established valuation allowances by tax jurisdiction for deferred tax assets which management believes it is more likely than not that the deferred tax assets will not be realized in the foreseeable future. As of March 31, 2015 and 2014, the Company had tax losses carried forward of \$26,619,644 and \$25,530,406 respectively, which included tax losses of \$6,447,281 and \$5,591,707 respectively that are available indefinitely for offsetting future taxable income of the companies in which these losses arose. Tax losses of \$20,172,364 and \$19,938,699 as at March 31, 2015 and 2014, respectively, may be carried back for 2 years or carried forward for 20 years from the year the tax losses arose. Since tax returns have to be filed for each subsidiary in the jurisdiction in which it operates, management has to assess whether transfer pricing or expense allocations could be challenged by the authorities based on the technical merits of the tax positions taken and probable outcome of a tax assessment. Based on an evaluation of these uncertain tax positions, we have to estimate the potential income tax expense and any related penalties and interest. This has resulted in significant income tax expense being accrued in previous loss years since not all subsidiaries are in a loss position for tax purposes and there is no offsetting allowed between subsidiaries in the PRC and Hong Kong.
- **Inventory reserves.** Inventories are stated at the lower of cost or market value. Cost, calculated on the weighted average basis, comprises direct materials and, where applicable, direct labor and an appropriate proportion of production overheads. For the fiscal years ended March 31, 2015, 2014 and 2013, write-downs of inventories to fair market value of \$896,534, \$804,256 and \$867,312, respectively, were recognized in the consolidated statements of operations and comprehensive income.

- Allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Whenever it is clear that the amounts are deemed to be uncollectible, receivables are written off against the allowance for doubtful accounts.
- Contingencies. The Company accounts for various uncertain events, or contingencies in accordance with FASB ASC 450 “Contingencies”. Under FASB ASC 450, contingent losses must be accrued if available information indicates it is probable that the loss has been or will be incurred given the likelihood of the uncertain event, and the amount of the loss can be reasonably estimated. Management judgment is required in deciding the amount and timing of any accrual for a contingency. For example, legal proceedings are inherently uncertain, and in order to determine the amount of any reserves required, the Company assesses the likelihood of any adverse judgment or outcomes in any litigation, as well as potential ranges of probable losses. However, the actual results may differ from such estimates and the difference may be material.
- Uncertain tax provision. As of March 31, 2015, the Company has recognized \$4,399,828 of liabilities for unrecognized tax benefits and, in addition, \$569,313 of related interest and penalties. The unrecognized tax benefits relate mainly to potential transfer pricing arrangements reflected in the Hong Kong and PRC income tax returns of certain subsidiaries of the Company. The final outcome of these tax uncertainties is dependent upon various matters including tax examinations, legal proceedings, certain authority proceedings, changes in regulatory tax laws and interpretations of those tax laws, or expiration of statutes of limitation. However, based on the number of jurisdictions, the uncertainties associated with litigation, and the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, which could include formal legal proceedings, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties.

### ***Recent accounting pronouncements***

In March 2014, the FASB issued ASU 2014-06, “Technical Corrections and Improvements Related to Glossary Terms”. The amendments in this Update relate to glossary terms and cover a wide range of Topics in the Codification. These amendments are presented in four sections: Deletion of Master Glossary Terms (Section A), Addition of Master Glossary Term Links (Section B), Duplicate Master Glossary Terms (Section C), and Other Technical Corrections Related to Glossary Terms (Section D). The amendments in this Update do not have transition guidance and will be effective upon issuance for both public entities and nonpublic entities. The Company is currently evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014-08”). The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, disposals representing a strategic shift in operations should be presented as discontinued operations. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. The amendments in ASU 2014-08 are effective prospectively for all disposals (or classifications as held for sale) of components of an entity, and for all businesses that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company is currently evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with early application not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (“ASU 2014-12”). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early application permitted. Companies may use either a prospective or a retrospective approach to adopt this ASU and the Company is currently evaluating which transition approach to use. The Company is evaluating the new pronouncement to determine the impact it may have to its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (“ASU 2015-01”). The amendments in ASU 2015-01 eliminate from U.S. GAAP the concept of extraordinary items. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early application permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Companies may use either a prospective or a retrospective approach to adopt this ASU and the Company is currently evaluating which transition approach to use. The adoption of ASU 2015-01 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). The amendments in ASU 2015-02 change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this ASU are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this ASU using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The adoption of ASU 2015-02 is not expected to have a material impact on the Company’s consolidated financial statements.

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

We spent approximately \$1.1 million, \$0.8 million and \$0.8 million, respectively, on product design and development in each of the fiscal years 2015, 2014 and 2013. These expenses were primarily attributable to salaries and wages for technical staff and prototyping and cost of samples. For a more complete description of our research and development, patents and licenses, etc., see “Item 4.B—Business Overview.”

**D. Trend information.**

See “Item 5.—“Management’s Discussion and Analysis of Financial Condition and Results of Operation” for discussion of the most significant recent trends in our business since the last fiscal year.

**E. Off-balance sheet arrangements.**

The Company has no off-balance-sheet arrangements such as guarantees, derivative securities, retained interests or variable interests that have, or are reasonably likely to have, a material effect on the Company’s financial condition, revenue and expenses, results of operations, liquidity, capital expenditures and capital resources.

**F. Tabular Disclosure of Contractual Obligations:**

The following is a schedule reflecting our aggregate financial commitments as of March 31, 2015:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>More than</u>
	<u>US\$</u>	<u>1 year</u>	<u>US\$</u>	<u>US\$</u>	<u>5 years</u>
		<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Capital Commitments <sup>(1)</sup>	205,435	205,435	—	—	—
Operating Lease Commitments <sup>(2)</sup>	9,707,628	349,073	684,772	684,772	7,989,011
<b>Total Contractual Obligations</b>	<b>9,913,063</b>	<b>554,508</b>	<b>684,772</b>	<b>684,772</b>	<b>7,989,011</b>

<sup>(1)</sup> Our capital commitments are for the purchase of property, plant and equipment.

<sup>(2)</sup> The Company has various operating lease agreements for parking lots, motor vehicles, equipment and real estate that extend through 2043.

## Item 6. Directors, Senior Management and Employees.

### A. Directors and senior management.

Our directors and senior management at March 31, 2015 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
John C.K. Sham <sup>(1)</sup>	52	Chairman, Chief Executive Officer, Acting Chief Financial Officer and Director
Brian Yuen <sup>(1)(2)</sup>	59	Chief Executive Officer, Global-Tech USA, Inc. and Director
Patrick Po-On Hui <sup>(2)(3)</sup>	57	Director
Ken Ying-Keung Wong <sup>(3)</sup>	66	Director
Barry J. Buttifant <sup>(3)</sup>	70	Director

(1) Member of the finance committee.

(2) Member of the compensation committee.

(3) Member of the audit committee.

**John C.K. Sham** has served as our Chairman since September 2012 and our President and Chief Executive Officer since June 1992. He has served as a director of Global-Tech since July 1991. Effective April 1, 2011 Mr. Sham assumed the role of Acting Chief Financial Officer following the termination of Mr. Leung. Mr. Sham was our Chief Financial Officer from June 1992 through January 2002. Mr. Sham joined us in 1984 as managing director of Kwong Lee Shun Trading Company Limited, a wholly owned subsidiary of ours. From 1982 to 1984, Mr. Sham served as President of Wesi Corp., a New York corporation which specialized in the marketing and distribution of household goods. Mr. Sham is the son of our founder, Mr. Kwong Ho Sham.

**Brian Yuen** joined us in January 1997, was elected to our Board of Directors in August 1997 and became the Chief Executive Officer of our subsidiary Global-Tech USA, Inc. in October 1997. Mr. Yuen serves as the chairman of the finance committee of our Board of Directors and was a consultant to us from March 1994 to December 1996. Prior to joining us, Mr. Yuen served as purchasing manager of Magla Products, Inc., a manufacturer, importer and distributor of household products, from December 1992 to December 1996.

**Patrick Po-On Hui** has served as a director of Global-Tech since March 2000. Mr. Hui is a practicing attorney and has been a partner at Messrs. Iu, Lai & Li since June 2011. From June 1988 to 2008, he was a consultant to, and then appointed as a partner of Robin Bridge & John Liu in 2008, a law firm based in Hong Kong. Mr. Hui was an Associate Partner of the law firm of Johnson Stokes & Master from March 1996 to May 1998 and an Assistant Solicitor of that firm from September 1989 to February 1996.

**Ken Ying-Keung Wong** has served as a director of Global-Tech since June 2001. Dr. Wong is a medical doctor who, since 1995, has maintained a medical practice in Hong Kong. Dr. Wong previously practiced family medicine in Canada from 1977 to 1995.

**Dr. Barry John Buttifant** has served as a director of Global-Tech since November 2003.

Dr. Buttifant is currently an independent adviser to MCL Financial Group Ltd and an independent non-executive director of Giordano International Limited and Daiwa Associate Holdings Limited, all of which are listed on the Stock Exchange of Hong Kong. Dr. Buttifant also serves as a non-executive director of China Nepstar Chain Drugstore Ltd., which is New York Stock Exchange listed public company.

Dr. Buttifant has been an executive director of Hsin Chong Construction Group Ltd. (“HCCG”), and a non-executive director of Synergis Holdings Limited (“Synergis”), a subsidiary of HCCG since 2011, all of which are listed on the Stock Exchange of Hong Kong. Prior to that, Dr. Buttifant was a chief executive officer of IDT International Limited. In 2009, Dr. Buttifant was a director of Mission Hills Group (“MHG”)—corporate finance, and prior to this appointment, he was a consultant to the Group from 2008. Prior to joining MHG, Dr. Buttifant served as a principal of KLC Kennic Lui & Company (“KLC”), a professional accounting firm and was managing director of KLC Transactions Limited. Prior to joining KLC, Dr. Buttifant was the executive director – finance, of MHG. In 2004, Dr. Buttifant was the managing director of Hsin Chong International Holdings Limited, a controlling shareholder of both the construction company HCCG (which was acquired by MHG in November 2007) and a property management service company, Synergis (which was acquired by HCCG in September 2008). Dr. Buttifant was also an alternate director to both public companies. Dr. Buttifant was an operating partner of Baring Private Equity Asia Limited. He was also the managing director of Wo Kee Hong (Holdings) Limited (“Wo Kee Hong”) from 2001 to 2002 and was the Advisor to the board of directors of Wo Kee Hong from 2002 to 2004. Prior to joining Wo Kee Hong, he was the managing director of IDT International Limited for over eight years and had worked for Polly Peck Group and Sime Darby Hong Kong Limited for more than 11 years in the capacity of finance director and managing director.

Dr. Buttifant is a fellow member of the Association of Chartered Certified Accountants (UK); the Hong Kong Institute of Certified Public Accountants; the Chartered Management Institute (UK); the Hong Kong Management Association; and the Hong Kong Institute of Directors. Dr. Buttifant, being a person distinguished by eminence and by attainments, was admitted to the degree of honorary doctorate of Business Administration (honoris causa) by Edinburgh Napier University, United Kingdom in 2013.

No family relationship exists among any of our directors and senior management.

No arrangement or understanding exists between any director or member of senior management and any other person pursuant to which any director or member of senior management was elected to such a position with us.

#### **B. Compensation.**

The aggregate direct remuneration paid to all directors and senior management as a group (5 persons) during fiscal 2015 was approximately \$1.1 million. This includes amounts set aside or accrued to provide pension, retirement or similar benefits, but does not include amounts (including business travel, professional and business association dues and expenses) reimbursed to officers and other fringe benefits commonly reimbursed or paid for by companies in Hong Kong.

#### **C. Board practices.**

Our articles of association provide for a board of directors of not less than five or more than nine members. Each director is elected to serve until the next annual general meeting of shareholders and until his or her successor has been elected unless a different term is specified. Currently, there are five directors serving on the board of the Company, of which three are independent. See Item 6A—"Directors and senior management" for the service time of our directors.

**Audit committee.** The purpose of the audit committee is to fulfill the board of directors oversight responsibility to the shareholders, potential shareholders and the investment community relating to the integrity of the Company's financial statements and the financial reporting process, the Company's compliance with legal and regulatory requirements, the independent auditors' qualification and independence, the performance of the Company's independent auditors and the annual independent audit of the Company's financial statements. In discharging its oversight role, the audit committee is empowered by the Company's board of directors to investigate any matter brought to its attention. Such investigation can include but is not limited to full access to all books, records, facilities and personnel of the Company and the authority to retain outside counsel or other experts for this purpose.

The Company's audit committee is governed by a written charter. The functions of the audit committee as enumerated in its charter include:

- assisting the board of directors' oversight of (1) the integrity of the Company's financial statements and the financial reporting process, (2) the company's compliance with legal and regulatory requirements, (3) the independent auditors' qualifications and independence, (4) the performance of the Company's independent auditors, and (5) the annual independent audit of the Company's financial statements;
- the direct responsibility for the appointment, compensation and retention of the independent auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
- regularly reviewing with the independent auditors any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditors' activities or access to requested information;
- meeting with the independent auditors to discuss the scope and plans of their audit engagement;
- meeting with our financial management and independent auditors together, and periodically separately, to review matters relating to internal accounting controls over financial reporting;
- reviewing our critical accounting policies and practices and other matters relating to our financial condition including any significant written communications between the independent auditors and management; and
- reviewing with the full board of directors any issues that arise with respect to the quality or integrity of the company's financial statements, compliance with legal or regulatory requirements and the performance and independence of the independent auditors.

The audit committee is currently comprised of Barry J. Buttifant, Patrick Po-On Hui, and Ken Ying-Keung Wong. Dr. Buttifant is the chairman of the audit committee.

**Compensation committee.** Our Board of Directors also has a compensation committee. The compensation committee reviews and determines compensation for officers, directors and consultants, as well as bonuses and other incentive programs for employees. As of March 31, 2015, the compensation committee was comprised of Patrick Po-On Hui and Brian Yuen. Mr. Yuen is not considered to be independent since he is also a member of management of the Company.

We do not have, and none of our subsidiaries have, service contracts with any of our directors providing benefits upon termination of employment. We do have an employment agreement with John C.K. Sham that provides for severance benefits in certain circumstances. If Mr. Sham resigns as a result of certain material changes relating to his employment, his agreements entitle him to a lump sum payment equal to the aggregate amount of salary and performance bonus that would have been payable to him through the end of the term of his agreement, continued receipt of other benefits under the agreement for the remainder of the term of his agreement and immediate vesting of his outstanding equity awards. The agreement also generally entitles Mr. Sham to the same severance benefits if he terminates his employment, or his employment is terminated, as a result of a change in control of Global-Tech. If a liquidation plan for Global-Tech is approved by a court or agency of pertinent jurisdiction, Mr. Sham is also entitled to a lump sum payment equal to the aggregate amount of salary and performance bonus that would have been payable to him through the end of the term of his agreement.

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

At March 31, 2015, 2014 and 2013, we employed 1,110, 1,474 and 2,528 persons, respectively, on a full-time basis. Of our employees at March 31, 2015, 23 were located in Hong Kong and, 1,087 in China.

As discussed elsewhere in this annual report, the Company completed its exit from the EMS business in December 2013. In connection with our exit from the EMS business, our labor force was significantly reduced as a result of the release of a majority of the employees assigned to the EMS business.

A breakdown of persons employed as of March 31, 2015 by main category of activity is as follows:

<u>Category</u>	<u>No.</u>
Manufacturing	696
Production management	14
Finance and administration	113
Receiving and warehousing	16
Quality control	103
Production engineering	37
Product design and development	72
Sales and marketing	53
Human resources	6
	<u>1,110</u>

Since our production levels fluctuate, the number of employees varies from time to time based on our production requirements. During peak production periods in fiscal 2015, we employed a maximum of 1,661 people in our Dongguan factory. Our manufacturing personnel are paid a monthly salary and periodic incentive bonuses and are provided with housing, medical care and subsidized meals in our dormitory complex adjacent to the factory. We have not experienced any significant labor stoppages and we believe that relations with our employees are satisfactory.

Our relationships with our employees in China are subject to the Labor Law of the People's Republic of China which went into effect on January 1, 1995. The Labor Law regulates, among other things, the number of hours employees may work on a daily and weekly basis, provides allowances for legal holidays, regulates working conditions such as safety and hygiene and provides for various social welfare and employment benefits. We believe that we are in compliance with such regulations. Availability of labor in the future may have a negative impact on our results of operations since demand in Guangdong Province for unskilled manufacturing labor currently exceeds supply.

In June 2007, the National People's Congress of the PRC enacted new labor legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, this new law requires an employer to conclude an "open-ended employment contract" with any employee who either has worked for the employer for 10 years or more or has had two consecutive fixed-term contracts. An "open-ended employment contract" is in effect a lifetime, permanent contract, which can only be terminated in specified circumstances, such as a material breach of the employer's rules and regulations, or for a serious dereliction of duty. Under the new law, downsizing by 20% or more may occur only under specified circumstances, such as a restructuring undertaken pursuant to China's Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations. The Company took the Labor Contract Law into account and incorporated its requirements into its exit from the home appliance and EMS businesses. Additionally, the severance programs were established in accordance with the law and were supervised, at our request, by the appropriate authorities within the Dongguan local authority.

## E. Share ownership.

The following table sets forth information regarding the share ownership in Global-Tech as of June 30, 2015 held by the directors and senior management and options granted to them on our common shares:

<u>Name of Owner<sup>(1)</sup></u>	<u>Number of Shares</u>	<u>Percentage#</u>
Wing Shing Holdings Company Limited <sup>(2)</sup>	688,797	22.6%
John C.K. Sham <sup>(3)</sup>	1,001,124	31.2%
Brian Yuen <sup>(4)</sup>	97,803	3.1%
Barry J. Buttifant <sup>(5)(6)</sup>	11,250	*
Patrick Po-On Hui <sup>(5)(6)</sup>	5,250	*
Ken Ying-Keung Wong <sup>(5)(6)</sup>	3,250	*
All officers and directors as a group (5 persons) <sup>(7)</sup>	1,118,677	33.8%

\* Less than 1%

# In accordance with SEC rules, each beneficial owner's holdings have been calculated assuming full exercise of outstanding options covering our common shares, if any, exercisable by such owner within 60 days after June 30, 2015, but no exercise of options covering our common shares held by any other person.

- (1) Unless otherwise indicated, the persons named in the table above have sole voting and dispositive power with respect to all common shares beneficially owned by them.
- (2) The share ownership of Wing Shing Holdings Company Limited is held 44.0% by the estate of Kwong Ho Sham and 56.0% by John C.K. Sham. Prior to the passing of Kwong Ho Sham, voting control of Wing Shing Holdings Company Limited ("Wing Shing Holdings") was held approximately 34.3% by Kwong Ho Sham and 65.7% by John C.K. Sham. Following Kwong Ho Sham's passing, John C.K. Sham assumed 100% voting control of Wing Shing Holdings. During fiscal 2016, the shares of the Company owned by Wing Shing Holdings will be distributed to its two shareholders. The estate of Kwong Ho Sham will receive 303,070 shares, which will be gifted to a charitable trust, and 385,727 shares of the Company will be distributed to John C.K. Sham.
- (3) Includes 688,797 shares owned by Wing Shing Holdings and 168,750 common shares issuable to John C.K. Sham within 60 days after June 30, 2015 upon exercise of options granted under our 1997 and 2005 Stock Option Plans and the 2011 Omnibus Equity Plan. Excludes 600,000 shares owned by the mother of John C.K. Sham, 300,000 shares owned by the wife of John C.K. Sham and 300,000 shares owned by the daughter of John C.K. Sham. Mr. John C.K. Sham disclaims any beneficial ownership in such shares.
- (4) Includes 84,751 common shares issuable to Brian Yuen within 60 days after June 30, 2015 upon exercise of options granted under our 1997 and 2005 Stock Option Plans and the 2011 Omnibus Equity Plan. Excludes 1,975 shares owned by the wife and son of Mr. Yuen. Mr. Yuen disclaims any beneficial ownership in such shares.
- (5) Each of Barry J. Buttifant, Patrick Po-On Hui and Ken Ying-Keung Wong own less than 1% of the issued and outstanding common shares as of June 30, 2015.
- (6) Includes 7,000, 5,250 and 3,250 shares issuable to Messrs. Buttifant, Hui and Wong, respectively, within 60 days after June 30, 2015 upon exercise of options granted under the 1997 and 2005 Stock Option Plans, and the 2011 Omnibus Equity Plan.
- (7) Includes 688,797 common shares owned by Wing Shing Holdings and 269,001 common shares beneficially owned by or issuable to various officers and directors within 60 days after June 30, 2015 upon exercise of options granted under our 1997 and 2005 Stock Option Plans and the 2011 Omnibus Equity Plan.

Our directors and senior management do not have different voting rights.

**Amended and Restated 1997 Stock Option Plan of Global-Tech.** The Amended and Restated 1997 Stock Option Plan (the "1997 Plan") was adopted by our Board of Directors in September 1997. Prior to its expiration, the 1997 Plan provided for the grant of:

- options that are intended to qualify as incentive stock options, or ISOs, within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 to employees; and
- options not intended to qualify as ISOs to employees and consultants.

The 1997 Plan is administered by the Board of Directors, or a committee of directors appointed by the Board, which determines:

- the terms of the options, including the exercise price;
- the number of common shares subject to the option; and
- the terms and conditions of exercise.



No option granted under the 1997 Plan is transferable by the optionee other than by will or the laws of descent and distribution and each vested option is exercisable during the contractual life of the options by such optionee. The exercise price of all ISOs granted under the 1997 Plan must be at least equal to the fair market value of such common shares on the date of grant. With respect to any participant who owns (or is deemed to own) stock possessing more than 10% of the voting rights of our outstanding capital stock, the exercise price of any ISO must be not less than 110% of the fair market value on the date of grant. The term of each option granted under the 1997 Plan may be established by the Board of Directors, or a committee of the board, in its sole discretion; provided, however, that the maximum term of each ISO granted under the 1997 Plan is 10 years. With respect to any ISO granted to a participant who owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of our outstanding capital stock, the maximum term is 5 years.

During fiscal 2013, an aggregate of 5,950 options with an exercise price of \$15.60 to \$30.56 per share were forfeited upon the termination of the relevant participants.

During fiscal 2014, an aggregate of 65,500 options with an exercise price of \$30.40 to \$30.56 expired.

During fiscal 2015, no shares were awarded or expired.

The 1997 Plan expired on September 17, 2008, after which date no further grants were made.

**1999 Employee Stock Purchase Plan of Global-Tech.** The 1999 Employee Stock Purchase Plan (the “1999 Plan”) was adopted by our Board of Directors in January 1999. The 1999 Plan was approved by our stockholders at our annual meeting of stockholders in March 1999. Prior to its expiration, the total number of common shares available for issuance under the 1999 Plan was 450,000 common shares.

The 1999 Plan is administered by our Board of Directors, or a committee of the board, which determines:

- the participants to be awarded stock grants;
- the number of shares subject to each stock grant, or the formula pursuant to which such number will be determined;
- the date of award and the vesting; and
- expiration terms applicable to each stock grant.

Up to the plan’s expiration in 2009, we granted, in the aggregate, net of forfeiture, 63,753 common shares under the 1999 Plan.

**2005 Stock Option Plan of Global-Tech.** The 2005 Stock Option Plan (the “2005 Plan”) was adopted by our Board of Directors in October 2005 and approved by the Company’s shareholders in November 2005. The plan provides for the grant of:

- options that are intended to qualify as incentive stock options, or ISOs, within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 to employees; and
- options not intended to qualify as ISOs to employees and consultants.

The plan is administered by the Board of Directors, or a committee of outside directors appointed by the board, which determines:

- the terms of options, including the exercise price;
- the number of common shares subject to the option; and
- the terms and conditions of exercise.

No option granted under the 2005 Plan is transferable by the optionee other than by will or the laws of descent and distribution and each option is exercisable during the lifetime of the optionee only by such optionee. The exercise price of all ISOs granted under the 2005 Plan must be at least equal to the fair market value of such common shares on the date of grant. With respect to any participant who owns (or is deemed to own) stock possessing more than 10% of the voting rights of our outstanding capital stock, the exercise price of any ISO must be not less than 110% of the fair market value on the date of grant. The term of each option granted under the 2005 Plan may be established by the Board of Directors, or a committee of the board, in its sole discretion; provided, however, that the maximum term of each ISO granted under the 2005 Plan is 10 years. With respect to any ISO granted to a participant who owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of our outstanding capital stock, the maximum term is 5 years.

The total number of common shares available for options under the 2005 Plan is 450,000 shares. We have granted options to purchase on the dates and in the amounts indicated below:

- During fiscal 2014 and 2013, no options were granted and none were forfeited.
- During the fiscal year ended March 31, 2015, 20,000 options with an exercise price of \$8.99 were forfeited upon the resignation of an officer and employee.

**Global-Tech Advanced Innovations Inc. 2011 Omnibus Equity Plan.** The Global-Tech Advanced Innovations Inc. 2011 Omnibus equity Plan (the “Omnibus Plan”) was adopted by our Board of Directors in October 2010 and approved by the Company’s shareholders in November 2010. The plan provides for the grant of stock options (non-statutory and incentive), stock appreciation rights, restricted stock units, performance shares and common shares.

A committee authorized by the Board of Directors (the “Committee”) will administer the Omnibus Plan. Unless otherwise determined by the Board of Directors, the Compensation Committee will administer the Omnibus Plan. Subject to the terms of the Omnibus Plan, the Committee has the sole discretion to select the employees, consultants, and non-employee directors who will receive awards, determine the terms and conditions of awards, and to interpret the provisions of the Omnibus Plan and outstanding awards. The Committee may not, without the approval of the Company’s shareholders, institute an exchange program under which outstanding awards are amended to provide for a lower exercise price or surrendered or cancelled in exchange for awards with a lower exercise price.

Awards granted under the Omnibus Plan are generally not transferable, and all rights with respect to an award granted to a participant generally will be available during a participant’s lifetime only to the participant. If the Committee makes an award transferable, such award will contain such additional terms and conditions as the committee deems appropriate.

The total number of common shares available for awards under the Omnibus Plan is 400,000 shares.

During fiscal 2013, 73,000 options were granted to officers and directors, 5,000 options to an employee and 8,000 options to a consultant.

During fiscal 2014, no shares were granted and 3,000 options which were previously granted to a Director were exercised.

During fiscal 2015, no options were granted and none were forfeited.

**Share compensation.** Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123 (R)”) which is now codified as FASB ASC 718 “Compensation-Stock Compensation” and related interpretations in accounting for its employee stock-based compensation plans. Accordingly, stock compensation cost is measured on the date of grant, based on fair value which is estimated using the Black-Scholes option pricing model. The compensation cost is amortized over the vesting period of the options using the straight-line method provided that the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. Prior to the adoption of SFAS No. 123 (R), we applied the intrinsic-value basis prescribed in Accounting Principles Board (“APB”) opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations in accounting for employee stock options.

As permitted by SFAS No. 123 (R), the Company has elected to apply the “modified prospective” method for the transition, in which compensation cost is recognized beginning with the effective date based on the requirements of SFAS No. 123 (R) (i) for all share-based payments granted after the effective date and (ii) for all awards granted to employees prior to the effective date of SFAS No. 123 (R) that remained unvested on the effective date.

As of March 31, 2015, 2014 and 2013, there were no unrecognized share-based compensation costs relating to stock granted to an employee under the 1999 Employee Stock Purchase Plan.

We also have granted options to consultants and accounted for such options under the fair value method. We amortize share-based compensation expense over the vesting periods of the related options.

## Item 7. Major Shareholders and Related Party Transactions.

### A. Major shareholders.

The following table sets forth information regarding the share ownership in Global-Tech as of June 30, 2015 of shareholders that are beneficial owners of 5% or more of our outstanding common shares:

<u>Name of Owner</u>	<u>Number of Shares</u>	<u>Percentage</u>
Shun Chi Hui	600,000	19.7%
Jenny, Meng Chen Tsai	300,000	9.9%
Estee M.Y. Sham	300,000	9.9%
Wing Shing Holdings Company Limited <sup>(1)(2)</sup>	688,787	22.6%
Grace & White, Inc. <sup>(3)</sup>	193,355	6.35%

- (1) The share ownership of Wing Shing Holdings Company Limited was held 44.0% by the estate of Kwong Ho Sham and 56.0% by John C.K. Sham. Voting control of Wing Shing Holdings Company Limited was held approximately 34.3% by estate of Kwong Ho Sham and 65.7% by John C.K. Sham. Kwong Ho Sham passed away on July 11, 2011. Following Kwong Ho Sham's passing, John C.K. Sham assumed 100% voting control of Wing Shing Holdings.
- (2) In June 2011, Kwong Ho Sham established a trust that would own his portion of Wing Shing Holdings Company Limited ("Wing Shing Holdings") shares in the Company. Upon his passing, 303,070 shares owned by Wing Shing Holdings would go into this trust and 385,727 shares owned by Wing Shing Holdings would be transferred to John C.K. Sham. As of June 30, 2015, the transfer had not been officially executed but is expected to occur during fiscal 2016. John C.K. Sham as a trustee of his father's charitable trust will decline beneficial ownership of any of the trust's shares.
- (3) According to a Schedule 13E filed with the SEC on February 3, 2015, Grace & White, Inc. reported beneficial ownership of an aggregate of 193,355 shares, including sole voting power over 47,590 shares and sole dispositive power over 193,355 shares. Grace & White, Inc. is located at 515 Madison Ave., Suite 1700, New York, New York 10022.

Our major shareholders have the same voting rights as all holders of our common shares.

As of June 30, 2015, approximately 64.7%, of our outstanding common shares were held in the United States by 6 holders registered on the books of our transfer agent.

As disclosed elsewhere in this annual report, the Company's directors, members of our directors' families, and entities directed and controlled such persons own approximately 67.3% of our outstanding shares. As a result, certain of our directors and their family members, together with jointly controlled entities, are in a position to control our activities and policies. To the best of our knowledge, aside from the entities, directors and members of their family identified above and elsewhere in this report, we are not directly or indirectly controlled or owned by any other corporation, foreign government or any other natural or legal person, and we are not subject to any arrangements the operation of which may at a subsequent date result in a change in control of the Company.

### B. Related party transactions.

- In April, 2008, we entered into renewal lease agreements with Wing Shing Products Company Limited ("Wing Shing Products"), a company owned by John Sham, for offices and warehouses located in Hong Kong with a total area of 25,690 square feet, which were occupied by our executive officers, administrative group and warehouse staff at a rate totaling approximately \$173,000 per annum. On January 31, 2012, we amended the lease with Wing Shing Products that reduced the rental space to 11,010 square feet at a rate totaling approximately \$70,786 per annum. In April 2012, we amended the lease agreement with Wing Shing Products to increase the rent to \$113,043 per annum. In February 2013, we further reduced the total rental space to 7,340 square feet and the rent to \$75,420 per annum. Effective April 1, 2014, Wing Shing Products increased the annual rent to US\$92,800 per annum, which reflects the fair market for such space.
- In addition to the office and warehouse space described above, the Company also entered into automobile lease agreement with Wing Shing Products. Monthly rental for the vehicle is approximately \$4,800, which is the estimated fair value of rental or lease rates in Hong Kong for similar vehicles.

The total expense incurred for the real estate and automobile leases described above for the fiscal years ended March 31, 2015, 2014 and 2013 was approximately US\$150,124, US\$132,661 and US\$164,096, respectively. These expenses were payable to Wing Shing Products. The amounts due are unsecured, interest-free and have no fixed terms of repayment. We believe the leases are on terms no less favorable to the Company than could have been received from unaffiliated third parties.

## **Our Policy Concerning Related Party Transactions**

All transactions with our executive officers and directors must be approved by a majority of our disinterested directors.

### **C. *Interests of experts and counsel.***

Not applicable.

## **Item 8. Financial Information.**

### **A. *Consolidated financial statements and other financial information.***

Our consolidated financial statements for fiscal 2015, 2014 and 2013 have been prepared in accordance with U.S. GAAP and audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB). A consolidated balance sheet is presented for each of fiscal 2015 and 2014 along with a consolidated statement of operations and comprehensive income, statement of cash flows and statement of changes in shareholders' equity which are presented for each of fiscal 2015, 2014 and 2013. See "Item 18—Financial Statements" for detailed financial information.

## **Legal Proceedings**

Global-Tech and its subsidiaries are not a party in any material litigation or arbitration. However, we may occasionally become subject to various legal actions related to performance under contracts, product liability, taxes, employment, intellectual property and other matters, several of which actions claim substantial damages, in the ordinary course of business.

## **Dividends**

We are a holding company and have no business operations other than ownership of our subsidiaries. In the event that we decide to pay cash dividends, 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 our other holdings and investments. In addition, our operating subsidiaries from time to time may be subject to restrictions on their ability to make distributions to us as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions, including withholding tax on dividend income and contribution to statutory reserve. Restrictions on currency conversion may be in effect from time to time but have not had a material effect on us to date.

During fiscal year 2013, the Company's Board of Directors approved a special cash dividend of \$1.00 per share that was paid on September 5, 2012 to shareholders of record at the close of business on August 22, 2012. The dividend payment was made following the completion of the Company's exit from the home appliance business, which provided relief to the Company's working capital requirements and presented an opportunity to return capital to the Company's shareholders while still maintaining the resources necessary to support growth.

### **B. *Significant change.***

Not Applicable.

**Item 9. The Offer and Listing.****A. Offer and listing details.**

Our common shares began trading on the New York Stock Exchange, or NYSE, under the symbol “GAI” on April 8, 1998. Effective December 10, 2008, Global-Tech’s common stock was no longer traded on the NYSE and commenced trading on the Nasdaq Stock Market (“Nasdaq”). The following table lists the high and low market prices on the NYSE and Nasdaq for the periods indicated.

	<u>Pre-split</u>		<u>Adjustment to reflect 4-for-1 reverse stock split</u>	
	<u>High</u>	<u>Low</u>	<u>High</u> US\$	<u>Low</u> US\$
<b>Fiscal 2011:</b>				
Annual	—	—	12.51	6.78
<b>Fiscal 2012:</b>				
Annual	—	—	7.53	2.68
<b>Fiscal 2013:</b>				
Annual	—	—	11.98	4.26
<b>Fiscal 2014:</b>				
First Quarter	—	—	11.85	6.00
Second Quarter	—	—	17.94	6.21
Third Quarter	—	—	8.28	6.07
Fourth Quarter	—	—	7.59	5.60
Annual	—	—	17.94	5.60
<b>Fiscal 2015:</b>				
First Quarter	—	—	6.49	5.30
Second Quarter	—	—	8.80	5.26
Third Quarter	—	—	6.08	3.87
Fourth Quarter	—	—	4.20	3.45
Annual	—	—	8.80	3.45
<b>Most Recent Six Months:</b>				
January 2015	—	—	4.20	3.45
February 2015	—	—	4.17	3.68
March 2015	—	—	4.20	3.71
April 2015	—	—	4.59	3.48
May 2015	—	—	3.93	3.56
June 2015	—	—	3.98	3.05

**B. Plan of distribution.**

Not applicable.

**C. Markets.**

See “Item 9.A—The Offer and Listing—Offer and Listing Details” above.

**D. Selling shareholders.**

Not applicable.

**E. *Dilution.***

Not applicable.

**F. *Expenses of the issue.***

Not applicable.

**Item 10. Additional Information.**

**A. *Share capital.***

Not applicable.

**B. *Memorandum and articles of association.***

**Objects and Purposes**

Our “objects and purposes” are described in Clause 5 of our memorandum of association and generally allow us to engage in any act or activity that is not prohibited under British Virgin Islands law.

**Directors**

British Virgin Islands law and our articles of association provide that no agreement or transaction between us and one or more of our directors or any entity in which any director has a financial interest or to which any director is related, including as a director of that other entity, is void or voidable for this reason only or by reason only that the director is present at the meeting of directors or at the meeting of the committee of directors that approves the agreement or transaction or that the vote or consent of the director is counted for that purpose if the material facts of the interest of each director in the agreement or transaction and his or her interest in or relationship to any other party to the agreement or transaction are disclosed in good faith or are known by the other directors. In addition, a director who has an interest in any particular business to be considered at a meeting of directors or shareholders may be counted for the purposes of determining whether the meeting is duly constituted.

Our articles of association provide that the directors may, by a resolution of directors, fix the emoluments of directors with respect to services to be rendered in any capacity to us.

British Virgin Islands law and our articles of association provide that our business and affairs shall be managed by our directors, who in addition to the powers and authorities expressly conferred by our articles of association, may also exercise all such powers of the Company as are not by our memorandum, articles of association or British Virgin Islands law required to be exercised by the shareholders.

British Virgin Islands law and our articles of association do not contain an age limit requirement for our directors. Our articles of association do not contain a share qualification for directors.

**Rights of Shareholders**

Our memorandum authorizes the issuance of 12,500,000 ordinary shares of \$0.04 each and 250,000 preference shares of \$0.04 each. We do not have any preference shares currently outstanding. The preference shares may be issued by our directors, without further action by shareholders. Our directors also have the right to fix by resolution of directors the designations, powers, preferences, rights, qualifications, limitations and restrictions of the preference shares, such as voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions.

**Dividend rights.** Subject to the preferential and other dividend rights of any outstanding series of preference shares, holders of our common shares will be entitled to equal dividends per share when, as and if declared by our board of directors. The board may declare interim dividends and recommend a final annual dividend from retained earnings available for cash dividends as determined for statutory purposes at such times and in such amounts as they may determine. See “Item 8.A—Financial Information—Consolidated Financial Statements and Other Financial Information—Dividends.” According to our articles of association, all dividends that remain unclaimed for a period of three years after their declaration may be forfeited by our board of directors for our benefit.

**Voting rights.** Holders of our common shares have one vote for each share held on all matters submitted to a vote of shareholders. Our board of directors is not classified and therefore, all the directors stand for reelection at the same interval.

**Liquidation rights.** In the event we are liquidated or wound up, the holders of our common shares will be treated equally on a per share basis and will be entitled to receive all of our remaining assets following distribution of the preferential and/or other amounts to be distributed to the holders of our preference shares.

**Other provisions.** We have no provisions in either our memorandum or articles of association for redemption or sinking fund provisions, or providing that any shareholder has a right to share in our profits. Our common shares are not subject to further capital calls by us. We have no provisions in our memorandum or articles of association that discriminate against any existing or prospective holder of our common shares as a result of the existing or prospective holder's owning a substantial number of our common shares.

### **Changes to Rights of Shareholders**

Under our memorandum and articles of association and British Virgin Islands law, our memorandum and articles of association may be amended by a resolution of directors or a resolution of members. This includes amendments

- increasing or reducing our authorized capital,
- authorizing the issuance of different classes of shares, including preference shares, and
- increasing or reducing the par value of our shares.

The directors may also increase our capital without shareholder approval by transferring a portion of our surplus to capital. Or the directors may reduce our capital without shareholder approval, subject to the requirements of British Virgin Island law, by transferring a portion of our capital to surplus. Our memorandum and articles of association provide that differences which may rise between us and any of our shareholders, their executors, administrators or assigns relating to our memorandum and articles of association shall, unless the parties agree to a single arbitrator, be referred to two arbitrators to be chosen by each of the differing parties. No amendment to our memorandum and articles of association will be effective unless and until it is filed with the Companies Registry of the British Virgin Islands.

### **Annual, General and Extraordinary Meetings of Shareholders**

British Virgin Islands law and our articles of association do not require us to hold an annual meeting. We do, however, typically hold an annual meeting of shareholders for the election of directors and for such other business as may come before the meeting.

Under British Virgin Islands law, unless otherwise provided by a company's memorandum or articles of association, the directors may call meetings of shareholders at any time. Our articles of association require the directors to call meetings upon a written request from shareholders holding 30% or more of the outstanding voting shares.

Our articles of association provide that notice of all meetings of shareholders shall be given not fewer than seven days before the date of the proposed meeting to those persons whose names appear as a shareholder in our share register on the date notice is given and are entitled to vote at the meeting. A meeting of shareholders may be called on shorter notice, however, if members holding, in general, at least 90% of the total number of shares entitled to vote on all matters to be considered at the meeting consent or all the shareholders holding shares entitled to vote on all matters to be considered at the meeting waive the right of notice.

### **Limitations on Share Ownership**

British Virgin Islands law and our memorandum and articles of association do not impose any limitations on the right of anyone to own, hold or exercise voting rights to our common shares. British Virgin Islands law does not impose any limitation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our common shares.

### **Indemnity and Insurance**

Our articles of association provide that we may indemnify directors, officers, liquidators and other individuals who act on our behalf or upon our request for liabilities and expenses that they may incur as a result of their actions. We may only indemnify a person who acted honestly and in good faith with a view to our best interests and, in the case of criminal proceedings, if the person had no reasonable cause to believe that his or her conduct was unlawful. The decision of the directors as to whether a person acted honestly and in good faith is, in the absence of fraud, conclusive unless a question of law is involved. We also are entitled under our articles of association to purchase and maintain directors and officers liability insurance.

### **Certain Anti-Takeover Matters**

Under our memorandum and articles of association and the laws of the British Virgin Islands, our memorandum and articles of association may be amended by a resolution of directors or a resolution of members. This includes amendments authorizing the creation of different classes of shares, including preference shares. Our ability to amend our memorandum and articles of association by a resolution of directors could have the effect of delaying, deterring or preventing a change in control of us without any further action by our shareholders including but not limited to, a tender offer to purchase our common shares at a premium over then current market prices. In addition, the issuance of preference shares without shareholder approval, on terms as the board of directors may determine, could adversely affect the voting power of the holders of our common shares, including the loss of voting control to others. Written consent or resolution passed at a meeting of the holders of the relevant shares is required to vary class shareholders' right.

## **Ownership Information**

British Virgin Islands law and our memorandum and articles of association do not provide that information about our shareholders, even those owning significant percentages of our shares, must be disclosed.

## **Differences from United States Law**

In general, the laws of the British Virgin Islands governing the provisions of our memorandum and articles of association discussed above are not significantly different than the laws governing similar provisions in the charter documents of Delaware companies, other than with respect to the holding of an annual meeting for our shareholders and the amendment of our memorandum and articles of association. We are not required by the laws of the British Virgin Islands to hold an annual meeting for our shareholders but we would be required to hold an annual meeting if we were incorporated under Delaware law. If we choose not to hold an annual meeting, then the ability of our shareholders to submit and vote on proposals would be significantly less than that of shareholders in U.S. companies incorporated in Delaware. In addition, our board of directors may amend our memorandum of association under certain circumstances without shareholder approval, whereas Delaware law requires shareholders to approve any amendments to a Delaware corporation's certificate of incorporation.

We are a British Virgin Islands company and our affairs are governed by, among other things, the International Business Companies Act ("IBCA") of the British Virgin Islands. IBCA of British Virgin Islands differs from laws applicable to United States corporations and their shareholders. Since it is impractical and burdensome to list all the difference items, set forth below is a brief description of identifiable differences between the provisions of IBCA applicable to us and those followed by domestic companies under the Nasdaq listing standards.

### *Board composition*

Pursuant to section 42 of IBCA, the business and affairs of a BVI company shall be managed by a board of directors that consists of one or more persons but it is silent on the requirement of having a majority of independent directors. In addition, there is no requirement to evaluate directors' independence from management.

### *Scheduled independent director meeting*

There is no requirement that non-management directors must meet at regularly scheduled executive meetings not attended by management. Under Section 48(1) of IBCA, the directors may meet at such times and in such manner and places within or outside the British Virgin Islands as the directors may determine to be necessary or desirable.

### *Nominating/corporate governance committee*

The Nasdaq listing standards require companies to have a nominating/corporate governance committee comprised of independent directors governed by a written charter establishing minimum requirements. There is no such requirement under BVI rules.

### *Compensation committee*

The Nasdaq listing standards require companies to have a compensation committee comprised entirely of independent directors governed by a written charter establishing certain minimum requirements. There is no such requirement under the BVI rules.

### *Audit committee*

The Nasdaq listing standards require companies to have an audit committee, consisting of a minimum of three independent members of the board of directors governed by a written charter establishing the duties and responsibilities of the audit committee. There is no such requirement under BVI rules. However, we have an audit committee governed by a written charter consisting of three independent directors as defined in Rule 10A-3 of the Exchange Act.

### *CEO Certification*

The Chief Executive Officer must notify Nasdaq in writing if an executive officer of the Company becomes aware of any material non-compliance with Nasdaq corporate governance listing requirements, notwithstanding our status as a foreign private issuer.

### *Code of business conduct and ethics*

The Nasdaq standards require that each listed company adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We have such a Code adopted for senior financial officers, as is permitted for a foreign private issuer.



### *Indemnification*

Pursuant to subsection 57(1) of IBCA, a company under its Articles or Memorandum, may provide for indemnification for directors and officers, except where their actions are a violation of their fiduciary duties or are performed in a willfully negligent manner. It also provides for reimbursement of all expenses including legal fees and indemnifications against civil fraud or the consequence of committing a crime. However, the SEC provides for reimbursement to the Company by chief executive officers and chief financial officers of bonuses, or other incentive-based compensation and stock sale profits during the year following an accounting restatement due to material noncompliance or as a result of misconduct.

### *Inspection of books and records*

Subsection 67(4) of IBCA allows a company to refuse a request from shareholders or their attorneys to inspect the share register, the books and records and contracts kept by a company, if the Company, by resolution of its directors, determines that it is not in the best interest of the Company to do so. However, we are required to provide shareholders and the Nasdaq certain material information under Nasdaq rules.

### **C. *Material Contracts.***

Not applicable.

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

#### **General**

There are currently no limitations either under British Virgin Islands or U.S. law or in our articles of association to the rights of shareholders to hold or vote common shares, or to pay dividends, interest or other payments to nonresident shareholders. There are currently no restrictions in the British Virgin Islands regarding our export and import of capital, including the availability of cash and cash equivalents for use by our affiliated companies.

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

## **Material United States Federal Income Tax Consequences**

The discussion below is for general information only and is not, and should not be interpreted to be, tax advice to any holder of our common shares. Each holder or a prospective holder of our common shares is urged to consult his, her or its own tax advisor.

### *General*

This section is a general summary of the material United States federal income tax consequences to U.S. Holders, as defined below, of the ownership and disposition of our common shares as of the date of this report. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, the applicable Treasury regulations promulgated and proposed thereunder, judicial decisions and current administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis. The summary applies to you only if you hold our common shares as a capital asset within the meaning of Section 1221 of the Code. In addition, this summary generally addresses certain U.S. federal income tax consequences to U.S. Holders if we were to be classified as a PFIC. The United States Internal Revenue Service, or the IRS, may challenge the tax consequences described below, and we have not requested, nor will we request, a ruling from the IRS or an opinion of counsel with respect to the United States federal income tax consequences of acquiring, holding or disposing of our common shares. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of our common shares. In particular, the discussion below does not cover tax consequences that depend upon your particular tax circumstances nor does it cover any state, local or foreign law, or the possible application of the United States federal estate or gift tax. You are urged to consult your own tax advisors regarding the application of the United States federal income tax laws to your particular situation as well as any state, local, foreign and United States federal estate and gift tax consequences of the ownership and disposition of the common shares. In addition, this summary does not take into account any special United States federal income tax rules that apply to a particular U.S. or Non-U.S. holder of our common shares, including, without limitation, the following:

- a dealer in securities or currencies;
- a trader in securities that elects to use a market-to-market method of accounting for its securities holdings;
- a financial institution or a bank;
- an insurance company;
- a tax-exempt organization;
- a person that holds our common shares in a hedging transaction or as part of a straddle or a conversion transaction;

- a person whose functional currency for United States federal income tax purposes is not the U.S. dollar;
- a person liable for alternative minimum tax;
- a person that owns, or is treated as owning, 10% or more, by voting power or value, of our common shares;
- certain former U.S. citizens and residents who have expatriated; or
- a person who receives our shares pursuant to the exercise of employee stock options or otherwise as compensation.

#### *U.S. Holders*

For purposes of the discussion below, you are a “U.S. Holder” if you are a beneficial owner of our common shares who or which is:

- an individual United States citizen or resident alien of the United States (as specifically defined for United States federal income tax purposes);
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust (a) if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust or (b) if it was in existence on August 20, 1996, was treated as a United States person prior to that date and has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

If a partnership holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding our common shares, you should consult your tax advisor.

#### **Distributions**

Subject to the “passive foreign investment company” (“PFIC”) rules discussed below, for cash dividends, the gross amount of any such distribution (other than in liquidation) that you receive with respect to our common shares generally will be taxed to you as dividend income to the extent such distribution does not exceed our current or accumulated earnings and profits (“E&P”), as calculated for U.S. federal income tax purposes. Such income will be includable in your gross income as ordinary income on the date of receipt. Dividends received by individuals and certain other non-corporate taxpayers in tax years before January 1, 2011 from “qualified foreign corporations” are taxed at the rate of either 5 percent (zero, for tax years beginning in 2009, 2010 and 2011) or 15 percent, depending upon the particular taxpayer’s U.S. federal income tax bracket; provided that the recipient-shareholder has held his or her shares as a beneficial owner for more than 60 days during the 121-day period beginning on the date which is 60 days before the shares’ ex-dividend date. Dividends received in tax years beginning on or after December 31, 2012 are taxed at higher ordinary income tax rates. A foreign corporation is a “qualified foreign corporation” if the stock with respect to which it pays dividend is traded on an established securities market in the United States, provided that the foreign corporation is not a PFIC. Our stock is traded on an established securities market in the United States, although we cannot guarantee that our stock will be so traded in the future.

We believe that we were not a PFIC for U.S. federal income purposes for our fiscal years ended March 31, 2013, 2014 and 2015. No assurance can be given, however, that the IRS may not agree and seek to treat us as a PFIC. See “Passive Foreign Investment Company (PFIC)” below. If we are a PFIC with respect to a particular U.S. Holder, dividends received from us will be taxed at regular ordinary income tax rates. Holders of our shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

To the extent any distribution exceeds our E&P, the distribution will first be treated as a tax-free return of capital to the extent of your adjusted tax basis in our common shares and will be applied against and reduce such basis on a dollar-for-dollar basis (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of such shares). To the extent that such distribution exceeds your adjusted tax basis, the distribution will be taxed as gain recognized on a sale or exchange of our common shares. See “Sale, Exchange or Other Disposition of Our Common Shares,” below. Because we are not a U.S. corporation, no dividends-received deduction will be allowed to corporations with respect to dividends paid by us.

For United States foreign tax credit limitation purposes, dividends received on our common shares will be treated as foreign source income and will generally be “passive category income”, or in the case of certain holders, “general category income.” You may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of foreign withholding taxes, if any, imposed on dividends paid on our common shares. The rules governing United States foreign tax credits are complex, and we recommend that you consult your tax advisor regarding the applicability of such rules to you.

## **Sale, Exchange or Other Disposition of Our Common Shares**

Subject to the PFIC rules discussed below, generally, in connection with the sale, exchange or other taxable disposition of our common shares:

- you will recognize a capital gain or loss equal to the difference (if any) between:
- the amount realized on such sale, exchange or other taxable disposition and
- your adjusted tax basis in such common shares (your adjusted tax basis in the shares you hold generally will equal your U.S. dollar cost of such shares);
- such gain or loss will be long-term capital gain or loss if your holding period for our common shares is more than one year at the time of such sale or other disposition;
- such gain or loss will generally be treated as United States source for United States foreign tax credit purposes; and
- your ability to deduct capital losses is subject to limitations.

## **Passive Foreign Investment Company (PFIC)**

A U.S. Holder generally would be subject to a special tax scheme (that differs in certain material respects from that described above) if we were a PFIC at any time during which such Holder held our shares.

We believe based upon our preliminary evaluation that we could be deemed a PFIC in future years. An actual determination of PFIC status is factual in nature and cannot be made until the close of the applicable tax year. Based on the composition of our annual gross income and the nature and book value of our assets and the total market value, or market cap, of our shares at the end of each quarter of our fiscal years ended March 31, 2013, 2014 or 2015, we believe that we were not a PFIC for U.S. federal income purposes for our fiscal years ended March 31, 2013, 2014 or 2015. No assurance can be given, however, that the IRS may not agree and seek to treat us as a PFIC for these years.

We have not conducted an appraisal of the actual fair market value of our assets as of March 31, 2015 to support our conclusion regarding our PFIC status. If we conducted such an appraisal, it might not result in a fair market value of our assets being sufficiently greater than the aggregate value of our market capital to support our conclusion regarding our PFIC status. Even if such appraisal did so support our conclusion as to our PFIC status, such appraisal may not be enough to establish to the satisfaction of the IRS that the fair market value of our assets, which would, or we believe should, not be considered “passive,” was sufficiently greater than the aggregate value of our market capital.

A foreign corporation will be treated as a PFIC for United States federal income tax purposes if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, 75% or more of its gross income consists of certain types of passive income (the “income test”) or 50% or more of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”). For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income.

As a result of the classification as a PFIC, a special tax scheme would apply to both (a) any “excess distribution” by us (generally, the U.S. Holder’s ratable share of distributions in any year that are greater than 125% of the average annual distributions received by such U.S. Holder in the three preceding years or its holding period, if shorter) and (b) any gain recognized on the sale or other disposition of your ordinary shares. Under the PFIC regime, any excess distribution and recognized gain would be treated as ordinary income. The U.S. federal income tax on such ordinary income is determined under the following steps: (i) the amount of the excess distribution or gain is allocated ratably over the US Holder’s holding period for our ordinary shares; (ii) tax is determined for amounts allocated to the first year in the holding period in which we were classified as a PFIC and all subsequent years (except the year in which the excess distribution was received or the sale occurred) by applying the highest applicable tax rate in effect in the year to which the income was allocated; (iii) an interest charge is added to this tax calculated by applying the underpayment interest rate to the tax for each year determined under the preceding sentence from the due date of the income tax return for such year to the due date of the return for the year in which the excess distribution or sale occurs; and (iv) amounts allocated to a year prior to the first year in the U.S. Holder’s holding period in which we were classified as a PFIC or to the year in which the excess distribution or the disposition occurred are taxed as ordinary income and no interest charge applies. The interest charge is non-deductible by individuals but is generally deductible by corporations.

If we were treated as a PFIC, a U.S. Holder of our shares would generally be subject to the PFIC rules described above with respect to distributions by us, and dispositions by us of the stock of, any direct or indirect subsidiaries of ours that are classified as PFICS under either the “asset test” or the “income test,” as if such holder received directly its pro-rata share of the proceeds from such disposition.

A U.S. Holder may generally avoid the PFIC regime by making a “qualified electing fund” election which generally provides that, in lieu of the foregoing treatment, our earnings, on a pro rata basis, would be currently included in their gross income. However, we may be unable or unwilling to provide information to our U.S. Holders that would enable them to make a “qualified electing fund” election; thus, such election may not be available.

In addition, U.S. Holders may generally avoid the PFIC regime by making the “mark-to-market” election with respect to our common shares as long as we are a PFIC and our common shares are considered to be readily tradable on an established securities market within the United States. “Marking-to-market,” in this context, means including in ordinary income each taxable year the excess, if any, of the fair market value of our common shares over your tax adjusted basis in such common shares as of the end of each year. This “mark-to-market” election generally enables a U.S. Holder to avoid the deferred interest charge that would otherwise be imposed on them if we were to be classified as a PFIC. However, if we were a PFIC, such election would not be available for any of our subsidiaries that also may be classified as PFICs, and those subsidiaries would continue to be subject to the PFIC rules described above.

If we are treated as a PFIC at any time that you hold our shares but cease to be classified as a PFIC in a later year, we will continue to be classified as a PFIC with respect to you unless you make a deemed sale election in a timely manner to be taxed as if you sold your shares on the last day of our last year during which we were treated as a PFIC. In this case, you would pay tax on the gain on the deemed sale treated as ordinary income and an interest charge, and no loss will be allowed to you. A timely deemed sale election can also be made with respect to our subsidiaries that are treated as PFICs, in which case you will be taxed on the amount of gain treated as ordinary income and pay an interest charge as if the stock of such subsidiaries had been actually sold or disposed of by us while we were a PFIC and you held our shares. If we subsequently become a PFIC, you will again be subject to the general PFIC rules discussed herein. We do not expect to monitor our status (or the status of any of our subsidiaries) as a PFIC for the current taxable year or in any future taxable year and, therefore, we may not be able to inform you as whether we have become a PFIC in any given year or whether we have subsequently ceased to be a PFIC.

If we were treated as a PFIC, each U.S. Holder would be required to make an annual return on IRS Form 8621, reporting, among other things, distributions received and gain realized with respect to each PFIC in which such holder holds a direct or indirect interest, and may be required to provide other information as specified by the IRS. In this regard, we note, in particular, that under recently enacted legislation U.S. Holders may be subject to further reporting requirements in connection with the annual filing of their respective U.S. federal income tax returns with respect to shareholdings in foreign corporations, which may include affirming whether or not a foreign corporation in which such U.S. Holder has invested is (or is not) a PFIC irrespective of whether any distributions have been received, the U.S. Holder has disposed of any stock of the foreign corporation, or the foreign corporation has disposed of any stock of its foreign subsidiaries in the relevant taxable year.

An actual determination of PFIC status is highly factual in nature. Given the complexity of the issues that may result if we are classified as or become a PFIC, you are urged to consult your own tax advisors with respect to the tax consequences to you in the event that this should occur, in view of your particular circumstances.

#### *Non-U.S. Holders*

If you are not a U.S. Holder, you are a “Non-U.S. Holder.”

#### **Distributions on Our Common Shares**

You generally will not be subject to U.S. federal income tax, including withholding tax, on distributions made on our common shares unless:

- you conduct a trade or business in the United States and
- the distributions are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of income from our common shares, such distributions are attributable to a permanent establishment that you maintain in the United States).

If you meet the two tests above, you generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder, as described above. In addition, any effectively connected dividends received by a non-U.S. corporation may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30 percent rate or such lower rate as may be specified by an applicable income tax treaty.

## **Sale, Exchange or Other Disposition of Our Common Shares**

Generally, you will not be subject to U.S. federal income tax, including withholding tax, in respect of gain recognized on a sale or other taxable disposition of our common shares unless:

- your gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of gain from the sale or other disposition of our common shares, such gain is attributable to a permanent establishment maintained by you in the United States), or
- you are an individual Non-U.S. Holder and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and certain other conditions exist.

You will be subject to tax in respect of any gain effectively connected with your conduct of a trade or business in the United States generally in the same manner as a U.S. Holder, as described above. Effectively connected gains realized by a non-U.S. corporation may also, under certain circumstances, be subject to an additional “branch profits tax” at a rate of 30 percent or such lower rate as may be specified by an applicable income tax treaty.

## **Backup Withholding and Information Reporting**

Payments, including dividends and proceeds of sales, in respect of our common shares that are made in the United States or by a United States related financial intermediary will be subject to United States information reporting rules. In addition, such payments may be subject to United States federal backup withholding tax. You will not be subject to backup withholding provided that:

- you are a corporation or other exempt recipient, or
- you provide your correct United States federal taxpayer identification number and certify, under penalties of perjury, that you are not subject to backup withholding.

Amounts withheld under the backup withholding rules may be credited against your United States federal income tax, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner.

## **British Virgin Islands Tax Consequences**

Under the International Business Companies Act of the British Virgin Islands as currently in effect, a holder of common equity, such as our common shares, who is not a resident of the British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the common equity and all holders of common equity are not liable to the British Virgin Islands for income tax on gains realized on sale or disposal of such shares: The British Virgin Islands does not impose a withholding tax on dividends paid by a company incorporated under the International Business Companies Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated under the International Business Companies Act. In addition, our common shares 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.

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

We are a holding company incorporated in the British Virgin Islands and conduct our business in China solely through our wholly owned subsidiaries. The new EIT Law and its implementation rules, both of which became effective on January 1, 2008, provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10.0%, unless there are applicable treaties that reduce such rate. Under a special arrangement between China and Hong Kong, such dividend withholding tax rate is reduced to 5.0% if a Hong Kong resident enterprise owns over 25.0% of the PRC company distributing the dividends.

Under the new EIT Law, enterprises established under the laws of jurisdictions outside China with their “*de facto* management bodies” located within China may be considered to be PRC tax resident enterprises for tax purposes. If we are considered a PRC tax resident enterprise under the above definition, then our global income will be subject to PRC enterprise income tax at the rate of 25.0%. See Item 3.D. “Key Information—Risk Factors—Potential Taxes on Dividends and Sale of our Stock—Any changes to our tax incentives could have a material adverse effect on our operating results. Our foreign holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our common shares if we are classified as a PRC “resident enterprise.”

## **F. Dividends and paying agents.**

Not Applicable.

**G. *Statement by experts.***

Not Applicable.

**H. *Documents on display.***

For further information with respect to us and our common shares, we refer you to the filings we have made with the SEC. Statements contained in this annual report concerning the contents of any contract or any other documents are not necessarily complete. If a contract or document has been filed as an exhibit to any filing we have made with the SEC, we refer you to the copy of the contract or document that has been filed. Each statement in this annual report relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. We are subject to certain of the informational requirements of the Exchange Act and, in accordance with the Exchange Act, file reports and other information with the SEC. Our registration statements, including the exhibits and schedules thereto, and such reports and other information, can be inspected and copied at the following public reference facilities maintained by the SEC:

Woolworth Building  
233 Broadway  
New York, New York 10279  
  
175 W. Jackson Boulevard  
Suite 900  
Chicago, Illinois 60604

Copies of these materials can also be obtained by mail at prescribed rates from the Public Reference Section of the SEC, 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains registration statements, reports and other information regarding registrants that file electronically with the SEC at <http://www.sec.gov>.

**I. *Subsidiary information.***

Not Applicable.

**Item 11. *Quantitative and Qualitative Disclosures about Market Risk.***

We are exposed to the impact of foreign currency fluctuations and interest rate changes. We have not entered into foreign currency hedges, or interest rate swaps for speculative purposes or otherwise.

We sell a majority of our products in Chinese Renminbi and pay for our materials and components in U.S. dollars, Hong Kong dollars and Chinese Renminbi. We pay labor and overhead expenses in Renminbi, Hong Kong dollars and U.S. dollars. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong Government since 1983 at a range of HK\$7.65 to HK\$7.80 to US\$1.00 through the currency-issuing banks in Hong Kong. Consequently, the Company has not experienced any currency exchange risk exposure relating to the Hong Kong dollar in the past. This could change in the future if those in Hong Kong who are proposing a floating currency system prevail in the ongoing debate over whether to continue to peg the Hong Kong dollar to the U.S. dollar.

Effective January 1, 1994, China adopted a floating currency system whereby the official exchange rate equals the market rate. Since the market rate and official rates were unified, the value of the Renminbi against the Hong Kong dollar and U.S. dollar was stable until 2006. On July 21, 2005, the People's Bank of China ("PBOC") decided to abandon its policy of pegging the Renminbi to the U.S. dollar and link the Renminbi to a basket of currencies. The PBOC also strengthened the exchange rate of the Renminbi at that time to 8.11 to the U.S. dollar from 8.28. The Chinese authorities had therefore taken their first step towards a floating currency. As of March 31, 2015, the exchange rate was 6.1422 and as of June 30, 2015 the exchange rate was 6.1136, a 0.01% appreciation since our fiscal year end. Revaluation will have a different impact on different segments of our business but we believe our most significant foreign exchange risk results from our purchase of materials outside the PRC should the RMB depreciate. Materials represent 78% of our cost in 2015, a significant portion of which were purchased in US\$. A 1% appreciation in the Renminbi would increase our operating profit by approximately \$0.1 million. Our net current assets in the PRC as of March 31, 2015 denominated in RMB amounted to RMB110.4 million (\$17.8 million).

**Item 12. Description of Securities Other than Equity Securities.**

**A. Debt securities.**

Not applicable.

**B. Warrants and rights.**

Not applicable.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies.**

We are not in material default of any of our obligations relating to indebtedness. We are not delinquent with respect to the payment of dividends.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.**

During our last fiscal year, we have not materially modified any of the rights or instruments defining the rights of our security holders. We do not have any registered securities that are secured by our assets. The trustees or paying agents for our securities have not changed during the last fiscal year.

**Use of Proceeds**

On April 7, 1998, the SEC declared effective our Registration Statement on Form F-1, File No. 333-8462, for the registration of 4,830,000 pre four-for-one reverse split common shares in our initial public offering. Net proceeds from the initial public offering were approximately \$81.0 million. As of April 2003, we had used the net proceeds of the offering as follows: approximately \$16.5 million for a payment of a dividend; \$9.8 million for the acquisition of a majority interest in Lite Array; \$6.6 million for the expansion of the Dongguan facility and the purchase of fuel energy saving equipment; \$2.0 million for the purchase of machinery, tooling and equipment; and \$10.4 million for the repayment of indebtedness as reported in prior filings. After our listing on the NYSE for five years, we no longer keep track of the use of proceeds as there are continuous inflows and outflows of cash from operating and financing activities. We believe we can finance our existing business and new projects from the cash generated from our operating, financing and investing activities and we are able to maintain an adequate level of funds for potential business development or acquisition. Most of our fund balance continues to remain in temporary investments, including short-term marketable securities, U.S. dollar denominated interest-bearing savings accounts, a money market funds, and other cash-related instruments.

**Item 15. Controls and Procedures**

**(a) Disclosure controls and procedures**

As of March 31, 2015, an evaluation was performed, under the supervision and with the participation of the Company's management including the Company's Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon this evaluation and for the reasons stated below, such officers concluded that the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) is accumulated and communicated to the Company's management including the Chief Executive Officer and Acting Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

**(b) Management's annual report on internal control over financial reporting**

**MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and
- 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 Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management has assessed the effectiveness of its internal control over financial reporting as of March 31, 2015 based on the framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in 2013. Based on this assessment, management has determined that the Company's internal control over financial reporting is not effective as of March 31, 2015. In making its assessment, management identified a material weakness, similar to prior years, concerning the Company's internal accounting staff's lack of understanding of complex accounting issues related to U.S. generally accepted accounting principles (“GAAP”), including accounting for income taxes. In response, external consultants were engaged to perform a number of tasks to prepare specific accounting analysis and necessary corrections were made prior to any public announcements or filings with the SEC. Additionally, as part of its ongoing efforts to address the potential weakness described above, the Company will continue retaining external consultants who have sufficient and appropriate technical skills to help the Company identify and resolve accounting and reporting issues.

**(c) Attestation report of the registered public accounting firm**

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal controls over financial reporting. As a non-accelerated filer, our report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only our report on internal controls over financial reporting in this annual report.

**(d) Changes in Internal Control over financial reporting**

Except as indicated in section (b) above, there were no changes that occurred during the period covered by this Form 20-F, that materially affected, or are likely to affect our internal control over financial reporting.

**Item 16. Reserved**

Not applicable.

**Item 16A. Audit Committee Financial Expert**

The audit committee is composed entirely of independent directors and is responsible for reviewing and making recommendations to the Board of Directors regarding the Company's accounting policies, reporting practices, internal controls, annual and quarterly financial statements and financial information included in the Company's reporting and disclosure documents with the SEC. The Committee also reviews significant audit findings, material litigation and claims whether asserted or unasserted and any issues between management and the external auditors.

The audit committee closely monitors the requirements of the Sarbanes-Oxley Act of 2002. Additionally, the audit committee reviews its charter and assesses its performance at least annually.

The audit committee is currently comprised of three independent directors, Barry J. Buttifant, Patrick Po-On Hui and Ken Ying-Keung Wong. Dr. Buttifant is the chairman of the audit committee. The board of directors has determined that Barry J. Buttifant meets or exceeds the training, knowledge and requirements for a “financial expert” and is thus designated as the Company's financial expert on the audit committee.

Dr. Buttifant is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Chartered Management Institute, the Hong Kong Management Association and the Hong Kong Institute of Directors. See Item 6A.—Directors, Senior Management and Employees—Directors and senior management for his biography.



## Item 16B. Code of Ethics

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. (See Exhibit 11.1)

## Item 16C. Principal Accountant Fees and Services

Mazars CPA Limited became our independent auditor in fiscal 2012. Fees payable for the fiscal years ended March 31, 2015 and 2014 to Mazars is detailed below:

	Fiscal Year Ended March 31, 2015	Fiscal Year Ended March 31, 2014
Audit fees	\$ 210,000	\$ 210,000
Audit-related fees	Nil	Nil
Tax fees	Nil	Nil
All other fees	Nil	Nil
Total fees	<u>\$ 210,000</u>	<u>\$ 210,000</u>

The nature of each category of fee is described below:

**Audit Fees.** The audit fees include fees for audit or review of the Company's financial reports plus fees for services that generally an auditor can reasonably provide. The services include the statutory audit and review of documents filed with SEC.

**Audit-Related Fees.** We did not engage Mazars for any other audit-related services arrangement.

**Tax Fees.** We did not engage Mazars for any other tax services arrangement.

**All Other Fees.** We did not engage Mazars for any other services arrangement.

**Pre-Approval Policies and Procedures.** The audit committee has determined that the provision of services other than audit services should be provided by a firm other than the one that performs our audit. The audit committee, pursuant to its written charter, pre-approves all audit services provided by Mazars. To the extent Mazars provides any non-audit services in the future the audit committee is empowered to also pre-approve such services. Currently, our independent auditor is Mazars and we engage PricewaterhouseCoopers as our main tax advisor.

## Item 16F. Change in Registrant's Certifying Accountant.

Not applicable.

## Item 16G. Corporate Governance

The Company's corporate governance practices are governed by applicable British Virgin Islands law, as well as by its Memorandum and Articles of Association. We have securities that are registered with the SEC and are listed on the Nasdaq, and are therefore subject to corporate governance requirements applicable to foreign private issuers listed on the Nasdaq. Nasdaq Marketplace Rule 5615(a)(1)(3) provides that foreign private issuers listed on Nasdaq may elect to follow home country corporate governance practices in lieu of certain of the corporate governance requirements set forth in the Rule 5400 series, Rule 5250(d), and Rules 5210(c) and 5255, with the exception that all such issuers shall: (i) comply with Rule 5625 (Notification of Material Noncompliance); (ii) have an audit committee that satisfies Rule 5605(c)(3) that consists of members that meet the criteria for independence referenced in Rule 5605(c)(2)(A)(ii); and (iii) comply with Rules 5210(c) and 5255 (Direct Registration Program) unless prohibited from complying by law or regulation in its home country. Furthermore, foreign private issuers electing to follow home country practice in lieu of a requirement of Rules 5600, 5250(d), 5210(c) or 5255 are required to submit to Nasdaq a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws and, in the case of Rules 5210(c) and 5255, certifying that a law or regulation in the home country prohibits compliance. The Company submitted the required certification in connection with its listing application on November 26, 2008.

<u>Rules</u>	<u>Requirements</u>	<u>Company Compliance</u>
Rule 5605(b)(1) Majority Independent Board	A majority of the board of directors must be comprised of “Independent Directors” as defined in Rule 5605(a)(2).	It is not mandatory for Global-Tech to comply with this provision. However, Global-Tech’s board consists of five members, of which three are independent.
Rule 5605(a)(2) and 5605(b)(1) Definition of Independent Directors	<p>(a) Independent director should be a person other than an officer or employee of the Company or its subsidiaries or any other individual having a relationship, which, in the opinion of the Company’s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.</p> <p>(b) The following persons shall not be considered “independent”:</p> <p>(i) A director who is, or during the past three years was, employed by the Company;</p> <p>(ii) A director who accepts or who has a Family Member who accepts any payments from the Company in excess of \$120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than compensation for board service, compensation paid to a Family Member who is an employee of the Company, benefits under a tax-qualified retirement plan, or non-discretionary compensation;</p> <p>(iii) A director who is a Family Member of an individual who is, or during the post three years was employed by the Company as an executive officer;</p> <p>(iv) A director who is, or has a Family Member who is, a current partner of the Company’s outside auditor, or was a partner or employee of the Company’s outside auditor who worked on the Company’s audit at any time during any of the past three years;</p>	Global-Tech considers whether its board members meet the requirements of being “independent.”
Rule 5605(b)(2) Executive Sessions	The board must have regularly scheduled (at least twice a year) meetings at which only independent directors are present.	Global-Tech is not required to hold regularly scheduled meetings of independent directors.  Accordingly, the board does not hold regularly scheduled sessions of the independent directors.
Rule 5605(e)(1) Independent Director Oversight of Nominations of Directors	Director nominees must be selected or recommended for the Board’s selection by (a) a majority of independent directors on the board or (b) by a nominating committee comprised solely of independent directors.	Global-Tech is not required to have a nominating committee. However, any director nominees must be selected by a majority of independent directors.
Rule 5405(d) Independent Director Oversight of Executive Officer Compensation	Compensation of the chief executive and other executive officers must be determined or recommended to the board by majority vote of only Independent Directors or a compensation committee comprised solely of Independent Directors. The chief executive officer may not be present during voting or deliberations regarding the determination of compensation of the chief executive officer.	Mr. Brian Yuen, one member of Global-Tech’s compensation committee, is not considered independent since he is a member of management of the Company.

<u>Rules</u>	<u>Requirements</u>	<u>Company Compliance</u>
Rule 5605(c)(1) Audit Committee Charter	The Company has adopted a formal written Audit Committee Charter specifying the items enumerated in Rule 5605(c)(1), and that the Audit Committee will review and assess the adequacy of the charter on an annual basis.	The Company has a formal charter that is reviewed annually.
Rule 5610 Code of Conduct	Each Company must adopt a code of conduct applicable to all directors, officers and employees, which shall be publicly available.	Global-Tech has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

### **PART III**

#### **Item 17. Financial Statements.**

Not applicable.

#### **Item 18. Financial Statements.**

See pages F-1 through F-47 incorporated herein by reference.

#### **Item 19. Exhibits.**

See "Exhibit Index" on page E-1.



Audited Consolidated Financial Statements

GLOBAL-TECH ADVANCED INNOVATIONS INC.  
(Incorporated in the British Virgin Islands with limited liability)

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONTENTS

	<u>Pages</u>
<u>Report of Independent Registered Public Accounting Firm (Mazars CPA Limited)</u>	F-3
Consolidated:	
<u>Balance Sheets as of March 31, 2015 and 2014</u>	F-4
<u>Statements of operations and comprehensive income for each of the three years in the period ended March 31, 2015</u>	F-5
<u>Statements of Changes in Shareholders' Equity for each of the three years in the period ended March 31, 2015</u>	F-6 - F-7
<u>Statements of Cash Flows for each of the three years in the period ended March 31, 2015</u>	F-8 - F-9
<u>Notes to Consolidated Financial Statements</u>	F-10 - F-48

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and shareholders of  
Global-Tech Advanced Innovations Inc.

We have audited the accompanying consolidated balance sheets of Global-Tech Advanced Innovations Inc. and its subsidiaries (collectively referred to as the "Company") as of March 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years ended March 31, 2015, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit included consideration of internal control over financial reporting as a basis for designing auditing 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. Our audit also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also included assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial positions of the Company as of March 31, 2015 and 2014, and the consolidated results of its operations and cash flows for the years ended March 31, 2015, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mazars CPA Limited

*Certified Public Accountants*  
Hong Kong

July 17, 2015

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2015 and 2014

	<u>Notes</u>	<u>2015</u> US\$	<u>2014</u> US\$
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	4	14,501,954	22,820,300
Time deposits	5	12,649,524	11,339,515
Restricted cash	6	9,850,930	4,013,565
Available-for-sale investments	7	—	1,050,500
Accounts and bills receivable, net	8	20,493,672	21,216,884
Inventories	9	6,418,778	7,162,867
Prepaid expenses		95,398	123,462
Deposits and other assets		3,753,765	2,475,765
Amount due from a related party	10	15,475	12,569
Total current assets		<u>67,779,496</u>	<u>70,215,427</u>
Interests in jointly-controlled entities		—	—
Property, plant and equipment, net	11	24,175,245	26,316,958
Land use rights, net	12	2,826,511	2,923,424
Deferred tax assets	17	2,815	—
Deposits paid for purchase of property, plant and equipment		199,693	212,134
Total assets		<u>94,983,760</u>	<u>99,667,943</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
Current liabilities:			
Short term bank loans	14	6,780,394	7,279,629
Accounts and bills payable		14,248,741	12,520,080
Customer deposits		1,251,521	1,138,500
Accrued salaries, allowances and other employee benefits		3,077,943	2,980,622
Other accrued liabilities	13, 22	6,284,082	5,720,757
Income tax payable		4,028,708	4,233,169
Total current liabilities		<u>35,671,389</u>	<u>33,872,757</u>
Deferred tax liabilities	17	—	5,183
Total liabilities		<u>35,671,389</u>	<u>33,877,940</u>
Commitments and contingencies	20, 21		
Shareholders' equity:			
Common stock, par value US\$0.04 per share; 12,500,000 shares authorized; 3,233,814 shares issued as of March 31, 2015 and 2014	15	129,353	129,353
Preferred stock, par value US\$0.04 per share; 250,000 shares authorized; no shares issued		—	—
Additional paid-in capital		85,108,427	85,103,910
Statutory reserves	3(ad)	1,328,283	1,340,229
Accumulated deficit		(32,999,298)	(26,590,366)
Accumulated other comprehensive income		10,848,613	10,854,689
Less: Treasury stock, at cost, 189,587 shares as of March 31, 2015 and 2014		(4,663,321)	(4,663,321)
Total Global-Tech Advanced Innovations Inc. shareholders' equity		<u>59,752,057</u>	<u>66,174,494</u>
Non-controlling interests		(439,686)	(384,491)
Total shareholders' equity		<u>59,312,371</u>	<u>65,790,003</u>
Total liabilities and shareholders' equity		<u>94,983,760</u>	<u>99,667,943</u>

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



GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE FISCAL YEARS ENDED MARCH 31, 2015, 2014 AND 2013

	<u>Notes</u>	<u>2015</u> US\$	<u>2014</u> US\$	<u>2013</u> US\$
Net sales		78,020,855	62,692,901	66,827,069
Cost of goods sold		<u>(74,867,109)</u>	<u>(57,999,265)</u>	<u>(56,854,673)</u>
Gross profit		3,153,746	4,693,636	9,972,396
Selling, general and administrative expenses		<u>(12,423,741)</u>	<u>(13,148,067)</u>	<u>(12,383,973)</u>
Operating loss		(9,269,995)	(8,454,431)	(2,411,577)
Interest income, net		438,951	685,138	1,504,166
Other income, net	16	<u>2,146,108</u>	<u>2,396,789</u>	<u>583,315</u>
Loss from continuing operations before income taxes		(6,684,936)	(5,372,504)	(324,096)
Income tax benefits	17	<u>209,046</u>	<u>255,927</u>	<u>841,900</u>
Income (Loss) from continuing operations		(6,475,890)	(5,116,577)	517,804
Loss from discontinued operations, net of tax	18	<u>—</u>	<u>(5,547,024)</u>	<u>(2,589,063)</u>
Net loss		(6,475,890)	(10,663,601)	(2,071,259)
Other comprehensive income				
Foreign currency translation adjustments		44,241	153,453	989,852
Release of unrealized loss on available-for-sale investments, net of income tax of nil, upon disposal		(50,500)	(13,980)	—
Unrealized gain on available-for-sale investments, net of income tax of nil		<u>—</u>	<u>5,300</u>	<u>22,495</u>
Total comprehensive loss		(6,482,149)	(10,518,828)	(1,058,912)
Less: Comprehensive loss attributable to non-controlling interests				
Net income		55,012	108,044	107,958
Foreign currency translation adjustments		<u>183</u>	<u>176</u>	<u>(52)</u>
Total comprehensive loss attributable to shareholders of Global-Tech Advanced Innovations Inc.		<u>(6,426,954)</u>	<u>(10,410,608)</u>	<u>(951,006)</u>
Income (Loss) from continuing operations		(6,475,890)	(5,116,577)	517,804
Net income attributable to non-controlling interests		<u>55,012</u>	<u>108,044</u>	<u>107,958</u>
Income (Loss) from continuing operations attributable to shareholders of Global-Tech Advanced Innovations Inc.		(6,420,878)	(5,008,533)	625,762
Loss from discontinued operations		<u>—</u>	<u>(5,547,024)</u>	<u>(2,589,063)</u>
Net loss attributable to shareholders of Global-Tech Advanced Innovations Inc.		<u>(6,420,878)</u>	<u>(10,555,557)</u>	<u>(1,963,301)</u>
Basic and diluted earnings (loss) from continuing operations per share of common stock	19	<u>(2.11)</u>	<u>(1.65)</u>	<u>0.21</u>
Basic and diluted loss per share of common stock	19	<u>(2.11)</u>	<u>(3.47)</u>	<u>(0.65)</u>
		Number	Number	Number
Basic and diluted weighted average number of shares of common stock	19	<u>3,044,227</u>	<u>3,041,625</u>	<u>3,040,310</u>
		US\$	US\$	US\$
Rental expense paid to related parties (included in selling, general and administrative expenses)	10	<u>391,560</u>	<u>372,457</u>	<u>403,907</u>

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

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FISCAL YEARS ENDED MARCH 31, 2015, 2014 AND 2013

	Number of shares			Amounts							
	Common stock	Treasury stock	Common stock	Additional paid-in capital	Statutory reserves	Accumulated deficit	Treasury stock	Accumulated other comprehensive income (loss)	Total Global-Tech shareholders' equity	Non-controlling interests	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of March 31, 2012	3,229,314	(189,587)	129,173	84,786,226	—	(9,690,526)	(4,663,321)	9,697,445	80,258,997	(168,365)	80,090,632
Net loss for the year	—	—	—	—	—	(1,963,301)	—	—	(1,963,301)	(107,958)	(2,071,259)
Other comprehensive income:											
• unrealized gain on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	—	22,495	22,495	—	22,495
• foreign currency translation adjustments	—	—	—	—	—	—	—	989,800	989,800	52	989,852
Total net comprehensive income (loss)	—	—	—	—	—	(1,963,301)	—	1,012,295	(951,006)	(107,906)	(1,058,912)
Stock compensation expenses	—	—	—	258,128	—	—	—	—	258,128	—	258,128
Shares issued to an employee	1,500	—	60	9,048	—	—	—	—	9,108	—	9,108
Transfer to statutory reserves	—	—	—	—	1,238,361	(1,238,361)	—	—	—	—	—
Cash dividend (note)	—	—	—	—	—	(3,040,753)	—	—	(3,040,753)	—	(3,040,753)
Balance as of March 31, 2013	3,230,814	(189,587)	129,233	85,053,402	1,238,361	(15,932,941)	(4,663,321)	10,709,740	76,534,474	(276,271)	76,258,203
Net loss for the year	—	—	—	—	—	(10,555,557)	—	—	(10,555,557)	(108,044)	(10,663,601)
Other comprehensive income:											
• unrealized gain on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	—	5,300	5,300	—	5,300
• release of unrealized loss on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	—	(13,980)	(13,980)	—	(13,980)
• foreign currency translation adjustments	—	—	—	—	—	—	—	153,629	153,629	(176)	153,453
Total net comprehensive income (loss)	—	—	—	—	—	(10,555,557)	—	144,949	(10,410,608)	(108,220)	(10,518,828)
Shares issued upon stock options exercised	3,000	—	120	14,130	—	—	—	—	14,250	—	14,250
Stock compensation expenses	—	—	—	36,378	—	—	—	—	36,378	—	36,378
Transfer to statutory reserves	—	—	—	—	101,868	(101,868)	—	—	—	—	—
Balance as of March 31, 2014	3,233,814	(189,587)	129,353	85,103,910	1,340,229	(26,590,366)	(4,663,321)	10,854,689	66,174,494	(384,491)	65,790,003

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE FISCAL YEARS ENDED MARCH 31, 2015, 2014 AND 2013

	Number of shares				Amounts						
	Common stock	Treasury stock	Common stock	Additional paid-in capital	Statutory reserves	Accumulated deficit	Treasury stock	Accumulated other comprehensive income (loss)	Total Global-Tech shareholders' equity	Non-controlling interests	Total equity
			US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of March 31, 2014	3,233,814	(189,587)	129,353	85,103,910	1,340,229	(26,590,366)	(4,663,321)	10,854,689	66,174,494	(384,491)	65,790,003
Net loss for the year	—	—	—	—	—	(6,420,878)	—	—	(6,420,878)	(55,012)	(6,475,890)
Other comprehensive income:											
• release of unrealized loss on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	—	(50,500)	(50,500)	—	(50,500)
• foreign currency translation adjustments	—	—	—	—	—	—	—	44,424	44,424	(183)	44,241
Total net comprehensive income (loss)	—	—	—	—	—	(6,420,878)	—	(6,076)	(6,426,954)	(55,195)	(6,482,149)
Stock compensation expenses	—	—	—	4,517	—	—	—	—	4,517	—	4,517
Transfer from statutory reserves	—	—	—	—	(11,946)	11,946	—	—	—	—	—
Balance as of March 31, 2015	<u>3,233,814</u>	<u>(189,587)</u>	<u>129,353</u>	<u>85,108,427</u>	<u>1,328,283</u>	<u>(32,999,298)</u>	<u>(4,663,321)</u>	<u>10,848,613</u>	<u>59,752,057</u>	<u>(439,686)</u>	<u>59,312,371</u>

Note: On August 22, 2012, the Board of Directors declared a special cash dividend of US\$1 per each common stock, except for treasury stock owned by the Company itself. The special cash dividend was paid on September 5, 2012.

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

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED MARCH 31, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
<b>Cash flows from operating activities:</b>			
Net loss	(6,475,890)	(10,663,601)	(2,071,259)
Plus: Income from discontinued operations, net of taxes	—	5,547,024	2,589,063
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization	101,929	103,117	100,243
Depreciation	3,665,474	2,759,120	2,006,276
(Gain) Loss on disposal of property, plant and equipment	37,094	(134,669)	43,311
Provision for impairment of property, plant and equipment	7,907	159,209	—
Stock compensation expense	4,517	36,378	258,128
Shares issued to an employee	—	—	9,108
Gain on disposal of available-for-sale investments	—	(1,052)	—
Realized gain on available-for-sale investments	—	(13,980)	—
Deferred tax	(8,001)	—	(21,861)
Foreign exchange	(34,275)	(36,076)	451,079
<b>Changes in operating assets and liabilities:</b>			
Accounts and bills receivable	754,445	(5,406,403)	11,305,230
Prepaid expenses	28,182	43,768	(136,367)
Deposits and other assets	97,222	(1,875,017)	37,744
Inventories	757,417	(2,096,040)	176,868
Accounts payable	1,746,421	5,481,337	(538,343)
Accrued salaries, allowances and other employee benefits	95,015	97,808	1,217,697
Other accrued liabilities	(654,305)	305,863	3,924,708
Amount due from a related party	—	6,272	(7,043)
Income tax payable	(208,400)	(423,781)	(1,495,465)
Cash provided by (used in) operating activities—continuing operations	(85,248)	(6,110,723)	17,849,117
Cash provided by (used in) operating activities—discontinued operations	—	427,326	(7,903,004)
Net cash provided by (used in) operations	<u>(85,248)</u>	<u>(5,683,397)</u>	<u>9,946,113</u>
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of property, plant and equipment	—	163,683	160
Deposits paid for purchase of property, plant and equipment	12,818	68,940	(209,801)
Purchases of property, plant and equipment	(1,518,904)	(5,987,481)	(6,846,445)
Increase in time deposits	(1,324,318)	(11,339,515)	—
Proceeds from disposal of available-for-sale investments	1,000,000	18,218	2,000,000
Cash used in investing activities—continuing operations	(1,830,404)	(17,076,155)	(5,056,086)
Cash used in investing activities—discontinued operations	—	(32,682)	(260,517)
Net cash used in investing activities	<u>(1,830,404)</u>	<u>(17,108,837)</u>	<u>(5,316,603)</u>

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE FISCAL YEARS ENDED MARCH 31, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
<b>Cash flows from financing activities:</b>			
Receipts (Deposits) of restricted cash	(5,832,940)	10,738,758	(9,850,513)
Proceeds from (Repayments of) short-term bank loans	(513,390)	2,478,656	757,941
Proceeds from exercise of stock options	—	14,250	—
Cash dividend paid	—	—	(3,040,753)
Cash provided by (used in) financing activities – continuing operations	(6,346,330)	13,231,664	(12,133,325)
Cash used in financing activities—discontinued operations	—	—	—
Net cash provided by (used in) financing activities	<u>(6,346,330)</u>	<u>13,231,664</u>	<u>(12,133,325)</u>
Effect of foreign exchange rate changes on cash	(56,364)	(4,505)	96,458
Net decrease in cash and cash equivalents	(8,318,346)	(9,565,076)	(7,407,357)
Cash and cash equivalents at beginning of fiscal year	<u>22,820,300</u>	<u>32,385,376</u>	<u>39,792,733</u>
Cash and cash equivalents at end of fiscal year	<u>14,501,954</u>	<u>22,820,300</u>	<u>32,385,376</u>
<b>Supplemental disclosure information:</b>			
Cash paid for interest	240,587	137,687	109,749
Cash paid for taxes	<u>5,762</u>	<u>169,526</u>	<u>700,334</u>

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

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Global-Tech Advanced Innovations Inc. (“Global-Tech”) (formerly known as Global-Tech Appliances Inc.) is primarily an investment holding company, which was incorporated in the British Virgin Islands on May 2, 1991. Global-Tech and its subsidiaries (hereinafter collectively referred to as the “Company”) is primarily a manufacturer of consumer electrical products including, but not limited to, electronic and optical components. The Company’s manufacturing operation is located in Dongguan, the People’s Republic of China (the “PRC”). The Company’s products are primarily sold to customers located in the PRC.

Effective December 10, 2008, Global-Tech’s common stock was no longer traded on the New York Stock Exchange and commenced trading on the Nasdaq Capital Market (“Nasdaq”) under the symbol “GAI”. Global-Tech also changed its name to “Global-Tech Advanced Innovations Inc.”, effective as of the close of business on December 10, 2008.

To satisfy the minimum bid price requirement of Nasdaq, Global-Tech’s Board of Directors authorized an amendment to Global-Tech’s Memorandum of Association to effect a 4-for-1 reverse stock split of the issued and outstanding shares of common stock of Global-Tech, effective as of the close of business on December 10, 2008 (the “Effective Date”). Global-Tech also proportionally reduced the authorized number of its common and preferred stock by four to 12,500,000 and 250,000, respectively. These consolidated financial statements present common stock, preferred stock and share option information to reflect the above-mentioned reverse stock split on a retroactive basis.

2. SUBSIDIARIES

Details of Global-Tech’s subsidiaries as of March 31, 2015 were as follows:

<u>Name</u>	<u>Place of incorporation/ registration</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
Global Display Holdings Limited	British Virgin Islands	100	Investment holding
Kwong Lee Shun Trading Company Limited	Hong Kong	100	Leasing of a property
Consortium Investment (BVI) Limited	British Virgin Islands	100	Investment holding
GT Investments (BVI) Limited	British Virgin Islands	100	Investment holding
Global Optics Limited	Hong Kong	100	Trading of raw materials and electronic and optical components
Dongguan Wing Shing Electrical Products Factory Company Limited (“DWS”)	PRC	100	Factory complex rental and maintenance
Guangdong Lite Array Company Limited (“DGLAD”) (formerly known as Dongguan Lite Array Company Limited)	PRC	100	Developing, manufacturing and marketing of electronic and optical components
Dongguan Microview Medical Technology Company Limited	PRC	100	Manufacturing and distribution of medical instruments
Joke Media Limited	PRC	100	Media services
Global Household Products Limited	Hong Kong	100	Inactive
Pentalpha Medical Limited	Hong Kong	100	Inactive
Pentalpha Hong Kong Limited	Hong Kong	100	Inactive
Global-Tech USA, Inc.	State of Delaware, U.S.A	100	Provision of consultation services
Global Lite Array (BVI) Limited	British Virgin Islands	76.75	Investment holding
Lite Array, Inc.	State of Delaware, U.S.A.	76.75	Inactive

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”).

(b) Basis of consolidation

The consolidated financial statements include the financial statements of Global-Tech and its subsidiaries. The fiscal year end date of Lite Array Holdings Limited (“Lite Array Holdings”), a jointly-controlled entity of the Company, is December 31. There have been no significant transactions in Lite Array Holdings and its subsidiaries which would materially affect the Company’s financial position and results of operations during each of the periods from Lite Array Holdings’ fiscal year end date to March 31, 2015, 2014 and 2013, respectively.

All significant intercompany balances and transactions between group companies are eliminated on consolidation.

(c) Discontinued operations

Unless otherwise indicated, information presented in the notes to the consolidated financial statements relates only to Global-Tech’s continuing operations. Information related to discontinued operations is included in note 18 and in some instances, where appropriate, is included as separate disclosure within the individual footnotes.

(d) Use of estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. These estimates, judgments and assumptions affect the amounts that are reported in these consolidated financial statements and accompanying disclosures. The accounting estimates with regard to these consolidated financial statements that require the most significant and subjective judgments include, but are not limited to, valuation of investments and determination of other-than-temporary impairment, useful lives of property, plant and equipment, recoverability of long-lived assets, determination of impairment losses, assessment of market value of inventories and provision for inventory obsolescence, allowance for doubtful accounts, provision for employee benefits, provision for warranty, recognition and measurement of current and deferred income taxes (including income tax benefit (expense)), valuation allowance for deferred tax assets, assumptions used for the valuation of options to purchase Global-Tech’s common stock, provision for loss contingencies, and measurement of fair values of financial instruments. Changes in facts and circumstances may result in revised estimates.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank deposits, which are unrestricted to withdraw and use, and other investments that are readily convertible into cash with original maturities of three months or less.

(f) Restricted cash

Restricted cash consists of bank deposits, which may only be used to settle pre-arranged general banking facilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments

Debt and equity investments designated as available-for-sale investments are stated at fair value. Unrealized gains or losses, net of tax, on available-for-sale investments are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Realized gains and losses and any declines in fair value judged to be other-than-temporary on available-for-sale investments are included in the consolidated statement of operations and comprehensive income. Gains or losses on sale of investments and amounts reclassified from accumulated other comprehensive income (loss) to earnings are computed based on the specific identification method. Interest or dividend income on securities classified as available-for-sale investments is included in interest income or dividend income, respectively.

Non-derivative securities with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments if the Company has both the positive intention and ability to hold the financial assets to maturity. Investments intended to be held to maturity are measured at amortized cost. Interest on securities classified as held-to-maturity investments is included in interest income.

Prior to April 1, 2009, declines in the fair value of held-to-maturity and available-for-sale securities below their amortized cost, that were deemed to be other-than-temporary, were all reported in investment gains (losses), net. Effective April 1, 2009, the Company adopted new accounting guidance for impairment of debt securities that are deemed to be other-than-temporary. Factors considered in evaluating potential impairment include, but are not limited to, the current fair value as compared to cost or amortized cost of the security, as appropriate, the length of time the investment has been below cost or amortized cost and by how much, our intent to sell a security and whether it is more-likely-than-not we will be required to sell the security before the recovery of our amortized cost basis, and specific credit issues related to the issuer and current economic conditions. Under the new impairment model, the credit component of an other-than-temporary impairment of a debt security is reported in investment gains (losses), net and the noncredit component is reported in other comprehensive income (loss). In addition, other-than-temporary declines in beneficial interests purchased or retained in a securitization transaction which are classified as available-for-sale debt securities are recognized if there has been an adverse change in the cash flows as of the end of the reporting period. Interest and dividends, as well as amortization of premiums and accretion of discounts, are reported in interest and dividend income. Amortization of premiums and accretion of discounts on debt securities are recognized over the remaining maturity under the interest method.

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. The Company's investment in a jointly-controlled entity for which it, not being the unilateral controlling owner of the entity, but has the ability to exercise joint control, is accounted for using the equity method. Under the equity method, the Company's proportionate share of the jointly-controlled entities' net income or loss and amortization of any identifiable intangibles arising from the investment is included in "Share of income (losses) of jointly-controlled entities". The Company ceases to apply the equity method when its share of the jointly-controlled entities' losses exceeds the carrying value of its investment.

During the fiscal years ended March 31, 2015, 2014 and 2013, the Company has discontinued the recognition of its share of losses of the jointly-controlled entities because the share of losses of the jointly-controlled entities exceeded the Company's interests in the jointly-controlled entities. The Company has no further obligations to fund operations.

All other investments for which the Company does not have the ability to exercise joint control or significant influence (generally, when the Company has an investment of less than 20% ownership and no representation on the investee's board of directors) and for which there is not a readily determinable fair value, are accounted for using the cost method. Dividends and other distributions of earnings from such investees, if any, are included in income when declared. The Company periodically evaluates the carrying value of its investments accounted for under the cost method for impairment with any loss included in the consolidated statement of operations and comprehensive income in the period when it is incurred.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## (h) Accounts and bills receivable

Accounts and bills receivable are presented net of an allowance for doubtful accounts, which is an estimate of amounts that may not be collectible. The Company does not charge interest on accounts receivable. The allowance for doubtful accounts is estimated based on historical experience, receivable aging, current economic trends and specific identification of certain receivables that are at the risk of not being paid. The Company reviews the aged analysis of accounts and bills receivable on a regular basis. Whenever it is clear that the amounts are deemed to be uncollectible, receivables are written off against the allowance for doubtful accounts.

## (i) Inventories

Inventories are stated at the lower of cost or market value. Cost, calculated on the weighted average basis, comprises direct materials and, where applicable, direct labor and an appropriate proportion of overheads.

## (j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after an item of property, plant and equipment has been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of operations and comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset. Depreciation is calculated on the straight-line basis at annual rates over the asset's estimated useful life.

The principal annual rates used for this purpose are as follows:

	Annual rate
Leasehold improvements	Over the shorter of the lease terms or the estimated useful life
Buildings	4.5%
Plant	4.5%
Machinery	10%
Moulds	20% - 33%
Transportation equipment	15% - 20%
Furniture, fixtures and equipment	15%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of an item of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the consolidated statement of operations and comprehensive income in the period the item is derecognized. Machinery and equipment used in the home appliance business has been derecognized pending sale.

## (k) Construction in progress

Construction in progress represents property, plant and equipment under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and other costs in making the asset ready for its intended use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for its intended use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of long-lived assets

Long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying value of these assets may not be recoverable. In accordance with Financial Accounting Standards Board (“FASB”) ASC 360 “Property, Plant and Equipment” the Company assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology or obtains external appraisals from independent valuation firms. The undiscounted and discounted cash flow analysis is based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate. Long-lived assets, excluding buildings, associated with the home appliance business and electronic manufacturing services (“EMS”) business and equipment that has been leased to a third party are considered to be impaired and accordingly have been written down to fair value less the estimated cost of disposal. Since the Company has leased a significant portion of the buildings previously occupied by the home appliance business and EMS business and certain leased equipment, the Company was able to perform an impairment analysis based on anticipated future rental income, and as a result determined that they were not impaired.

(m) Revenue recognition

The Company recognizes revenue in accordance with the Securities and Exchange Commission (the “SEC”) Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition”, which requires that four basic criteria must be met before revenue can be recognized: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Net sales represent the gross invoiced amount, net of discounts, and are recognized when goods are shipped and title has passed. To the extent products are required to meet customer specifications, such products are subject to technical and quality tests that are designed to ensure compliance prior to shipment.

Under the Company’s standard terms and conditions, which are mainly Free On Board shipping point, title and risk of loss are transferred to the customer at the time the product is delivered to the customer’s freight forwarder.

Revenue related to camera modules (“CCMs”) shipments to certain telecommunication customers in the PRC is recognized upon notarized acceptance of the product by the customer.

Deposits or advance payments from customers prior to delivery and passage of title of merchandise are recorded as customer deposits.

Revenue related to the provision of tooling income is recognized upon the completion of such services and delivery of the related product using the same criteria of SAB No. 104 stated above.

In accordance with the relevant tax laws in the PRC, value-added tax is levied on the invoiced value of sales of goods and is payable by the purchaser. Revenue is recognized net of all value-added tax imposed by governmental authorities and collected from customers concurrent with revenue-producing transactions.

(n) Advertising costs

Advertising costs represent costs relating to promotional activities intended to stimulate, directly or indirectly, a customer’s purchase of goods, and are charged to the consolidated statement of operations and comprehensive income as incurred and are included in “Selling, general and administrative expenses” (“SG&A”). Advertising expenses were US\$214,973, US\$151,027 and US\$223,682 from continuing operations for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. Whereas, nil, US\$5,074 and US\$7,489 were from discontinued operations for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Design and development costs

Design and development costs primarily relate to the cost of samples and prototypes and salaries of our engineers. The Company expenses all design and development costs when incurred. Included in the SG&A expenses line item in the consolidated statement of operations and comprehensive income were design and development costs of US\$1,097,150, US\$498,068, and US\$366,001 from continuing operations (from discontinued operations 2015, 2014 and 2013: nil, US\$331,424 and US\$454,648) for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

(p) Shipping and handling costs

In accordance with FASB ASC 605 "Revenue Recognition", shipping and handling fees billed to customers are included in net sales in the consolidated statement of operations and comprehensive income. Any shipping and handling costs incurred by the Company associated with the sale of products are included in SG&A on the face of the consolidated statement of operations and comprehensive income. During the fiscal years ended March 31, 2015, 2014 and 2013, shipping and handling costs charged to SG&A were US\$177,792, US\$202,112 and US\$167,411 from continuing operations (from discontinued operations 2015: nil, 2014: US\$54,729 and 2013: US\$160,384), respectively.

Any inbound freight charges, receiving, inspection, warehousing and internal transfer costs incurred by the Company are expensed as cost of goods sold. During the fiscal years ended March 31, 2015, 2014 and 2013, inbound freight costs charged to cost of goods sold were US\$37,591, US\$31,986 and US\$21,434 from continuing operations (from discontinued operations 2015: nil, 2014: nil and 2013: nil), respectively. Other related costs are included in manufacturing overheads.

(q) Foreign currencies

All transactions in currencies other than functional currencies during the year are translated at the exchange rates prevailing on the respective transaction dates. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than functional currencies are remeasured at the exchange rates existing on that date. Exchange differences are recorded in the consolidated statement of operations and comprehensive income.

The functional currency of Global-Tech is the U.S. Dollar ("US\$"). The financial statements of all subsidiaries are translated in accordance with FASB ASC 830 "Foreign Currency Matters". All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date and all income and expense items are translated at the average rates of exchange over the year. All exchange differences arising from the translation of subsidiaries' financial statements are recorded as a component of comprehensive income or loss.

(r) Income taxes

Deferred income taxes are provided using the asset and liability method in accordance with FASB ASC 740 "Income taxes". Under this method, deferred income taxes are recognized for all significant temporary differences at enacted rates and classified as current or non-current based upon the classification of the related asset or liability in the consolidated financial statements. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all, the deferred tax asset will not be realized.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interest and penalties from tax assessments, if any, are included in income taxes in the consolidated statement of operations and comprehensive income.

The Company records its possible interest and penalties due to any potential underpayment of income taxes, if and when required, in interest expense and other expenses, respectively.

The Company did not provide for deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries. The Company intends to permanently reinvest foreign subsidiaries' earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Stock compensation expense

The Company adopted FASB ASC 718 “Compensation-Stock Compensation”, and related interpretations in accounting for its employee share-based payment transactions. Accordingly, stock compensation cost is measured at the date of grant and estimated using the option pricing model. Stock issued to an employee as compensation is measured at fair value based on the grant date quoted market price. The compensation cost for share-based awards with service conditions is amortized over the vesting period of the awards using the straight-line method provided that the amount of compensation cost recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date.

The Company accounts for stock options granted to a counterparty other than an employee in accordance with FASB ASC 505 “Equity”. Fair value of the equity instruments is recognized on the measurement date which is the earlier of (i) a commitment for performance by the counterparty to earn the equity instruments being reached or (ii) the counterparty’s performance being completed.

(t) Retirement costs

Retirement cost contributions relating to defined contribution plans are made based on a percentage of the relevant employees’ salaries and are included in the consolidated statement of operations and comprehensive income as they become payable. The assumptions used in calculating the obligation for retirement cost contributions depend on the local economic environment, interpretations and practices in respect thereof.

(u) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessors are charged to the consolidated statement of operations and comprehensive income on a straight-line basis over the period of the relevant leases.

Assets leased out under operating leases are included in “Property, plant and equipment” in the consolidated balance sheet. They are depreciated over the expected useful lives on a basis consistent with similar owned items of property, plant and equipment. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease terms.

(v) Earnings (loss) per share

Basic earnings or loss per share of common stock is computed by dividing the net income or loss available to common shareholders for the year by the weighted average number of shares of common stock outstanding during the year.

Diluted earnings or loss per share of common stock reflects the potential dilution that could occur if securities or other contracts/arrangements to issue shares of common stock were exercised or converted into shares of common stock. Common equivalent shares, comprised of incremental shares of common stock issuable upon the exercise of stock options, are included in diluted earnings or loss per share if they have a dilutive effect by application of the treasury stock method.

(w) Treasury stock

The Company accounts for the acquired shares of its own capital stock (“treasury stock”) in accordance with Accounting Research Bulletin (“ARB”) No. 43, Chapter 1B, and Accounting Principles Board Opinion No. 6, “Status of Accounting Research Bulletins”. The cost of the acquired treasury stock is shown as a deduction from shareholders’ equity. Gains on sale of treasury stock not previously accounted for as constructively reissued are credited to additional paid-in capital while losses are charged to additional paid-in capital to the extent that previous net gains from the sale or retirement of the same class of stock are included therein, otherwise the loss is charged to retained earnings/accumulated deficit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Comprehensive income (loss)

Comprehensive income (loss) is defined as the consolidated change in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to shareholders. Total net comprehensive income (loss) includes net income or loss for the year as well as additional other comprehensive income (loss). The Company's other comprehensive income (loss) consists of the Company's share of other comprehensive income of jointly-controlled entities, unrealized gains and losses on available-for-sale investments and foreign currency translation adjustments, all recorded net of tax.

(y) Accruals and loss contingencies

The Company makes provision for all loss contingencies when information available prior to the issuance of the consolidated financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the consolidated financial statements and the amount of loss can be reasonably estimated.

For provision or accruals related to litigation, social insurance, property tax, etc, the Company makes provisions based on information from legal counsel and the best estimation of management. The Company assesses the potential liability to be recorded if the contingency loss is probable and the amount of loss can be reasonably estimated. The actual resolution of the contingency may differ from the Company's estimates. If the contingency was settled for an amount greater than the estimate, a future charge to income would result. Likewise, if the contingency was settled for an amount that is less than our estimates, a future credit to income would result.

(z) Segment reporting

The Company follows FASB ASC 280 "Segment Reporting". During fiscal 2015, the Company operated and managed its business in two segments. The Company exited the EMS business in December 2013 and home appliance business in January 2012 and thus the home appliance and EMS segments are presented as discontinued operations. The accounting policies used in its segment reporting are the same as those used in the reporting of its results in the consolidated financial statements.

(aa) Warranty cost

The Company estimates its warranty provision for defective products based on various factors including the likelihood of defects, an evaluation of its quality controls, technical analysis, industry information on comparable companies and its own experience. Based on the above consideration, the Company has accrued for warranty costs of US\$871,000 for the year ended March 31, 2015 (2014: US\$869,734 and 2013: US\$403,627). The basis and the amount of the warranty accrual are reviewed and adjusted periodically based on actual experience.

(ab) Government grants

Government grants are recognized when received and the stipulated activities are achieved. Such amounts are included in other income (expenses), net in the consolidated statement of operations and comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Retained Earnings and Reserves

The Company's retained earnings are not restricted as to the payment of dividends except to the extent dictated by prudent business practices. The Company believes that there are no material restrictions, including foreign exchange controls, on the ability of its non-PRC subsidiaries to transfer surplus funds to the Company in the form of cash dividends, loans, advances or purchases. With respect to the Company's PRC subsidiaries, there are restrictions on the payment of dividends and the distribution of dividends from the PRC. On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. Please refer to Note 17 for further details of the New Law. The New Law became effective from January 1, 2008. Prior to the enactment of the New Law, when dividends were paid by the Company's PRC subsidiaries, such dividends would reduce the amount of reinvested profits and accordingly, the refund of taxes paid might be reduced to the extent of tax applicable to profits not reinvested. Subsequent to the enactment of the New Law, due to the removal of any tax benefit related to reinvestment of capital in PRC subsidiaries, the Company may not reinvest the profits made by the PRC subsidiaries. Payment of dividends by PRC subsidiaries to foreign investors on profits earned subsequent to January 1, 2008 will also be subject to withholding tax under the New Law. In addition, pursuant to the relevant PRC regulations, a certain portion of the profits made by these subsidiaries must be set aside for future capital investment and are not distributable, and the registered capital of the Company's PRC subsidiaries are also restricted. Under applicable PRC regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, a foreign-invested enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year for its general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise 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. However, the Company believes that such restrictions will not have a material effect on the Company's liquidity or cash flows.

(ad) Statutory Reserves

The PRC subsidiaries are required by the relevant laws and regulation to transfer at least 10% of their after-tax profit determined in accordance with the PRC accounting rules and regulations to a statutory surplus reserve until such reserve balance reaches 50% of their registered capital.

The Company transferred US\$101,868 out of after-tax profit of its PRC subsidiaries to the statutory reserves for the year ended March 31, 2014. For the year ended March 31, 2015, US\$11,946 has been transferred out of the statutory reserve.

The statutory reserves can only be utilized to offset prior years' losses or for capitalization as paid-in capital. No distribution of the remaining reserves shall be made other than upon liquidation of the PRC subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

In March 2014, the FASB issued ASU 2014-06, “Technical Corrections and Improvements Related to Glossary Terms”. The amendments in this Update relate to glossary terms and cover a wide range of Topics in the Codification. These amendments are presented in four sections: Deletion of Master Glossary Terms (Section A), Addition of Master Glossary Term Links (Section B), Duplicate Master Glossary Terms (Section C), and Other Technical Corrections Related to Glossary Terms (Section D). The amendments in this Update do not have transition guidance and will be effective upon issuance for both public entities and nonpublic entities. The Company is currently evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014-08”). The amendments in ASU 2014-08 change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, disposals representing a strategic shift in operations should be presented as discontinued operations. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. The amendments in ASU 2014-08 are effective prospectively for all disposals (or classifications as held for sale) of components of an entity, and for all businesses that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company is currently evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with early application not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (“ASU 2014-12”). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early application permitted. Companies may use either a prospective or a retrospective approach to adopt this ASU and the Company is currently evaluating which transition approach to use. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (“ASU 2015-01”). The amendments in ASU 2015-01 eliminate from U.S. GAAP the concept of extraordinary items. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early application permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Companies may use either a prospective or a retrospective approach to adopt this ASU and the Company is currently evaluating which transition approach to use. The adoption of ASU 2015-01 is not expected to have a material impact on the Company’s consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). The amendments in ASU 2015-02 change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this ASU are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this ASU using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The adoption of ASU 2015-02 is not expected to have a material impact on the Company’s consolidated financial statements.



GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CASH AND CASH EQUIVALENTS

	<u>March 31,</u> <u>2015</u>	<u>March 31,</u> <u>2014</u>
	US\$	US\$
Cash on hand and at banks	11,306,011	15,942,867
Money market funds	3,195,943	6,877,433
Total cash and cash equivalents	<u>14,501,954</u>	<u>22,820,300</u>

The cash on hand and at bank balances in the PRC subsidiaries are denominated in Renminbi (“RMB”), United States dollars (“US\$”) and Hong Kong dollars (“HK\$”) with the total amount equivalent to RMB50,177,493 (equivalent to US\$8,087,014) and RMB76,953,161 (equivalent to US\$12,382,243) as of March 31, 2015 and 2014, respectively. Of these amounts, RMB37,943,526 (equivalent to US\$6,115,288) and RMB68,012,481 (equivalent to US\$10,943,631) are originally denominated in RMB as of March 31, 2015 and 2014, respectively. RMB is not freely convertible into other currencies; however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business. Other than RMB, the cash on hand and at banks of the Company in Hong Kong and the United States are denominated in HK\$ and US\$.

5. TIME DEPOSITS

As of March 31, 2015, a time deposit of RMB75,368,750 (equivalent to US\$12,649,524) (as at March 31, 2014: RMB70,472,817, equivalent to US\$11,339,515) was deposited with a creditworthy bank with an original maturity of more than three months when acquired. The time deposit bore interest ranging from 4.0% to 4.4% per annum and matured during April and May 2015.

6. RESTRICTED CASH

As of March 31, 2015 and 2014, time deposits of RMB64,239,817 (equivalent to US\$9,850,930) and RMB24,943,500 (equivalent to US\$4,013,565) respectively were deposited with and pledged to banks to secure credit facilities granted to the Company, including revolving bank loans.

7. AVAILABLE-FOR-SALE INVESTMENTS

The following is a summary of available-for-sale debt and equity securities as of March 31, 2015 and 2014:

	Cost		Net unrealized gains		Fair values	
	2015	2014	2015	2014	2015	2014
	US\$	US\$	US\$	US\$	US\$	US\$
Current assets:						
Unlisted investments	<u>—</u>	<u>1,000,000</u>	<u>—</u>	<u>50,500</u>	<u>—</u>	<u>1,050,500</u>

During the fiscal year ended March 31, 2014, a gain of US\$1,052 was recognized on the disposal of the Company’s listed equity securities in available-for-sale investments. During the fiscal years ended March 31, 2015 and 2013, no significant gain or loss was recognized on the disposal of the Company’s available-for-sale investments.

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. AVAILABLE-FOR-SALE INVESTMENTS (continued)

The fair values of listed equity securities are based on quoted market prices at the balance sheet date.

Unlisted investments which have remaining terms of less than 1 year are measured at fair value using a price quoted by a third party, such as a broker or bank, at the balance sheet date.

The net unrealized gains consisted of gross unrealized gains as at March 31, 2015, 2014 and 2013 of nil, US\$50,500 and US\$61,054, respectively, and gross unrealized losses as at March 31, 2015, 2014 and 2013 of nil, nil and US\$1,839, respectively.

The proceeds from the disposal of available-for-sale investments for the fiscal years ended March 31, 2015, 2014 and 2013 were US\$1,000,000, US\$18,218 and US\$2,000,000, respectively.

As detailed in note 14 of the consolidated financial statements, the unlisted investments had been pledged to a bank as security for the short term bank loans of HK\$8,008,123 (equivalent to US\$1,032,334) (2015 and 2013: nil) granted to a Hong Kong subsidiary for the fiscal year ended March 31, 2014.

8. ACCOUNTS AND BILLS RECEIVABLE, NET

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
	US\$	US\$
Accounts receivable	15,221,389	15,833,127
Less: Allowance for doubtful accounts	(90,617)	(74,413)
Accounts receivable, net	<u>15,130,772</u>	<u>15,758,714</u>
Bills receivable	5,362,900	5,458,170
Accounts and bills receivable, net	<u><u>20,493,672</u></u>	<u><u>21,216,884</u></u>

	<u>Fiscal years ended</u>		
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
	US\$	US\$	US\$
Allowance for doubtful accounts:			
Balance at beginning of fiscal year	74,413	—	—
Additions	<u>16,204</u>	<u>74,413</u>	—
Balance at end of fiscal year	<u><u>90,617</u></u>	<u><u>74,413</u></u>	<u><u>—</u></u>

9. INVENTORIES

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
	US\$	US\$
Raw materials	3,016,372	2,491,135
Work in progress	2,359,350	2,303,800
Finished goods	<u>1,043,056</u>	<u>2,367,932</u>
	<u><u>6,418,778</u></u>	<u><u>7,162,867</u></u>

For the fiscal years ended March 31, 2015, 2014 and 2013, a write-down of inventories to fair market value of US\$896,534, US\$804,256 and US\$867,312, respectively, was recognized in the consolidated statement of operations and comprehensive income, of which nil were included in income (loss) from discontinued operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. RELATED PARTY TRANSACTIONS

A related party is any party that controls, jointly controls or can significantly influence the management or operating policies of the Company. Such parties would also include affiliates, investments accounted for by the equity method, principal shareholders, management, directors and the immediate family members of principal shareholders, management or directors.

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements for the fiscal years ended March 31, 2015, 2014 and 2013, the Company had the following material transactions with related parties during those years:

The Company incurred annual motor car rental expenses for the fiscal years ended March 31, 2015, 2014 and 2013 of approximately US\$58,811, US\$57,241 and US\$57,245, respectively. These expenses were payable to a related company of which a shareholder is also director of Global-Tech in fiscal 2015, 2014 and 2013.

The Company incurred annual real estate rental expenses for the fiscal years ended March 31, 2015, 2014 and 2013 of approximately US\$332,749, US\$315,216 and US\$346,662, respectively, payable to a director of Global-Tech and certain related companies of which one of their directors is also a director of Global-Tech. Included in the aforesaid annual real estate rental expenses were amounts of US\$239,889, US\$239,796 and US\$239,811 paid to a director of Global-Tech, during the fiscal years ended March 31, 2015, 2014 and 2013, respectively, which were included in his remuneration for the respective fiscal years as housing allowances.

The amount due from a related party, of which one of the directors of Global-Tech was a shareholder as of March 31, 2015, 2014 and 2013, is unsecured, interest-free and has no fixed term of payment.

## 11. PROPERTY, PLANT AND EQUIPMENT, NET

	<u>March 31,</u> <u>2015</u>	<u>March 31,</u> <u>2014</u>
	US\$	US\$
Leasehold improvements and buildings	33,007,390	32,953,940
Plant and machinery	28,542,918	28,072,532
Moulds	784,691	617,380
Transportation equipment	1,536,897	1,527,750
Furniture, fixtures and equipment	4,648,018	4,541,432
Construction in progress	1,596,854	1,259,572
	<u>70,116,768</u>	<u>68,972,606</u>
Less: Accumulated depreciation	<u>(45,941,523)</u>	<u>(42,655,648)</u>
Property, plant and equipment, net	<u>24,175,245</u>	<u>26,316,958</u>

- (a) During the fiscal years ended March 31, 2015, 2014 and 2013, impairment losses relating to property, plant and equipment of US\$7,907, US\$2,103,780 and nil, respectively, were recognized in the consolidated statement of operations and comprehensive income for certain moulds, plant and machinery, and furniture, fixtures and equipment which are no longer used in the operations of the Company. Impairment losses of US\$1,944,571 were recognized in “Income (Loss) from discontinued operations” during the fiscal year ended March 31, 2014.
- (b) As of March 31, 2015 and 2014, a building with aggregate net book values of approximately US\$12,135 and US\$13,094, respectively, was situated in Hong Kong and buildings and manufacturing facilities with aggregate net book values of approximately US\$11,662,415 and US\$13,065,398, respectively, were situated in Mainland China. The land where the manufacturing facilities were situated is held under certain land use rights that will expire in 2043. Up to March 31, 2015, the Company has obtained a sizable portion of the property ownership certificates for its buildings (29 out of a total of 40 properties) (up to March 31, 2014: 29 out of a total of 40). The application for the remaining property ownership certificates will commence only after the land use right certificates for the relevant pieces of land are obtained.
- (c) The amounts of depreciation charged for the fiscal years ended March 31, 2015, 2014 and 2013 were US\$3,665,474, US\$3,957,964 and US\$3,342,484, respectively, of which, nil, US\$1,198,844 and US\$1,336,208 were included in “Income (Loss) from discontinued operations” for the fiscal years ended March 31, 2015, 2014 and 2013 respectively.
- (d) The gains on disposal of property, plant and equipment recognized during the fiscal years ended March 31, 2014 and 2013 were US\$11,322 and US\$463,358, respectively and losses on disposal of property, plant and equipment of US\$37,094 were recognized during the fiscal year ended March 31, 2015. For the fiscal year ended March 31, 2014, the Company recognized a gain on disposal of property, plant and equipment of US\$134,669 which was included in income (loss) from continuing operations. For the fiscal years ended March 31, 2015 and 2013, losses on disposal of property, plant and equipment of US\$37,094 and US\$43,311 respectively, were recognized in income (loss) from continuing operations.
- (e) The amount of additions to property, plant and equipment during the fiscal years ended March 31, 2015, 2014 and 2013 were US\$1,502,775, US\$6,020,163 and US\$7,613,631, respectively. The additions in fiscal 2015 and 2013 were primarily from the expansion of existing clean room space and purchase of equipment and machinery related to the chip-on-board (“COB”) facility. The additions in fiscal 2014 were primarily from the acquisition of new office space in Shenzhen, the PRC.
- (f) As of March 31, 2015, the Company has pledged certain of its buildings situated in Mainland China with a total area of 80,810 square meters with net book value of US\$20,727,195 to a bank to secure credit facilities granted to the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. LAND USE RIGHTS, NET

Land use rights represent prepayments under operating leases for land use for a predetermined time period. They are charged to the consolidated statement of operations and comprehensive income over the lease periods on a straight-line basis. The Company has the rights to use certain pieces of land located in the PRC and has obtained or is in the process of obtaining the land use rights certificates covering a substantial portion of such lands. On August 26, 2006, the Company entered into a supplementary agreement with the Dongguan local government regarding the use of a piece of land with a total area of 45,208 square meters which the Company had occupied. Pursuant to the supplementary agreement, the Company has vacated a portion of this land (13,698 square meters in aggregate), which was previously used as a recreational area, and has arranged to use the remaining portion of the land (31,510 square meters) until August 6, 2043. However, the Company had to pay monthly fees of RMB59,248 (approximately US\$9,533) to the Dongguan local government for the period from January 1, 2008 to December 31, 2008 and RMB193,048 (approximately US\$31,063) from January 1, 2009 onwards until August 6, 2043. Up to March 31, 2015, the Company has obtained a sizable portion of its land use rights certificates covering 183,900 square meters out of a total area of 207,300 square meters (up to March 31, 2014: covering 183,900 square meters out of a total area of 207,300 square meters). The application of certain property ownership certificates as further detailed in note 11 to the consolidated financial statements commences only after the land use rights certificates for the relevant pieces of land have been obtained. The Company is in the process of obtaining the remaining land use rights and property ownership certificates. However, no definitive time frame has been provided by the Dongguan local government as to when the certificates will be provided to the Company.

## 13. WARRANTY PROVISION

Included in other accrued liabilities are warranty provisions of US\$871,000, US\$869,734 and US\$403,627 as of March 31, 2015, 2014 and 2013, respectively, none of which are from discontinued operations. The Company's warranty activity during the fiscal years ended March 31, 2015, 2014 and 2013 is summarized below:

	<b>Fiscal years ended</b>		
	<b>March 31, 2015</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Balance at beginning of fiscal year	869,734	403,627	729,528
Additional provision	173,500	485,229	—
Reversal of unutilized amounts	<u>(172,234)</u>	<u>(19,122)</u>	<u>(325,901)</u>
Balance at end of fiscal year	<u>871,000</u>	<u>869,734</u>	<u>403,627</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. SHORT TERM BANK LOANS AND BANKING FACILITIES

Global-Tech has provided a bank with: (i) an unlimited corporate guarantee for general banking facilities granted to certain subsidiaries of the Company; and (ii) a security agreement over bank deposits in aggregate of HK\$10.0 million (equivalent to US\$1,289,557) for general banking facilities granted to a subsidiary of the Company without obtaining written consent of the bank for general facilities granted to its Hong Kong subsidiaries. The Company has made deposits to banks as security for credit facilities granted to the PRC subsidiaries, including bank loans and bills payable. As of March 31, 2015, the Company has pledged certain of its buildings situated in Mainland China with total area of 80,810 square meters to a bank to secure credit facilities to the Company.

The Company has credit facilities with a number of banks amounting to the equivalent of US\$17,848,862 and US\$13,212,260 as of March 31, 2015 and 2014 respectively. Of these amounts, HK\$10.0 million (equivalent to US\$1,289,557) and HK\$10.0 million (equivalent to US\$1,289,108) were denominated in Hong Kong dollars as of March 31, 2015 and 2014, respectively.

Of the credit facilities, the Company utilized an equivalent amount of US\$10,283,119 as of March 31, 2015 compared to an equivalent amount of US\$7,280,676 utilized as of March 31, 2014.

Banking facilities of amount equivalent to US\$7,565,743 and US\$5,931,584 remained unutilized as of March 31, 2015 and 2014, respectively.

The weighted average interest rate of the bank loans for the years ended March 31, 2015 and 2014 was 0.73% and 0.55% per annum respectively with an average maturity of 38 and 74 days from March 31, 2015 and 2014, respectively.

15. SHARE CAPITAL

Holders of common stock of Global-Tech have one vote for each stock held on all matters submitted to vote at a shareholders' meeting of Global-Tech. Subject to the rights of the holders of stock with preferential or other special rights which may be authorized in the future, holders of common stock of Global-Tech are entitled to receive dividends *pro rata* out of assets legally available therefore and, in the event of the winding up of Global-Tech, to share ratably in all assets remaining after payment of liabilities of Global-Tech. The Board of Directors of Global-Tech may declare interim dividends and recommend a final annual dividend from retained earnings available for cash dividends as determined for statutory purposes at such times and in such amounts as they may determine. Dividends may only be declared and paid out of surplus.

During the fiscal year ended March 31, 2009, the Board of Directors of Global-Tech authorized an amendment to Global-Tech's Memorandum of Association to effect a 4-for-1 reverse stock split (the "Reverse Stock Split") of the issued and outstanding common stock of Global-Tech, effective from December 10, 2008 (the "Effective Date"). During the fiscal year ended March 31, 2009, Global-Tech also proportionally reduced the authorized number of shares of its common and preferred stock to 12,500,000 and 250,000, respectively. On the Effective Day, every four shares of common stock of Global-Tech issued and outstanding as of the Effective Date were consolidated into one share of post-reverse split common stock.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 16. OTHER INCOME (EXPENSES), NET

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
Foreign exchange gains (losses), net	49,244	(121,990)	23,900
Gains (Losses) on disposal of property, plant and equipment	(37,094)	11,322	463,358
Impairment of property, plant and equipment	(7,907)	(2,103,780)	—
Rental income from third parties	957,409	1,292,903	177,556
Management fee received from a third party	52,297	77,944	—
Reversal of (Accrual for) potential tax surcharge, net	(119,873)	130,328	(60,622)
Government grants	1,044,683	837,656	443,468
Sale of scrap materials	128,037	533	213,718
Others	79,312	311,388	310,201
	<u>2,146,108</u>	<u>436,304</u>	<u>1,571,579</u>

Other income (expenses), net from:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
Continuing operations	2,146,108	2,396,789	583,315
Discontinued operations	—	(1,960,485)	988,264
	<u>2,146,108</u>	<u>436,304</u>	<u>1,571,579</u>

## 17. INCOME TAXES

Global-Tech and its subsidiaries are subject to income taxes on an entity basis on the taxable income arising in or derived from the respective tax jurisdictions in which they are domiciled or deemed to operate. Global-Tech and its investment holding subsidiaries incorporated in the British Virgin Islands (“BVI”) are not subject to tax in the BVI in accordance with the BVI tax regulations. The Company conducts substantially all of its businesses and operations through its subsidiaries located in Hong Kong and the PRC.

The Company’s operating subsidiaries are subject to various statutory tax rates, according to the respective jurisdictions in which they operate. The Company’s subsidiaries in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on their assessable income arising in Hong Kong during the fiscal years ended March 31, 2015, 2014 and 2013.

The Company’s subsidiaries registered in the PRC, including DWS and DGLAD, are subject to the PRC enterprise income tax (“EIT”) on income as reported in their PRC statutory accounts, adjusted in accordance with relevant PRC income tax laws and regulations. DWS and DGLAD are located in a coastal open economic zone in the PRC and, accordingly, were entitled to a preferential tax rate of 27% (24% reduced tax rate and 3% local income tax rate) for the calendar years ended prior to December 31, 2008. During the 5<sup>th</sup> Session of the 10<sup>th</sup> National People’s Congress of the PRC, which was concluded on March 16, 2007, a unified EIT law was approved and became effective on January 1, 2008 (“New EIT Law”). The New EIT Law introduced a wide range of changes which include the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. DGLAD is entitled to a tax concession period (“Tax Holiday”), whereby it was exempted from EIT for its first two profit-making years and is entitled to a 50% tax reduction for the succeeding three years. DGLAD has qualified as a High and New Technology Enterprise (“HNTE”). Accordingly, after the expiry of its Tax Holiday in December 2011, DGLAD became subject to a preferential tax rate of 15% commencing from January 2012. The EIT of DWS for fiscal years 2015, 2014 and 2013 remained 25%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. INCOME TAXES (continued)

Income tax benefit consists of:

	<u>2015</u> US\$	<u>2014</u> US\$	<u>2013</u> US\$
Continuing Operations			
Income tax benefit:			
Current	(201,045)	(255,927)	(820,039)
Deferred	(8,001)	—	(21,861)
Total income tax benefit	<u>(209,046)</u>	<u>(255,927)</u>	<u>(841,900)</u>

No income tax expense (benefit) had been charged for discontinued operations in fiscal 2015, 2014 and 2013. The reconciliation of income tax expense (benefit) computed at the Hong Kong statutory income tax rate to the total income (loss) from continuing operations and discontinued operations before income taxes at the effective income tax rate is as follows:

	<u>2015</u> US\$	<u>2014</u> US\$	<u>2013</u> US\$
Income tax benefit at the Hong Kong statutory income tax rate	(1,103,014)	(1,801,722)	(480,671)
Foreign rate differential	44,121	(299,512)	30,822
Non-taxable other income	(76,228)	(227,440)	(386,664)
Non-tax deductible expenses	351,052	1,035,101	670,389
Overprovision of tax in prior periods	(367,790)	(695,630)	(1,314,491)
Unrecognized tax benefits	156,288	278,338	223,959
Changes in valuation allowance	786,525	1,454,938	414,756
Total income tax benefit at the Company's effective income tax rate	<u>(209,046)</u>	<u>(255,927)</u>	<u>(841,900)</u>
Hong Kong statutory income tax rate	16.5%	16.5%	16.5%
Effective income tax rate	<u>3.1%</u>	<u>2.3%</u>	<u>28.9%</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. INCOME TAXES (continued)

Deferred tax assets and liabilities as of March 31, 2015 and 2014 comprise the following:

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
	US\$	US\$
<b>Deferred tax assets:</b>		
Impairment of property, plant and equipment	2,293,850	2,318,586
Provision for inventories	340,221	238,730
Provision for warranty	217,750	217,434
Operating losses carried forward	<u>4,529,238</u>	<u>4,391,655</u>
Gross deferred tax assets	7,381,059	7,166,405
Less: Valuation allowance for deferred tax assets	<u>(7,378,244)</u>	<u>(7,166,405)</u>
Net deferred tax assets	<u>2,815</u>	<u>—</u>
<b>Deferred tax liabilities:</b>		
Tax over book depreciation of property, plant and equipment	—	(5,183)
Total deferred tax liabilities	<u>—</u>	<u>(5,183)</u>

	<b>Fiscal years ended</b>		
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
	US\$	US\$	US\$
<b>Valuation allowance:</b>			
Balance at beginning of fiscal year	7,166,405	5,757,984	5,185,404
Additions	185,874	1,454,938	414,756
Exchange realignment	25,965	(46,517)	157,824
Balance at end of fiscal year	<u>7,378,244</u>	<u>7,166,405</u>	<u>5,757,984</u>

For financial reporting purposes, the Company has established valuation allowances by tax jurisdiction for deferred tax assets, which management believes are more likely than not to be realized in the foreseeable future. As of March 31, 2015 and 2014, the Company had tax losses carried forward of US\$26,619,644 and US\$25,530,406, respectively, which included tax losses of US\$6,447,281 and US\$5,591,707 respectively that are available indefinitely for offsetting against future taxable income of the companies in which these losses arose. Tax losses of US\$20,172,364 and US\$19,938,699 as at March 31, 2015 and 2014, respectively, may be carried back for 2 years or carried forward for 20 years from the year the tax losses arose.

A reconciliation of the movements of unrecognized tax benefits under FASB ASC 740 during the fiscal years ended March 31, 2015 and 2014, exclusive of related interest and penalties, is as follows:

	<b>Fiscal years ended</b>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>
	US\$	US\$
Balance at beginning of fiscal year	8,589,164	8,870,677
Additions based on tax positions related to the current year	630,012	422,094
Reduction for tax positions related to prior year	(217,785)	(700,780)
Exchange realignment	7,256	(2,827)
Balance at end of fiscal year	<u>9,008,647</u>	<u>8,589,164</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. INCOME TAXES (continued)

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits under FASB ASC 740 of US\$4,399,828 and US\$4,454,069, respectively, are presented in the consolidated balance sheets within income tax payable. The remaining balances of US\$4,608,819 and US\$4,135,095 as of March 31, 2015 and 2014, respectively, are set off against the corresponding tax losses carried forward.

If the unrecognized tax benefits under FASB ASC 740 as of March 31, 2015 were realized in a future period, these would result in a tax benefit of US\$4,399,828 (US\$4,454,069 as of March 31, 2014) and a reduction of the Company's effective tax rate.

For all the years presented and in accordance with FASB ASC 740, the Company classified interest and potential penalties relating to any underpayment of income taxes and uncertain tax positions, if and when required, as interest expense and other expenses, respectively. For the fiscal years ended March 31, 2014 and 2013, the Company reversed interest and potential penalties of US\$213,976 and US\$1,021,397, respectively, relating to certain uncertain tax positions in its consolidated statement of operations and comprehensive income. For the fiscal year ended March 31, 2015, the Company accrued interest and potential penalties of US\$122,091 relating to certain uncertain tax positions in its consolidated statement of operations and comprehensive income. As of March 31, 2015 and 2014, the Company had accrued interest and potential penalties relating to uncertain tax positions amounting to US\$559,313 and US\$436,920, respectively.

One of the Company's wholly-owned subsidiaries was under examination by the Hong Kong tax authority in prior years. The tax period open for examination by the tax authority included the fiscal years ended March 31, 2003 through 2011. During fiscal 2013, the Company's subsidiary and the Hong Kong tax authority reached an agreement to settle the tax audit case with additional assessable profits of HK\$12,520,654 (equivalent to US\$1,612,967) being raised together with penalty and interest on tax undercharged, for which the amount had already been provided for within FASB ASC 740. The total amount of penalty and interest paid was HK\$2,000,000 and HK\$466,249 (equivalent to US\$257,649 and US\$60,064), respectively, which were included in "Other income, net" and "Interest income, net" from continuing operations.

The PRC tax authorities could determine that any inter-company payable account in accordance with PRC GAAP could be deemed income if such inter-company payables cannot be settled and therefore would be subject to taxation. In accordance with FASB ASC 740, we evaluated our position and determined that such inter-company payables will be settled, particularly since prior year tax assessments have been confirmed by the PRC tax authorities and such inter-company payables were not deemed as income.

Except as noted above, based on existing tax regulations in the Company's various operating jurisdictions, tax years 2006 through 2015 remain open to possible tax examination by relevant tax authorities.

The Company has not provided for possible income taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely.

18. DISCONTINUED OPERATIONS

As previously disclosed and discussed elsewhere in this annual report, the Company completed its exit from the EMS business in December 2013.

In the fiscal periods preceding the Company's exit from the EMS business, profit margins had been rapidly decreasing due at least, in part, to the rising cost of raw materials and labor in the PRC, together with the unwillingness or inability of our customers to offset these costs through pricing increases. Customer pricing demands no longer reflected actual production costs and, as a result, margins for this business in recent years approached unacceptable levels, with the EMS segment actually suffering significant losses in fiscal 2013.

In response to the foregoing, on December 15, 2013, the Board of Directors approved plans to exit the EMS business in fiscal 2014 while active production for the EMS business ceased in December 2013.

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. DISCONTINUED OPERATIONS (continued)

In accordance with guidance contained in FASB ASC 205-20 “Discontinued Operations”, the results of operations for the home appliance and EMS segments have been excluded from continuing operations and reported as discontinued operations for the current and prior periods.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
Net Sales	—	2,922,127	14,256,315
Cost of goods sold	—	(4,323,267)	(13,962,647)
Gross profit (loss)	—	(1,401,140)	293,668
Selling, general and administrative expenses	—	(2,185,399)	(3,870,995)
Operating loss	—	(3,586,539)	(3,577,327)
Other income (expense), net	—	(1,960,485)	988,264
Income tax expenses	—	—	—
Loss from discontinued operations, net of tax	—	(5,547,024)	(2,589,063)

Impairment losses of US\$1,944,571 were recognized in the loss from discontinued operations in fiscal 2014 for machinery and equipment that were used in the operations of the EMS segment and home appliance segment. No impairment loss was recognized in fiscal 2015 and 2013.

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share of common stock of the Company for the fiscal years ended March 31, 2015, 2014 and 2013 is computed in accordance with FASB ASC 260 "Earnings Per Share" by dividing the net earnings (loss) for each fiscal year attributable to common stockholders by the weighted average number of shares of common stock outstanding during that fiscal year.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
<b>Numerator for basic and diluted earnings (loss) per share:</b>			
Income (Loss) from continuing operations	(6,475,890)	(5,116,577)	517,804
Income from continuing operations attributable to non-controlling interests	<u>55,012</u>	<u>108,044</u>	<u>107,958</u>
Income (Loss) from continuing operations attributable to shareholders of Global-Tech Advanced Innovations Inc.	(6,420,878)	(5,008,533)	625,762
Loss from discontinued operations	<u>—</u>	<u>(5,547,024)</u>	<u>(2,589,063)</u>
Net loss attributable to common stockholders	<u>(6,420,878)</u>	<u>(10,555,557)</u>	<u>(1,963,301)</u>
	<u>Number</u>	<u>Number</u>	<u>Number</u>
<b>Denominator for basic and diluted earnings (loss) per share:</b>			
Weighted average number of shares of common stock	<u>3,044,227</u>	<u>3,041,625</u>	<u>3,040,310</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
<b>Basic and diluted earnings (loss) per share:</b>			
Earnings (Loss) from continuing operations	(2.11)	(1.65)	0.21
Loss from discontinued operations	<u>—</u>	<u>(1.82)</u>	<u>(0.86)</u>
Loss attributable to common stockholder	<u>(2.11)</u>	<u>(3.47)</u>	<u>(0.65)</u>

330,001 and 343,751 stock options of Global-Tech were excluded from the computation of diluted earnings (loss) per share for the fiscal years ended March 31, 2015 and 2014 respectively, because their inclusion would have been anti-dilutive.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 20. COMMITMENTS

## (a) Capital commitments

As of March 31, 2015 and 2014, the Company had capital commitments contracted but not provided for of US\$205,435 and US\$126,792, respectively, for the purchase of property, plant and equipment.

## (b) Operating lease commitments

In addition to the land use rights described in note 12 to the consolidated financial statements, the Company has entered into various operating lease arrangements for parking lots, motor vehicles, equipment, land and office premises. The Company recorded rental expenses, excluding the land use rights payments described in note 12 to the consolidated financial statements, for the fiscal years ended March 31, 2015, 2014 and 2013 of US\$185,369, US\$247,234 and US\$361,918, respectively. The Company has leased out certain manufacturing facilities and machineries to third parties, and recorded gross lease rental income of US\$3,444,186, US\$1,292,903 and US\$177,556 for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2015 and 2014 were as follows:

	<u>March 31,</u> <u>2015</u>	<u>March 31,</u> <u>2014</u>
	US\$	US\$
<b>Payable:</b>		
Within one year	349,073	381,394
Over one year but not exceeding two years	342,386	352,290
Over two years but not exceeding three years	342,386	352,290
Over three years but not exceeding four years	342,386	352,290
Over four years but not exceeding five years	342,386	352,290
Over five years	<u>7,989,011</u>	<u>8,572,401</u>
	<u>9,707,628</u>	<u>10,362,955</u>

Subsequent to March 31, 2015, a subsidiary renewed the tenancy agreement with a related company and extended the leasing term for one year to March 31, 2016, with future lease payments due of US\$92,848 not reflected in the table above.

Future minimum rentals receivable under non-cancelable operating leases as of March 31, 2015 and 2014 were as follows:

	<u>March 31,</u> <u>2015</u>	<u>March 31,</u> <u>2014</u>
	US\$	US\$
<b>Receivable:</b>		
Within one year	2,965,169	511,923
Over one year but not exceeding two years	2,334,949	—
Over two years but not exceeding three years	2,205,811	—
Over three years but not exceeding four years	<u>2,141,196</u>	—
	<u>9,647,125</u>	<u>511,923</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 21. CONTINGENCIES

As of March 31, 2015, the Company has accrued as a current liability US\$4,399,828 (as of March 31, 2014: US\$4,454,069) for unrecognized tax benefits and US\$559,313 (as of March 31, 2014: US\$436,920) for related interest and penalties. The unrecognized tax benefits relate mainly to potential transfer pricing arrangements reflected in the Hong Kong and PRC income tax returns of certain subsidiaries of the Company. The final outcome of these tax uncertainties is dependent upon various matters including tax examinations, legal proceedings, certain authority proceedings, changes in regulatory tax laws and interpretations of those tax laws, or expiration of statutes of limitation. However, based on the number of jurisdictions, the uncertainties associated with litigation, and the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, which could include formal legal proceedings, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties.

## 22. OTHER ACCRUED LIABILITIES

	<b>March 31, 2015</b>	<b>March 31, 2014</b>
	<u>US\$</u>	<u>US\$</u>
Accrued expenses	2,761,586	2,568,678
Other tax payable	1,136,293	832,050
Land use right payable – operating lease	1,041,140	1,119,005
Other payables for procuring materials for customers	—	40,278
Rental deposits received	639,512	240,247
Other payables for procuring equipment and consumables	175,533	397,441
Other payable	530,018	523,058
	<u>6,284,082</u>	<u>5,720,757</u>

## 23. EMPLOYEE BENEFITS

The Company operates a Mandatory Provident Fund (“MPF”) scheme and an Occupational Retirement Schemes Ordinance (“ORSO”) scheme for all its qualified employees in Hong Kong. Both the MPF and the ORSO schemes are defined contribution programs and are administered by independent fund companies.

MPF is available to all employees aged 18 to 64 and with at least 60 days of service as an employee of the Company in Hong Kong. Under the MPF scheme, both the Company and each of the qualified employees contribute the lower of 5% of the employees’ basic salary and HK\$1,500 (approximately US\$193), subject to a cap of a monthly basic salary of HK\$30,000 (approximately US\$3,869). Qualified employees are entitled to 100% of the Company’s contributions together with accrued returns irrespective of their length of service with the Company, but the benefits are required by law to be preserved until the retirement age of 65.

Certain full-time employees in Hong Kong who joined the Company before December 2000 are eligible to participate in the ORSO scheme immediately following the date on which they have completed their probationary period. Under the ORSO scheme, both the Company and each of the eligible employees contribute 5% of the employees’ basic salary.

The costs of these schemes recognized during the fiscal years ended March 31, 2015, 2014 and 2013 were US\$50,394, US\$52,119 and US\$48,075, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. EMPLOYEE BENEFITS (continued)

According to the relevant laws and regulations in the PRC, the Company is required to contribute 16.8% (reduced from 17.3% effective from January 2015) of the stipulated employee salary set by the local government of Dongguan for certain social insurance, medical and retirement benefit schemes for its employees. No forfeited contributions may be used by the employer to reduce the existing level of contributions. The Company also provides housing, medical care and subsidized meals to all existing factory employees. The aggregate amounts incurred and provided for by the Company for all benefits for factory employees were US\$1,037,248, US\$879,811 and US\$1,963,173 during the fiscal years ended March 31, 2015, 2014 and 2013 respectively.

24. SEGMENT INFORMATION

The Company operates in two segments: Electronic Components and Others for the fiscal year ended March 31, 2015. These segments are operated and managed as separate strategic business units that offer different products/services. The Company's "Electronic Components" segment produces complementary metal oxide semiconductors ("CMOS") CCMs primarily for sale to cellular phone and tablet manufacturers in the PRC. The Company's "Others" segment comprises a number of immaterial product lines and development programs that have not materialized to date into full product businesses. None of these units has ever individually met the quantitative thresholds for determining reportable segments. The chief operating decision maker evaluates the results of each segment in assessing performance and allocating resources among the segments.

There were no material intersegment sales or transfers during the fiscal years ended March 31, 2015, 2014 and 2013.

As stated in note 18 – "Discontinued Operations", the EMS and home appliance segments were discontinued effective in December 2013 and January 2012 respectively. The results of operations of the EMS segment and home appliance segment have been classified as "Income (Loss) from discontinued operations" on the face of the consolidated statement of operations and comprehensive income for all years presented. The home appliance segment profit for fiscal year ended March 31, 2013 represented sales of equipment and materials that had previously been written off.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 24. SEGMENT INFORMATION (continued)

(a) The following table provides operating financial information for the two reportable segments and discontinued segments:

	<u>Home Appliance# US\$</u>	<u>Electronic Components US\$</u>	<u>EMS# US\$</u>	<u>Others US\$</u>	<u>Corporate US\$</u>	<u>Combined US\$</u>
<b>As of or for the fiscal year ended March 31, 2015</b>						
Revenues from external customers	—	75,891,185	—	2,129,670	—	78,020,855
Capital expenditure	—	1,474,896	—	27,879	—	1,502,775
Interest income	—	—	—	—	682,045	682,045
Interest expense	—	(213,862)	—	(27,013)	(2,217)	(243,092)
Depreciation and amortization	—	1,382,540	—	1,903,109	481,262	3,766,911
Segment loss	—	(3,881,464)	—	(1,210,163)	(1,329,251)	(6,420,878)
Total assets	—	41,822,978	—	5,808,714	47,352,068	94,983,760
<b>As of or for the fiscal year ended March 31, 2014</b>						
Revenues from external customers	—	60,574,912	2,922,127	2,117,989	—	65,615,028
Capital expenditure	—	5,836,735	32,682	148,269	2,477	6,020,163
Interest income	—	—	—	—	822,826	822,826
Interest expense	—	(129,775)	—	—	(7,913)	(137,688)
Depreciation and amortization	—	1,154,231	1,198,844	379,122	1,328,884	4,061,081
Segment loss	—	(1,107,157)	(5,547,024)*	(1,502,779)	(2,398,597)	(10,555,557)
Total assets	—	42,999,530	52,202	1,160,087	55,456,124	99,667,943
<b>As of or for the fiscal year ended March 31, 2013</b>						
Revenues from external customers	—	65,188,724	14,256,314	1,638,346	—	81,083,384
Capital expenditure	—	6,484,577	767,186	358,813	3,055	7,613,631
Interest income	—	—	—	—	1,663,714	1,663,714
Interest expense	—	(109,749)	—	—	(49,799)	(159,548)
Depreciation and amortization	—	554,337	1,336,208	223,915	1,328,267	3,442,727
Segment profit (loss)	725,773	3,687,547	(3,314,836)	(1,182,894)	(1,878,891)	(1,963,301)
Total assets	34	29,618,065	16,203,482	1,114,654	61,289,608	108,225,843

# As discussed in note 18, the EMS and Home Appliance segments were discontinued in December 2013 and in January 2012 respectively. The results of the operations have been classified as discontinued operations on the face of the consolidated statement of operations and comprehensive income.

\* Impairment losses of US\$1,944,571 were recognized in income (loss) from discontinued operations for machinery and equipment that was used in the operations of the EMS segment in fiscal 2014. No impairment loss was recognized in fiscal 2013.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 24. SEGMENT INFORMATION (continued)

- (b) Net sales including net sales of discontinued operations by geographic area based on the location of customers are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
Australia	330,873	307,996	533,077
Europe	65,976	139,694	326,298
North America	41,429	23,735	49,423
Asia	77,391,698	65,143,603	80,174,586
Other regions	190,879	—	—
	<u>78,020,855</u>	<u>65,615,028</u>	<u>81,083,384</u>

- (c) Net sales including net sales of discontinued operations by product/service type

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
Kitchen appliances	330,873	307,996	533,077
CCMs and related products	75,351,945	59,795,999	63,913,523
Cellular phone assembly services	652	3,093,146	14,256,314
Others	2,337,385	2,417,887	2,380,470
	<u>78,020,855</u>	<u>65,615,028</u>	<u>81,083,384</u>

- (d) Long-lived assets\*

	<u>March 31,</u>	<u>March 31,</u>
	2015	2014
	US\$	US\$
Hong Kong	54,520	91,792
Mainland China	26,947,236	29,148,590
	<u>27,001,756</u>	<u>29,240,382</u>

- \* Long-lived assets represent land use rights and property, plant and equipment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 24. SEGMENT INFORMATION (continued)

## (e) Major customers

Customers accounting for 10% or more of the Company's combined net sales are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	US\$	US\$	US\$
From continuing operations:			
Lenovo Mobile Communication Technology Ltd. ("Lenovo")	7,281,584	21,688,510	26,799,405
Wingtech Group ("Wingtech")	<u>8,410,214</u>	<u>8,000,133</u>	<u>4,477,345</u>

During the fiscal years ended March 31, 2015, 2014 and 2013, 9.3%, 33.0% and 33.0%, respectively of the Company's combined net sales including discontinued operations were made to Lenovo, which is an unrelated customer. As of March 31, 2015, 2014 and 2013, 12.5%, 33.3% and 34.2%, respectively of the Company's total accounts and bills receivable were from Lenovo. Lenovo is a customer of the Company's electronic components segment.

During the fiscal years ended March 31, 2015, 2014 and 2013, 10.8%, 12.2% and 5.52%, respectively of the Company's combined net sales including discontinued operations were made to Wingtech, which is an unrelated customer. As of March 31, 2015, 2014 and 2013, 12.4%, 13.8% and 5.8%, respectively of the Company's total accounts and bills receivable were from Wingtech. Wingtech is a customer of the Company's electronic components segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. CONCENTRATION OF RISKS

*Concentration of credit risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk primarily consist of cash and cash equivalents, time deposits, restricted cash, available-for-sale investments, financial assets included in deposits and other assets and accounts and bills receivable.

Substantially all of the Company's cash and cash equivalents, time deposits, restricted cash, interest receivable, and available-for-sale investments were financial assets that management believes are of high credit quality.

The Company's concentration on a limited number of customers will continue to represent a substantial portion of our sales for the foreseeable future. The loss of any major customers or a decrease or delay in orders, or anticipated spending by such customers could materially reduce our revenues and profitability. Our largest customers could also engage in business combinations, which could increase their size, reduce their demand for our products as they recognize synergies or rationalize assets and increase or decrease the portion of their sales to any single customer.

The Company conducts credit evaluations of its customers but does not require collateral or other security from its customers. The Company makes allowance for doubtful accounts primarily based on the age of receivables and factors surrounding the customers' credit risk.

*Current vulnerability due to certain concentrations*

The Company's operations are mainly conducted in Hong Kong and Mainland China with a majority of its sales from continuing operations to Asia. As a result, the Company's businesses, financial condition, results of operations and cash flows may be influenced by the political, economic and legal environments in Hong Kong and Mainland China, and by the general state of the Hong Kong and Mainland China economies.

The Company's operations may be adversely affected by significant political, economic and social uncertainties in Mainland China. 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 its political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

A significant portion of the Company's business is transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions generally requires submitting a payment application form together with suppliers' invoices, shipping documents, signed contracts and/or other documents, as appropriate.

A significant portion of the Company's sales in previous years from discontinued operations were made to the U.S. and the Company is responsible for ensuring that its products are safe and satisfy all of the requirements of the consumer products safety commission ("CPSC") in the U.S. This may also apply to OEM products manufactured by the Company to customer specifications. In the event of a recall required by the CPSC, the customers may require the Company to provide replacement conforming units at its cost, which could have a material adverse effect on its business, quality reputation and results of operations.

26. FINANCIAL INSTRUMENTS

The Company's financial instruments that are subject to credit risks are limited to its cash and cash equivalents, time deposits, restricted cash, available-for-sale investments, accounts and bills receivable, financial assets included in deposits and other assets, amounts due from a related party.

The Company's financial assets and liabilities are recognized initially at cost which is the fair value of the consideration given (in the case of assets) or received (in the case of liabilities). Transaction costs are included in the initial measurement of all financial assets and liabilities. Subsequent to initial recognition, assets and liabilities are either valued at cost, amortized cost using the effective interest rate method or fair value, depending on classification.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 26. FINANCIAL INSTRUMENTS (continued)

The following table sets forth the carrying values and estimated fair values of the Company's financial assets and liabilities recognized as of March 31, 2015 and 2014. There were no material unrecognized financial assets and liabilities as of March 31, 2015 and 2014.

	Carrying value		Fair value	
	2015 US\$	2014 US\$	2015 US\$	2014 US\$
<b>Current financial assets:</b>				
Cash and cash equivalents	14,501,954	22,820,300	14,501,954	22,820,300
Time deposits	12,649,524	11,339,515	12,649,524	11,339,515
Restricted cash	9,850,930	4,013,565	9,850,930	4,013,565
Available-for-sale investments	—	1,050,500	—	1,050,500
Accounts and bills receivable, net	20,493,672	21,216,884	20,493,672	21,216,884
Financial assets included in deposits and other assets	1,538,102	586,022	1,538,102	586,022
Amount due from a related party	15,475	12,569	15,475	12,569
<b>Total financial assets</b>	<b>59,049,657</b>	<b>61,039,355</b>	<b>59,049,657</b>	<b>61,039,355</b>
<b>Current financial liabilities:</b>				
Short term bank loans	6,780,394	7,279,629	6,780,394	7,279,629
Accounts and bills payable	14,248,741	12,520,080	14,248,741	12,520,080
Accrued salaries, allowances and other employee benefits	3,077,943	2,980,622	3,077,943	2,980,622
Other accrued liabilities	6,284,082	5,720,757	6,284,082	5,720,757
<b>Total financial liabilities</b>	<b>30,391,160</b>	<b>28,501,088</b>	<b>30,391,160</b>	<b>28,501,088</b>

The carrying amounts of the Company's cash and cash equivalents, time deposits, restricted cash, accounts and bills receivable, financial assets included in deposits and other assets, amounts due from a related party, short term bank loans, accounts payable, accrued salaries, allowances and other employee benefits and other accrual liabilities approximate to their fair values because of their short maturities. The available-for-sale investments are stated at quoted market price.

The Company's cash and cash equivalents, time deposits and restricted cash are placed primarily with banking institutions in the PRC with high credit ratings. The Company performs periodic credit standing evaluation of those banking institutions to limit the Company's exposure to any significant credit risks.

The Company's accounts and bills receivable largely represent amounts due from the Company's principal customers. Receivable balances are monitored on an ongoing basis and the Company's exposure to bad debts is not significant. The Company does not require collateral or other credit enhancement for any of its financial assets.

If the counterparties to the above financial assets fail to perform completely under the terms of their contract/arrangement, the maximum loss, based on the gross fair value of the financial instruments, due to this credit risk would be US\$59,049,657 and US\$61,039,355 as at March 31, 2015 and 2014, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 27. FAIR VALUE MEASUREMENTS

FASB ASC 820 “Fair Value Measurement and Disclosures”, the Company adopted in fiscal 2009, clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability, such as inherent risk, transfer restrictions and risk of non-performance. As a basis for considering such assumptions, it establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

FASB ASC 820 “Fair Value Measurements and Disclosures”, describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company’s financial assets carried at fair value on a recurring basis are detailed in the table below. The fair values of such financial assets are measured in accordance with FASB ASC 820 inputs, including quoted market price.

Assets measured at fair value on a recurring basis as of March 31, 2015 and 2014 are summarized below:

	<u>Fair Value Measurements</u>	
	<u>March 31,</u> <u>2015</u>	<u>March 31,</u> <u>2014</u>
	<u>Quoted prices in active markets for identical assets</u>	
	<u>US\$</u>	<u>US\$</u>
<b>Assets</b>		
Level 2:		
Available-for-sale investments:		
Unlisted investments	—	1,050,500
Total financial assets measured at fair value	<u>—</u>	<u>1,050,500</u>

## 28. STOCK COMPENSATION

## (a) Amended and Restated 1997 Stock Option Plan of Global-Tech

In September 1997, the Board of Directors of Global-Tech adopted Global-Tech’s 1997 Stock Option Plan (as amended, the “1997 Plan”). The 1997 Plan provides for the grant of (i) options that are intended to qualify as incentive stock options (“Incentive Stock Options” or “ISO”) within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) to employees and (ii) options not intended to qualify as Incentive Stock Options to employees and consultants. The total number of shares of common stock of Global-Tech for which options may be granted under the 1997 Plan is 400,000 shares. The 1997 plan expired on September 17, 2008 and no further grants can be made from this plan after that date.

The 1997 Plan is administered by the Board of Directors of Global-Tech, or a committee of directors appointed by the Board of Directors of Global-Tech, who determines the terms of options, including the exercise price, the number of stock subject to the options and the terms and conditions of exercise. No option granted under the 1997 Plan is transferable by the optionee other than by will or the laws of descent and distribution and each vested option is exercisable within the contractual period of the option. With respect to any participant who owns (or is deemed to own) stock possessing more

28. STOCK COMPENSATION (continued)

than 10% of the voting rights of Global-Tech's outstanding capital stock, the exercise price of any ISO must not be less than 110% of the fair market value of the stock on the date of grant. The term of each option granted pursuant to the 1997 Plan may be established by the Board of Directors of Global-Tech, or a committee of the Board of Directors of Global-Tech, in its sole discretion; provided, however, that the maximum term of each ISO granted pursuant to both the 1997 Plan is 10 years. With respect to any ISO granted to a participant who owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of Global-Tech's outstanding capital stock, the maximum term is five years. Shares of common stock distributed under the 1997 Plan will be from authorized, but unissued stock or common stock held in the treasury of the Company. Every option granted shall vest and become exercisable in accordance with the terms of the applicable option agreement. Options can be exercised for a period not exceeding 10 years from the date of grant.

During fiscal 2013, an aggregate of 5,950 options with exercise prices of US\$15.60 to US\$30.56 per share were forfeited upon resignation of the relevant participants.

During fiscal 2014, an aggregate of 65,500 options with exercise prices of US\$30.40 to US\$30.56 expired.

During fiscal 2015, no options were granted and none were forfeited.

(b) 2005 Stock Option Plan of Global-Tech

In October 2005, the Board of Directors of Global-Tech adopted Global-Tech's 2005 Stock Option Plan (the "2005 Plan"). The 2005 Plan provides for the grant of (i) ISO within the meaning of Section 422 of the Code; (ii) non-qualified stock options that do not qualify as ISO ("NQSOs"); and (iii) stock appreciation rights. The total number of shares of common stock of Global-Tech for which options may be granted under the 2005 Plan is 450,000 shares.

The 2005 Plan is administered by the Board of Directors of Global-Tech or a committee appointed by the Board of Directors of Global-Tech, who determines the terms of options, including the exercise price, the number of stock subject to the options and the terms and conditions of exercise. No option granted under the Plan is transferable by the optionee other than by will or the laws of descent and distribution and each vested option is exercisable within the contractual period of the option. With respect to any participant who owns (or is deemed to own) stock possessing more than 10% of the voting rights of Global-Tech's outstanding capital stock, the exercise price of any ISO must not be less than 110% of the fair market value of the stock on the date of grant. The term of each option granted pursuant to the Plan may be established by the Board of Directors of Global-Tech, or a committee of the Board of Directors of Global-Tech, in its sole discretion; provided, however, that the maximum term of each ISO granted pursuant to the 2005 Plan is 10 years. With respect to any ISO granted to a participant who owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of Global-Tech's outstanding capital stock, the maximum term is five years. Every option granted shall vest and become exercisable in accordance with the terms of the applicable option agreement. Options can be exercised for a period not exceeding 10 years from the date of grant.

During fiscal 2014 and 2013, no options were granted and none were forfeited.

During the fiscal year ended March 31, 2015, no shares were granted and 20,000 options with an exercise price of US\$8.99 were forfeited.

(c) Global-Tech Advanced Innovations Inc. 2011 Omnibus Equity Plan

The Global-Tech Advanced Innovations Inc. 2011 Omnibus Equity Plan (the "Omnibus Plan") was adopted by the Board of Directors in October 2010 and approved by the Company's shareholders in November 2010. The plan provides for the grant of stock options (non-statutory and incentive), stock appreciation rights, restricted stock units, performance shares and common shares.

A committee authorized by the Board of Directors of Global-Tech (the "Committee") will administer the Omnibus Plan. Unless otherwise determined by the Board of Directors of Global-Tech, the Compensation Committee will administer the Omnibus Plan. Subject to the terms of the Omnibus Plan, the Committee has the sole discretion to select the employees, consultants, and non-employee directors who will receive awards, determine the terms and conditions of awards, and to interpret the provisions of the Omnibus Plan and outstanding awards. The Committee may not, without the approval of the Company's shareholders, institute an exchange program under which outstanding awards are amended to provide for a lower exercise price or cancelled in exchange for awards with a lower exercise price.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 28. STOCK COMPENSATION (continued)

## (c) Global-Tech Advanced Innovations Inc. 2011 Omnibus Equity Plan (continued)

Awards granted under the Omnibus Plan are generally not transferable, and all rights with respect to an award granted to a participant generally will be available during a participant's lifetime only to the participant. If the Committee makes an award transferable, such award will contain such additional terms and conditions as the committee deems appropriate.

During the fiscal year ended March 31, 2013, 73,000 options were granted to officers and directors, 5,000 options to an employee and 8,000 options to a consultant.

During the fiscal year ended March 31, 2014, no shares were granted and 3,000 options which had been granted to a director were exercised.

During fiscal 2015, no options were granted and none were forfeited.

Under the 1997 Plan and the 2005 Plan (the "Plans"), which expire in 10 years, options granted generally vest 25% after the first year of service and ratably each month over a further 36-month period.

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcomes. The risk-free rate for periods within the expected life of the options is based on the U.S. Treasury yield curve with maturity equal to the expected life of the options in effect at the time of grant.

The total compensation expense recognized in the SG&A line item in the consolidated statement of operations and comprehensive income for the fiscal years ended March 31, 2015, 2014 and 2013 amounted to US\$4,517, US\$36,378 and US\$258,128, respectively.

Changes in outstanding options under the 1997 Plan, the 2005 Plan and the Omnibus Plan during the fiscal years ended March 31, 2015, 2014 and 2013 are as follows:

	2015				
	Number of options	Range of exercise price US\$ (per share)	Weighted average exercise price US\$ (per share)	Weighted average remaining contractual term (years)	Aggregate intrinsic value US\$
Outstanding, at beginning of fiscal year	351,251	4.75 – 15.56	12.14	3.91	—
Granted	—	—	—	—	—
Expired	—	—	—	—	—
Exercised	—	—	—	—	—
Forfeited	(20,000)	8.99	8.99	—	—
Outstanding, at end of fiscal year	<u>331,251</u>	4.75 – 15.56	12.33	2.80	—
Vested and expected to be vested at March 31, 2015	<u>331,251</u>	4.75 – 15.56	12.33	2.80	—
Exercisable, at end of fiscal year	<u>330,001</u>	4.75 – 15.56	12.36	2.78	—

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 28. STOCK COMPENSATION (continued)

Changes in outstanding options under both the 1997 Plan, the 2005 Plan and the Omnibus Plan during the fiscal years ended March 31, 2015, 2014 and 2013 are as follows: (continued)

	2014				
	Number of options	Range of exercise price US\$ (per share)	Weighted average exercise price US\$ (per share)	Weighted average remaining contractual term (years)	Aggregate intrinsic value US\$
Outstanding, at beginning of fiscal year	419,751	4.75 – 30.56	14.96	4.28	—
Granted	—	—	—	—	—
Expired	(65,500)	30.40 – 30.56	30.55	—	—
Exercised	(3,000)	4.75	4.75	—	—
Forfeited	—	—	—	—	—
Outstanding, at end of fiscal year	<u>351,251</u>	4.75 – 15.56	12.14	3.91	—
Vested and expected to be vested at March 31, 2014	<u>351,251</u>	4.75 – 15.56	12.14	3.91	—
Exercisable, at end of fiscal year	<u>343,751</u>	4.75 – 15.56	12.22	3.85	—

	2013				
	Number of options	Range of exercise price US\$ (per share)	Weighted average exercise price US\$ (per share)	Weighted average remaining contractual term (years)	Aggregate intrinsic value US\$
Outstanding, at beginning of fiscal year	339,701	8.99 – 30.56	17.66	3.96	—
Granted	86,000	4.75	4.75	—	—
Expired	—	—	—	—	—
Exercised	—	—	—	—	—
Forfeited	(5,950)	15.60 – 30.56	21.26	—	—
Outstanding, at end of fiscal year	<u>419,751</u>	4.75 – 30.56	14.96	4.28	—
Vested and expected to be vested at March 31, 2013	<u>419,751</u>	4.75 – 30.56	14.96	4.28	—
Exercisable, at end of fiscal year	<u>369,752</u>	4.75 – 30.56	13.41	4.60	—

In January 1999, the Board of Directors of Global-Tech adopted an employee stock purchase plan. The plan was approved by the stockholders at the annual meeting of stockholders in March 1999. The total number of common stock which may be granted under the plan is 450,000 shares. Stock grants may be awarded under the plan to the employees, including officers, directors, non-employee directors and consultants in consideration for their services to the Group.

During the fiscal year ended March 31, 2007, Global-Tech granted an aggregate of 3,750 shares of common stock of Global-Tech to an employee with an effective grant date of November 6, 2006. 750 shares of such common stock vested and were issued on the first anniversary of the date of the stock grant and 750 shares of such common stock vested and were issued on the second, third, fourth, and fifth anniversaries of the date of the stock grant, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 28. STOCK COMPENSATION (continued)

Changes in stock grants during the fiscal years ended March 31, 2015, 2014 and 2013 are as follows:

	2015		2014		2013	
	Stock	Weighted average grant-date fair value US\$	Stock	Weighted average grant-date fair value US\$	Stock	Weighted average grant-date fair value US\$
Non-vested, at beginning of fiscal year	—	—	—	—	750	10,380
Granted	—	—	—	—	—	—
Vested	—	—	—	—	(750)	10,380
Non-vested, at end of fiscal year	—	—	—	—	—	—

The total fair value of the 750 shares of common stock vested during the fiscal year ended March 31, 2013 was US\$6,503.

The expense for the employee stock purchase plan recognized in the SG&A line item in the consolidated statement of operations and comprehensive income for the fiscal years ended March 31, 2015, 2014 and 2013 amounted to nil, nil and US\$9,108 respectively.

Further details relating to the options granted under the 1997 Plan, the 2005 Plan and the Omnibus Plan that are outstanding as of March 31, 2015 are as follows:

Number of options	Options outstanding as of March 31, 2015			Options exercisable as of March 31, 2015	
	Range of exercise price per option US\$ (per share)	Weighted average remaining contractual life (years)	Weighted average exercise price per option US\$ (per share)	Number of options	Weighted average exercise price per option US\$ (per share)
83,000	4.75	7.31	4.75	81,750	4.75
248,251	13.20 - 15.60	1.29	14.87	248,251	14.87
<u>331,251</u>				<u>330,001</u>	

As of March 31, 2015, 2014 and 2013, there was no unrecognized share-based compensation cost, relating to stock granted to an employee under the 1999 Employee Stock Purchase Plan. Any unrecognized compensation cost for stocks granted is expected to be recognized over a weighted-average vesting period of two years and five years. To the extent that the actual forfeiture rate is different from the original estimate, actual share-based compensation relating to these awards may be different from the expectations.

The fair value of the options granted was estimated on the date of grant using the following assumptions:

	2015	2014	2013
Risk-free Interest Rate	—	—	0.97% - 1.50%
Expected Dividend Yield	—	—	0%
Expected Option Life	—	—	7 - 10 years
Expected Stock Price Volatility	—	—	53.28% - 58.71%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 29. CONDENSED FINANCIAL INFORMATION OF GLOBAL-TECH

Under the relevant PRC laws and regulations, the Company's PRC subsidiaries (the "PRC Subsidiaries") are restricted in their ability to transfer certain of their net assets to Global-Tech in the form of dividend payments, loans, or advances. The amounts restricted include net assets of the PRC Subsidiaries, as determined pursuant to PRC generally accepted accounting principles, totaling RMB281,595,535 (approximately US\$45,378,125) as of March 31, 2015.

The following is the condensed financial information of Global-Tech on a stand-alone basis:

**Balance sheets**

	<u>March 31,</u> <u>2015</u>	<u>March 31,</u> <u>2014</u>
	<u>US\$</u>	<u>US\$</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	3,643,139	6,719,079
Time deposits	7,008,639	11,339,515
Restricted cash	5,000,000	—
Available-for-sale investments	—	1,050,500
Prepaid expenses	15,142	17,803
Deposits and other assets	47,388	302,107
Total current assets	<u>15,714,308</u>	<u>19,429,004</u>
Interests in subsidiaries	<u>43,727,227</u>	<u>46,474,157</u>
Total assets	<u><u>59,441,535</u></u>	<u><u>65,903,161</u></u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Other accrued liabilities	<u>129,164</u>	<u>113,158</u>
Total liabilities	<u>129,164</u>	<u>113,158</u>
Shareholders' equity:		
Common stock, par value US\$0.04 per share; 12,500,000 shares authorized; 3,233,814 shares issued as of March 31, 2015 and 2014	129,353	129,353
Preferred stock, par value US\$0.04 per share; 250,000 shares authorized; no shares issued	—	—
Additional paid-in capital	85,108,427	85,103,910
Statutory reserves	1,328,283	1,340,229
Accumulated deficit	(32,999,298)	(26,590,366)
Accumulated other comprehensive income	10,848,613	10,854,689
Less: Treasury stock, at cost, 189,587 shares as of March 31, 2015 and 2014	<u>(4,663,321)</u>	<u>(4,663,321)</u>
Total Global-Tech Advanced Innovations Inc. shareholders' equity	59,752,057	66,174,494
Non-controlling interests	<u>(439,686)</u>	<u>(384,491)</u>
Total equity	<u>59,312,371</u>	<u>65,790,003</u>
Total liabilities and shareholders' equity	<u><u>59,441,535</u></u>	<u><u>65,903,161</u></u>

## 29. CONDENSED FINANCIAL INFORMATION OF GLOBAL-TECH (continued)

**Statements of operations and comprehensive income**

	Fiscal years ended March 31,		
	2015 US\$	2014 US\$	2013 US\$
Net sales	—	—	—
Cost of goods sold	—	—	—
Gross profit	—	—	—
Selling, general and administrative expenses	(758,350)	(887,346)	(1,071,502)
Operating loss	(758,350)	(887,346)	(1,071,502)
Interest income, net	401,895	359,062	344,582
Equity in losses of subsidiaries	(6,149,258)	(7,308,381)	(484,185)
Other income (expense), net	84,835	(2,718,892)	(752,196)
Net loss attributable to shareholders of Global-Tech Advanced Innovations Inc.	(6,420,878)	(10,555,557)	(1,963,301)
Other comprehensive income			
Foreign currency translation adjustments	44,424	153,629	989,800
Release of unrealized loss on available-for-sale investments, net of income tax of nil, upon disposal	(50,500)	(13,980)	—
Unrealized gain on available-for-sale investments, net of income tax of nil	—	5,300	22,495
Total comprehensive loss attributable to shareholders of Global-Tech Advanced Innovations Inc.	<u>(6,426,954)</u>	<u>(10,410,608)</u>	<u>(951,006)</u>

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. CONDENSED FINANCIAL INFORMATION OF GLOBAL-TECH (continued)

**Statements of cash flows**

	Fiscal years ended March 31,		
	2015 US\$	2014 US\$	2013 US\$
<u>Cash flows from operating activities:</u>			
Net loss attributable to shareholders of Global-Tech Advanced Innovations Inc.	(6,420,878)	(10,555,557)	(1,963,301)
Adjustments to reconcile net loss attributable to shareholders of Global-Tech Advanced Innovations Inc. to net cash provided by operating activities:			
Stock compensation expense	4,517	36,378	258,128
Shares issued to an employee	—	—	9,108
Equity in losses of subsidiaries	6,149,258	7,308,381	484,185
<u>Changes in operating assets and liabilities:</u>			
Prepaid expenses	2,661	29,100	(3,693)
Deposits and other assets	254,719	(262,020)	(15,364)
Other accrued liabilities	16,006	21,044	(109,369)
Net cash provided by (used in) operating activities	<u>6,283</u>	<u>(3,422,674)</u>	<u>(1,340,306)</u>
<u>Cash flows from investing activities:</u>			
Proceeds from disposal of available-for-sale investments	1,000,000	—	2,000,000
Repayment of amounts due from (advances to) subsidiaries, net	(3,413,099)	2,061,153	910,372
Increase in time deposits	4,330,876	(11,339,515)	—
Capital injection into subsidiaries	—	—	(1,107,753)
Net cash provided by (used in) investing activities	<u>1,917,777</u>	<u>(9,278,362)</u>	<u>1,802,619</u>
<u>Cash flows from financing activities:</u>			
Proceeds from stock options exercised	—	14,250	—
Cash dividend paid	—	—	(3,040,753)
Deposits of restricted cash	(5,000,000)	—	—
Net cash provided by (used in) financing activities	<u>(5,000,000)</u>	<u>14,250</u>	<u>(3,040,753)</u>
Net decrease in cash and cash equivalents	<u>(3,075,940)</u>	<u>(12,686,786)</u>	<u>(2,578,440)</u>
Cash and cash equivalents at beginning of fiscal year	<u>6,719,079</u>	<u>19,405,865</u>	<u>21,984,305</u>
Cash and cash equivalents at end of fiscal year	<u>3,643,139</u>	<u>6,719,079</u>	<u>19,405,865</u>

(a) Basis of preparation

For the purposes of the preparation of the condensed financial information of Global-Tech, the Company records its interests in direct and indirect subsidiaries under the equity method of accounting as prescribed in FASB ASC 323 “Investments-Equity Method and Joint Ventures”. Such interests, together with the advances to subsidiaries, are presented as “Interests in subsidiaries” on the balance sheets and share of the subsidiaries’ income and losses is presented as “Equity in profits (losses) of subsidiaries” on the statements of operations and comprehensive income.

(b) Commitments

Global-Tech has provided a letter of support to certain of its subsidiaries indicating its commitment to provide continuing financial support to those subsidiaries.

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Memorandum of Association of Global-Tech, as amended (Incorporated herein by reference to Exhibit 1.4 to Global-Tech's annual report on Form 20-F for the fiscal year ended March 31, 2009)
1.2	Articles of Association of Global-Tech, as amended (Incorporated herein by reference to Exhibit 1.2 to Global-Tech's annual report on Form 20-F for the fiscal year ended March 31, 2005)
1.3	Resolution of the Board of Directors authorizing an amendment to the Articles of Association of Global-Tech, as amended (Incorporated herein by reference to Exhibit 1.3 to Global-Tech's annual report on Form 20-F for the fiscal year ended March 31, 2005)
4.1	Employment Agreement between Global-Tech and John C.K. Sham (Incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 filed on April 7, 1998, file number 333-8462)
4.2	Lease Agreement between Global-Tech and the People's Government of Qingxi Town, Dongguan City, Guangdong Province, together with the English language translation thereof (Incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form F-1 filed on April 7, 1998, file number 333-8462)
4.3	License Agreement between Global-Tech and the Buji Economic Development Company, together with the English language translation thereof (Incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form F-1 filed on April 7, 1998, file number 333-8462)
4.4	Amended and Restated 1997 Stock Option Plan of Global-Tech (Incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form F-1 filed on April 7, 1998, file number 333-8462)
4.5	1999 Employee Stock Purchase Plan of Global-Tech (Incorporated herein by reference to Exhibit 1 to Global-Tech's Report on Form 6-K for the month of February 1999)
4.6	2005 Stock Option Plan of Global-Tech (Incorporated herein by reference to Exhibit 4.40 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006)
4.7	Shareholders' Agreement and Share Sale and Purchase Agreement, each dated March 17, 2006, between Anwell Technologies Limited and Consortium Investment (BVI) Limited (Incorporated herein by reference to Exhibit 4.41 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006)
4.8	Global-Tech Advanced Innovations Inc. 2011 Omnibus Equity Plan (Incorporated herein by reference to Exhibit 4.3 to the Registration Statement on Form S-8 filed with the Commission on December 22, 2010)
4.9	Tenancy Agreement dated February 1, 2013 between Wing Shing Products Company Limited and Global Optics Limited (incorporated herein by reference to Exhibit 4.22 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2013)
4.10	Import Paying Service Financing Contract dated January 23, 2013 between Agricultural Bank of China Limited and Dongguan Lite Array Co., Ltd. (incorporated by reference to Exhibit 4.20 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2013)
4.11	Pledge Rights Contract between Agricultural Bank of China Limited and Dongguan Lite Array Co., Ltd. (incorporated by reference to Exhibit 4.21 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2013)
4.12	Business Cooperation Agreement of Overseas Payment dated February 26, 2014 between China Construction Bank Corporation and Dongguan Lite Array Company Limited (incorporated by reference to Exhibit 4.12 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2014)
4.13	General Import T/T Finance Agreement dated January 3, 2014 between Industrial and Commercial Bank of China Limited and Dongguan Lite Array Company Limited (incorporated by reference to Exhibit 4.13 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2014)
4.14	Maximum Amount Rights Pledge Contract dated April 28, 2013 between Industrial and Commercial Bank of China Limited and Dongguan Lite Array Company Limited (incorporated by reference to Exhibit 4.14 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2014)

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
4.15	Maximum Amount Rights Pledge Contract dated May 7, 2013 between Industrial and Commercial Bank of China Limited and Dongguan Lite Array Company Limited (incorporated by reference to Exhibit 4.15 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2013)
4.16	Property Leasing Contract dated April 1, 2014 between Dongguan Hwa O'Tai Electronic Technology Co., Ltd. and Dongguan Wing Shing Electrical Products Factory Company Limited (incorporated by reference to Exhibit 4.16 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2014)
4.17	Equipment Leasing Contract dated April 1, 2014 between Dongguan Hwa O'Tai Electronic Technology Co., Ltd. and Guangdong Lite Array Co., Ltd. (incorporated by reference to Exhibit 4.17 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2014)
4.18	Maximum Mortgage Contract dated September 24, 2014 between China Construction Bank Corporation and Dongguan Wing Shing Electrical Products Factory Company Limited*
4.19	General Import T/T Finance Agreement dated July 3, 2014 between Industrial and Commercial Bank of China Limited and Guangdong Lite Array Company Limited*
4.20	Maximum Amount Pledge Contract dated April 28, 2014 between Industrial and Commercial Bank of China Company Limited and Guangdong Lite Array Company Limited*
4.21	Maximum Amount Pledge Contract dated May 7, 2014 between Industrial and Commercial Bank of China Company Limited and Guangdong Lite Array Company Limited*
8.1	List of Subsidiaries*
11.1	Code of Ethics (Incorporated by reference to Exhibit 14.1 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004)
12.1	Rule 13a-14(a) Certification by Chief Executive Officer*
12.2	Rule 13a-14(a) Certification by Acting Chief Financial Officer*
13.1	Certification by Chief Executive Officer*
13.2	Certification by Acting Chief Financial Officer*
15.1	Consent of Independent Registered Public Accounting Firm (Mazars CPA Limited)*
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

\* Filed Herewith

\*\* In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Form 20-F shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

Maximum Mortgage Contract

Contract No.: [2014]8800-8210-040

Mortgagor (Party A): Dongguan Wing Shing Electrical Products Factory Company Limited

Address: Yinxi Industrial Zone, Qingxi Town, Dongguan

Post Code: 523000

Legal representative (person in charge): John C.K. Sham

Fax: Telephone:

Mortgagee (Party B): China Construction Bank, Dongguan branch

Address: Jiansheng Building, No. 5 Tiyu Road, South City, Dongguan

Post Code: 523071

Person in charge: Fan Ti

Fax: 0769-22111198 Telephone: 0769-23307107

Whereas Party B continuously deals with the first, second, third, fourth and fifth credit business for Guangdong Lite Array Co., Ltd (hereinafter referred as “Debtor”), Party B will sign (and/or have) signed RMB Loan Contract, Foreign Currency Loan Contract, Bank Acceptance Agreement, Letter of Credit Contract, and issue Letter of Indemnity Agreement and/or other legal documents (the above contract, agreement and/or other legal documents signed within the determined period are all referred as “main contract”) within the period from September 24, 2014 to December 31, 2017 (hereinafter referred as “the period of Obligatory Right”).

- (i) Provide RMB/foreign currency loans;
- (ii) Acceptance of Commercial Bills;
- (iii) Open Letter of Credit;
- (iv) Issue Letter of Guarantee;
- (v) Other credit business: Export Order Financing, Export Commercial Bill Financing, Trust Receipt Loan, Overseas Payment and Export Accounts Receivable.

Party A is willing to provide the maximum amount of mortgage guarantee for a series of debt under the main contract for the debtor. According to related laws and regulations, party A and party B entered into the contract through negotiation to abide by both parties.

#### Article 1 Mortgaged property

- I. Party A set the property listed in the “mortgaged property list” of the contract as the mortgage.
- II. If the mortgaged property changes the certificate of title or other rights, which leads to the difference between the “mortgaged property list” of the contract or other rights certificate or mortgage certificate document and the above certificate of title or registration of the registration body, party A should not refuse to bear the guarantee responsibility for this reason.
- III. Unless otherwise agreed by both parties or as required by law, the increased property of the mortgaged property for the reason of attaching, mixing, processing or alteration will also become the mortgage guarantee of Party B’s credit rights, and party A should make necessary registration procedures according to party B’s requirements.
- IV. If the value of the mortgaged property have decreased or may decrease, which will affect party B’s claim to achieve, party A should provide new guarantee according to party B’s requirements.

#### Article 2 Coverage and the maximum credit limit

1. The coverage of the maximum mortgage guarantee dominated all debts under the main contract, including but not limited to all principal, interest (including compound interest and penalty interest), liquidated damages, compensation and other payment that the debtor should pay to party B (including but not limit to related handling fee, telecommunication charges, fees and related bank charge that the beneficiary refuse to bear and paid by party B), and the occurred fees that party B realizes rights and security rights (including but not limited to legal fees, arbitration fees, property preservation fees, travel expenses, execution fees, assessment fees, auction fees, notary fees, service fees, advertising fees and legal fees).

2. The maximum limit under the guarantee responsibility of the maximum mortgage (currency) is RMB (capitalized) SAY ONE HUNDRED AND TWO MILLION NINE HUNDRED AND SEVENTY THOUSAND AND NINE HUNDRED YUAN. If party A performs the guarantee obligation under the contract, the maximum amount should be reduced correspondingly according to the performed amount.

3. Even if the credit, advance, interest and fees under the contract or the actual performing time of party B’s other rights exceed the confirmed period of the creditor’s rights, it is still belongs to the guarantee scope of the maximum mortgage. The expiry date of performing time of the creditor’s rights under the contract will not limit to the expiry date determined by the creditor’s rights.



### Article 3 Registration of mortgaged property

Both parties should make the mortgage registration procedure in corresponding registration body within twenty days after sign the contract. Party A should send the rights certificate of the mortgaged property, original copy of the mortgage registration document and other rights certificate to party B on the day of completing the mortgage registration.

### Article 4 Alteration of the main contract

1. Party A agree that party B doesn't need to notice party A if party B sign the main contract with the debtor or there is any alteration of the main contract (including but not limited to extend the period of the credit obligation or increase the principal amount of the creditor rights, and party A should still bear the guarantee responsibility as per the agreed maximum amount and the coverage range.

#### 2. Change of the person concerned

Party A's guarantee obligation should not reduce for any of the below condition happen:

- (i) Party B or the debtor has the condition of restructuring, merger, consolidation, division, increasing or decreasing capital, joint venture, or rename;
- (ii) Party B entrusts a third party to perform its obligation under the main contract;
- (iii) The creditor's rights under the contract transfers to a third party, and the guarantee under the contract also transfer with it. Party A should assist the third party to make the mortgage alteration registration procedure required by law.
- (iv) If the transferring action of the creditor debt or rights doesn't come into effect, is invalid, is retreated or dismissed party A should still bear the guarantee responsibility according to the contract.

### Article 5 Possession and custody of the mortgaged property

1. Party A should possess, keep and maintain the mortgaged property properly, rationally use the mortgaged property, keep the mortgaged property in good condition and pay various tax and charges related to the mortgaged property. Party B is entitled to check the mortgaged property, and could require party A to send the certificate of title of the mortgaged property for party B to keep.

2. If party A entrusts or agrees that a third party possess, keep or use the mortgaged property, it should notice the third party that the existence of party B's mortgage and require to keep the mortgaged property in good condition, accept party B to check the mortgaged property and not hinder party B to realize the mortgage. Party A should not exempt from the obligations in the above article for this reason, meanwhile it should bear responsibility for the behavior of the third party.

3. If the mortgaged property results in personal or property damage, party A should bear the responsibility. If party B is claimed and bears the responsibility or pay advance for party A, then party B is entitled to claim compensation from party A.

### Article 6 Insurance of the mortgaged property

1. Unless otherwise agreed by both parties, party A should cover the insurance of the mortgaged property according to related laws and insurance type, period and insurance amount designated by party B. The insurer should have legal qualification and good reputation.

2. The content of the insurance policy should comply with party B's requirement and should not have the limited condition which is harmful to party B's rights. It should be specially noted on the insurance policy: party B is the priority beneficiary (the first beneficiary) of the insurance compensation; it should have party B's written confirmation for alteration of the insurance policy; if any insurance event

happens, the insurer should send the insurance compensation to Party B's designated account directly. If the insured insurance policy of the mortgaged property does not note the above content, it should have the corresponding annotate or alteration for the insurance policy.

3. Party A should assure that the insurance is effective continuously. It should not suspend, retreat and invalidate the insurance for any reason, waive the insurer's responsibility for compensation, or change the insurance policy without permission of party B. If the insurance period expires, while the credit debt guaranteed by party A is not repaid in full, party A should continue to insure, and the insurance period should prolong correspondingly.

4. Party A should send the original copy of the insurance policy to party B within 20 days after signing the contract (if prolong the insurance, it should be the date of completing the prolonged insurance), and reserve all necessary documents related to insurance compensation or insurance rights transfer.

5. For the insurance compensation of the mortgaged property, party B is entitled to handle with the following methods, and Party A should help to deal with related procedures:

- (1) With party B's permission, is used to restore the mortgaged property or recover the value of the mortgaged property;
- (2) pay off or pay off the principal and interest of the debt or related charges under the main contract in advance;
- (3) provide pledge guarantee for the debt under the main contract;
- (4) after party A has provided the new guarantee required by party B, it should be at party A's disposal.

#### Article 7 Limit of party A's disposal of the mortgaged property

1. Without written consent of party B, party A should not dispose the mortgaged property in any way, including but not limited to abandon, rent (including prolong the original expired rent contract), donate, transfer, invest, repeated guarantee, migrate, change to public use, append, alter or divide with other objects.

2. With written consent of party B, party A should deposit the payment by disposing the mortgaged property or other fees to the account designated by party B. Party B is entitled to choose any of the agreed method in the second to the forth item of section 5, article 6 to dispose the above payment, and party A should help to deal with the related procedures.

#### Article 8 Hamper of a third party

1. If the mortgaged property is expropriated, taken over, removed, confiscated, taken back for free by the government, or the mortgaged property is seizure, frozen, detained, supervised, lien, auction, forcible detainer, destroyed or other disposal by a third party, party A should notice party B immediately, and stop, remove or take other remedy measures in time to prevent enlargement of the damage; if Party B requires, party A should provide new guarantee to meet party B's requirement.

2. The left part of the mortgaged property after the above condition occur should still be the mortgage guarantee for party B's credit rights. The claims or compensation got by party A for the above reason should be sent to the designated account of party B. Party B is entitled to choose any of the agreed method in the first to the forth item of section 5, article 6 to dispose the above payment, and party A should help to deal with the related procedures.

#### Article 9 Realization of the mortgage

1. If the debtor doesn't perform the due debt under the contract or don't perform the debt becoming due in advance or violate other agreement of the main contract, party B is entitled to dispose the mortgaged property.

2. The value of the mortgaged property noted in the Mortgaged Property List of the contract or otherwise agreed by both parties (hereinafter referred as "provisional value"), whether register in the registration body or not, doesn't indicate the final value of the mortgaged property, and the final value is the net value that got by party B after dispose the mortgaged property and deducting various of tax and fees.

If the mortgaged property is compensated for party B's creditor rights, the above provisional value will not be treated as the basis of mortgaged property to compensate for party B's creditor rights, at that time the value of the mortgaged property should be agreed by both parties or determined by fair assessment.

3. For the payment party B got by disposing the mortgaged property, after paying the fees in the process of selling or auction (including but not limited to custody charges, assessment fee, auction fee, transfer fee, tax, and the state land leasing), it should pay off the debt under the main contract in priority, and return the remaining amount to party A.

4. If party A is the same person as the debtor, party B is entitled to applying for compulsory execution for the other properties besides the mortgaged property of party A, and not set the premise condition of giving up the mortgage rights or must disposing the mortgaged property at first.

5. Party A should not hinder party B to realize the mortgage rights in any way (including act of omission).

6. Regardless whether party B has other guarantee of the creditor rights under the contract (including but not limited to guarantee method such as guarantee, mortgage, pledge, letter of indemnity and letter of credit), no matter whether the above other guarantee come into existence or is valid, whether party B has brought other right proposal for other guarantor, no matter whether there is a third party that agrees to bear the whole or part of the debt under the main contract, no matter whether other guarantee is provided by the debtor, party A's guarantee responsibility under the contract will not reduce thereafter, party B could directly require party A to bear the guarantee responsibility within the agreed scope in the contract, and party A should not raise any objection.

7. If the maximum limit of the guarantee responsibility agreed in the contract is lower than the creditor amount which actually occurs, the creditor's right is still not paid off after party A has borne the guarantee responsibility under the contract, then party A promises that it will execute the right of subrogation or recovery (including execute in priority) to its debtor or other guarantor, and it will not do any harm to the interest of party B, and agree that the paying off of the debt under the contract should be prior to the realization of party A's right of subrogation or recovery.

Concretely speaking, before the creditor rights of party B is paid off,

(1) party A agrees that it will not execute the right of subrogation or recovery to the debtor or other guarantor; if party A realizes the above rights for any reason, party A should send the amount got to pay off party B's unpaid debt in priority;

(2) if the debt under the main contract has a guarantee of real right, party A agrees that it will not bring any right proposal for the guaranty the payment got from the guaranty for the reason of executing right of subrogation or other reasons, and the above guaranty and its payment should pay off Party B's unpaid debt in priority;

(3) if the debtor or other guarantor provide counter guarantee for party A, then the amount party A got for the above counter guarantee should pay off Party B's unpaid debt in priority.

8. if the main contract doesn't come into existence, is not effective or invalid or partly retreat or dismiss, and party A is not the same as the debtor, then party A bears joint liability for the debt formed by paying back the property or compensate the lost within the guarantee scope agreed in the contract.

9. Party A has fully realized the rate risk. If party B adjusts the rate level, interest counting or interest settlement method according to agreement in the main contract or the national rate policy change, which leads that the debtor's interest, interest penalty or compound interest should be paid increase, party A should bear the guarantee responsibility.

10. If the debtor has other debt to party B besides the debt under the main contract, party B is entitled to transfer the RMB or other currency in the account opened by the debtor in China Construction Bank System to pay off any due debt in priority, and party A's guarantee responsibility will not reduce therefore.

## Article 10 Liability for breach of contract

### I. Party A's liability for breach of contract

- (i) If party A violates any article of the contract or there is any false, wrong or missed information in the assured item compared with the statement, party B is entitled to take the below one or more measures:
  1. Require party A to correct the breach behavior within a definite time;
  2. Require Party A to provide new guarantee;
  3. Require party A to compensate the lost;
  4. Dispose the mortgaged property;
  5. Other relief measures allowed by law.
- (ii) Party B is entitled to choose any of the agreed method in the second to the forth item of section 5, article 6 to dispose the above payment, and party A should help to deal with the related procedures.
- (iii) If the mortgage doesn't set up effectively for party A's reason, or which leads that party B can't realize the mortgage in time or fully realize the mortgage, and party A is not the same person as the debtor, party B is entitled to require party A to bear joint liability with the debtor for the guaranteed debt within the guarantee scope agreed in the contract.

### II. Party B's liability for breach of contract

If party B lost the mortgage right certificate handed by party A; or after the debt has been paid off under the contract, party B doesn't hand back the mortgage certificate or doesn't help to make mortgage registration cancel procedure after applied by party A, party A is entitled to take below one or more measures:

- (i) Require party B to bear the fee of making up the mortgage right certificate;
- (ii) Require party B to hand back the rights certificate of the mortgaged property, or help party A to cancel the mortgaged property registration.

## Article 11 Miscellaneous

### I. Fees should be borne

1. For fees that resulted by party A violating the contract (including but not limited to legal fee, arbitration fees, property preservation fees, travel expenses, execution fees, assessment fees, auction fees, notary fees, service fees, advertising fees and attorney fees actually occurred to party B by party A violating the contract), shall be borne by party A;

2. For other fees, party A and party B agreed as below: legal services, insurance, evaluation, registration, storage, identification, notary and other expenses related to the contract and the guarantee of the contract should be borne by Party A (customers).”

### II. Transfer of the accounts payable

For all accounts payable of party A under the contract, party B is entitled to transfer the corresponding accounts payable of RMB or other currency from the account opened by party A in the China Construction Bank System and without noticing party A in advance. If it is need to handle with procedures of settlement and sales or foreign exchange, party A is entitled to help party B to deal with, and the rate risk should be borne by party A.

### III. Usage of party A's information

Party A agrees that party B could inquire party A's credit reputation from credit database approved to establish by Bank of People's Republic of China and its credit investigation department or related unit and department, and agrees that party B could provide party A's information for credit database approved to establish by Bank of People's Republic of China and its credit investigation department.

### IV. Notice of collection

For party A's breach of the contract, party B is entitled to report to related to department or unit and is entitled to make notice of collection through news media.

### V. Effect of evidence recorded by party B

Except that there is reliable and confirmed opposite evidence, party B's internal financial related

to the content of principal, interest, fees and repayment record, debtor's documents, vouchers made or reserved by party B in the business process of debtor's drawing money, repayment and paying interest as well as the record and voucher of party B collecting the loan are all form the determined evidence of debt relationship under the main contract. Party A should not have any dispute for that party B makes and reserve the above record, note, documents and voucher.

VI. Reservation of right

Party B's rights under the contract don't affect or remove its other any rights according to laws, regulations and other contract. Any tolerant, extending the time limit and preference for the breach of the contract or delay or postpone to exercise any rights under the contract can't be treated as abandon the rights or interest under the contract or permit or approve of the behavior of breach of the contract, it will also not affect, stop or hinder the rights' execution or other rights' execution, and it will also not lead to that party B will bear the obligation and responsibility for party A.

Even party B doesn't execute or postpone to execute any rights or any relief unspent under the contract, party A's guarantee responsibility under the contract will not reduce therefore, but if party B reduce the debt under the contract, party A's guarantee responsibility under the contract will reduce correspondingly.

VII. If party A is in the event of separation, dissolution, bankruptcy proceedings, revoking, being withdrawn commercial registration or business license, the mortgaged property is destroyed, loss, aggrieving or out of party A's contract for natural reason or the third party's behavior, the ownership of the mortgaged property has disputes or the rights certificate is withdrawn, it should notice party B immediately.

VIII. The debtor's dissolution or bankruptcy

If party A knows that the debtor is in the process of dissolution or bankruptcy, it should notice party B immediately to report claims, meanwhile it will take part in the dissolution and bankruptcy process, execute the recovery right in priority. If party A knows that the debtor is in the process of dissolution or bankruptcy, but it doesn't execute the recovery right in priority, and then it should bear the loss itself.

Though there is agreement in section 2, article 6 in the contract, in the process of debtor's bankruptcy, if party B and the debtor reach an agreement of dispute settlement, or agree to reorganize the plan, party B's rights under the contract will not damage for the dispute settlement or reorganizing the plan, party A's guarantee responsibility will not reduce. Party A should not go against party B's claim for rights as the conditions regulated in the dispute settlement or the reorganizing plan. Party B still has the right to require party A to bear the guarantee responsibility for the unpaid off debt given up in the process of dispute settlement or the reorganizing plan for the debtor.

IX. Party A's dissolution or bankruptcy

If party A is dissolution or bankrupt, even if party B's creditor's rights is not due, party B is entitled to take part in party A's liquidation and bankruptcy process, and claim rights.

X. If party A's address or contact information changes, it should notice party B in written immediately, the loss resulted from untimely notice should be borne by party A.

XI. Other agreed matters

(1) If the mortgage registration matters change and need to make change of registration according to law, party A should make the change of registration jointly with party B according to party B's requirements, and party A should bear all related fees.

(2) Party A agrees that if party B collect or collect the loan in advance according to the contract or the agreement of the contract, while the debtor can't pay off, party A agrees to authorize party B to entrust the auction company to sell the mortgaged property at auction in the way of non-bottom price or dispose the mortgaged property in the way of selling or converting into money, the payment is used to pay back the principal, interest and related fees to realize the creditor's rights.

(3) Party A's declaration: in the process of disposing the mortgaged property, all documents signed by party B are all get party A's consent, and party A should not have disputes for any reason.

(4) If party A or the debtor doesn't comply with related environment and social risk management laws, regulations and rules, or it may bring damage or related risk to the environment and society in the process of construction, production and business activity (including but not limited to environment and social problems such as energy consumption, pollution, land, health, safety, resettlement of affected residents, ecological protection, energy saving and emission reduction and climate change), party B is entitled to exercise the guarantee right under the contract in advance, and take other relief measures agreed in the contract or allowed by law.

(5) Party A's delivery address: Qingxi Town, Dongguan

Party A confirms that the delivery address agreed in the contract is the only effective address, if the delivery address changes, party A is responsible to notice party B in written form. If lawsuit or arbitration occurs, People's court's or arbitration commission's legal documents will send to the above party A's address or to the address party A otherwise noticed in written form.

## XII. Solution of disputes

If there are any disputes in the process of performing the contract, it could be solved through negotiation. If negotiations fail, use the first method below as solution. Within the period of lawsuit or arbitration, all articles unrelated to the disputes of the contract are still valid.

(1) Conducts prosecution to Party B's local people's court.

(2) Submit blank column to the arbitration commission (the arbitration address is blank column), and arbitrate according to the current effective arbitration regulations when applying arbitration. The arbitration decision is final and binds on both parties.

## XIII. Effectiveness of the Contract

The contract comes into effect after being signed and sealed by party A's legal representative (responsible person) as well as being signed and sealed by party B's legal representative or authorized agent.

## XIV. The contract is in quadruplication.

Article 12 Mortgaged property list

The mortgaged property list of the contract is as below:

Mortgaged property list

Name of the mortgaged property	Authority certificate No. and other related certificate No.	Address	Area and quantity	Value of the mortgaged property (Ten thousand Yuan)	The amount has set mortgage for other credit rights (Ten thousand Yuan)	Remarks
Factory No.11	YFDQZZ No. 2600721354	Qingxi Town, Dongguan	15953.60 Square meter	1914.43 Ten thousand Yuan	0	BLANK
Factory No.12	YFDQZZ No.2600721355	Qingxi Town, Dongguan	15954.09 Square meter	1914.49 Ten thousand Yuan	0	BLANK
Factory No.13	YFDQZZ No.2600721361	Qingxi Town, Dongguan	9636 Square meter	1156.32 Ten thousand Yuan	0	BLANK
Factory No.14	YFDQZZ No.2600721363	Qingxi Town, Dongguan	9636 Square meter	1156.32 Ten thousand Yuan	0	BLANK
Factory No.15	YFDQZZ No.2600721353	Qingxi Town, Dongguan	19994.70 Square meter	2999.21 Ten thousand Yuan	0	BLANK
Factory No.16	YFDQZZ No.2600721362	Qingxi Town, Dongguan	9636 Square meter	1156.32 Ten thousand Yuan	0	BLANK
In total	BLANK	BLANK	BLANK	10297.09 Ten thousand Yuan	0	BLANK

Article 13 Party A's statement and assurance

1. Party A understands thoroughly party B's business scope and authority.

2. Party A has read all articles of the contract and the main contract. Party B has made corresponding instructions for the articles of the contract and the main contract to meet party A's requirements. Party A knows and understands the meaning of the contract and the main contract as well as its corresponding legal consequences.

3. Party A has legal qualification of guarantor, and party A's guarantee behavior under the contract complies with regulations of laws, administrative regulations, rules and party A's constitution or internal organization documents, and has got the company internal competent authority and or state competent authority's approve. All responsibilities resulted from party A's not entitled to sign the contract should be borne by party A, including but not limited to compensate party B's loss in full amount.

4. Party A confirms that it has full understanding of the debtor's condition such as property, debt, operation, credit and reputation and whether has the qualification and authority to sign the contract as well as all contents of the main contract.

5. Party A has the ownership and right of deposition of the mortgaged property according to law, the mortgaged property is not public facility and prohibits to circulate and transfer and doesn't have any title disputes.

6. The mortgaged property doesn't have other co-owner, or though there is other co-owner, the mortgage guarantee behavior has got the co-owner's written consent.

7. The mortgage property doesn't exist any deficiency or burden without written notice to party B, including but not limited to the mortgage property limits to circulate, was seized, detained, regulated, leased, lien, the mortgage property has the condition of being in arrears with purchasing price, maintenance fee, construction project payment, state tax, charge for land using and damage compensation or the mortgage property has set guarantee for a third person.

8. All information and materials related to the mortgage property provided by party A to party B is true, legal, correct and complete.

9. The mortgage guarantee provided by party A will not affect legal interests of any third party and will not violate party A's legal and agreed obligation.

Party A (official seal): Dongguan Wing Shing Electrical Products Factory Co. Ltd. (sealed)

Legal representative (responsible person) or authorized agency (sign): John C.K. Sham  
Date: September 26, 2014



Party B (official seal): China Construction Bank, Dongguan branch (sealed)

Responsible person or authorized agency (sign): Wang Qun



Date: September 24, 2014



Code: 2014 Company (Clearing) Import file No. 1001

**Import T/T Financing Agreement**

Special Note: This Agreement was made of equality of both parties on a voluntary basis and in accordance with the law. All contract terms expressed the true meaning of both parties. To safeguard the legitimate rights and interests of Party B. Party A reminds Party B to pay full attention to all of the terms relating to the rights and obligations, particularly the text in bold.

Party A: Industrial and Commercial Bank of China Co., Ltd. Dongguan Qingxi Branch  
Residence (address): Qingxi town, Dongguan City  
Person in charge: Zhang Qinggui

Party B: Guangdong Lite Array Co., Ltd  
Residence (address): Qingxi town, Dongguan City  
Legal representative: John C.K. Sham

Whereas: Party B applies for import T/T financing business to Party A, both parties have entered into this agreement on equal basis and consensus to clear responsibilities and to abide by the credits.

**Article 1** Definition: "Import T/T Financing" refers to the security measures Party B offers to Party A due to funding needs of Party B in the settlement of imports entrusted by Party B to Party A. under this condition, Party A finances Party B, and on behalf of Party B, Party A use this finances to make overseas payments. Party B shall repay the said amount as well as interest, late penalty resulting within the agreed deadlines.

In these circumstances, all risks of import goods are borne by the Party B.

**Article 2** This Agreement applies to all import T/T financing business Party A arrange for Party B in the term of the agreement. Each business should be applied by Party B to Party A in writing. Party A considers the actual situation when deciding whether to transact the business.

**Article 3** Financing rate is determined by mutual agreement.

**Article 4** The financing term should be within the scope of the provisions of the Party A. The specific time will be determined by consultation of both parties.

**Article 5** Financing management: Party A has the right to inspect and supervise the Party B's management, financial activities and inventory as well as sales. Party B shall submit monthly financial statements, related plans and statistical reports to the Party A and help Party A by providing facilitation during financing management.

**Article 6** In order to ensure full recovery of the scheduled principal and interest and other financing, Party B agrees to provide appropriate financial assurance under the request of Party A. The contract will be signed in another document. Under the request of the Party A, Party B shall pay the sales revenue into the Party A's designated account, 2010028919200084939. If such debt cannot be repaid by Party B on time, Party A is entitled to the priority for repayment from the disposition of collateral. The aforementioned collateral should be items excluding imported goods.

Party B can also provide guarantees which can be recognized by the Party A. If Party B cannot repay the debt on time, the Guarantor will bear unconditional joint liability.

Party B provided security guarantees for the maximum amount. The contract name and number of the maximum amount guarantee are as follows: Pledge Contract of Maximum Amount (Code: 2014 Company (clearing) No.1002, 1003)

The above guarantee contract is an integral part of the agreement, and the agreement shall have the same legal effects.

**Article 7** Repayment: Party B guarantees repayment within the period specified in the contract, which includes the principal and interest. Party B may make advance repayments, and installments. After repayment by the Party B, the interest will base on the balance of total repayments.

If Party B fails to make repayment on schedule, for whatever reason, Party A will have the following rights:

1. Penalty will be applied on overdue debts. Penalty interest is 40 % on the basis of financing interest. Penalty interest will be compound interest;
2. In accordance with the agreement, the amount is deducted from the Party B's account;
3. The repayment will be deducted from a variety of accounts receivable of Party B;
4. The collateral will be deposited, and the guarantor will be required to perform compensatory obligations;
5. Other measures which will be sufficient to maintain the Party A's rights under this Agreement will be performed.

**Article 8** Insurance: Party B should take the initiative insure the above-mentioned goods exception to \_\_\_\_\_ with Party A as the first beneficiary. The policy number is \_\_\_\_\_. Party A is entitled to deduct the compensation payment financing directly from the insurance company as the principal and interest repayments.

**Article 9** Party B makes the following warranties and commitments:

1. Party B is an independent economic entity with legal personality, established in accordance with the laws of People's Republic of China;

2. Party B has legal rights and the statutory qualifications and licensing of fulfilling its obligations;

3. All information on this financing provided by Party B to Party A is true;

4. The financing payments in this agreement are only regarded as payments for the purchase of above-mentioned goods;

5. Unless otherwise agreed in writing by both parties, Party B shall not:

(1) Before full repayment of financing (including principal and interest), provide security for other economic entities;

(2) Cause, incur or permit any possible loss of property, income and rights of Party B now and in the future;

6. Party B promises never to make following acts in any case:

(1) After Party A's overseas financing payments, claims on legal basis against the obligatory right of Party A for any reason;

(2) Uses the basic trade contract disputes to affect Party A's obligatory right;

(3) Mortgages or pledges the above documents goods represented in documents to others;

(4) Engages in detrimental behaviors which undermine Party B's ability to fulfill the obligations under this Agreement and responsibilities.

#### Article 10 Breach of Contract

1. If one of the following circumstances happens, it will constitute breach of contract by Party B:

(1) Party B made untrue representations and warranties in this Agreement or warranties contrary to the commitments under this Agreement;

(2) Party B does not fulfill its obligations under this Agreement;

(3) In Party A's view that change of production and operations or standing of Party B affected the performance of duties and obligations under the financing agreements;

(4) Party B is out of business, or come to dissolution, liquidation, rectification, or get a revocation of business licenses or bankruptcy;

(5) Party B is involved in major economic disputes or violation of the relevant laws and regulations with regard to food safety, workplace safety, environmental protection and other regulatory requirements or industry standards, posing a material adverse effect on its ability to fulfill its obligations arising from under this Agreement;

(6) Party B makes false contracts with related parties to use transaction without taking actual trade to draw funds or credit from Party A, or evade debts through a related party transaction;

(7) Guarantees under this Agreement has suffered unfavorable changes to Party A, and Party B did not provide other guarantees separately in accordance with the requirements of Party A;

(8) Other circumstances which have significant adverse impacts on Party B's ability to perform obligations under this Agreement.

2. If Party B defaults, Party A is entitled to take one or more of the following remedies:

(1) Require Party B to rectify the breach behavior within deadline;

(2) Stop issuing financing which has not been issued to Party B;

(3) Declare that all outstanding financing amounts are immediately due, and that Party B must repay immediately and assume the liability for breach;

(4) Require compensation costs from Party B for the realization of arising claims, including but not limited to attorneys' fees, assessment fees and auction fees under this Agreement;

(5) Measure under relevant laws and regulations, in this Agreement or Party A considers necessary.

Such measures do not affect any party's rights under this Agreement. In this regard, Party B unconditionally waives its right to defense.

**Article 11** If Party B fails to repay financing on time to Party A (including being declared early maturity) Party A is entitled to deduct the corresponding amount to settle until Party B repaid all amounts in Party B's accounts at Party A or other branches of Industrial and Commercial Bank of China (foreign currency or local currency accounts).

If deducted money is in a currency inconsistent with this Agreement, it will apply exchange rate of Party B on the closing date. Interest and other charges incurred during the deduction date to the settlement date (the date when Party A converts deduction payments to currency in this agreement and pays off Party B's debts in accordance with national foreign exchange management policy), and the difference in this period due to exchange rate fluctuations arising are borne by the Party B.

**Article 12** Party A is entitled provide information related to this Agreement and other relevant information of Party B available to the Party People's Bank of China credit system and other credit information database established by law for appropriate queries by qualified institutions or individuals in accordance with the requirements of relevant laws and regulations or financial regulators. Party A has the right to inquire into Party B's related information through the credit system of People's Bank of China and other credit information databases established by law.

**Article 13** Waiver: If Party A did not exercise or delays in exercising any right under this Agreement, that shall NOT be deemed a waiver of the right during the execution of this Agreement, and has no prejudice to any obligations which Party B should bear under this Agreement.

**Article 14** Modifications and supplemental agreements: This Agreement can be additionally modified and supplemented by agreement in writing from both parties. Any changes and additions to this Agreement signed by both parties constitute an integral part of the agreement. The amended agreement will replace the original relevant content on the effective date. Supplemental Agreements take effect from the date of signing on the parties.

**Article 15** Applicable Law and Dispute Resolution

The interpretation and implementation of this Agreement shall be governed by the laws of the People's Republic of China. Dispute occurred in the performance of this Agreement of both parties should be firstly addressed by negotiation; if negotiation fails, then the following \_\_\_\_\_ will be used;

1. The dispute will be arbitrated by the China International Economic and Trade Arbitration Commission in accordance with Financial Disputes Arbitration Rules;
2. It can be resolved through litigation of the local court in Party B.

During litigation or arbitration, clauses in the agreement which are not involved the controversy still has to be fulfilled.

**Article 16** Change of parties: Party A must be notified of merger, demerger and restructuring of Party B. When Party B mergers or makes capital reduction, Party A is entitled to request Party B to pay off debts or provide guarantees; when Party B is divided, the companies after division should be jointly and severally liable.

**Article 17** "*Import T/T financing business application*" under this Agreement is an integral part of this Agreement, and the terms listed in this Agreement have the same legal effects.

**Article 18** This agreement is made in two original copies, each copy held by each party, all of which are of the same legal force, with effect from the date of signing, valid for 2 years, to July 2, 2016. Import T/T financing business have been registered prior to the termination of contract and obligations which have not been completed are still bound by the Agreement.

Party A (seal): Industrial and Commercial Bank of China Co., Ltd. Dongguan Qingxi Branch (sealed)

Person in charge (authorized representative): Zhang Qinggui



Party B (seal): Guangdong Lite Array Co., Ltd. (sealed)

Legal representative (authorized representative): John C.K. Sham



Date: July 3, 2014

**Maximum Amount Pledge Contract**

**Important notes: This Contract is signed by the Both Parties on the basis of their own free will and equality with consensus through consultation, all terms are real expressions of the Both Parties. To safeguard legal rights and interests of the Pledgor, the Pledgee has asked the Pledgor to pay special attention to all terms about the rights and interests of the Both Parties, especially for the boldface letters.**

**Pledgee:** Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch

(Hereinafter referred to as "Party A")

Responsible person: Qinggui Zhang

Business address: Qingxi Town, Dongguan City

Tel. and Fax: \_\_\_\_\_

**Pledgor:** Guangdong Lite Array Co., Ltd. (Hereinafter referred to as "Party B")

Legal representative: John C.K. Sham

Business address or dwelling place: Qingxi Town, Dongguan City

Tel. and Fax: \_\_\_\_\_

To ensure the realization of Party A's creditor's rights, Party B shall provide the maximum amount pledge guarantee (counter guarantee) with free will. To determine the rights, obligations of the Both Parties, Party A and Party B shall sign this Contract through friendly negotiation in accordance with *Contract Law*, *Guarantee Law*, *Real Right Law* as well as other relevant laws and regulations.

### **Article I. Guaranteed principal creditor's right**

1.1 The principal debt guaranteed by Party B shall be from April 28, 2014 to April 28, 2015 (including the start date and expiry date) within the maximum balance RMB 9,100,000.00 (capital letters: NINE MILLION AND ONE HUNDRED THOUSAND ONLY) (amount in capital letters shall prevail when it is consistent with the digital amount). Party A shall own the debt right against the Debtor in accordance with the contracts (including Foreign Currency Loan Contract, Foreign Exchange Transfer Loan Contract, Bank Acceptance Agreement, Letter of Credit Opening Agreement/Contract, Open Guarantee Agreement, International and Domestic Trade Financing Agreements, Forward Foreign Exchange Agreement as well as other financial derivative products agreements and other documents (hereinafter referred to as "Principal Contract")) signed with Guangdong Lite Array Co., Ltd. (hereinafter referred to as "Debtor"), no matter whether the debt expired during the above period, or the debt has been exited before setting the maximum amount.

1.2 Above maximum balance is the sum balance in RMB calculated by different currencies in accordance with the foreign exchange middle price issued by Party A on the date when the main creditor's rights undertaken by Party B is determined.

### **Article II Range of pledge guarantee**

The maximum amount pledge guarantee range of Party B shall include the principal and the corresponding interest, compound interest, liquidated damages, damage awards, interest and damages, exchange rate loss (incurred due to exchange rate change), pledge storage fee as well as the expenses for realizing pledge right (including but not limited to legal cost, retaining fee, evaluation fee, auction fee, disposing fee and so on), but the expenses for realizing pledge right shall be deducted from the pledge object disposing fee, not included in the maximum balance described in the item 1.1.



### **Article III Pledge object**

3.1 For pledge object, please see Pledge Objects List. As the attachment of this contract, Pledge Objects List has the same legal force as this contract.

3.2 The Pledge Objects List is just the agreement for pledged value and not considered as the valuation basis for Party A disposing the pledge object, and does not constitute any limit to pledge right execution of Party A.

3.3 The effect of Party A's pledge right refers to fruits produced by the pledge object, as well as the premium, indemnity and compensation caused due to pledge object damaged, lost or collected.

3.4 Party A is entitled to charge the fruits of the pledge object, and the fruits shall be first used as fees for charging fruits.

3.5 The premium, indemnity and compensation caused to Party B due to pledge object damaged, lost or collected shall be used for settlement of principal creditor's right in advance, or with Party A's permission, used for recovering the value of the pledge object, or deposited to Party A's specified account, to guarantee the fulfillment of liabilities under the contract. The undepreciated part of the pledge object shall still be used as the guarantee to the principal creditor's right.

3.6 If the pledge object may be lost or damaged due to improper keeping of Party A, Party B can require Party A to draw the pledge object, and also require settlement of liabilities in advance and returning of the pledged property.

3.7 Party A has the right to require Party B to provide the corresponding warranty, if Party A's rights will be harmed when the pledge object may be damaged or discounted obviously due to some reason outside the scope of Party A.

3.8 In accordance with the ratio between the pledged value and maximum balance described in item 1.1, the following warning line and disposal line are established for the pledge object under this contract:

Warning line = Pledge value/Maximum balance described in item 1.1 = \_\_\_\_%

Disposal line = Pledge value/Maximum balance described in item 1.1 = \_\_\_\_%

When the pledge value reduces below the warning line, Party B shall append the guarantee within the period required by Party A to supplement the pledged value gap caused by decrease of pledged value; when the pledged value reduces below the disposal line, Party A has the right to dispose the pledge object and will be compensated by the obtained payment.

### **Article IV Delivery and registration**

4.1 Party B shall deliver the pledge object or right credential to Party A or its designated agent within 5 days since this contract takes effect. Party A or its designated agent shall issue the detention credential to Party B after accepting the pledge object or right credential, and the keeping fees of the pledge object shall be paid Party B.

4.2 If the pledge object under this contract shall be registered, Party A and Party B shall handle the pledge registration procedure to the concerning registration authority within 5 days since this contract takes effect; if change of registration for registered matters is required, Party A and Party B shall handle the change of registration in time. Unless otherwise specified, the registration charge shall be paid by Party B.

## **Article V Insurance**

(This article applies to pledge of movable property)

5.1 Within 15 days since the signing of this contract, Party B shall handle the pledge insurance procedure as required by Party A. If the pledge insurance cannot be handled one time due to some reason of the insurance authority, Party B shall handle the renewal of insurance in time, to ensure the property insurance of the pledge object within the effective term of this contract cannot be uninterrupted.

5.2 Insurance Policy shall be specified: When an accident is arose, Party A, as a payee of priority for compensation (the first beneficiary), will directly get payment of insurance indemnity from the insurer. There shall be no terms for limiting Party A's rights and interests in the Insurance Policy.

5.3 Within the effective term of this contract, Party B cannot interrupt or cancel the insurance for any reason. If the insurance is interrupted, Party A is entitled to handle the insurance procedure on behalf of Party B, and all fees shall be paid by Party B.

5.4 Within the effective term of this contract, if insurance accident happened to the pledge object, the insurance compensation shall be disposed as agreed in item 3.5.

## **Article VI Determination of principal creditor's right**

The creditor's rights of the maximum amount pledge guarantee are determined in case one of the following situations occurs:

- A. Period agreed in item 1.1 expired;
- B. New creditor's rights cannot recur;
- C. The pledged property has been closed or detained;
- D. The Debtor and Party B have been announced to bankrupt or withdrawn;
- E. Others regulated by laws.

## **Article VII Implementation of pledge right**

7.1 Party A is entitled to implement the pledge right in case one of the following situations occurs:

- A. When principal creditor's right is expired (including expiry in advance), the debtor cannot settle;
- B. When one of the situations prescribed in item 3.7 under this contract occurs, Party B has not provided the corresponding guarantee;
- C. When the pledged value reduces below the warning line agreed in item 3.8, Party B has not appended the guarantee as required by Party A, or the pledge value reduces below the disposal value agreed in item 3.8;
- D. Party B or the debtor has been applied for being bankrupt, closing down, settlement and stopping business for internal rectification, and revoked business license or cancelled;
- E. Others regulated by laws.

7.2. Party A can auction, sell or cash the pledge object and be compensated by the cashed payment, or use the cashed payment of the pledge object to settle the principal creditor's right through negotiation with Party B when implementing the pledge right.

7.3 When the pledge object is cashed or the date of delivery is earlier than expiry date of the principal creditor's right, Party A can cash or draw the pledge object. The cashed payment is used for paying off the liabilities in advance, or deposited to Party A's specified account to guarantee the fulfillment of the liabilities. The drawn goods shall be delivered and registered by Article IV in this contract, to guarantee the fulfillment of the liabilities; the payment after auctioning or selling the pledge object is used for paying off the liabilities in advance, or deposited to Party A's specified account to guarantee the fulfillment of the liabilities.

7.4. If Party B can use the certificate of deposit or national bonds to cash or withdraw the right pledge, Party B authorizes Party A to cash or withdraw in advance when implementing the pledge right to pay off the liabilities by the obtained payment when the cashing or withdrawal date is later than date of pledge implementation agreed in item 7.1 by Party A, and the loss caused by this shall be assumed by Party B.

7.5 If the payment arising from the pledge object punishment is inconsistent with the currency in the primary contract, it shall be exchange to the currency in the primary contract by the appropriate exchange ratio published by Party A to pay off the liabilities under the contract.

#### **Article VIII Statement and guarantee of Party B**

Party B shall make the following statements and guarantees:

8.1 Party B is the owner of the pledge or the operation manager authorized by the State, the pledge has no dispute about ownership, usage right or operation right: all necessary authorizations or approvals have been obtained in accordance with the procedures and rights regulated in the memorandum of association for providing the pledge guarantee for Party A without violating laws and regulations as well as other relevant regulations.

8.2 In case it is a listed company or a holding company of a listed company, it shall perform the information disclosure obligation for this guarantee item in time in accordance with *Securities Act, Securities Act, Stock Exchange Listing Rules* as well as other laws and regulations.

8.3 Completely learned about the purpose of debts under the Principal Contract, providing the pledge guarantee for the Pledgee is based on free will. The expression under this Contract is really true. For the international and domestic trade financing, Party B shall acknowledge that the basis of financing is true without any fraud.

8.4 All necessary authorizations or approvals have been obtained for signing this Contract.

8.5 The pledge right may be set for the pledge object under this Contract without any restriction;

8.6 In case the pledge object has any flaw, full and reasonable description shall be made for the flaw. In case the pledge object has set the pledge right, it shall inform Party A truthfully.

8.7 The pledge object under this Contract shall be not made any disposal, such as real right guarantee, gifting or transferring.

8.8 The pledge object shall not belong to common property. In case it belongs to common property, approval has already been obtained from common owners in written.

8.9 In case the main creditor's rights guaranteed by this Contract is that Party A provides international trade financing to the debtor, Party B shall accept and recognize the international common practice of relevant businesses.

#### **Article IX Promise of Party B**

Party B shall make the following promises to Party A:

9.1 In case one of the following situations occurs, Party B may continue to perform the guarantee obligations under this Contract without the approval from Party B:

A. Party A changes the Principal Contract by consulting with the debtor, without adding the debt of the debtor or extending the time period;

B. Under the international and domestic trade financing items, Party A and the debtor make change for letter of credit related to the Principal Contract without adding the payment obligation under the letter of credit or extending the payment time period;

C. In case Party A has transferred the main creditor's rights.

9.2 Within the effective period of this Contract, the disposed pledge object shall not be presented, transferred or used by others without the approval from Party A.

9.3 Shall undertake all expenses produced by Party A for realizing the pledge right of this Contract, including but not limited to legal cost, retaining fee, evaluation fee, auction fee, disposing fee and so on.

9.4 Damage to Party A or the third party caused by the pledge object not due to the reason of Party A, Party B shall undertake compensation responsibilities.

9.5 When the pledge right has already or may be damaged by the third party, it shall inform Party A in time and help Party A to avoid the damage.

9.6 In case deposit receipt, certificate-type government loan, bank acceptance draft has been used for pledge, it shall not report the loss to stop paying in any way. In case accounts receivable has been used for pledge, it shall provide the required information about registering pledge, and sign the registering agreement and registering extending and change agreement with Party A.

9.7 Shall provide active coordination when Party A realizes the pledge right without setting any hinder to prevent Party A performing the pledge right.

9.8 In case one of the following events occurs, it shall inform Party A timely:

- A. Change in registered name, memorandum of association, operating range, registered capital, legal representative, major stock rights change;
- B. Stop production, dismiss, clearing accounts, out of business, cancellation of license, cancelled or petition for bankruptcy;
- C. Already or may be involved in major case or economic dispute, lawsuit, arbitration or property is detained by law, closed down, held in custody or supervised;
- D. As a natural person, Party B's effective ID Card No., dwelling place, working organization, contact method changed.

9.9 Sign the written notice issued by Party A in time.

9.10 In case there are other guarantees for the main creditor's rights of Party A, no matter this guarantee is provided by the debtor or the third party, Party A shall have the rights to decide the sequence to realize the guarantee, Party B shall promise not to put forward the counterargument. In case Party A gives up, changes or losses other guarantee rights under the Principal Contract, the guarantee responsibilities of Party B shall continue to be effective without becoming invalid or reduced for this.

9.11 Under domestic letter of credit, the buyer financing of domestic letter of credit, import letter of credit and import documentary credit/ import paying service, once one of the following situations occurs, Party B shall have the non-defense pledge guarantee obligation, Party B shall not put forward exemption or counterargument because any judicial authority or administrative organization issues any payment stopping order, restraining order or adopts detaining, closing, holding in custody and other measures or similar measures;

- A. The person specified or authorized by Party A has paid in accordance with the requirements of Party A;
- B. Party A or the person specified or authorized by Party A has provided due payment confirmation for the goods payment under domestic letter of credit or made acceptance for documents under import letter of credit in good faith.

C. The confirming bank of letter of credit has performed the payment obligations in good faith.

D. The negotiation bank of letter of credit has performed the negotiation obligations in good faith.

9.12 Under the shipping guarantee, endorsement of bill of lading, unauthorized withdrawal, Party B shall not put forward exemption or counterargument because the borrower refuses to pay the funds under letter of credit.

#### **Article X Promise of Party A**

Party A shall make below promises to Party B:

10.1 Party A shall keep secret for all related documents, financial data and other relative but undisclosed information provided by Party B under the duty of Contract, but shall exclude the additional rules of the laws and regulations.

10.2 Keep pledged properties properly.

10.3 The remaining from dispose of the pledged property income after paying off all the debt within the scope of the pledged collateral, Party A shall return the remaining part to Party B in time.

10.4 Debtor shall pay off all debts in terms of the Main Contract, or Party B shall pay for Party A all claims under the provisions of the Main Contract, Party A shall return the pledged property and its ownership certificate, invoices, other related information or the Pledgor right certificate to Party B in time.

#### **Article XI Breach of contract**

11.1 Either Party fails to perform any of the obligations, or breach any statements, guarantees and promises under this Contract since the Contract becoming effective, then such Party shall be in breach of the Contract. It shall compensate for the other Party if caused lost.

11.2 Except the contract specially specified, either Party breaches the contract, the other Party shall have the right to adopt any other measures in the laws and regulations of PRC.

#### **Article XII Validity, amendment and termination**

12.1 This Contract shall come into effect since the date when it is signed by both Parties, and shall be terminated till the date of Party A's debts fully paid off under the Main Contract.

12.2 Any changes in this Contract shall be in written form after negotiating by both parties. The amendments or agreements shall be a part of the Contract, have the equal legal effect to the Contract. The other parts shall be still valid except the changing part; the original articles are still effective before the amendments become effective.

12.3 Any invalid or unenforceable articles under this Contract shall not influence the other articles' validity and enforceability, nor influence the validity of the entire Contract.

12.4 The Contract's amendment and termination shall not affect the right of each Party to claim damages. Termination of the Contract shall not influence the contractual provisions relating to the effectiveness of dispute resolution.

#### **Article XIII Settlement of disputes**

The conclusion of this Contract, effectiveness, interpretation, implementation and settlement of dispute shall be governed by the laws of the People's Republic of China. In the event of any dispute and controversy arising out of or relating to this Contract, the Parties shall resolve through consultations; if can not be resolved by consultation, then shall be settled according to the below method B:

A. The dispute shall be submitted to Arbitration Commission, in accordance with its effective arbitration rules in the time of submitting arbitration application, for arbitration at (arbitration place). The arbitration award shall be final and binding on the Parties.

B. The dispute shall be solved through litigation at Party A's local court.

#### Article XIV Others

14.1 Party B shall not transfer the entire or partial rights or duties under this Contract without Party A's agreement in written form.

14.2 Before confirming the creditor's rights of maximum amount pledge, Party A can transfer the pledge right of the maximum amount together if transfer the partial creditor's rights.

14.3 Party A fails or delays to exercise a right under this Contract, shall not operate as a waiver or change thereof, nor shall preclude any other future exercise thereof.

14.4 According to rules of the relative laws and regulations or other normative documents or the request of financial regulators, Party A shall have right to provide the relative information of the Contract and other related information to the People's Bank of China Credit Information Basic Database or other legal setting up credit database, for organizations or individuals with appropriate qualifications to query and use. Party A shall also have the right to query Party B's related information through the People's Bank of China Credit Information Basic Database or other legal setting up credit database for the purpose of the Contract's conclusion and implementation.

14.5 This Contract is executed in two originals, each Party and has one original, shall be equally authentic.

#### Article XV Other items agreed by the Both Parties

15.1 The Party A and Party B shall mutually agreed: the security provided under this agreement shall be same as the one signed in between Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch (Party A) AND Guangdong Lite Array Co., Ltd (Party B) on January 3, 2014 under the Contract No: 2014 (QING) No. 1001 General Import T/T Finance Agreement and those obligations and responsibilities of the pledgor.

Appendix: *Pledge Objects List*

Party A (Seal): Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch  
(Sealed)

Authorized Representative: Qinggui Zhang



Party B: Guangdong Lite Array Co., Ltd. (Sealed)

Legal Representative (Authorized Representative): John C.K. Sham



Common Owners of Pledge Objects: \_\_\_\_\_

Date of Signature: April 28, 2014

Appendix:

**Pledge Objects List**

<u>Name</u>	<u>Ownership Certificate or Document of Title</u>	<u>Condition</u>	<u>Value or Estimated Value</u>	<u>Others</u>
Fixed Deposit Receipt of Organization	YUE B00004116	In good condition	RMB 9,100,000.00	

Pledgor: John C.K. Sham



Common Owners of Pledge Objects (if any): Guangdong Lite Array Co., Ltd. (Sealed)

Pledgee: Qinggui Zhang



Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch (Sealed)

**Maximum Amount Pledge Contract**

**Important notes: This Contract is signed by the Both Parties on the basis of their own free will and equality with consensus through consultation, all terms are real expressions of the Both Parties. To safeguard legal rights and interests of the Pledgor, the Pledgee has asked the Pledgor to pay special attention to all terms about the rights and interests of the Both Parties, especially for the boldface letters.**



**Pledgee:** Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch (Hereinafter referred to as “Party A”)

Responsible person: Qinggui Zhang

Business address: Qingxi Town, Dongguan City

Tel. and Fax: \_\_\_\_\_

**Pledgor:** Guangdong Lite Array Co., Ltd. (Hereinafter referred to as “Party B”)

Legal representative: John C.K. Sham

Business address or dwelling place: Qingxi Town, Dongguan City

Tel. and Fax: \_\_\_\_\_

To ensure the realization of Party A’s creditor’s rights, Party B shall provide the maximum amount pledge guarantee (counter guarantee) with free will. To determine the rights, obligations of the Both Parties, Party A and Party B shall sign this Contract through friendly negotiation in accordance with *Contract Law*, *Guarantee Law*, *Real Right Law* as well as other relevant laws and regulations.

### **Article I. Guaranteed principal creditor’s right**

1.1 The principal debt guaranteed by Party B shall be from May 7, 2014 to May 7, 2015 (including the start date and expiry date) within the maximum balance RMB 15,000,000.00 (capital letters: FIFTEEN MILLION AND ONE HUNDRED THOUSAND ONLY) (amount in capital letters shall prevail when it is consistent with the digital amount). Party A shall own the debt right against the Debtor in accordance with the contracts (including Foreign Currency Loan Contract, Foreign Exchange Transfer Loan Contract, Bank Acceptance Agreement, Letter of Credit Opening Agreement/Contract, Open Guarantee Agreement, International and Domestic Trade Financing Agreements, Forward Foreign Exchange Agreement as well as other financial derivative products agreements and other documents (hereinafter referred to as “Principal Contract”)) signed with Guangdong Lite Array Co., Ltd. (hereinafter referred to as “Debtor”), no matter whether the debt expired during the above period, or the debt has been exited before setting the maximum amount.

1.2 Above maximum balance is the sum balance in RMB calculated by different currencies in accordance with the foreign exchange middle price issued by Party A on the date when the main creditor’s rights undertaken by Party B is determined.

### **Article II Range of pledge guarantee**

The maximum amount pledge guarantee range of Party B shall include the principal and the corresponding interest, compound interest, liquidated damages, damage awards, interest and damages, exchange rate loss (incurred due to exchange rate change), pledge storage fee as well as the expenses for realizing pledge right (including but not limited to legal cost, retaining fee, evaluation fee, auction fee, disposing fee and so on), but the expenses for realizing pledge right shall be deducted from the pledge object disposing fee, not included in the maximum balance described in the item 1.1.

### **Article III Pledge object**

3.1 For pledge object, please see Pledge Objects List. As the attachment of this contract, Pledge Objects List has the same legal force as this contract.

3.2 The Pledge Objects List is just the agreement for pledged value and not considered as the valuation basis for Party A disposing the pledge object, and does not constitute any limit to pledge right execution of Party A.

3.3 The effect of Party A's pledge right refers to fruits produced by the pledge object, as well as the premium, indemnity and compensation caused due to pledge object damaged, lost or collected.

3.4 Party A is entitled to charge the fruits of the pledge object, and the fruits shall be first used as fees for charging fruits.

3.5 The premium, indemnity and compensation caused to Party B due to pledge object damaged, lost or collected shall be used for settlement of principal creditor's right in advance, or with Party A's permission, used for recovering the value of the pledge object, or deposited to Party A's specified account, to guarantee the fulfillment of liabilities under the contract. The undepreciated part of the pledge object shall still be used as the guarantee to the principal creditor's right.

3.6 If the pledge object may be lost or damaged due to improper keeping of Party A, Party B can require Party A to draw the pledge object, and also require settlement of liabilities in advance and returning of the pledged property.

3.7 Party A has the right to require Party B to provide the corresponding warranty, if Party A's rights will be harmed when the pledge object may be damaged or discounted obviously due to some reason outside the scope of Party A.

3.8 In accordance with the ratio between the pledged value and maximum balance described in item 1.1, the following warning line and disposal line are established for the pledge object under this contract:

Warning line = Pledge value/Maximum balance described in item 1.1 = \_\_\_\_\_%

Disposal line = Pledge value/Maximum balance described in item 1.1 = \_\_\_\_\_%

When the pledge value reduces below the warning line, Party B shall append the guarantee within the period required by Party A to supplement the pledged value gap caused by decrease of pledged value; when the pledged value reduces below the disposal line, Party A has the right to dispose the pledge object and will be compensated by the obtained payment.

### **Article IV Delivery and registration**

4.1 Party B shall deliver the pledge object or right credential to Party A or its designated agent within 5 days since this contract takes effect. Party A or its designated agent shall issue the detention credential to Party B after accepting the pledge object or right credential, and the keeping fees of the pledge object shall be paid Party B.

4.2 If the pledge object under this contract shall be registered, Party A and Party B shall handle the pledge registration procedure to the concerning registration authority within 5 days since this contract takes effect; if change of registration for registered matters is required, Party A and Party B shall handle the change of registration in time. Unless otherwise specified, the registration charge shall be paid by Party B.

## **Article V Insurance**

(This article applies to pledge of movable property)

5.1 Within 15 days since the signing of this contract, Party B shall handle the pledge insurance procedure as required by Party A. If the pledge insurance cannot be handled one time due to some reason of the insurance authority, Party B shall handle the renewal of insurance in time, to ensure the property insurance of the pledge object within the effective term of this contract cannot be uninterrupted.

5.2 Insurance Policy shall be specified: When an accident is arose, Party A, as a payee of priority for compensation (the first beneficiary), will directly get payment of insurance indemnity from the insurer. There shall be no terms for limiting Party A's rights and interests in the Insurance Policy.

5.3 Within the effective term of this contract, Party B cannot interrupt or cancel the insurance for any reason. If the insurance is interrupted, Party A is entitled to handle the insurance procedure on behalf of Party B, and all fees shall be paid by Party B.

5.4 Within the effective term of this contract, if insurance accident happened to the pledge object, the insurance compensation shall be disposed as agreed in item 3.5.

## **Article VI Determination of principal creditor's right**

The creditor's rights of the maximum amount pledge guarantee are determined in case one of the following situations occurs:

- A. Period agreed in item 1.1 expired;
- B. New creditor's rights cannot recur;
- C. The pledged property has been closed or detained;
- D. The Debtor and Party B have been announced to bankrupt or withdrawn;
- E. Others regulated by laws.

## **Article VII Implementation of pledge right**

7.1 Party A is entitled to implement the pledge right in case one of the following situations occurs:

- A. When principal creditor's right is expired (including expiry in advance), the debtor cannot settle;
- B. When one of the situations prescribed in item 3.7 under this contract occurs, Party B has not provided the corresponding guarantee;
- C. When the pledged value reduces below the warning line agreed in item 3.8, Party B has not appended the guarantee as required by Party A, or the pledge value reduces below the disposal value agreed in item 3.8;
- D. Party B or the debtor has been applied for being bankrupt, closing down, settlement and stopping business for internal rectification, and revoked business license or cancelled;
- E. Others regulated by laws.

7.2. Party A can auction, sell or cash the pledge object and be compensated by the cashed payment, or use the cashed payment of the pledge object to settle the principal creditor's right through negotiation with Party B when implementing the pledge right.

7.3 When the pledge object is cashed or the date of delivery is earlier than expiry date of the principal creditor's right, Party A can cash or draw the pledge object. The cashed payment is used for paying off the liabilities in advance, or deposited to Party A's specified account to guarantee the fulfillment of the liabilities. The drawn goods shall be delivered and registered by Article IV in this contract, to guarantee the fulfillment of the liabilities; the payment after auctioning or selling the pledge object is used for paying off the liabilities in advance, or deposited to Party A's specified account to guarantee the fulfillment of the liabilities.

7.4. If Party B can use the certificate of deposit or national bonds to cash or withdraw the right pledge, Party B authorizes Party A to cash or withdraw in advance when implementing the pledge right to pay off the liabilities by the obtained payment when the cashing or withdrawal date is later than date of pledge implementation agreed in item 7.1 by Party A, and the loss caused by this shall be assumed by Party B.

7.5 If the payment arising from the pledge object punishment is inconsistent with the currency in the primary contract, it shall be exchange to the currency in the primary contract by the appropriate exchange ratio published by Party A to pay off the liabilities under the contract.

#### **Article VIII Statement and guarantee of Party B**

Party B shall make the following statements and guarantees:

8.1 Party B is the owner of the pledge or the operation manager authorized by the State, the pledge has no dispute about ownership, usage right or operation right: all necessary authorizations or approvals have been obtained in accordance with the procedures and rights regulated in the memorandum of association for providing the pledge guarantee for Party A without violating laws and regulations as well as other relevant regulations.

8.2 In case it is a listed company or a holding company of a listed company, it shall perform the information disclosure obligation for this guarantee item in time in accordance with *Securities Act, Securities Act, Stock Exchange Listing Rules* as well as other laws and regulations.

8.3 Completely learned about the purpose of debts under the Principal Contract, providing the pledge guarantee for the Pledgee is based on free will. The expression under this Contract is really true. For the international and domestic trade financing, Party B shall acknowledge that the basis of financing is true without any fraud.

8.4 All necessary authorizations or approvals have been obtained for signing this Contract.

8.5 The pledge right may be set for the pledge object under this Contract without any restriction;

8.6 In case the pledge object has any flaw, full and reasonable description shall be made for the flaw. In case the pledge object has set the pledge right, it shall inform Party A truthfully.

8.7 The pledge object under this Contract shall be not made any disposal, such as real right guarantee, gifting or transferring.

8.8 The pledge object shall not belong to common property. In case it belongs to common property, approval has already been obtained from common owners in written.

8.9 In case the main creditor's rights guaranteed by this Contract is that Party A provides international trade financing to the debtor, Party B shall accept and recognize the international common practice of relevant businesses.

#### **Article IX Promise of Party B**

Party B shall make the following promises to Party A:

9.1 In case one of the following situations occurs, Party B may continue to perform the guarantee obligations under this Contract without the approval from Party B:

A. Party A changes the Principal Contract by consulting with the debtor, without adding the debt of the debtor or extending the time period;

B. Under the international and domestic trade financing items, Party A and the debtor make change for letter of credit related to the Principal Contract without adding the payment obligation under the letter of credit or extending the payment time period;

C. In case Party A has transferred the main creditor's rights.

9.2 Within the effective period of this Contract, the disposed pledge object shall not be presented, transferred or used by others without the approval from Party A.

9.3 Shall undertake all expenses produced by Party A for realizing the pledge right of this Contract, including but not limited to legal cost, retaining fee, evaluation fee, auction fee, disposing fee and so on.

9.4 Damage to Party A or the third party caused by the pledge object not due to the reason of Party A, Party B shall undertake compensation responsibilities.

9.5 When the pledge right has already or may be damaged by the third party, it shall inform Party A in time and help Party A to avoid the damage.

9.6 In case deposit receipt, certificate-type government loan, bank acceptance draft has been used for pledge, it shall not report the loss to stop paying in any way. In case accounts receivable has been used for pledge, it shall provide the required information about registering pledge, and sign the registering agreement and registering extending and change agreement with Party A.

9.7 Shall provide active coordination when Party A realizes the pledge right without setting any hinder to prevent Party A performing the pledge right.

9.8 In case one of the following events occurs, it shall inform Party A timely:

- A. Change in registered name, memorandum of association, operating range, registered capital, legal representative, major stock rights change;
- B. Stop production, dismiss, clearing accounts, out of business, cancellation of license, cancelled or petition for bankruptcy;
- C. Already or may be involved in major case or economic dispute, lawsuit, arbitration or property is detained by law, closed down, held in custody or supervised;
- D. As a natural person, Party B's effective ID Card No., dwelling place, working organization, contact method changed.

9.9 Sign the written notice issued by Party A in time.

9.10 In case there are other guarantees for the main creditor's rights of Party A, no matter this guarantee is provided by the debtor or the third party, Party A shall have the rights to decide the sequence to realize the guarantee, Party B shall promise not to put forward the counterargument. In case Party A gives up, changes or losses other guarantee rights under the Principal Contract, the guarantee responsibilities of Party B shall continue to be effective without becoming invalid or reduced for this.

9.11 Under domestic letter of credit, the buyer financing of domestic letter of credit, import letter of credit and import documentary credit/ import paying service, once one of the following situations occurs, Party B shall have the non-defense pledge guarantee obligation, Party B shall not put forward exemption or counterargument because any judicial authority or administrative organization issues any payment stopping order, restraining order or adopts detaining, closing, holding in custody and other measures or similar measures;

- A. The person specified or authorized by Party A has paid in accordance with the requirements of Party A;
- B. Party A or the person specified or authorized by Party A has provided due payment confirmation for the goods payment under domestic letter of credit or made acceptance for documents under import letter of credit in good faith.

C. The confirming bank of letter of credit has performed the payment obligations in good faith.

D. The negotiation bank of letter of credit has performed the negotiation obligations in good faith.

9.12 Under the shipping guarantee, endorsement of bill of lading, unauthorized withdrawal, Party B shall not put forward exemption or counterargument because the borrower refuses to pay the funds under letter of credit.

#### **Article X Promise of Party A**

Party A shall make below promises to Party B:

10.1 Party A shall keep secret for all related documents, financial data and other relative but undisclosed information provided by Party B under the duty of Contract, but shall exclude the additional rules of the laws and regulations.

10.2 Keep pledged properties properly.

10.3 The remaining from dispose of the pledged property income after paying off all the debt within the scope of the pledged collateral, Party A shall return the remaining part to Party B in time.

10.4 Debtor shall pay off all debts in terms of the Main Contract, or Party B shall pay for Party A all claims under the provisions of the Main Contract, Party A shall return the pledged property and its ownership certificate, invoices, other related information or the Pledgor right certificate to Party B in time.

#### **Article XI Breach of contract**

11.1 Either Party fails to perform any of the obligations, or breach any statements, guarantees and promises under this Contract since the Contract becoming effective, then such Party shall be in breach of the Contract. It shall compensate for the other Party if caused lost.

11.2 Except the contract specially specified, either Party breaches the contract, the other Party shall have the right to adopt any other measures in the laws and regulations of PRC.

#### **Article XII Validity, amendment and termination**

12.1 This Contract shall come into effect since the date when it is signed by both Parties, and shall be terminated till the date of Party A's debts fully paid off under the Main Contract.

12.2 Any changes in this Contract shall be in written form after negotiating by both parties. The amendments or agreements shall be a part of the Contract, have the equal legal effect to the Contract. The other parts shall be still valid except the changing part; the original articles are still effective before the amendments become effective.

12.3 Any invalid or unenforceable articles under this Contract shall not influence the other articles' validity and enforceability, nor influence the validity of the entire Contract.

12.4 The Contract's amendment and termination shall not affect the right of each Party to claim damages. Termination of the Contract shall not influence the contractual provisions relating to the effectiveness of dispute resolution.

#### **Article XIII Settlement of disputes**

The conclusion of this Contract, effectiveness, interpretation, implementation and settlement of dispute shall be governed by the laws of the People's Republic of China. In the event of any dispute and controversy arising out of or relating to this Contract, the Parties shall resolve through consultations; if can not be resolved by consultation, then shall be settled according to the below method B:

A. The dispute shall be submitted to Arbitration Commission, in accordance with its effective arbitration rules in the time of submitting arbitration application, for arbitration at (arbitration place). The arbitration award shall be final and binding on the Parties.

B. The dispute shall be solved through litigation at Party A's local court.

#### Article XIV Others

14.1 Party B shall not transfer the entire or partial rights or duties under this Contract without Party A's agreement in written form.

14.2 Before confirming the creditor's rights of maximum amount pledge, Party A can transfer the pledge right of the maximum amount together if transfer the partial creditor's rights.

14.3 Party A fails or delays to exercise a right under this Contract, shall not operate as a waiver or change thereof, nor shall preclude any other future exercise thereof.

14.4 According to rules of the relative laws and regulations or other normative documents or the request of financial regulators, Party A shall have right to provide the relative information of the Contract and other related information to the People's Bank of China Credit Information Basic Database or other legal setting up credit database, for organizations or individuals with appropriate qualifications to query and use. Party A shall also have the right to query Party B's related information through the People's Bank of China Credit Information Basic Database or other legal setting up credit database for the purpose of the Contract's conclusion and implementation.

14.5 This Contract is executed in two originals, each Party and \_\_\_\_\_ has one original, shall be equally authentic.

#### Article XV Other items agreed by the Both Parties

15.1 The Party A and Party B shall mutually agreed: the security provided under this agreement shall be same as the one signed in between Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch (Party A) AND Guangdong Lite Array Co., Ltd (Party B) on January 3, 2014 under the Contract No: 2014 (QING) No. 1001 General Import T/T Finance Agreement and those obligations and responsibilities of the pledgor.

Appendix: *Pledge Objects List*

Party A (Seal): Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch  
(Sealed)

Authorized Representative: Qinggui Zhang



Party B: Guangdong Lite Array Co., Ltd. (Sealed)

Legal Representative (Authorized Representative): John C.K. Sham



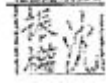
Common Owners of Pledge Objects: \_\_\_\_\_

Date of Signature: May 7, 2014

Appendix:

**Pledge Objects List**

<u>Name</u>	<u>Ownership Certificate or Document of Title</u>	<u>Condition</u>	<u>Value or Estimated Value</u>	<u>Others</u>
Fixed Deposit Receipt of Organization	YUE B00004117	In good condition	RMB 15,000,000.00	



Pledgor: John C.K. Sham

Common Owners of Pledge Objects (if any): Guangdong Lite Array Co., Ltd. (Sealed)



Pledgee: Qinggui Zhang Industrial & Commercial Bank of China Co., Ltd., Dongguan Qingxi Branch (Sealed)



**EXHIBIT 8.1**

The following table sets forth the significant subsidiaries owned, directly or indirectly, by us.

<u>Name</u>	<u>Place of incorporation</u>	<u>Percentage of equity interest held</u>
<b>SUBSIDIARIES:</b>		
Global Display Holdings Limited	British Virgin Islands	100.0
Dongguan Wing Shing Electrical Products Factory Company Limited	China	100.0
Guangdong Lite Array Company Limited	China	100.0
Dongguan Microview Medical Technology Company Limited	China	100.0
Global Household Products Limited	Hong Kong	100.0
Global-Tech USA, Inc.	United States	100.0
GT Investments (BVI) Limited	British Virgin Islands	100.0
Kwong Lee Shun Trading Company Limited	Hong Kong	100.0
Pentalpha Medical Limited	Hong Kong	100.0
Pentalpha Hong Kong Limited	Hong Kong	100.0
Joke Media Limited	China	100.0
Global Optics Limited	Hong Kong	100.0
Consortium Investment (BVI) Limited	British Virgin Islands	100.0
Lite Array, Inc.	United States	76.75
Global Lite Array (BVI) Limited	British Virgin Islands	76.75
Lite Array OLED (BVI) Company Limited	British Virgin Islands	76.75

\* Dongguan Litewell (OLED) Technology Limited and Litewell Technology (HK) Limited are wholly-owned subsidiaries of Lite Array Holdings Limited. Whereas, Lite Array Holdings Limited is a jointly-controlled entity of the Company.





**EXHIBIT 13.1**

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Global-Tech Advanced Innovations Inc. (the “Company”), does hereby certify, to such officer’s knowledge, that:

(1) The Annual Report on Form 20-F for the period ended March 31, 2015 (the “Form 20-F”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 20-F.

Date: July 17, 2015

/s/ John C.K. Sham

John C.K. Sham  
President, Chief Executive Officer and Acting Chief  
Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 20-F or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 13.2**

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Global-Tech Advanced Innovations Inc. (the “Company”), does hereby certify, to such officer’s knowledge, that:

(1) The Annual Report on Form 20-F for the period ended March 31, 2015 (the “Form 20-F”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 20-F.

Date: July 17, 2015

/s/ John C.K. Sham

John C.K. Sham  
President, Chief Executive Officer and Acting Chief  
Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 20-F or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-129973) pertaining to the 2005 Stock Option Plan of Global-Tech Advanced Innovations Inc. (The “Company” and formerly known as Global-Tech Appliances Inc.);
- (2) Registration Statement (Form S-8 No. 333-9182) pertaining to the Amended and Restated 1997 Stock Option Plan of the Company;
- (3) Registration Statement (Form S-8 No. 333-10932) pertaining to the 1999 Employee Stock Purchase Plan of the Company; and
- (4) Registration Statement (Form S-8 No. 333-171337) pertaining to the 2011 Omnibus Equity Plan of the Company;

of our report dated July [ ], 2015, relating to the consolidated financial statements of the Company appearing in the Company’s Annual Report on Form 20-F for the year ended March 31, 2015.

/s/ Mazars CPA Limited

Hong Kong  
July 17, 2015