HIGHWAY HOLDINGS LTD
Form 20-F
June 30, 2016

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

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

For the fiscal year ended March 31, 2016.

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________.

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

Commission file number 0-28990

HIGHWAY HOLDINGS LIMITED

(Exact name of Registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

Suite 1801, Level 18, Landmark North 39 Lung Sum Avenue

Sheung Shui

New Territories, Hong Kong

(Address of principal executive offices)

Roland Kohl

Chief Executive Officer

Suite 1801, Level 18, Landmark North

39 Lung Sum Avenue

Sheung Shui

New Territories, Hong Kong
telephone: (852) 2344-4248
fax: (852) 2343-4976
roland.kohl@highwayholdings.com
(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:

Title of each class	Name of each exchange on which registered
Common Shares, $0.01 par value per share	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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 3,801,874 Common Shares were outstanding as of March 31, 2016.

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

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 x

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 x 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 x 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 x

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

U.S. GAAP x

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

Other ¨

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 x

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 x

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FORWARD - LOOKING STATEMENTS

This Annual Report on Form 20-F contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled “Risk Factors” under “Item 3. Key Information.” Forward-looking statements include, but are not limited to, statements relating to:

- the Company’s goals, strategies and expansion plans;
- the Company’s business development, financial condition and results of operations;
- changes in the original equipment manufacturing (“OEM”) market;
- the demand for, and market acceptance of, the Company’s products and services;
- changes in the Company’s relationships with its major customers;
- political or economic changes in Hong Kong, Shenzhen, China, and Myanmar that affect the Company, including inflation, labor laws and worker relations, changing governmental rules and regulations, and structural factors affected manufacturing operators in general; and
- general economic and business conditions affecting the Company’s major customers.

Readers should not place undue reliance on forward-looking statements, which reflect management’s view only as of the date of this Annual Report. The Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in management’s expectations except as required by applicable law. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the U.S. Securities and Exchange Commission, which we refer to in this Annual Report as the “SEC.”

CONVENTIONS

Highway Holdings Limited is a British Virgin Islands holding company that operates through various controlled subsidiaries. Unless the context indicates otherwise, all references herein to “the Company” refer collectively to Highway Holdings Limited and its subsidiaries. References to “China” or “PRC” are to the People’s Republic of China (excluding Hong Kong), whereas references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China. References to Myanmar are to the Republic of the Union of Myanmar (“Myanmar”). Unless otherwise stated, all references to “dollars” or $ are to United States dollars. “RMB,” “Renminbi” or “yuan” are references to the legal currency of China.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key Information

The Company's historical consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and presented in United States dollars. The following selected statements of operations data for each of the three years in the period ended March 31, 2016 and the balance sheet data as of March 31, 2015 and 2016 are derived from the Company's consolidated financial statements and notes thereto included in this Annual Report. The selected statements of operations data for each of the years ended March 31, 2012 and 2013 and the balance sheet data as of March 31, 2012, 2013 and 2014 were derived from the Company's consolidated financial statements, which are not included in this Annual Report. The selected information is qualified in its entirety by reference to, and should be read in conjunction with, such consolidated financial statements, related notes and "Operating and Financial Review and Prospects" included as Item 5 in this report.

Selected Consolidated Financial Information

(In thousands, except for per share data):

	2012	2013	2014	2015	2016
Statement of Operations					
Net sales	$25,370	$21,933	$22,936	$22,373	$22,935
Gross profit	5,121	4,904	5,452	5,717	5,928
Operating income	230	355	793	1,271	1,516
Net income attributable to Highway Holdings Limited shareholders	184	448	596	1,150	1,251
Per share amounts					

Net income-basic	$0.05	$0.12	$0.16	$0.30	$0.33
Net income-diluted	0.05	0.12	0.16	0.30	0.33
Dividend declared(1)	0.20	0.12	0.12	0.30	0.40
Weighted average number of shares:					
Basic	3,778	3,779	3,779	3,787	3,802
Diluted	3,788	3,781	3,789	3,795	3,802
Dividend declared(1)	$756	$454	$454	$1,138	$1,521

(1) Represents dividends declared during the fiscal year and not necessarily the payment date (dividends declared in one fiscal year may have been be paid to shareholders in the subsequent fiscal year).

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Balance Sheet Data

Property, plant and equipment, net	$2,027	$1,769	$1,213	$1,094	$1,121
Working capital	10,221	10,131	10,374	11,016	10,657
Total assets	16,579	15,352	15,776	16,987	17,039
Long term debt	377	112	-	-	-
Common shares	38	38	38	38	38
Total equity	11,998	12,008	12,146	12,233	11,934
Common shares issued and outstanding	3,784	3,784	3,784	3,802	3,802

RISK FACTORS

The Company's business and operations involve numerous risks, some of which are beyond the Company's control, which may affect future results and the market price of the Company's Common Shares. The following discussion highlights all the material risks the Company faces.

The Company is now Required to Conduct its Manufacturing Operations Under the Rules and Regulations Applicable to Domestic Chinese Companies That Previously Did Not Affect the Company. Since the Company commenced its manufacturing operations in China in 1991, the Company has conducted its operations in Long Hua, Shenzhen, China, pursuant to various agreements entered into, primarily, between two of the Company's subsidiaries and the Shenzhen City Baoan District Foreign Economic Development Head Company and its designees (collectively, the "BFDC") (the agreements, collectively the "BFDC Agreements"). Under the BFDC Agreements, the BFDC was the party responsible for providing manufacturing facilities for the Company and for supplying workers to the Company. The Company paid the BFDC a management fee and certain other charges for the use of the facilities and the services of the workers. Because the Company's manufacturing operations in Long Hua, Shenzhen, were conducted under the BFDC Agreements, its operations were not subject to many of the rules and regulations that would be imposed on entities that are considered under China law to be doing business in China (either as joint venture or as a wholly owned subsidiary organized in China). For example, the Company did not have to apply for permits or licenses in China or to register to do business in China and received beneficial treatment with respect to import/export taxes and duties.

In 2010, the Company received official governmental notice that the foregoing BFDC license structure of operations would no longer be permitted and that, accordingly, all foreign companies operating under that structure, including the Company's two subsidiaries that operated in Shenzhen, would have to reorganize their operations and register in China as a local company. As a result of the foregoing governmental decree, the Company formed Nissin Metal and Plastic (Shenzhen) Company Limited (herein referred to as "Nissin PRC"), a new wholly-owned subsidiary that is now a registered company in the PRC, and discontinued Nissin's operations under the BFDC Agreements. All of Nissin's assets, equipment, employees and manufacturing operations were transferred from Nissin Precision Metal Manufacturing Limited (herein referred to as "Nissin HK"), one of its Hong Kong subsidiaries, to Nissin PRC in 2011. While Nissin HK was forced to transfer its assets and operations to Nissin PRC, the Company's other operating entity in Shenzhen, China, Hi-Lite Camera Company Limited ("Hi-Lite"), was temporarily allowed to continue to operate in Shenzhen under the BFDC Agreements. However, as of March 31, 2016, Hi-Lite also has transferred all of its assets and operations to Nissin PRC and has officially ceased operating under the BFDC Agreement. Hi-Lite is currently being dissolved. The dissolution process normally takes several years and involves several governmental agencies. While the Company believes that it has made all necessary payments to dissolve Hi-Lite, no assurance can be given that these governmental agencies will not during the dissolution process determine that the Company has to make additional payments to complete the dissolution. As a result of the termination of the operations of both Nissin HK and Hi-Lite, all of the Company's future operations in China are now conducted through Nissin PRC. A foreign owned subsidiary, such as Nissin PRC, that is registered in China is commonly known as a "foreign invested enterprise" (a "FIE"), or as a "Wholly Foreign Owned Enterprise" (a "WFOE"). As a new PRC registered WFOE, Nissin PRC is now permitted to hire its own employees, lease its own facilities, and distribute its products in China. However, unlike the Company's prior arrangements under the BFDC Agreements, Nissin PRC now has to obtain and maintain its own permits and licenses, is subject to China's income and business taxes, and is subject to the rules and regulations applicable to other PRC registered companies. Most of these new rules, permits and taxes previously did not apply to its operations in China under the BFDC Agreements. These new rules, regulations and taxes have made the operations of Nissin PRC more cumbersome and expensive. To date, the Company has managed to restructure the operations of its new PRC subsidiary in a manner that has enabled it to comply with the additional rules and regulations. However, no assurance can be given that the Company will be able to continue to operate profitably through Nissin PRC and will be able to comply with future regulations and restrictions.

Terminating the BFDC Agreements and Conducting its Operations Through a Wholly Foreign Owned Enterprise Has Increased the Company's Cost of Operations in Shenzhen, China, and Could Result in Additional Unexpected Costs.
As part of the governmentally required transfer of the operations of the Company from the BFDC Agreements to a WFOE, the Company's Nissin PRC wholly-owned limited liability company is now a registered PRC company and is governed by the PRC's company laws and regulations. The cost of conducting operations through Nissin PRC is substantially higher than the operating under the BFDC Agreements. The regulations imposed on Nissin PRC have resulted in increased taxes and increased regulatory and accounting burdens. For example, Nissin PRC has to charge value added tax ("VAT") on all of the products that its sells locally, and has to pay VAT on materials it purchases locally. Depending on the classification of products and/or materials not all of the VAT tax is refunded to Nissin PRC when it exports these products. As a result, the VAT increases the overall cost of those products. The Company, therefore, must either pass these increased costs on to its customers (which hurts the Company's price competitiveness and its customer relations), or absorb the cost increases through smaller profit margins (which reduces the benefits of such sales to the Company). No assurance can be given that the cost of operating Nissin PRC as a WFOE will not continue to increase and will not further negatively affect the Company and its operations.

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The Company's Operations At Its Long Hua, Shenzhen, Facilities May Be Disrupted By Changes Made By The Landlord To The Leased Buildings. The Company's current manufacturing facilities in Long Hua, Shenzhen, China, consist of approximately 261,000 square feet of space that are used for manufacturing and as dormitory facilities. These facilities are currently leased pursuant to several leases that permit the Company to operate in various buildings until February 28, 2017. The Company and its landlord recently agreed to enter into new leases (the "Premises Leases") that will allow the Company to continue its operations at the current location through February 2020. However, the Company's total annual cost under the Premises Leases is expected to increase by approximately 13%. The new leases are currently under review by the required governmental agencies and have not yet been executed. Accordingly, the terms of the lease agreements may vary from the terms agreed to by the parties. The landlord of the Company's facilities recently completed a new building that the Company will hereafter use primarily for its metal stamping operations. Accordingly, the Company will have to move its entire metal stamping operations from the existing temporary facilities to the new building that the landlord built. Although the Company last year relocated this part of its operations without significant expense and without materially impacting its operations, no assurance can be given that the upcoming relocation of the Company's metal stamping operations will not negatively impact its metal stamping operations, disrupt the Company's other operations, and otherwise affect its ability to attract new customers or business. In addition, moving the plant and equipment could also be costly and may require the Company to incur additional expenses in refurbishing the new facilities and returning the old facilities. The cost and negative impact on the Company's operations of this move cannot currently be accurately estimated, but the impact on the Company's operations and financial results could be material.

Changes in Labor Laws, Environmental Regulation, Safety Regulation and Business Practices, and Operating Costs in China, and in Shenzhen, China, in Particular, Have Significantly Increased the Costs and Risks of Doing Business. As described elsewhere in this Annual Report, the Chinese government has during the past few years significantly changed and/or increased the enforcement of a number of laws affecting employees (including regulations regarding their salaries and benefits, labor unions, working conditions and overtime restrictions, and contract duration—in particular, requirements leading to lifelong employment). These regulations now require companies to make payments to up to six different employee benefit funds for each employee, which has significantly increased the Company's cost of employment. In addition, the Chinese government has also changed or increased the enforcement of certain environment protection laws, which have restricted some common practices and/or increased the Company's cost of operations. Employees also now have the right to enforce labor laws relating to their termination and the right to strike. For example, as a result of the winding down of Hi-Lite's operations, the Company intended to transfer Hi-Lite's workers to Nissin PRC. The employees claimed that they had been terminated, went on strike, and demanded the required employment termination severance payments. While the Company was able to resolve this issue without much expense, other such labor actions can occur at any time, which actions could be more costly to the Company. The foregoing factors have increased the risks of doing business in China and have caused many companies to terminate their operations in Southern China and have caused many of the remaining companies operating in Shenzhen, China to restructure their operations. The foregoing changes in labor and other rules and regulations have adversely affected the Company's recent financial results. No assurance can be given that other business changes will not be implemented that will further negatively affect the Company and that the Company will, in fact, be able to continue to operate and/or prosper under any new business or regulatory conditions.

Changing Internal Fiscal, Regulatory and Political Changes Continue to Negatively Affect The Company's Operations in China. The Company's main manufacturing facilities are located in China. As a result, the Company's operations and assets are subject to all of the political, economic, legal and other uncertainties associated with doing business in China. Changes in policies by the Chinese government to its laws, regulations, or the interpretation thereof, the imposition of confiscatory taxation, restrictions on imports and sources of supply, currency re-valuations, or the expropriation of private enterprises, could materially adversely affect the Company. For example, the Chinese government has recently been imposing burdensome import regulations on companies, such as the Company, that heavily rely on imports of raw materials. While the Company has, to date, been able to continue its operations in China despite these changes, no assurance can be given that the increasing regulations and the more restrictive government policies will not, in the future, cause the Company's operations to become financially untenable or otherwise materially affect its business, operations and financial condition.

Increased Wages And The Other Costs Of Labor Have a Material Negative Affect The Company's Operations And Continue to Increase Its Operating Costs. Minimum wages in in general, and in Shenzhen in particular, have significantly increased during the past few years. While the Company pays its employees more than the minimum wage, the increase in the minimum wage has required the Company and other local manufacturers to increase their salaries by approximately the same percentage. Increases in wages also result in increases in our and other employer's contributions for various mandatory social welfare benefits for Chinese employees that are based on percentages of their salaries. These continuing material increases in our cost of labor will continue to increase our operating costs and will adversely affect our financial results unless we pass on such increases to our customers by increasing the prices of our products and services. In response to the increased cost of labor (as well as the other increases in doing business in Shenzhen), we have increased the prices that we charge our customers. The effect of these increases in the prices of our products and services has resulted, and may continue to result in the loss of customers, who may seek, and are able to obtain, products and services comparable to those we offer in lower-cost regions of the world or from certain local Chinese companies that receive governmental support of subsidies. During the past few fiscal years, several of our larger customers were unwilling to pay the higher prices that we had to charge in response to our higher cost of operations. Future increases in our costs and in the prices that we charge our customers may result in future loss of revenues, which could affect our financial results.

In response to these material, continuing increases in wages and labor related costs, the Company has, during the past few years, been increasing the amount of automation and its use of robotics in its operations and has been attempting to move most of the Company's labor intensive work to lower labor cost countries. As a result of the increased automation and its ability to shift labor intensive operations to Myanmar (formerly Burma), the Company has been able to reduce the number of employees that it employs in Shenzhen from almost two thousand a few years ago, to approximately 290 currently. However, the cost of acquiring and manufacturing its own automation equipment has been high, and the increases in productivity and the decreases in the cost of production that result from automation have not fully offset the increased labor costs. As a result, during the past year the Company been shifting part of its labor intensive assembly operations to Myanmar, a country where labor costs are substantially lower than in Shenzhen, China. The Company now owns a 75% interest of a Myanmar company that operates an assembly facility in Yangon, Myanmar, and the Company intends to increasingly shift much of its labor intensive operations to that new facility. See, "*The Company Faces Numerous Risks In Its Operations In Myanmar*," below.

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Uncertain Legal System and Application of Laws. The legal systems of China and Myanmar are often unclear and are continually evolving, and there can be no certainty as to the application of laws and regulations in particular instances. While China has an increasingly comprehensive system of laws, the application of these laws by the existing regional and local authorities is often in conflict and subject to inconsistent interpretation, implementation and enforcement. New laws and changes to existing laws occur quickly and sometimes unpredictably. As is the case with all businesses operating in both China and Myanmar, the Company often is also required to comply with informal laws and trade practices imposed by local and regional administrators. Local taxes and other charges are levied depending on the local needs for tax revenues and may not be predictable or evenly applied. These local and regional taxes/charges and governmentally imposed business practices often affect the Company's cost of doing business and require the Company to constantly modify its business methods to both comply with these local rules and to lessen the financial impact and operational interference of such policies. While the Company has, to date, been able to increase its compliance with the regulations and operate within the newly enforced rules and business practices in China, no assurance can be given that it will continue to be able to do so in the future. Should the local or regional governments or administrators impose new practices or levies that the Company cannot effectively respond to, or should the administrators continue to enforce more of those rules that they have not previously enforced, the Company's operations and financial condition could be materially and adversely impacted. The Company's ability to appeal many of the local and regionally imposed laws and regulations is limited, and the Company may not be able to seek adequate redress for laws that materially damage its business. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate laws do exist in China, it may not be possible to obtain swift and equitable enforcement of that law.

Transactions Between The Company And Its Subsidiaries May Be Subject To Scrutiny By Various Tax Authorities And Could Expose The Company To Additional Taxes. The Company operates through various subsidiaries in various countries. These subsidiaries make inter-company purchases at various prices. Under China's enterprise income tax law, all such inter-company transactions have to be made on an arm's-length basis and are subject to scrutiny as transfer pricing transactions between related parties. Transactions between the various subsidiaries located inside and outside of China must also meet China's transfer pricing documentation requirements that include the basis for determining pricing between the related entities, as well as the computation methodology. The Company could face material and adverse consequences if the Chinese tax authorities determine that transactions between the Company's various subsidiaries do not represent arm's-length pricing regulations and, therefore, that such transactions are deemed to be structured to avoid taxes. Such a determination could result in increased tax liabilities of the affected subsidiaries and potentially subject the Company to late payment interest and other penalties.

The Company Faces Numerous Risks In Its New Operations In Myanmar. In March 2015, the Company completed its acquisition of 75% of Kayser Myanmar Manufacturing Company Ltd. ("Kayser Myanmar"), a foreign company registered to operate in Myanmar. During the past fiscal year, the Company has transferred various equipment to the Myanmar company in order to enable the Myanmar company to assemble the Company's products. To date, the Company has shifted the assembly of two of its product lines to Kayser Myanmar as part of the Company's plan to shift much of its labor intensive assembly operations to Myanmar. In addition to the assembly services currently performed in Myanmar, in order to further avoid the high cost of operating in Shenzhen, China, the Company plans to move some of its component manufacturing operations to Myanmar. As a result, more of the Company's overall operations may reside in Myanmar. Operating in an underdeveloped country such as Myanmar is subject to numerous risks and uncertainties. These risks include the lack of infrastructure, excessively high rent for suitable facilities and land (which rates appear to be continuing to increase), uncertain rules and regulations, unpredictable access to utilities (including electricity), cultural and political issues with local governmental authorities, and the lack of international financing expertise. The lease of the Myanmar subsidiary expires in January 2017. The Company intends to relocate the Myanmar subsidiaries' facilities to a larger facility. To date, the Company has not identified an alternate site for its Myanmar operations, and no assurance can be given that the Company will locate a suitable facility at an acceptable price. Furthermore, the Company currently anticipates that the leasing costs of any alternate site will be significantly higher than the costs under the existing lease. The operations in Myanmar also are subject to the currency risks associated with the Myanmar Kyat (MMK), the official currency of that country. Myanmar recently permitted the exchange rate of the Kyat into the U.S. dollar to fluctuate. Such currency fluctuations could affect the operations in Myanmar, which would impact the Company's plan to relocate some of its assembly functions to the Yangon, Myanmar facility. No assurance can be given that unfavorable currency fluctuations will not occur in the future.

The Company's Customers May Not Permit Their Products To Be Manufactured In Myanmar, Which Would Negatively Affect The Company's Plans To Move Much Of Its Assembly and Manufacturing Operations To Myanmar. Following decades of authoritarian rule, Myanmar recently enacted various political and economic reforms that have made it possible for foreign businesses to own an interest in a Myanmar company. In addition, the U.S. and European Union recently lifted many trade sanctions with Myanmar. As a result, a number of international and other enterprises have started acquiring interests in businesses in Myanmar. In March 2015, the Company completed its acquisition of a controlling interest in Kayser Myanmar, which the Company intends to increasingly use as a low cost product assembly and manufacturing facility. Shifting part of its assembly and manufacturing operations from the higher cost facilities in China to the lower cost facility in Myanmar is part of the Company's business plan to retain its existing customers and to increase its competitiveness in the OEM marketplace. However, the Company will not be able to shift its assembly and/or manufacturing operations from Shenzhen, China, to Yangon, Myanmar, without the prior approval of its customers. To date, a few of the Company's customers have permitted some of the assembly work on their products to be subcontracted to the Myanmar facility. However, other customers have been reluctant to permit the Company to outsource the manufacture of their products to the Myanmar assembly facility because of concerns related to the quality and delivery of the assembled products and because of political and public relations issues. Unless more of the Company's customers allow the Company to shift the assembly and/or manufacture of products to Myanmar, the Company's goal of offsetting its high costs of assembly in China may not be fully realized. While the Myanmar operations have, to date, met the expectations of the Company and its customers, no assurance can be given that enough assembly and manufacturing work can be subcontracted to Myanmar to materially lower the Company's overall costs and to improve its price competitiveness.

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Political Or Trade Controversies Between China And The United States Could Harm The Company's Operating Results Or Depress The Company's Stock Price. Relations between the U.S. and China have during the past few years been strained as a result of numerous events that have threatened the business relations between the countries. These strains on U.S./China relations could affect the ability of foreign companies listed on U.S. stock markets, such as the Company, from operating in China. Also, strains between the U.S. and China could interfere with the ability of the Company's manufacturing in China from engaging in business with, or selling to the U.S. or U.S. companies. Any disruption of the current trade relations with the U.S. could have a material adverse effect on the Company's business. No assurance can be given that these and any other future controversies will not change the status quo involving peaceful trade relations between the U.S. and China, or that the Company's business and operations in China will not be materially and adversely affected. Even if trade relations between the U.S. and China are not affected by political difficulties between the two countries, such political friction could adversely affect the prevailing market price for the Company's Common Shares.

China's Political Issues With Japan Could Harm The Company's Operations. As a result of the dispute between Japan and China (such as the on-going dispute over the Senkaku/Diaoyu island chain), the business environment has deteriorated for companies in China that do business with Japan or otherwise appear to be connected to Japan. Since the name of the Company's subsidiary in China is a Japanese name ("Nissin"), and possibly because that subsidiary produces products for Japanese customers, the Company believes that its subsidiary has been subject to heightened scrutiny by Chinese authorities that may impact its operations. Accordingly, political strains between China and Japan may negatively impact the Company on-going operations in China.

Labor Shortages and Turnover. One of the principal economic advantages of locating the Company's operations in China and Myanmar has been the availability of low cost labor. Due to the enormous growth in manufacturing in China, workers' higher salary expectations, and the aftereffects of China's one-child policy, the Company has recently experienced difficulty in filling its lower cost labor needs. In addition to the recently developing tight labor market, the Company has also been affected by cyclical trends and other shortages in labor supply. The Company regularly faces severe labor shortages in Shenzhen as a result of the Chinese New Year during which time the Company follows the customary practice at its factory complex to grant its employees home leave and to, therefore, temporarily discontinuing operations. Any material or prolonged shortage of labor would have a material adverse effect on the Company's results of operations. As a result of the high cost of labor, the changing nature of the labor market, and the departure of employees that typically occurs during the Chinese New Year, many of the Company's assembly workers have to be replaced every year. The cost of hiring and training new employees adds to the Company's overall cost of operations. Myanmar also observes a 12-day new year's celebration during which all workers leave.

The Recently Imposed Import Duty Deposits May Negatively Affect The Company's Liquidity. The local authorities in China in 2012 imposed a "Customs License Deposit" on the Company for the import of raw materials, including sheet metal. These customs deposits serve as a guarantee to make sure that the Company re-exports all imported materials within a one-year period. As a result, the Company has had to deposit refundable payments with the Chinese Customs Department based on its import contracts for raw materials. These deposits are refundable, and the Chinese Customs Department periodically releases some of these funds. The Company will continually have to deposit funds with the Chinese Customs Department, which deposits will decrease the amount of cash available to the Company to fund its liquidity needs. Should the Chinese Customs Department delay the release of the remaining deposits, or should new, larger deposits be required, the Company's liquidity could be negatively affected while its cash is held by the Chinese Customs Department.

The Global Economic Uncertainty and Weakness Has In the Past Adversely Affected The Company's Business And Do So Again In the Future. Most of the Company's customers are international companies that operate globally or serve global markets. The Company's largest customers serve the European market. As a result, the Company's customers have in the recent past been affected by the unstable financial and credit markets generally, and in Europe in particular, and by the recent downturn in many European economies. Although the Company's principal customers have gradually been increasing the amount of purchases from the Company, a new round of instability of the markets and weakness of the global (and European) economy could adversely affect the future demand for the Company's customers' products and the amount and timing of their orders. Fluctuating economic uncertainties are expected to continue to affect the Company's operations, earnings and financial condition. The instability also affects the prices at which the Company can sell its products, which in turn adversely affects the Company's earnings and financial condition and its relations with its customers.

The Company Is Financially Dependent On A Few Major Customers. During the years ended March 31, 2016 and 2015 the Company's aggregate sales to its three largest customers accounted for approximately 70.3% and 60.7% of net sales respectively. While the Company believes that there are material benefits to limiting its customer base to a few, large, well-established and financially strong customers, having fewer customers also has significant risks. The Company's success will depend to a significant extent on maintaining its major customers and on the success achieved by its major customers. The Company could be materially adversely affected if it loses one or more of its major customers or if the business and operations of its existing major customers declines. While the Company has in the past either been able to replace major customers or to increase the amount of orders it receives from its remaining customers, no assurance can be given that the Company will be able to do so in the future. In addition, with few, larger customers, the Company's operations are more significantly impacted by a delay or reduction of any anticipated purchase orders or by the loss of any one or more of its major customers.

In addition to its increasing dependence on generating revenues from fewer, larger customers, the Company's risk exposure to the collection of its accounts receivable likewise is increasing as the size of receivables from individual clients increases. A substantial portion of the Company's sales to its major customers are made on credit, which exposes the Company to the risk of significant revenue loss if a major customer is unable to honor its credit obligations to the Company. Any material delay in being paid by its larger customers, or any default by a major customer on its obligations to the Company would significantly and adversely affect the Company's liquidity. During

the fiscal years ended March 31, 2016 and 2015, accounts receivable from the three customers with the largest receivable balances at year-end represented, in the aggregate, 69.2% and 66.6% of the total outstanding receivables, respectively.

The Company Is Highly Dependent Upon Its Executive Officers And Its Other Managers. The Company is highly dependent upon Roland Kohl, the Company's Chief Executive Officer, and its other officers and managers. Although the Company has signed employment contracts with Mr. Kohl and many of its other key officers/managers, no assurance can be given that those employees will remain with the Company during the terms of their employment agreements. The loss of the services of any of the foregoing persons would have a material adverse effect on the Company's business and operations. Mr. Kohl's new employment agreement expires in March 2019. The Company owns a $2,000,000 life insurance policy issued to insure the Company's in the event of Mr. Kohl's death. In addition, the Myanmar operations are highly dependent upon that facilities' Managing Director (who also is its co-founder). Should the Myanmar co-founder leave, the Myanmar operations could be materially affected, and the Company could have difficulty in finding a replacement.

The Company Must Continuously Adapt Its Operations To Suit Its Customers Needs, Or Else It Will Lose Customers. The Company's customers are continuously changing the mix of their products. Accordingly, the Company must continuously adapt its manufacturing abilities to suit the needs of its customers. No assurance can be given that the Company will be able to detect and correctly react to future changes in the needs of its principal customers, or that its investments in equipment and machinery made in anticipation of such changes will result in a positive return. Should the Company fail to react, or to incorrectly react to changes in the needs of its current or future customers, its business, operations and financial condition could be adversely affected.

The Company Faces Significant Competition From Numerous Larger, Better Capitalized, and International Competitors. The Company competes against numerous manufacturers for all of its current products. Such competition arises from both third party manufacturers and from the in–house manufacturing capabilities of existing customers. To a large extent, the Company competes in its Original Equipment Manufacturing ("OEM") business on the basis of quality, price, service, and the ability to deliver products on a reliable basis. Due to significant competition and the availability of alternate OEM suppliers for the Company's customers, the Company has, at times, been reluctant, or even unable to pass through significant materials cost increases. This has led to lower gross margins and even to net losses in some product lines. During the past few years, the Company has also lost manufacturing contracts because of its price increases, which losses have resulted in lower net sales. As a result of these factors, the Company will have to continue to operate at narrow gross profit margins, which could jeopardize the Company's financial position.

Since locating its facilities in Shenzhen, China, in 1991, the Company has been able to compete with other manufacturers based on its cost of operations in Shenzhen, the availability of a large labor pool, its favorable tax status, and its convenient access to Hong Kong's shipping port and business/banking facilities. However, since the Company first moved to Shenzhen as one of the first manufacturers in that locality, many other manufacturers have re-located or established new facilities in Shenzhen, and the Company's competitive advantage has been significantly diminished. In addition, many of the larger, international companies that have established competing facilities in Shenzhen have also established manufacturing facilities in other low-cost manufacturing locations, many located at sites outside of China, which have given those competitors the ability to shift their manufacturing to those locations whenever costs at those other locations are cheaper than in Shenzhen. Accordingly, the Company has indirectly been competing against both the competitors in Shenzhen as well as the other facilities outside of China. The significantly increases in the cost of operating in China, including changes in labor laws, changes in environmental regulations and in the enforcement of such regulations, increases in safety regulations, and a general increase in the cost of doing business have all collectively significantly eroded the advantages of operating in China. No assurance can be given that the Company will continue to be able to compete effectively against companies based in China or those operating outside of China.

Dependence on the Long Hua, Shenzhen, China, Factory Complex. The Company currently operates its sole manufacturing facility in Long Hua, Shenzhen. Although the Company has acquired a 75% interest in a Myanmar company, which company it currently uses for the assembly of some of its products, the Company currently is, and will continue to be heavily dependent upon its Long Hua, Shenzhen facility. The loss of this facility, or any material disruption of its operations at the Shenzhen facility, would be costly, would materially disrupt the Company's overall operations, and would have a material and adverse impact on the Company's operations and financial condition. The Company currently maintains fire, casualty and theft insurance aggregating approximately $10 million, covering its stock in trade goods and merchandize, furniture and equipment in China. The scope of the insurance coverage, and the amount of financial coverage provided by this insurance may not be sufficient to cover material damage to, or, the loss of, all or material portions of the factory complex due to fire, severe weather, flood, or other act of God or cause, and such damage or loss would have a material adverse effect on the Company's financial condition, business and prospects. The Company may not be able to move its principal facilities from its current location in Long Hua without significant cost and expense. For example, if the Company were to permanently re-locate its manufacturing facilities (because it cannot extend its leases or for other reasons) outside of the current locality, under local law the Company would have to terminate all of its employees and pay substantial termination fees and severance. The amount of such employment termination fees could substantially impact the Company's financial condition.

Fluctuation in Foreign Currency Exchange Rates Will Continue to Affect the Company's Operations and Profitability. Because the Company engages in international trade, the Company is subject to the risks of foreign currency exchange rate fluctuations. The Company's operations are based in the PRC and Hong Kong and, recently, in Myanmar. However, because most the Company's customers are located outside of these markets (primarily in Europe), the Company makes and/or receives payments in various currencies (including U.S. dollars, Hong Kong dollars, RMB and Euros). As a result, the Company is exposed to the risks associated with possible foreign currency controls, currency exchange rate fluctuations or devaluations. For example, the Company realized currency exchange losses of $21,000 and $125,000 in the fiscal years ended March 31, 2016 and 2015, respectively. However, these currency fluctuations have in the past been more significant and have, in those prior years, materially affected the Company's financial results. Notwithstanding these currency conversion rate fluctuations, the Company does not attempt to hedge

its currency exchange risks and, therefore, will continue to experience certain gains or losses due to changes in foreign currency exchange rates. The Company does attempt to limit its currency exchange rate exposure in certain of its OEM contracts through contractual provisions, which may limit, though not eliminate, these currency risks. In addition, the Company has an understanding with many of its larger European customers that the Company's quoted prices will be periodically adjusted to reflect currency exchange rate fluctuations. The Company is also attempting to limit its exposure to currency fluctuations with its non-U.S. based customers by increasingly asking for payment in U.S. dollars. Nevertheless, no assurance can be given that the Company will not suffer future currency exchange rate losses that will materially impact the Company's financial results and condition.

Significant Worldwide Political, Economic, Legal And Other Risks Related To International Operations. The Company is incorporated in the British Virgin Islands, has administrative offices for its subsidiaries in Hong Kong, and has all of its manufacturing facilities in China and Myanmar. The Company sells its products to customers in Hong Kong, North America, Asia and Europe. As a result, its operations are subject to significant political and economic risks and legal uncertainties, including changes in international and domestic customs regulations, changes in tariffs, trade restrictions, trade agreements and taxation, changes in economic and political conditions and in governmental policies, difficulties in managing or overseeing foreign operations, and wars, civil unrest, acts of terrorism and other conflicts. The occurrence or consequences of any of these factors may restrict the Company's ability to operate in the affected region and decrease the profitability of the Company's operations in that region.

Acquisitions Or Strategic Investments, Including The Recent Expansion Into Myanmar (Burma), May Not Be Successful And May Harm The Company's Operating Results. The Company has in the past, and may in the future, acquire, invest in, or enter into strategic arrangements with other companies in China and elsewhere (including elsewhere in Asia, Europe or even in North or Central America). For example, as part of its strategy to reduce some of its operating expenses, the Company recently acquired a 75% interest in a Myanmar company. In addition, in the fiscal year ended March 31, 2014, the Company acquired a 51% interest in a venture that it co-owns with ACI Group GmbH, a company based in Zimmern, Germany, to manufacture a series of lower cost, proprietary CO_2 cleaning systems for industrial and commercial cleaning applications. Such acquisitions or strategic investments could have a material adverse effect on the Company's business and operating results because of:

- The assumption of unknown liabilities, including employee obligations. Although the Company normally conducts extensive legal and accounting due diligence in connection with its acquisitions, there are many liabilities that cannot be discovered, and which liabilities could be material.

- The Company could incur significant expenses related to bringing the financial, accounting and internal control procedures of the acquired business into compliance with U.S. GAAP financial accounting standards and the Sarbanes Oxley Act of 2002.

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- The Company's operating results could be impaired as a result of restructuring or impairment charges related to amortization expenses associated with intangible assets.

- The Company could experience significant difficulties in successfully integrating any acquired operations, technologies, customers' products and businesses with its operations.

- Future acquisitions could divert the Company's capital and management's attention to other business concerns.

- The Company may not be able to hire the key employees necessary to manage or staff the acquired enterprise operations.

Risk of Cybersecurity Breaches. Security breaches and other disruptions could compromise the Company's information and expose the Company to liability, which would cause the Company's business and reputation to suffer. In the ordinary course of the Company's business, the Company stores sensitive data, including business information and regarding its customers, suppliers and business partners, in the Company's networks. The secure maintenance and transmission of this information is critical to the Company's operations. Despite the Company's security measures, its information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise the Company's networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, regulatory penalties, disrupt the Company's operations, and damage our reputation, which could adversely affect its business, revenues and competitive position.

Certain Legal Consequences of Incorporation in the British Virgin Islands. The Company is incorporated under the laws of the British Virgin Islands, and its corporate affairs are governed by its Memorandum of Association and Articles of Association and by the BVI 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 the Company's management, directors and controlling shareholders and the rights of the Company's shareholders differ from those that would apply if the Company were incorporated in a jurisdiction within the U.S. Further, the rights of shareholders under British Virgin Islands law are not as clearly established as the rights of shareholders under legislation or judicial precedent in existence in most U.S. jurisdictions. Thus, the public shareholders of the Company may have more difficulty in protecting their interests in the face of actions of the management, directors or controlling shareholders than they might have as shareholders of a corporation incorporated in a U.S. jurisdiction. In addition, there is doubt that the courts of the British Virgin Islands would enforce, either in an original action or in an action for enforcement of judgments of U.S. courts, liabilities that are predicated upon the securities laws of the U.S.

Anti-Takeover Provisions Of The Company's Amended Articles Of Association Could Delay Or Prevent A Change Of Control That The Shareholders May Favor. Article 61 of the Company's Articles of Association was amended in June 2013 to divide the Board of Directors into three classes, with the directors of each class to be elected for staggered three-year terms. In August 2015, the Company's Articles of Association were amended (i) to increase to 25% the number of shares required to call a special meeting of shareholders, (ii) to provide that shareholders can only act at a meeting (and not by written consent), and (iii) to provide that directors can only be nominated by the current/existing Board, or by shareholders who comply with certain procedures normally applicable to U.S. pubic companies. These changes may have the effect of discouraging, delaying or preventing a merger or other change of control that the shareholders may consider favorable, or may impede the ability of the holders of our common shares to change the Company's management. In addition, as permitted by the law of the British Virgin Islands and the Company's Memorandum and Articles of Association, the Memorandum and Articles of Association may be amended by the Board of Directors without shareholder approval provided that a majority of the independent directors do not vote against the amendment. This includes amendments to increase or reduce our authorized capital stock or to create from time to time and issue one or more classes of preference shares (which are analogous to preferred stock of corporations organized in the United States). The Board's ability to amend the Memorandum and Articles of Association without shareholder approval, including its ability to create and issue preference shares, could have the effect of delaying, deterring or preventing a change in control of the Company, including a tender offer to purchase our common shares at a premium over the then current market price.

It May be Difficult to Serve the Company with Legal Process or Enforce Judgments Against the Company's Management or the Company. The Company is a British Virgin Islands holding corporation with subsidiaries in Hong Kong and China. Substantially, all of the Company's assets are located in the PRC, and no assets, employees or operations are located in the U.S. In addition, most of the Company's directors and all of its executive officers reside outside of the U.S. It may not be possible to effect service of process within the United States or elsewhere outside the PRC or Hong Kong upon the Company's directors, or executive officers, including effecting service of process with respect to matters arising under United States federal securities laws or applicable state securities laws. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in the United States or many other jurisdictions in relation to any matter, including securities laws, may be difficult or impossible.

No treaty exists between Hong Kong or the British Virgin Islands and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of Hong Kong and the British Virgin Islands are generally prepared to accept a foreign judgment as evidence of a debt due. An action may then be commenced in Hong Kong or the British Virgin Islands for recovery of this debt. A Hong Kong or British Virgin Islands court will only accept a foreign judgment as evidence of a debt due if various conditions are met, including the condition that the judgment is for a liquidated amount in a civil matter, the foreign court has taken jurisdiction on grounds that are recognized by the common law rules as to conflict of laws in Hong Kong or the British Virgin Islands, the proceedings in which the judgment was obtained, the judgment itself and the enforcement of the judgment are not contrary to the public policy of Hong Kong or the British Virgin Islands, and the person against whom the judgment is given is subject to the jurisdiction of the Hong Kong or the British Virgin Islands court.

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Enforcement of a foreign judgment in Hong Kong or the British Virgin Islands may also be limited or affected by applicable bankruptcy, insolvency, liquidation, arrangement and moratorium, or similar laws relating to or affecting creditors' rights generally, and will be subject to a statutory limitation of time within which proceedings may be brought.

Volatility Of Market Price Of the Company's Shares. The markets for equity securities have been volatile and the price of the Company's Common Shares has been and could continue to be subject to material fluctuations in response to quarter to quarter variations in operating results, news announcements, trading volume, general market trends both domestically and internationally, currency movements and interest rate fluctuations.

Exemptions Under The Exchange Act As A Foreign Private Issuer. The Company is a foreign private issuer within the meaning of rules promulgated under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). As such, and though its Common Shares are registered under Section 12(b) of the Exchange Act, it is exempt from certain provisions of the Exchange Act applicable to United States public companies including: the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q or current reports on Form 8-K; the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations with respect to a security registered under the Exchange Act; the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short-swing" trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer's equity securities within six months or less), and the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information. In addition, certain provisions of the Sarbanes-Oxley Act of 2002 do not apply to the Company. Because of the exemptions under the Exchange Act and Sarbanes-Oxley Act applicable to foreign private issuers, shareholders of the Company are not afforded the same protections or information generally available to investors in public companies organized in the United States.

The Audit Report Included In This Annual Report is Prepared By Auditors Who Are Not Inspected By The Public Company Accounting Oversight Board And, As Such, You Are Deprived Of The Benefits Of Such Inspection. Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board (United States) (the "PCAOB"), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the Peoples' Republic of China and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditors are not currently inspected fully by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including the Company's independent registered public accounting firm, in the administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act. Starting in 2011 the Chinese affiliates of the ''big four'' accounting firms (including the Company's independent registered public accounting firm) were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or the CSRC.

In late 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms (including our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioners had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to be not in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our common shares may be adversely affected.

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If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined to be not in compliance with the requirements of the Exchange Act of 1934, as amended. Such a determination could ultimately lead to the delisting of our common shares from the Nasdaq Capital Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our common shares in the United States.

Failure To Establish And Maintain Effective Internal Controls Over Financial Reporting Could Have A Material And Adverse Effect On The Accuracy In Reporting Our Financial Results Or Preventing Fraud. We are subject to the reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies' internal control over financial reporting in its annual report. Because of the difficulty in hiring and keeping highly qualified accounting personnel and the high cost of maintaining proper internal controls, management may not be able to conclude that the Company's internal control over financial reporting is fully effective. These possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which in turn could harm the Company's business and negatively impact the trading price of the Company's common shares. In addition, requirement that the Company maintain effective financial controls and systems applies to the Company's new majority-owned Myanmar subsidiary. Although the Company has implemented its company-wide financial controls at the Myanmar facility, because of the lack of familiarity with U.S. controls and procedures, language issues and the training of its personnel, no assurance can be given that the Myanmar financial controls will be sufficient to prevent fraud or financial reporting inaccuracies.

Concentration of Share Ownership Allows Management to Substantially Influence the Outcome of Matters Requiring Shareholder Approval. As of June 29, 2016, members of the Company's senior management and Board of Directors collectively beneficially owned approximately 33% of the Company's outstanding Common Shares. As a result, if they were to act together, they may be able to substantially influence the outcome of all matters requiring approval by the shareholders, including the election of directors and approval of significant corporate transactions. This ability may have the effect of delaying or preventing a change in control of the Company, or causing a change in control of the Company that may not be favored by our other shareholders.

While The Company Has In The Past Paid Dividends, No Assurance Can Be Given That The Company Will Declare Or Pay Cash Dividends In The Future. The Company attempts to pay a cash dividend at least once a year to all holders of its Common Shares, subject to its profitability and cash position. The Company made four dividend payments in the fiscal year ended March 31, 2016 (a total of $0.40 per share in fiscal 2016) and four dividend payments in the year ended March 31, 2015 (a total of $0.30 per share in fiscal 2015). In addition, the Company paid a $0.10 per share dividend on April 18, 2016. Dividends are declared and payable at the discretion of the Board of Directors and depend upon, among other things, the Company's net profit after taxes, the anticipated future earnings of the Company, the success of the Company's business activities, the Company's capital requirements, and the general financial conditions of the Company. Although it is the Company's intention to pay dividends during profitable fiscal years, no assurance can be given that the Company will, in fact, pay any dividends in the future even if its has a profitable year or is otherwise capable of doing so. If the Company does not pay a cash dividend, the Company's shareholders will not realize a return on their investment in the Common Shares except to the extent of any appreciation in the value of the Common Shares.

Item 4. Information on the Company

Highway Holdings Limited is a manufacturing company that produces a wide variety of high-quality products mostly for large, global original equipment manufacturers — from simple parts and components to sub-assemblies and finished products. The Company's administrative offices are located in Hong Kong, and its manufacturing facilities are located in Shenzhen in the People's Republic of China. During the fiscal year ended March 31, 2015, the Company purchased a 75% equity interest in Kayser Myanmar Manufacturing Company Ltd. (Kayser Myanmar), a company registered to operate as a foreign company in Myanmar (25% was purchased in June 2014, and another 50% interest was acquired in March 2015). Kayser Myanmar currently assembles products for the Company at its product assembly facility in Yangon, Myanmar.

History and Development of the Company.

Overview. Highway Holdings Limited is a holding corporation that was incorporated on July 20, 1990 as a limited liability International Business Company under the British Virgin Islands International Business Companies Act, 1984 (the ("IBCA"). Effective on January 1, 2007, the British Virgin Islands repealed the IBCA, and simultaneously with such repeal, the Company was automatically re-registered under the BVI Business Companies Act, 2004, BVI's corporate law that replaced the IBCA. As of the date of this Report, Highway Holdings Limited conducts all of its operations through six wholly-owned or controlled subsidiaries that carry out the Company's business from Hong Kong, the Company's principal manufacturing factory in Shenzhen, China, and from is new assembly facility in Yangon, Myanmar.

The Company began its operations in 1990 in Hong Kong as a metal stamping company. In 1991, the Company transferred the metal stamping operations to a factory in Long Hua, Shenzhen, China. From 1991 until recently (see,

"2011 Reorganization" below), the Company's metal stamping and other operations have been conducted pursuant to agreements entered into between certain Chinese companies set up by the local government and the Shenzhen City Baoan District Foreign Economic Development Head Company and its designees (collectively, the "BFDC") (the agreements, collectively the "BFDC Agreements"). As a result of the BFDC Agreements, the Company's Long Hua, Shenzhen, operations were provided with both manufacturing facilities and labor by affiliates of local government instrumentalities, for which the Company paid management fees based on a negotiated sum per factory worker, and other charges, as well as rent for the factory complex. Under the BFDC Agreements, the Company's operations were limited by the terms of those agreements, and the Company could not sell its products in China. As discussed in "Reorganization" below, all BFDC Agreements have been terminated, and the Company now operates in Shenzhen, China, through Nissin Metal and Plastic (Shenzhen) Company Limited (herein referred to as "Nissin PRC"), a new wholly-owned subsidiary that is now a registered company in the PRC.

Since its organization in 1990, the Company has primarily been a manufacturer of high quality metal parts for major Japanese and German OEMs. The Company's metal stamping capabilities have, however, over the years been supplemented with additional manufacturing and assembly capabilities, such as the ability to manufacture and assemble plastic, electronic and electrical parts, components and complete products. As a result, the Company has evolved from a company that was only engaged in manufacturing simple metal parts to a company that has the capabilities to manufacture and assemble larger complex components, subsystems, subassemblies and even entire products for its OEM clients.

In addition to its historical manufacturing operations, the Company continues to explore other possible means of leveraging its manufacturing capabilities in China and to develop proprietary products that the Company can manufacture and sell as its own products. The manufacture and sale of the Company's own products would supplement the Company's existing OEM business. The Company believes that developing and selling its own products in Asia would lessen its dependence on third party customers and diversify its operations into a higher margin line of business. As part of its goal to develop a line of proprietary products, in November 2013 the Company formed a jointly owned company with ACI Group GmbH, based in Zimmern, Germany. The purpose of this new company (known as Advanced Cleaning Innovations Asia Limited) is to develop and manufacture a series of lower cost, proprietary CO_2 snow-jet and dry ice cleaning systems for industrial and commercial cleaning applications. The new company's goal is to market the cleaning systems in Asia and elsewhere. The Company has not completed its development of any of the proposed cleaning systems, and has not commercially introduced any of its proposed products.

Reorganization. In 2010 the regional governments announced that the BFDC Agreement form of license arrangement used by the Company and numerous other foreign businesses to operate in China would no longer be permitted. All foreign companies operating in China under this type of subcontract arrangement were required to transfer their licensed China operations in foreign-owned companies organized and registered in China. The Company conducted its operations in Shenzhen, China, through the BFDC Agreements that were entered into by two of its subsidiaries known as (i) Nissin Precision Metal Manufacturing Limited ("Nissin HK"), the manufacturing subsidiary, and (ii) Hi-Lite Camera Company Limited ("Hi-Lite"), the assembly subsidiary. In May 2011 the Company formed Nissin PRC, a new, PRC-registered subsidiary, and transferred the cash, assets, employees and operations of Nissin HK under the BFDC Agreements to Nissin PRC. Hi-Lite did not convert its operations into a PRC-registered company and continued to operate Hi-Lite under the BFDC Agreement until March 2016. During the fiscal year ended March 31, 2016 Hi-Lite transferred its remaining operations to Nissin PRC (the reorganization of Nissin HK and Hi-Lite is herein referred to as the "Reorganization"). Accordingly, all of the Company's operations in China are currently conducted through its Nissin PRC subsidiary.

As a result of the reorganization at the Company's manufacturing facilities in Shenzhen, China, the Company has also had to increase certain of its administrative functions in Hong Kong. As a result of the Reorganization, most of the Company's non-manufacturing activities (i.e. its administrative functions, marketing, sales, design, engineering, and purchasing) are now being conducted from two offices in Hong Kong, and most of its manufacturing operations are being conducted at the one factory in Long Hua, Shenzhen, China. A material portion of the assembly operations have, however, been transferred to Company's majority-owned subsidiary in Yangon, Myanmar, and the Company also intends to transfer some of its manufacturing operations from Shenzhen to Yangon.

As part of the Reorganization, the Company transferred the former BFDC licensed operations of Nissin HK to Nissin PRC. (A foreign owned subsidiary such as Nissin PRC that is established in China is commonly known as a foreign invested enterprise, a "FIE", or as a "Wholly Foreign Owned Enterprise," or as a "WFOE.") As a new PRC registered company, Nissin PRC is permitted to hire its own employees, lease its own facilities, and distribute its products in China. However, unlike the Company's prior arrangements under the BFDC Agreements, Nissin PRC will be subject to China's tax codes and will be subject to the rules and regulations applicable to PRC registered companies.

As a result of the Reorganization, the Company is now structured as follow:

- The Company's corporate administrative matters are conducted in the British Virgin Islands through its registered agent: Harney Westwood & Riegels, P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands VG1110.

- The Company's administrative functions, and most of its engineering, design and marketing functions, for its subsidiaries are conducted through the two offices located in Hong Kong at Suite No. 1801, and Suite Nos. 1823-1823A, at Level 18, Landmark North, 39 Lung Sum Avenue, Sheung Shui, New Territories, Hong Kong. The Company may be contacted in Hong Kong at (852) 2344-4248.

- The Company's manufacturing and assembly operations are now being conducted at the Company's factory complex in Long Hua, Shenzhen, China, through Nissin PRC.

- Some of the Company's product assembly operations are, now being conducted in Yangon, Myanmar, through its majority-owned subsidiary, Kayser Myanmar. The Company completed its acquisition of a 75% interest in Kayser Myanmar in March 2015.

Strategic Realignment of Assembly Operations—New Myanmar Assembly Facility

The Company originally established its operations in China to take advantage of the low cost of operations in China, including in particular the low cost of labor. However, during the past several years, the overall costs of operating a manufacturing facility have significantly increased, and the cost advantages of operating in China have significantly decreased. The Company was not always able to pass the increased costs through to the Company’s international customers, some of whom elected to move some of their OEM requirements to other, low labor cost, developing countries. In order to remain competitive with OEMs who operate in low labor cost locations outside of China, the Company has developed a two pronged strategy:

a. In order to increase its production efficiency and reduce costs, the Company has been restructuring its manufacturing methods and, where possible, has been supplementing its manufacturing with automation or semi-automated equipment. As a result, during the past five years the Company has been able to reduce its labor force by more than 65%.

b. The Company has decided to shift some of its labor intensive assembly operations to Yangon, Myanmar (formerly, Burma), a developing country that has started to permit foreign investment in that country. The cost of operating and assembly facility, particularly as a result of the low cost of labor, is significantly lower in Myanmar than in Shenzhen, China. Early in 2013, in order to test the feasibility of operating in Myanmar, the Company subcontracted the assembly of one of the Company's products to a third party supplier in Yangon, Myanmar. Initially, the Company loaned the owners of the Myanmar facility some funds and sold the owners some equipment with which that facility could assemble a line of the Company's products. This out-sourced assembly operation operated satisfactorily and at a substantially lower cost, and the Company's customers were satisfied with the quality and timeliness of the products assembled in Myanmar. Accordingly, in order to take advantage of this cost difference, the Company decided to purchase a 75% interest in the Myanmar company from the two owners of that Company. In June 2014 the Company purchased a 25% ownership interest in the Myanmar company, and then acquired an additional 50% interest in March 2015. As a result, as of March 31, 2015, the Company was a 75% owner of the Myanmar company known as Kayser Myanmar. Kayser Myanmar is located in Yangon and operates in an approximately 15,000 sq. ft. facility that it leases from an unaffiliated landlord. The 25% interest in Kayser Myanmar that the Company currently does not own is held by a Myanmar national and a founder of Kayser Myanmar. The total purchase price for the 75% equity interest Kayser Myanmar that the Company paid to the two owners (excluding costs associated with the acquisition) was approximately $75,000. However, the Company has invested, and will continue to invest additional amounts in further equipping, expanding and developing the Kayser Myanmar facility and to comply with the local capital requirements (the Company is required to contribute approximately $200,000 of additional capital to the Myanmar subsidiary). The Company's goal is to gradually shift most of its product assembly and other labor intensive operations from Shenzhen, China, to Myanmar. Eventually, the Company would also like to have Kayser Myanmar assume other functions, such as manufacturing components and producing tools. The Company's operations in Myanmar are subject to numerous risks associated with operating an assembly facility in an underdeveloped country, and it is uncertain how many of the Company's customers will permit their products to be assembled in Myanmar. See, "*Risk Factors—The Company Faces Numerous Risks In Its Operations In Myanmar*" and "*Risk Factors—The Company's Customers May Not Permit Their Products To Be Manufactured In Myanmar, Which Would Negatively Affect The Company's Plans To Move Much Of Its Assembly Operations To Myanmar.*"

Current Business Overview

The Company is a fully integrated manufacturer of high quality metal, plastic, electric and electronic components, subassemblies and finished products for OEMs and contract manufacturers (primarily in Europe, and to a lesser extent, in the United States). During the fiscal year ended March 31, 2016, substantially all of the Company's manufacturing activities were conducted through its factory complex in Long Hua, Shenzhen, China. During the fiscal year ended March 31, 2016, the Company subcontracted some of its product assembly functions to a facility in Yangon, Myanmar, that is now 75% owned by the Company.

The Company currently manufactures and supplies a wide variety of high quality metal, plastic and electric parts, components and products to its OEM clients, which parts and components are used by the Company's customers in the manufacturing of products such as photocopiers, laser printers, compact disc players, laser disc players, computer equipment, electrical components, electrical connectors, vacuum cleaners, light fixtures, electro motors, pumps, automobiles and dishwasher and other washing machine components. As part of its manufacturing operations, the Company assists customers in the design and development of the tooling used in the metal and plastic manufacturing process and provides a broad array of other manufacturing and engineering services. The manufacturing services include metal stamping, screen printing, plastic injection molding, pad printing and electronic assembly services. The electronic assembly services include chip on board assembly, IC-bonding, and SMT automatic components assembly of printed circuit boards. Because it is able to provide these services, the Company eliminates the need to outsource these needed functions, and the Company is better able to assure product quality, control overall manufacturing costs and provide timely product delivery, all of which management believes is essential to maintaining, expanding and increasing the Company's customer base. The Company believes its success as a supplier to respected multi-national companies is mainly due to: (i) its international management structure which includes German, Chinese and Myanmar nationals; (ii) its comparatively low operating costs; (iii) its ability to consistently manufacture the type of high quality products required by the Company's targeted customers; (iv) its expertise in manufacturing these products in the required quality at a reasonable cost; (v) the breadth of its manufacturing capabilities, and (vi) its engineering design and development capabilities (which it uses to assist its customers to design their products).

The Company has continuously tried to strategically align its manufacturing operations with the needs of its major customers to attract new OEM customers and retain its existing customers. For example, the Company is capable of manufacturing and assembling a wide variety of complex products that require metal, plastics and electronics manufacturing capabilities. In order to distinguish itself from the many other smaller manufacturing operations in Shenzhen, the Company manufactures more complex parts, components and entire products that utilize more of the Company's vertically integrated technologies. Because the Company has the ability to design, manufacture and assemble complete components containing metal, plastic and electronics, the Company is able to manufacture customized products for global companies.

Industry Overview

During the past two decades, the third-party contract manufacturing industry has experienced major increases as manufacturers worldwide have increasingly outsourced the manufacture of some or all of their component and/or product requirements to independent manufacturers. The benefits to OEMs of using contract manufacturers include: access to manufacturers in regions with low labor and overhead cost, reduced time to market, reduced capital investment, improved inventory management, improved purchasing power and improved product quality.

The Company first commenced its metal stamping operations in China in 1991. At that time, the Company gained a significant cost and logistical advantage over other manufacturers by basing its manufacturing facilities in Long Hua, Shenzhen, China, less than 50 kilometers from Hong Kong. During the past few years, however, many other manufacturers have located their facilities in Shenzhen and in other similar low-cost areas in China and Asia. As a result, the Company now faces significantly more competition as a manufacturer of OEM parts. The Company has responded to the increased competition by restructuring its operations and by trying to move from manufacturing low margin, low-cost individual parts to manufacturing higher margin, more expensive components, subassemblies and even complete units for its OEM customers.

Initially, the Company manufactured high-quality metal parts, mostly for Japanese customers. More recently, the Company has been manufacturing high-quality parts and components for European (primarily German) companies. The Company has remained flexible with respect to the types of products that it manufactures as well as location of its customers in order to capitalize on market changes. Recently, more than two-thirds of the Company’s revenues are derived from its European customers.

The Company’s Strategy

The Company’s future growth and profitability depend on its ability to compete as a third party contract manufacturer. The Company’s business strategy and focus is to expand its operations as an integrated OEM manufacturer of metal, plastic and electronic parts, components, subassemblies and competed products for blue chip and international customers. The Company business strategy is to further develop and leverage its multi-disciplinary manufacturing strengths, its cost structure, its logistical advantages, its reputation as a high-quality manufacturer, and its current and former relationships with blue chip European and Japanese customers to further expand its manufacturing operations and product offerings. In addition, the Company is attempting to leverage these advantages by upgrading its equipment and machinery, expanding its manufacturing capabilities, and utilizing its cost and logistical advantages. See, “*Strategic Realignment of Assembly Operations—New Myanmar Assembly Facility,*” above.

The following are some of the elements that the Company believes will enable it to compete as a third party manufacturer.

Capitalize on, and leverage its manufacturing strength: Unlike many of its metal parts manufacturing competitors, primarily those in Shenzhen, China, the Company has a vertically integrated manufacturing facility that can design, manufacture and assemble more complex components and subassemblies. In addition, unlike some of its competitors in Shenzhen that are limited to either metal stamping or to electronic and plastics manufacturing, the Company also has the ability to combine metal stamping and electronics and plastics manufacturing. For example, the Company manufactures stepping motors, which utilizes all of the Company's capabilities, starting with mold and die making for the metal and plastic parts, metal stamping, deep drawing and plastic injection molding, electric coil winding, soldering, and assembling all the parts by using spot welding and riveting technologies. Accordingly, the Company's strategy is to focus on manufacturing more complex products that utilize the Company's various manufacturing strengths.

Upgrading Equipment-Increased Automation. In order to attract major European and Japanese OEM customers and in order to reduce its labor costs and improve quality, the Company has during the past few years continuously upgraded the design and manufacturing equipment at its facilities. In the past few years, the Company made significant investments in automated manufacturing and assembly by increasing the number of automated stations that manufacture or assemble products. The automated/robot machinery that the Company has installed is used to replace some of the repetitive functions performed by workers. The Company's goal is to use automation/robotics to reduce it labor costs, improve the consistency and quality of its products, and to increase the quantity of products that it manufactures at its work stations. The automated machinery has reduced the number of workers at the Company's facilities by more than 65% in the past few years. In addition to robotics that replace manual labor, the Company has also invested in machines for use in plastics manufacturing, including Computer Numerical Control ("CNC") tooling machines, a CNC measurement machine, electronic injection molding machines, new stamping machines, and spectrum analyzers. Although the automation that has taken place at the Company's facilities to date has reduced the Company's headcount, the labor cost savings have largely been offset by continuous increases in salaries, employee benefit payments and other labor costs and expenses. Accordingly, while the Company's cost of manufacturing has declined as a result of automation, these cost savings have been offset by significant increases in labor costs for the remaining employees and by other cost increases, including the cost of purchasing or building the automation equipment. As a result, the overall cost of manufacturing, despite the benefits of automation, have increased overall.

Reduce Its Manufacturing And Assembly Costs. The Company initially established its manufacturing and assembly operations in China to take advantage of China's low labor costs. Those costs have now risen to a level where the cost of manufacturing and China no longer is competitive with certain underdeveloped nations. Accordingly, in order to be able to continue to provide price competitive products, the Company has now acquired a controlling interest in an assembly facility based in Yangon, Myanmar. The Company's goal is to transfer much of its labor intensive assembly operations to Myanmar, a country where the labor costs are significantly less than in China. The principal purpose of operating in Myanmar is to reduce the cost of assembling products and, therefore, offset the increasing costs at its facility in Shenzhen, China. By operating in Myanmar, the Company initially did not intend to either lower the prices that it charges its clients or to increase its gross margins. However, as a condition to permitting some of the Company's manufacturing to be shifted to Myanmar, the Company has been forced to lower some of the prices of goods assembled in Myanmar, which has strained those operations. The Myanmar operations may also produce two ancillary affects: (i) As a "foreign company" under Myanmar law, Kayser Myanmar will be entitled to a tax holiday on profits

generated by that subsidiary; and (ii) the taxation and customs union of the European Commission has designated Myanmar as an undeveloped country whose exports are subject to tariff concessions called "preferential tariff quotas". Accordingly, the Company's European customer are benefitting from purchasing products manufactured in Myanmar, which benefits may attract other European customers to move at least a portion of their assembly needs to the Company's Myanmar facilities.

Maintaining customers and increasing market share through financial strength: Many of the Company's largest customers are global companies that require that their OEM manufacturers have the financial strength to survive during financial and economic downturns. The Company has traditionally maintained a strong balance sheet that has enabled it to continue to supply its customers during economic downturns. The Company's financial policies enabled it to operate during the worldwide financial crisis that commenced in 2008. Many of the Company's local competitors were unable to survive during the global economic slow-down.

Expansion by acquisition, merger, subcontract and other means: The Company continues to believe it has the opportunity to expand its business through acquisitions and through the establishment of additional manufacturing facilities. The Company continues to consider and evaluate possible acquisitions, both in China and elsewhere, to access low cost labor, to gain technology know how, to expand its product offerings, and to increase its customer base. An example of the Company's expansion strategies is the recent acquisition of a 75% equity interest in Kayser Myanmar. Although the Company evaluates potential strategic relationships and acquisition targets of a regular basis, the Company has not definitively identified any such other transactions.

Maintain production quality: Management believes that maintaining close relations with the Company's customers is important to the success of the Company's business. Understanding each customer's needs and efficiently and quickly addressing its needs is vital to maintaining a competitive advantage. Many of the Company's customers have built the goodwill associated with their products and tradenames based on a high level of perceived quality. By employing the type of high quality management standards, production standards and quality control standards historically utilized by many leading Japanese and German companies, the Company has been able to satisfy the stringent requirements of its customers. Management believes that the Company's commitment to high level service, its attention to detail, and the quality of its manufacturing has the effect of providing customers with a sense of confidence and security that their product requirements will be met.

The Company conducts most of its manufacturing operations in accordance with typical Japanese and German manufacturing standards, paying particular attention to cleanliness, incoming material control, in process quality control, finished goods quality control and final quality audit. The Company's metal factory complex has received and maintained its ISO 9001 quality management system certification and an ISO 14001 environmental management systems certification. The Company's quality system helps to minimize defects and customer returns and create a higher confidence level among customers.

The Company tries to constantly improve its production quality. The recent initiatives consist of an increased use of automation (to consistently produce uniformly high quality products) and to improve the skills of its employees. In an effort to improve the technical skills and performance standards of its lower skilled workers, the Company has implemented day time and evening technical training courses that provide these workers with the technical knowledge and skills to operate more efficiently and at a higher quality level.

Operate as a socially responsible company. The Company is committed to being a socially responsible company by operating morally and ethically, by protecting the employees physical and mental well-being, by providing a safe work place, by following the legal employment requirements and by not employing underage persons, by allow freedom of association and collective bargaining, and by protect the surrounding environment. The Company’s social responsibility actions are an important criteria in the selection of OEM’s by the Company’s global customers.

Manufacturing

The Company’s manufacturing business consists of various stages: (i) tooling design and production; (ii) manufacturing parts made by metal stamping and plastic injection molding; (iii) mechanical and/or electric/electronic assemblies, and (iv) finishing, packaging and shipping.

Tooling design and production: The metal manufacturing process generally begins when a customer has completed the design of a new product and contacts the Company to supply certain metal and plastic components to be used in the product. Generally, the Company must design and fabricate the tooling necessary to manufacture these components in its tooling workshop. In some instances, however, the customer already possesses the tooling necessary to manufacture the metal component and simply delivers the tools to the Company. Customers will sometimes also pay the Company to purchase and install the equipment necessary to manufacture the customer’s products. The Company uses various computer controlled manufacturing equipment to efficiently produce high quality tools designed to produce a high quality product. As many of the metal parts manufactured by the Company make use of progressive, multi-stage stamping techniques, tools and machines must be precisely fine-tuned and aligned to achieve the required quality standard and maximum efficiency.

The tool making process for metal parts generally takes between 14 to 50 working days depending on the size and complexity of the tool. Customers typically bear the cost of producing the tools and, as is customary in the industry, the customers hold title to the tooling. However, the Company maintains and stores the tools at its factory for use in production and the Company usually does not make tooling for customers unless they permit the Company to store the tools on site and manufacture the related parts.

The Company also makes highly sophisticated plastic injection molds based on its customers' orders and requirements in a manner similar to the Company's metal tool manufacturing process.

The Company maintains its ISO 9001 quality management system certification and its ISO 14001 environmental management systems certification.

Metal Stamping; Plastic Injection Molding: Following the completion of the tooling, the materials required for the specific product is selected and purchased. See "Raw Material, Components Parts and Suppliers." Often the customer specifies the materials to be used as well as the supplier. The completed tooling is fitted to the press which is selected for its size and pressing force.

Using separate shifts, part stamping and plastic molding can be conducted 24 hours a day, seven days per week other than during normal down time periods required for maintenance and changing of tools and during the traditional Chinese public holidays. Due to the strict quality requirements of customers, each machine is subject to stringent in-process quality controls.

Electronic Assembly: The Company's electronic assembly manufacturing consists of chip on board assembly, IC-bonding and SMT technology.

Finishing, Packaging and Shipping: After their manufacture, the parts and components are inspected for defects and checked with custom-built test gauges. Some components are then spray painted by specially trained, third party spray-paint facilities that perform the painting services to the Company's specification and according to the Company's instructions. After being painted, the parts are baked at high temperatures in drying ovens before final inspection and packaging. Some parts are also screen printed by the Company. Each of the parts, assemblies and products is then inspected, packaged to the customer's specific requirement and delivered to the final quality audit department for final quality inspection which is conducted on a random sample basis. Depending on its agreement with its customers, the Company may ship the parts, assemblies and products it has manufactured by truck directly from its factory to the customer's factory in China or elsewhere through the port of Shenzhen and/or Hong Kong. Alternatively, the customer may pick up the products at the Company's factory and arrange for its own shipping.

Raw Material, Component Parts and Suppliers

The primary raw materials used by the Company to manufacture its metal stamped parts are various types of steel including pre-painted steel sheet, electrolytic zinc plated steel sheet, PVC laminated steel sheet and cold roll steel sheet. The Company selects suppliers based on the price they charge and the quality and availability of their materials. Many of the Company's suppliers of steel operate through Hong Kong or China-based companies which deliver the materials directly to the site of the Company's operations in China.

During the past few years, the price of metal and plastics raw materials has fluctuated significantly, and at times there have been shortages for some materials.

The parts, components and products manufactured by the Company may include various plastic injected and metal stamped components, as well as integrated circuits, electronic components and paper packaging products. The Company manufactures many of these products, but also purchases components that it uses in its products. These materials are subject to price fluctuations, and the Company has, at times, been materially adversely affected by price increases or shortages of supply.

Transportation

Most of the sales agreements entered into by the Company are either F.O.B. agreements or Ex-factory agreement (in which the Company makes the goods available at its premises) or F.C.A. agreements (in which the Company hands over the goods, cleared for export, into the custody of the first carrier).

Improved roads and highways in China have facilitated intra-China transportation, and the Hong Kong and China customs departments have opened additional border crossings, extended their operating hours, and generally have improved the flow of cross-border goods. The Company's facilities in Long Hua, Shenzhen, China, are located near both Hong Kong and the seaport in Shenzhen. Many of the Company's customers use the Shenzhen seaport rather than the port of Hong Kong.

Customers and Marketing

The Company's sales are generated from customers primarily located in Hong Kong/China, Europe, the United States/Mexico, and other Asian countries. Net sales to customers by geographic area are determined by reference to the physical locations of the Company's customers. For example, if the products are delivered to a customer in Hong Kong, the sales are recorded as generated in Hong Kong and China; if the customer directs the Company to ship its products to Europe, the sales are recorded as sold in Europe. Most of the Company's recent payments have been in U.S. dollars, although the Company still receives payment in both Hong Kong dollars and Euros. Net sales as a percentage of net sales to customers by geographic area consisted of the following for the years ended March 31, 2014, 2015 and 2016:

	Year Ended March 31		
Geographic Areas:	2014	2015	2016
Hong Kong and China	22.2 %	21.0 %	24.7 %
Europe	67.9 %	67.7 %	71.2 %
Other Asian countries	6.5 %	7.8 %	0.6 %
North America	3.4 %	3.5 %	3.5 %

The Company currently has two business and reporting segments of the Company consisting of (i) its metal stamping and mechanical OEM operations, and (ii) its electric OEM operations (that include its plastic operations). The sales by segments for the years ended March 31, 2014, 2015 and 2016 are as follows:

	Year Ended March 31		
Segment Sales:	2014	2015	2016
Metal Stamping and Mechanical OEM	60.3 %	56.0 %	44.8 %
Electric OEM	39.7 %	44.0 %	55.2 %

Most of the Company’s customers for its components and subassemblies generally are themselves manufacturers. The Company’s products are sold primarily to European owned companies to be used in finished goods produced by OEM customers at their own manufacturing facilities in China and Europe. However, the Company also produces finished products, such as light fixtures, that it sold to its OEM customers.

The Company markets its services through existing contacts, word-of-mouth referrals and references from associated or related companies of the customers, as well as attendance at some trade shows. During the past few years, the Company has employed a number of foreign sales persons to complement the activities of its officers and in-house sales personnel. The Company currently has commissioned sales agents working and Germany. These sales agents receive a commission for sales made by the Company to customers introduced by the agents. Due to the international nature of senior management, the Company believes that it has been able to bridge the cultural, language and quality perception gaps that concern certain German companies when dealing in China.

Major Customers

For the fiscal year ended March 31, 2016, the Company had three customer who each accounted for more than 10% of the Company’s net sales. These three customers collectively accounted for 70.3% of the Company’s net sales. During the past few years, the Company has relied to a large extent on a few larger customers and has consciously reduced the number of its smaller customers. The Company’s larger customers have, in general, accepted price increases that the Company has passed through to its customers because of the increasing cost of operating in China, but a few of the Company’s larger customers have in the past few years ceased using the Company’s services because of the price increases (or because the availability of cheaper costs in certain developing countries). To date, the loss of low margin customers has reduced the Company’s revenues but not its profitability. However, additional losses of major customers, or any substantial decrease in orders from these customers, could materially and adversely affect the Company’s results of operations and financial position, particularly if the Company is unable to replace such major customers.

Customers place manufacturing orders with the Company in the form of purchase orders which are usually supported by a delivery schedule covering one to two months of orders. Customers usually do not provide long term contracts for their purchases and are usually able to cancel or amend their orders at any time without penalty. In addition, certain customers enter into agreements with the Company in which the parties agree upon their purchase and sale procedures, but such agreements do not always contain any specific purchase orders or purchase requirements. Certain of the Company’s larger customers provide the Company with non-binding forecasts of their anticipated needs for the next year in order to enable the Company to plan for the anticipated orders. Orders from such customers are thereafter received from time to time by customers based on the customers’ needs, not on contractually fixed amounts or time periods. Accordingly, backlog has not been meaningful to the Company’s business.

In order to be able to timely fill the anticipated orders from its larger customers, the Company may purchase raw materials and other products based on the non-binding forecasts. Since the customer's order forecasts are not binding orders, if a customer does not place as many orders as anticipated, the Company may not be able to fully utilize the raw materials and other products that the Company has purchased. In that case, the Company may not be able to utilize the raw materials and could suffer a financial loss.

Sales of manufactured products to established existing clients are primarily on credit terms between 30-75 days, while the sale to new or lesser known customers are completed on a wire transfer payment basis before shipment or other similar payment terms. Management constantly communicates with its credit sale customers and closely monitors the status of payment in an effort to keep its default rate low. However, as a result of the concentration of sales among a few of the Company's larger customers, the Company is required to bear significant credit risk with respect to these customers. Parts are generally shipped 40-90 days after an order has been placed unless the Company is required to manufacture new tools which require approximately 14-50 days to complete prior to commencing manufacturing. While the Company has not experienced material difficulty in securing payment from its major customers, there can be no assurance that the Company's favorable collection experience will continue. The Company could be adversely affected if a major customer was unable to pay for the Company's products or services.

Industrial Property Rights

As a manufacturer of parts, components and finished products for OEMs and contract manufacturers, the Company has no industrial property rights, such as patents, licenses, franchises, concessions or royalty agreements, which it considers material to its OEM manufacturing business. Instead, the Company relies on its industry expertise, knowledge of niche products and strong long-term relationships with its customers. The Company does, however, own some patents on certain clock and camera technologies. Since the Company does not currently generate significant revenues from products covered by these patents, the patents currently are not relevant to the Company's principal operations, and their carrying value has been written off on the Company's consolidated financial statements.

Competition

The Company competes against numerous manufacturers, including both smaller local companies as well as large international companies. Although the Company operates in the same market as some of the world's largest contract manufacturers (for example, FoxConn operates a major manufacturing facility in Long Hua, Shenzhen), management believes that it principally competes with smaller firms that make up the largest segment of the contract and metal manufacturing industry in China. As a result of the economic downturn that started in 2008, a number of these smaller competitors, including many located in Shenzhen, have ceased operations. However, since some of the Company's customers are large international enterprises that source their products from many international sources, the Company also competes against contract manufacturing companies in other low cost manufacturing countries. As a vertically integrated, multi-disciplinary manufacturer of complex components and products, the Company also competes against numerous global OEM manufacturers, whether those other manufacturers are located in Shenzhen, China or elsewhere. Most of the international competitors of the Company have substantially greater manufacturing, financial and marketing resources than the Company. The Company believes that the significant competitive factors are quality, price, service, and the ability to deliver products on a reliable basis. The Company believes that it is able to compete in its segment of the OEM manufacturing market by providing high quality products at a competitive price with reliable delivery and service. In addition, since the Company's main manufacturing facilities are located in the Shenzhen area, near some of its OEM customers, the Company has a competitive advantage by being able to reduce

delivery times and transportation costs for these customers, by being able to offer “just in time” supply services, and by being able to recycle packaging materials for multi-use purposes.

Seasonality

The first calendar quarter (the last quarter of the Company's March 31 fiscal year) is typically the Company's lowest sales period because, as is customary in China, the Company's manufacturing facilities in China are usually closed for one to two weeks for the Chinese New Year holidays. In addition, during the one month before and the one month after the New Year holidays, the Company normally experiences labor shortages, which further impact the operations during this period. As the Myanmar operations become larger, the Company will also be negatively affected by the leave that all Myanmar employees take annually during that country's 12-day new year's celebration. The Company does not experience any other significant seasonal fluctuations, nor does it consider any other issues with respect to seasonality to be material.

Government Regulation

As of the date of this Annual Report, the Company's main manufacturing and assembly facility is located in Shenzhen, China. As a result, the Company's operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in China in general, and in Shenzhen, in particular. In March 2015, the Company completed its acquisition of a 75% ownership interest in a Myanmar company that owns an assembly facility in Myanmar. As a result, the Company also is subject to the political, economic, legal and other uncertainties associated with doing business in Myanmar. Myanmar commenced reforming its political and economic policies during the past few years, and the effects of those reforms are still uncertain and evolving.

The Chinese government has during the past few years significantly changed and/or increased the enforcement of a number of laws affecting employees (including regulations regarding their salaries and benefits, labor unions, working conditions and overtime restrictions, and contract duration—in particular, requirements regarding pensions, housing and life-long employment), and safety regulations for buildings and workers. The Chinese governmental authorities are increasingly formalizing workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Employers found to be violating these labor rules are often severely penalized. As a result, the Company has had to reduce the number of hours of overtime its workers can work, substantially increase salaries of its workers, provide additional benefits to its workers, and revise certain other of its labor practices. The Shenzhen municipal government recently also issued the Interim Measures on the Administration of Housing Funds that require all local businesses to make contributions to a housing fund, which contributions range from 5% to 20% of an employee's salary. These increases in labor costs have increased the Company's operating costs, which increase the Company has attempted to, but has not always been able to pass through to its customers. In addition, employees who have had two consecutive fixed-term contracts must be given an "open-ended employment contract" that, in effect, constitutes a lifetime, permanent contract, which is terminable only in the event the employee materially breaches the Company's rules and regulations or is in serious dereliction of his duty. Such non-cancelable employment contracts will substantially increase its employment related risks and may limit the Company's ability to downsize its workforce.

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Since establishing its operations in China in 1991, the Company has operated its main manufacturing facility in Long Hua, Shenzhen, pursuant to the BFDC Agreements that largely exempted the Company's operations in Long Hua, Shenzhen, from many of the rules and regulations that were imposed on entities that were considered under China law to be doing business in China as wholly owned subsidiaries organized in China. As a result, the Company was not required to apply for permits or licenses in China or to register to do business in China. As part of the Reorganization, the Company had to discontinue its operations under the BFDC Agreements and, as of April 2015, all of its operations in the PRC are now through a wholly-owned subsidiary that is registered in China as a limited liability company. As a result, the Company's operations in China are now subject to all of the rules and regulations that previously did not apply to its operations in the PRC. Although the Company believes that it has structured its new operations in the PRC to substantially comply with the governmental regulations that are applicable to its new corporate structure, the exact scope, effect and impact of these government regulations on the Company's wholly-owned Chinese subsidiary, and therefore on its assets and operations, are still unknown.

The Chinese government continues to increase the enforcement of certain environment protection laws, which are restricting some common practices and/or increasing the Company's cost of operations. In addition to enhanced governmental environmental regulations, the Company also has to comply with environmental laws applicable to its customers, such as recently adopted regulations of the European Union and Japan known as the Restriction on Hazardous Substances (known as "RoHS") and the European Union's Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (known as "REACH"). The RoHS and REACH rules and regulations prohibit the importation products and parts that contain certain levels of toxic materials (such as lead, cadmium and mercury) and chemicals that may pose health and environmental risks. The Company believes that its operations are RoHS and REACH compliant.

The Company sells its products to customers in Hong Kong/China, Europe, and the United States/Mexico. As a result, its operations are subject to significant regulations related to its activities in these regions, including changes in international and domestic customs regulations, changes in tariffs, trade restrictions, and trade agreements and taxation.

Research and Development

As a manufacturer of parts, components and finished products for OEMs and contract manufacturers, the Company conducts no material research or development. The Company does, however, invest minor amounts for certain research and development activities it conducts in connection with (i) developing potential proprietary products, (ii) automated machines that the Company uses in its manufacturing process, and (iii) an understanding of the technologies of its customers.

Organizational Structure/Offices and Manufacturing Facilities

Highway Holdings Limited is a holding company that operates through its subsidiaries. As of June 29, 2016, Highway Holdings Limited had various wholly-owned subsidiaries, of which some are dormant or being deactivated, and two majority-owned subsidiaries. The Company currently conducts its business primarily through five wholly-owned subsidiaries and its majority owned Myanmar subsidiary. The Company currently also is developing proprietary CO_2 snow-jet and dry ice cleaning systems through another majority-owned subsidiary. Details of the Company's five principal wholly-owned operating subsidiaries and their principal activities as of June 29, 2016 are as follows:

Place of incorporation	**Name of entity**	**Date of incorporation**	**Principal activities**
Hong Kong	Hi-Lite Camera Company Limited	November 10, 1978	Manufacturing OEM products
Hong Kong	Kayser Limited	August 24, 1995	Trading of OEM products
Hong Kong	Nissin Precision Metal Manufacturing Limited	November 21, 1980	Trading and procurement
Hong Kong	Golden Bright Plastic Manufacturing Company Limited	May 19, 1992	Trading company, involved in trading plastic injection products
China	Nissin Metal and Plastic (Shenzhen) Company Limited	May 18, 2011	Manufacturing and assembling metal, plastics, mould and electronic products, and automation equipment

During the fiscal year ended March 31, 2014, the Company formed a Hong Kong subsidiary (Advanced Cleaning Innovations Asia Limited) that it co-owns with ACI Group GmbH, based in Zimmern, Germany, to manufacture a series of lower cost, proprietary CO_2 snow-jet and dry ice cleaning systems for industrial and commercial cleaning applications in use in Asia. The Company owns a 51% interest in Advanced Cleaning Innovations Asia Limited. This entity operates from the Company's facilities in Shenzhen and has been designing and developing a prototype product and has not engaged in any material operations to date.

In March 2015, the Company completed its acquisition of a 75% interest in Kayser Myanmar Manufacturing Company Limited, a company formed on March 16, 2012 under the laws of Myanmar. Kayser Myanmar currently operates as a foreign company under Myanmar law that is authorized to operate in Myanmar. A Myanmar citizen owns 25% of the Kayser Myanmar and is the general manager of the entity. Kayser Myanmar currently assembles products manufactured by the Company in China. The Company is Kayser Myanmar's sole customer. Kayser

Myanmar currently leases a 15,000 square foot manufacturing and assembly facility in Yangon, Myanmar. The lease for this facility will expire in early 2017, and the Company currently is planning to relocate the operations of Kayser Myanmar to a larger facility.

British Virgin Islands/Corporate Administrative Office

The office of the registered agent of the Company is located at Craigmuir Chambers, Road Town, Tortola British Virgin Islands. Only corporate administrative matters are conducted at these offices, through the Company's registered agent, Harneys Westwood & Riegel. The Company does not own or lease any property in the British Virgin Islands.

Hong Kong/Operating Administrative Offices

The Company leases Suite 1801, and Suites 1823-1823A, Level 18, Landmark North, 39 Lung Sum Avenue, Sheung Shui, New Territories, Hong Kong as its administrative and engineering offices. The Company's offices at the Suite 1801 location (consisting of approximately 2,000 sq. ft.) are leased by Nissin Precision Metal Manufacturing Limited and are utilized primarily for engineering, import/export and marketing, while the offices located at Suite 1823-1823A (consisting of approximately 2,100 sq. ft.) are leased by Kayser Limited and are used for finance, purchasing and marketing. Both of these offices are leased under leases that expire on March 20, 2017. The aggregate monthly rental cost of these offices is currently is approximately $9,000 per month (based on the exchange rate in affect as of the date of this Annual Report).

Shenzhen, China/Manufacturing Facility

The Company leases a total of approximately 24,000 square meters of space at a factory complex located at Long Hua, Shenzhen, China from the Shenzhen Long & Cheng Industry & Trade Industrial Co., Ltd. pursuant to various related leases. The leased space consists of 21,000 square meters of manufacturing space, with the balance representing dormitories for the Company's factory workers. The leased space is used predominately for the Company's metal and electrical manufacturing, OEM product assembly, plastic injection, tooling workshop and warehouse operations. There also are offices for production management, production engineering, and production support administration on the premises. The leases for these facility were scheduled to expire on February 28, 2017. However, the Company and its landlord recently agreed in principle to enter into new leases for these facilities. The new leases, which are currently being reviewed by required governmental agencies, have not yet been signed, are expected to continue in effect until February 2020 and to increase the Company's annual rental expenses by approximately 13%. As part of the new leases, the Company will have the right to operate from a newly reconstructed building in which the Company will locate its metal stamping business. As of the end of the fiscal year ended March 31, 2016, the Company did not fully utilize all of its manufacturing facilities. Accordingly, the newly leased facilities will satisfy the Company's space needs in the near future.

4.A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

Overview

The Company's net sales during the past three years were derived primarily from the manufacture and sale of metal, plastic and electronic parts and components for its international clients. Although the Company manufactures metal, plastic and electronic parts and products for its customers, it treats its (i) metal stamping and mechanical OEM manufacturing operations, and its (ii) electric OEM manufacturing operations, as two separate business segments.

As described in this Annual Report, the Company has taken various actions to reduce its operating costs, including in particular steps to reduce its labor costs. During the past several years, increased wages, high employee turn-over rates, sign-up bonuses, retention bonuses, overtime payments, and contributions to the new housing fund and other benefit payments have resulted in high labor and staffing costs. In addition, the local government's proclamation that all subcontract license companies had to convert their operations to a WFOE form of ownership, has further raised the cost of operating in China. As a PRC registered company, the Company's China subsidiary now has to comply with the more burdensome permitting requirements, has to increase its record keeping functions, and has to pay VAT (which taxes, net of tax credits, adds to the cost of the materials). The combination of the high labor costs and the costs and administrative burdens of operating as a PRC registered company have, to a large extent, eroded one of the principal benefits of manufacturing in China, and have a negative impact on the Company's competitiveness. As a result of the labor costs and the other burdens imposed on the Company's PRC operations, the Company is attempting to shift some of its labor intensive operations from Shenzhen, China, to Myanmar, a lower cost neighboring country.

Under the BFDC Agreements that used to apply to all of the Company's operations in Shenzhen, the Company did not pay taxes in China based on the operations of the Shenzhen facilities because the Company's two China-based companies were not considered to be tax residents in China (the BFDC was responsible for paying its own taxes incurred as a result of the operations under the BFDC Agreements, which taxes were indirectly passed through to the Company's subsidiaries). However, these BFDC arrangements have now been terminated, and the Company's two China-based subsidiaries have transferred their assets and operations to Nissin PRC, a wholly-owned subsidiary that is a WFOE. Accordingly, all future operations by the Company in China will be operated through its WFOE, which is subject to the uniform income tax rate of 25% in China.

The Company is not taxed in the British Virgin Islands, the state of its incorporation.

The location of the Company's administrative offices for its operating subsidiaries in Hong Kong enables the Company to pay low rates of income tax due to Hong Kong's tax structure. The Company's income arising from its Hong Kong operations or derived from its operations within Hong Kong is subject to Hong Kong Profits Tax. Previously, while the Company operated under the BFDC Agreements, the Company had the ability to claim a 50% tax benefit from the Hong Kong Inland Revenue Department by providing support for its position that more than half of its income is derived from its activities outside of Hong Kong. Also, under the BFDC Agreements, the Company did not have to pay taxes in China. As a result of the conversion of Nissin Metal and Plastic (Shenzhen) Company Limited into a WFOE as part of the Reorganization, the foregoing Hong Kong tax benefit is no longer available to the Company. The statutory tax rate in Hong Kong currently is 16.5%, and there are no taxes on dividends or capital gains.

Commencing in the fiscal year ending March 31 2016, Kayser Myanmar, the Company's majority-owned Myanmar subsidiary, has been subject to the tax provisions applicable as a result of its operations in Myanmar. However, under Myanmar's Foreign Investment Law, Kayser Myanmar is exempt from Myanmar income tax until December 20, 2017. In addition, Kayser Myanmar also has a temporary exemption from customs duties and internal taxes on machinery and equipment and on certain imported raw materials used in the Myanmar operations, as well as relief from commercial taxes on goods produced for export. As a result, the tax impact of the Kayser Myanmar operations is not anticipated to be material in the near term.

The Company is not subject to U.S. taxes.

The Company acquired a 75% ownership interest in Kayser Myanmar at the end of March 2015. Accordingly, the operations of Kayser Myanmar are included in the Company's consolidated financial statements (and in the below discussion of the Results of Operations) for the fiscal year ended March 31, 2016.

Net sales to customers by geographic area are generally determined by the physical locations of the customers. For example, if a customer is based in the U.S., the sale is recorded as a sale to the U.S.

Results of Operations

General

During the past three years discussed below, the Company's revenues were derived primarily from the manufacture and sale of OEM manufacture of metal, plastic and electronic products, parts and components. During the past three years, net sales have remained mostly unchanged ($22,936,000 in 2014, $22,373,000 in 2015, and $22,935,000 for the fiscal year ended March 31, 2016). However, as a result of the Company's cost cutting efforts and its unwillingness to accept very low margin orders, the Company's profitability has increased in each of the past three years (from net income of $596,000 in 2014, to net income of $1,150,000 in 2015, to net income of $1,251,000 for the fiscal year ended March 31, 2016).

The following table sets forth the percentages of net sales of certain income and expense items of the Company for each of the three most recent fiscal years.

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	Year Ended March 31,		
	2014	2015	2016
Net Sales	100 %	100 %	100 %
Cost of sales	76.2	74.4	74.2
Gross profit	23.8	25.6	25.8
Operating income	3.5	5.7	6.6
Non-operating income (expense)[(1)]	(0.1)	0.0	0.0
Income before income taxes	3.4	5.7	6.6
Income taxes	(0.8)	(0.6)	(1.1)
Net Income	2.6	5.1	5.5
Income attributable to non-controlling interest	0.0	0.0	0.0
Net income attributable to Highway Holdings Shareholders	2.6	5.1	5.5

Note:

(1) Non-operating income includes (i) exchange gain (loss) net, (ii) interest income (expense), (iii) impairment loss on investment in equity investees, (iv) impairment loss on property, plant and equipment, (v) gain on disposal of assets, and (vi) other income.

Year Ended March 31, 2016 Compared to Year Ended March 31, 2015

Net sales for the fiscal year ended March 31, 2016 (“fiscal 2016”) increased by $562,000, or 2.5% from the fiscal year ended March 31, 2015 (“fiscal 2015”) as a result of increased orders from several of the Company’s principal European customers, and the Company’s ability to replace an established customer that terminated its relationship with the Company after the Company announced that it was further increasing its prices in response to the continuing increase in labor and related costs in China. Overall, the Company was able to retain its principal customers despite the continuing increase in operating costs in China because the Company was able to lower some of its assembly costs by shifting some of its assembly operations to its Myanmar subsidiary. Completing some assembly work at the Company’s Yangon, Myanmar, subsidiary is substantially cheaper, even factoring in the additional costs associated with transferring products and materials between the Company’s Shenzhen, China, and Yangon, Myanmar, facilities. During fiscal 2016, net sales to Europe increased to 71.2% of the Company’s net sales in fiscal 2016, compared to 67.7% in fiscal 2015.

The Company operates in two segments that it refers to as (i) the “metal stamping and mechanical OEM” segment and (ii) the “electric OEM” segment. The metal stamping and mechanical OEM segment focuses on the manufacture and sale of metal parts and components, whereas the electric OEM segment focuses on the manufacture and sale of plastic and electronic parts, components and machines. For fiscal 2016, net sales of the metal stamping and mechanical segment decreased to 44.8% of the Company’s net sales from 56% in fiscal 2015 due to the loss of a major customer. However, net sales of the electric OEM segment (that also includes plastic parts) increased to 55.2% of net sales in fiscal 2016 from 44% in fiscal 2015 due to increased sales of existing customers.

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Gross profits as a percentage of net sales slightly improved to 25.8% in fiscal 2016 from 25.6% in fiscal 2015. Increases in wages and other labor related expenses were offset by a slight decrease in the number of workers (through the use of automation) and by shifting some assembly work to Myanmar. Gross profits increased by $211,000 in fiscal 2016 compared to fiscal 2015 due to the 2.5% increase in net sales.

Selling, general and administrative expenses for fiscal 2016 and 2015 remained substantially unchanged (selling, general and administrative expenses decreased by $34,000, or 0.76%) as the Company was able to maintain its operating expenses at its Hong Kong administrative expense while absorbing the increased costs associated with establishing the Myanmar operations. Selling, general and administrative expense as a percentage of net sales decreased to 19.2% in fiscal 2016 from 19.9% in fiscal 2015 as a result of increased net sales.

As a result of the $211,000 increase in gross profits in fiscal 2016 compared to fiscal 2015 and the slight decrease in selling, general and administrative expenses, the Company's operating income increased by $245,000, or 19.3%, in fiscal 2016.

In fiscal 2016 and 2015, the Company had currency exchange rate losses of $21,000 and $125,000, respectively, due to the fluctuations in the value of the RMB and Euro compared to the U.S. dollar. The Company will continue to be exposed to fluctuations in the exchange rate of the RMB and the Euro. The Company does not undertake any currency hedging transactions, and therefore its financial results will continue to be affected by the future fluctuations of currencies. The currency exchange loss in fiscal 2015 was partially offset by a $110,000 gain on the disposition of excess equipment.

The Company incurred income taxes of $243,000 in fiscal 2016 compared to income taxes of $134,000 in fiscal 2015 as a result of the increase in net income in fiscal 2016. The Hong Kong statutory profits tax remained unchanged at 16.5% in fiscal 2016. However, the Company's effective tax rate was 16% in fiscal 2016 compared to 10.4% in fiscal 2015 because of variances in certain non-deductible items.

Net gain/loss attributable to noncontrolling interest is contributed by Kayser Myanmar, the Company's 75% owned subsidiary, to the Company's profits in fiscal 2016.

The Company's net income in fiscal 2016 increased to $1,251,000 from $1,150,000 in fiscal 2015 because of the increase in net sales and gross margins while selling, general and administrative expenses remained substantially unchanged.

Year Ended March 31, 2015 Compared to Year Ended March 31, 2014

Net sales for fiscal 2015 decreased by $563,000, or 2.5% from the fiscal year ended March 31, 2014 (“fiscal 2014”). The principal reason for the decrease in net sales in fiscal 2015 was a significant decrease in sales to two of the Company’s principal European customers after the Company announced that it was further increasing its prices in response to the continuing increase in labor and related costs in China. A portion of the lost sales was offset by increased orders from some of the Company’s other existing customers, as well as the price increase that the Company instituted. During fiscal 2015, net sales to Europe represented 67.7% of the Company’s net sales, compared to 67.9% in fiscal 2014.

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During fiscal 2015 net sales of the metal stamping and mechanical segment decreased by $1,300,000, and net sales of the electric OEM segment (that also includes plastic parts) increased by $737,000. Net sales of the metal stamping segment (net of intersegment sales) in fiscal 2015 represented 56% of the Company's net sales, while the electrical OEM segment (net of intersegment sales) increased to 44% of net sales.

Gross profits as a percentage of net sales increased to 25.6% in fiscal 2015 from 23.8% in fiscal 2014 due, in part, to the decrease in sales of a lower margin products to European customers. The Company was also able to maintain its gross margin by decreasing the number of workers (through the use of automation) and by shifting some assembly work to Myanmar. The Company achieved the increase in gross margins despite an increase in the average wage per employee in fiscal 2015. Because of the increase in the Company's gross margins, the Company's gross profits increased in fiscal 2015 by $265,000, or 4.9%, compared to fiscal 2014, despite the decrease in net sales.

Selling, general and administrative expenses for fiscal 2015 decreased from fiscal 2014 by $213,000 (or 4.6%) for approximately the same amount of net sales and despite the increased costs associated with establishing the Myanmar operations. Selling, general and administrative expense as a percentage of net sales decreased to 19.9% in fiscal 2015 from 20.3% in fiscal 2014 as a result of the Company's streamline initiatives. The Company anticipates that its selling, general and administrative expenses will increase in the future due to increased lease payments it will have to make for its Long Hua, Shenzhen facility under the new Premises Leases that the Company recently agreed to, and the increased rent the Company expects to have to pay when the Company moves the factor utilized by its Myanmar subsidiary.

As a result of the $265,000 increase in gross profits in fiscal 2015 compared to fiscal 2014 and the $213,000 decrease in selling, general and administrative expenses, the Company's operating income increased by $478,000, or 60.3%, in fiscal 2015.

In fiscal 2015 and 2014, the Company had currency exchange rate losses of $125,000 and $31,000, respectively, due to the fluctuations in the value of the RMB and Euro compared to the U.S. dollar. The Company will continue to be exposed to fluctuations in the exchange rate of the RMB and the Euro. The currency exchange loss in fiscal 2015 was offset by a $110,000 gain on the disposition of excess equipment. The Company had a loss of $23,000 in fiscal 2014 due to the write off of certain molds.

The Company incurred income taxes of $134,000 in fiscal 2015 compared to income taxes of $172,000 in fiscal 2014 despite the increase in net income as the Company was able to utilize more of its tax loss carry forwards from prior fiscal years. The Hong Kong statutory profits tax remained unchanged at 16.5% in fiscal 2015. However, the Company's effective tax rate decreased to 10.4% in fiscal 2015 compared to a tax rate of 22.3% in fiscal 2014 because of variances in certain non-deductible items.

The Company's net income in fiscal 2015 increased to $1,150,000 from $596,000 in fiscal 2014 despite the decrease in net sales. The increase in net income resulted from the increase in gross margins and the decrease in selling, general and administrative expenses.

Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended March 31,		
	2014	2015	2016
	(In thousands)		
Net cash provided by operating activities	$1,648	$4,223	1,256
Net cash (used in) provided by investing activities	(185)	815	(464)
Net cash used in financing activities	(680)	(728)	1,364
Net (decrease) increase in cash and cash equivalents	783	4,310	(572)
Cash and cash equivalents at beginning of period	4,634	5,416	9,727
Effect of exchange rate changes	(1)	1	(15)
Cash and cash equivalents at end of period	$5,416	$9,727	$9,140

As of March 31, 2016, the Company had working capital of $10,657,000, compared to working capital of $11,016,000 as of March 31, 2015. As of March 31, 2016, the Company had a working capital ratio of 3.10 to 1.

The Company’s prepaid and other current assets as of March 31, 2016 and March 31, 2015 included approximately $191,000 and $229,000, respectively, of deposits held by the Chinese Customs Department under its Customs License Deposit program related to the Company’s imports of the raw materials. The amount of funds held on deposit with the Chinese Customs Department fluctuates depending on deposits made by the Company when it imports additional raw materials and when such funds are returned to the Company upon the export of the finished goods.

The Company has historically generated sufficient funds from its operating activities to finance its operations and there has been little need for external financing other than capital leases which are used to finance equipment acquisitions and letter of credit facilities for secured purchases of materials and components from overseas vendors. For fiscal 2016, the Company had $1,256,000 of positive cash from its operating activities primarily because of its net income of $1,264,000, a $687,000 decrease in inventories, $317,000 of depreciation and amortization non-cash expenses, $1,378,000 of increased collection of accounts receivables, and a $291,000 decrease in accounts payable. The decrease in inventories was in part due to the use of inventories previously held for customers who informed the Company that they were reducing or terminating the Company’s future services.

The amount of cash and cash equivalents held by the Company on March 31, 2016 decreased by $587,000 (from $9,727,000 in 2015) primarily of the increase in accounts receivable. Accounts receivable increased due to an increase in sales in late the fourth fiscal quarter.

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Historically, the Company has maintained a credit facility with one or more banks for letters of credit and import loans. However, because of changes in the method of international payments and the Company's relationship with its vendors, and because the Company has sufficient cash on hand to fund its equipment and other capital requirements without having to borrow under a line of credit, in 2014 the Company terminated its existing credit facility. Accordingly, as of the date of this Annual Report the Company has no outstanding bank loans or any credit facilities under which it could borrow funds. However, should the Company be required to incur significant unanticipated expenses (such as funding unbudgeted expenses related to the Myanmar facility, posting additional deposits/bonds with governmental agencies, or funding certain operating expenses as a result of the worldwide economic slowdown), the Company's current financial resources may not be sufficient.

The Company anticipates that, during the current fiscal year ending March 31, 2017, it will have to invest in additional equipment, will have to fund the expansion and improvement of assembly facilities of its Myanmar subsidiary, and will have to incur expenses in relocating and refurbishing a new building at its Shenzhen facility. Based on the Company's an estimated budget for these planned expenditures, the Company believes that it has sufficient cash on hand to fund all of these anticipated capital expenditures.

As a result of its currently available working capital and its internal projections for the next year, the Company expects that its working capital requirements and capital needs for at least the next 12 months can be funded through a combination of internally generated funds and its current cash balances.

Impact of Inflation

The average annual inflation rate in China was reported at 1.44% in 2015. However, the Company's actual cost of operations has significantly exceeded the overall inflation rate in China. The rapid growth of China's economy in general, and the growth in Shenzhen in particular, has in the past few years increased its operating costs, including energy prices and labor costs. These increased costs have adversely affected the Company's cost of operations, have caused the Company to increase its prices, and have resulted in the loss of some customers.

In the fiscal year ended March 31, 2016, the Company generated most of its revenues from sales of products that it manufactured at its facilities in Shenzhen, in the PRC, and to a lesser text, from the assembly services provided by its facility in Yangon, Myanmar. The economy in China has grown significantly over the past 25 years, which has resulted in increased inflation and a significant increase in the average cost of labor, especially in the coastal cities such as Shenzhen. China's consumer price index, the broadest measure of inflation, rose on average 1.44% in 2015. The minimum wage in Shenzhen, China was approximately 26.9% higher at December 31, 2015 than it was at the end 2013. Effective March 1, 2015, the Shenzhen municipal government increased the minimum wage by an additional 12.3%. Although the rate of increase in wages has slowed, according to China's National Bureau of Statistics, the average workers' wages throughout China rose 7.4% in 2015, 9.8% in 2014 and 13.9% in 2013. However, because of

the labor shortage in the Company's region, the Company has not been able to hire workers for the minimum wage, and the Company's actual labor costs have risen by over 25% in the past three years. Despite the slowing economy in China, because of the growing shortage of workers, the overall average wage in Shenzhen is expected to continue to grow. The Company's efforts to control the wages it pays to its employees has lessened the Company's exposure to changes in the wage increases of its workers. However, salaries for its trained technical/engineering employees and from its managerial staff have continued to rise, at rates greater than the rate of inflation. Continuing increases in China's inflation and material increases in wages for its administrative and technical staff will diminish the Company's competitive advantage against OEM companies in other developing countries and, unless the Company is able pass on these increased costs to its customers by increasing prices for its products and services, the Company's profitability and results of operations could be materially and adversely affected.

If inflation does continue as management currently anticipates, the Company's costs will likely further increase, and there can be no assurance that the Company will be able to increase its prices to an extent that would offset the increase in expenses.

Exchange Rates

The Company transacts its business from its Hong Kong sales and purchasing offices with its vendors and customers primarily in U.S. dollars, Hong Kong dollars and Euros. As a result of acquiring a 75% interest in an assembly/manufacturing company in Myanmar, the Company also transacts business in the Myanmar Kyat. However, the Company's current turnover in kyat is not significant. While the Company faces a variety of risks associated with changes among the relative value of these currencies, the changes in the value of the Euro compared to the U.S. dollar was the most significant in the fiscal year ended March 31, 2016. During the period from March 31, 2015 to March 31, 2016, the value of the Euro compared to the U.S. dollar increased by approximately 0.046 Euros, or over 4.3%. As a result, since most of the Company's European customers pay the Company in U.S. dollars, the price of the Company's products (when converted into, and expressed in Euros) decreased slightly in the last fiscal year. The Company does not believe that the minor fluctuations in the relative exchange rate of the euro compared to the U.S. dollar had a material impact on the demand for the Company's products.

The Company makes its payments for its manufacturing facilities and factory workers in Shenzhen, China, in RMB. The value of the RMB compared to the U.S. dollar was lower on March 31, 2016 compared to a year earlier. A decrease in the value of the RMB compared to the U.S. dollar decreases the Company's operating costs (expressed in U.S. dollars). These currency rate fluctuations will continue to affect the results of the Company's operations in China.

In order to mitigate the currency exchange rate risks related to changes in the value of the dollar relative to the Euro, the Company has increasingly asked its European customers to pay in U.S. dollars. For fiscal 2016, substantially all of the Company's sales to its European customers were paid in U.S. dollars. In addition, the Company has entered into agreements with certain of its larger European customers that permit our prices to be adjusted every three months to account for currency fluctuations. However, the Company purchases materials from Europe, which purchases are paid in Euros. As the value of the Euro has increased during the past fiscal year, the Company's cost of such purchases has increased. The fluctuation of the Euro/U.S. dollar exchange rates have, in the past, resulted in significant currency exchange gains and losses. In fiscal 2016 and 2015, the Company incurred a currency exchange losses of $21,000 and $125,000, respectively.

The Company does not utilize any form of financial hedging or option instruments to limit its exposure to exchange rate or material price fluctuations and has no current intentions to engage in such activities in the future. Accordingly, material fluctuations in the exchange rates between the U.S. dollar and other currencies could have a material impact on the Company's future results. As a result of the Company's expansion into Myanmar, it will also be subject to the currency risks associated with the Myanmar Kyat (MMK), the official currency of that country.

Trend Information

For the current fiscal year ending March 31, 2016, the Company believes that it will shift more of its assembly operations, and possibly some of its manufacturing activities, to Myanmar in order to offset increases in the operating costs (particularly the high cost of labor) and to be able to employ workers who are still willing to be employed in manufacturing facilities. As a result of the decreased birth rate and the increased affluence of Chinese workers, factory workers are more difficult to find in China. To date, the Myanmar subsidiary has been able to lower the overall cost of some of the products that it manufactures for its clients. The Company has been able to shift approximately one-half of its assembly operations to the Myanmar subsidiary. In fiscal 2016, all of the Company's manufacturing functions were performed in Shenzhen, China. In order to shift more of the assembly operations and some of the manufacturing to Myanmar, the Company will have find additional customers and obtain the permission from additional existing customers to use the Myanmar facility for the assembly of those customers' products. The Company currently is searching for other locations where it can establish a larger factory and warehouse for the Myanmar subsidiary. As the operations of the Myanmar assembly facility are further integrated with the Company's operations, the Company expects that it will be able to reduce its overall manufacturing and assembly costs, which the Company believes will enable it to retain manufacturing orders that otherwise could move to other developing countries (or even move back to Europe to be manufactured in highly automated facilities). In addition, the Company believes that its lower cost structure will also attract additional orders from new and existing customers, which could increase its net sales and its profitability. Over the longer term, the Company believes that it will be able to shift some of its component manufacturing to the Myanmar subsidiary, which will yield greater efficiencies and will further stabilize the Company's overall cost of manufacturing.

Other than as disclosed elsewhere in this Annual Report on Form 20-F, the Company is not aware of any trends, uncertainties, demands, commitments or events for the period from April 1, 2016 to March 31, 2017 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

Off-Balance Sheet Arrangements

The Company is not a party to off-balance sheet arrangements and does not engage in trading activities involving non-exchange traded contracts. In addition, the Company has no financial guarantees, debt or lease agreements or other arrangements that could trigger a requirement for an early payment or that could change the value of the Company’s assets.

Contractual Obligations

The following is a summary of the Company’s contractual obligations as of March 31, 2016:

	Payment due by Year Ending March 31,					
Contractual Obligations	Total	2017	2018	2019	2020	2021 and thereafter
	$’000	$’000	$’000	$’000	$’000	$’000
Operating Leases	996	922	74	-	-	-
Capital commitment on purchase of plant and equipment	20	20	-	-	-	-
Purchase obligations	2,790	2,790	-	-	-	-
Total	3,806	3,732	74		-	-

Recent issued accounting standards not yet adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principal of this new revenue recognition model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This update also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. In August 2015, the FASB issued an accounting standard update which defers the effective date of the new revenue recognition accounting guidance by one year, to annual and interim periods beginning after December 15, 2017, and early adoption is permitted for annual and interim periods beginning after December 15, 2016. The guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the potential impact of adopting this guidance on the Group’s consolidated financial statements.

In January 2015, the FASB issued a new pronouncement which eliminates from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both unusual in nature and infrequently occurring. As a result of the amendment, an entity will no longer segregate an extraordinary item from the results of ordinary operations; separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or disclose income taxes and earnings-per-share data applicable to an extraordinary item. The guidance is effective for interim and fiscals years beginning after December 15, 2015. The guidance should be applied retrospectively to all prior periods. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued an accounting standard update, which changes the measurement principle for inventories that is measured using other than last-in, first-out or the retail inventory method from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined by FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for interim and fiscals years beginning after December 15, 2016, with early adoption permitted. The guidance should be applied prospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued an accounting standard update which simplifies balance sheet classification of deferred taxes. The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent. The guidance is effective for interim and fiscals years beginning after December 15, 2016, with early adoption permitted. The guidance can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued an accounting standard update which improves certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The guidance changes the measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value, and also amends certain disclosure requirements associated with the fair value of financial instruments. The guidance is effective for interim and fiscals years beginning after December 15, 2017, with early adoption permitted for certain changes. The guidance should be applied as a cumulative-effect adjustment as of the date of adoption, except for the guidance related to equity securities without readily determinable fair values should be applied prospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued an accounting standard update on leases, which amends various aspects of existing accounting guidance for leases. The guidance requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for interim and fiscals years beginning after December 15, 2018, with early adoption permitted. The guidance should be applied at the beginning of the earliest period presented using a modified retrospective approach. Management is currently assessing the potential impact of adopting this guidance on the Company's consolidated financial statements.

Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates and judgments, including those related to bad and doubtful debts. The Company bases its estimates and judgments on historical experience and on various other factors that the Company believes are reasonable. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements. For further discussion of our significant accounting policies, refer to Note 2 "Summary of Significant Accounting Policies" of our consolidated financial statements in Item 18.

Revenue recognition – The Company recognizes revenue from the sale of products, when all of the following conditions are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- Price to the customer is fixed or determinable; and
- Collectability is reasonably assured.

Revenue from sales of products is recognized when the title is passed to customers upon shipment and when collectability is reasonably assured. The Company does not provide its customers with the right of return (except for quality) or price protection. There are no customer acceptance provisions associated with the Company's products. All sales are based on firm customer orders with fixed terms and conditions, which generally cannot be modified.

Allowance for doubtful debts is often based on complex judgments and assumptions that the Company believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from those estimates.

The Company evaluates the recoverability of its accounts receivable primarily based on the ages of receivables and factors surrounding the credit risks of specific customers. The Company regularly analyses its customer accounts, and when it becomes aware of a specific customer's inability to meet its financial obligations to the Company, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial positions, the Company records a reserve for bad debts to reduce the related receivables to the amount that it reasonably believes is collectible.

If circumstances related to specific customers changes, the Company's estimates of the recoverability of receivables will be further adjusted. In the event that accounts receivable become uncollectible, the Company records additional allowances to such receivables.

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Item 6. Directors, Senior Management and Employees

Directors and Executive Officers

The Directors and executive officers of the Company as of June 29, 2016 are listed below.

Name	Age	Positions
Roland W. Kohl	67	Chief Executive Officer, Director, Chairman of the Board
Holger Will	50	Chief Operating Officer
Alan Chan	52	Chief Financial Officer, Secretary
Tiko Aharonov (1) (2)	69	Director
Uri Bernhard Oppenheimer (1) (2)	80	Director
Shlomo Tamir (1) (2)	69	Director
Kevin Yang Kuang Yu	59	Director
Irene Wong Ping Yim (1)	50	Director
Brian Geary (2)	59	Director
George Leung Wing Chan (1)	63	Director

(1) Current member of Audit Committee.
(2) Member of Compensation Committee

The Directors hold office until their term has expired and they are re-elected at an annual meeting of shareholders. The Company's Articles of Association provide that the Board of Directors is divided into three classes of directors with staggered terms of office. At each annual meeting of shareholders, the members of one class of directors will be elected for a term of office to expire at the third succeeding annual meeting of shareholders after their election, and until their successors have been duly elected and qualified. The next annual meeting of shareholders is currently scheduled to be held on August 15, 2016. At that meeting, one class of directors (consisting of Roland W. Kohl, Tiko Aharonov and Irene Wong Ping Yim) will be elected to hold office for a three-year term expiring at the 2019 annual meeting.

As a foreign private issuer organized under the law of the British Virgin Islands, the Company may follow its home company practice in lieu of NASDAQ's Marketplace Rule 5605(b)(1) requiring the independence of a majority of our directors. During the year ended March 31, 2016 and continuing to date, the composition of the Board of Director has consisted of a majority of directors deemed "independent" under that Rule.

Roland W. Kohl. Mr. Kohl was the founder of the Company and has been its Chief Executive Officer since its inception in 1990. He has been a Director of the Company since March 1, 1995. He has overall responsibility for the day-to-day operations of the Company and its subsidiaries. Prior to forming the Company, Mr. Kohl was the Managing Director of Dialbright Company Limited, a camera manufacturer located in China. Mr. Kohl received a degree in mechanical engineering and has over twenty year’s experience in managing factories and manufacturing operations in China. Mr. Kohl is a German national and resides in Hong Kong.

Holger Will. Mr. Will has been employed with the Company since 1996 and was appointed as the Company's Chief Operating Officer effective May 1, 2010. Mr. Will started with the Company as a Production consultant to one of the Company's subsidiaries and eventually became the Production Manager of that subsidiary. In 2000, Mr. Will became the General Manager of Kayser Technik Ltd., the Company's marketing arm to German customers. As Chief Operating Officer, Mr. Will now is involved in all of the Company's operations.

Alan Chan. Mr. Chan was appointed as the Company's Chief Financial Officer and Secretary in September 2010. From June 2009 until he joined the Company, Mr. Chan served as chief financial officer for a joint venture in China with Laureate Education Group. He previously served as vice president and chief financial officer for DeCoro, an Italian sofa manufacturer with two facilities in Shenzhen, and as financial controller for San Miguel Shunde Brewery Co. Ltd., a foreign joint venture engaged in the manufacturing and sale of beer products for China and overseas markets. He also served as financial controller for Hua Yang Printing Holdings Co. Ltd., a manufacturer of children's paper products. Mr. Chan began his professional career as an accountant with Nelson Wheeler, an Australian CPA firm, and subsequently with PricewaterhouseCoopers — formerly Coopers and Lybrand. Mr. Chan earned a Master of Arts degree in accounting from Curtin University in Australia and a Bachelor of Arts degree from the University of Lancaster in the United Kingdom.

Tiko Aharonov. Mr. Aharonov has been a Director of the Company since its inception in 1990 and was a General Manager of the Company's camera operations from 1998 to 2004. Until the closing of the Company's Bulgarian facility in 2004, Mr. Aharonov acted as the General Manager of the Bulgarian operations. He was a bank manager for a leading Israeli commercial and retail bank from 1969 to 1989 and has operated his own real estate and investment company for high net worth individuals desiring to invest in real estate in Israel. Mr. Aharonov also represents investors in real estate in Bulgaria.

Uri Bernhard Oppenheimer. Mr. Oppenheimer was elected to the Board of Directors in July 2005. Mr. Oppenheimer is founder, managing director and the majority owner of U.B. Oppenheimer GmbH in Germany and MIG Germany GmbH in Germany.

Shlomo Tamir. Mr. Tamir was elected to the Board of Directors in July 2005. Mr. Tamir worked with Taman/Israel Aircraft Industry from 1969 until his retirement in 2013. While at Taman/Israel Aircraft Industry, he held various positions, including Director of Product Assurance, Program Manager, and Group of Programs Manager.

Kevin Yang Kuang Yu. Mr. Yang was elected to the Board of Directors in July 2005. From 2004 until his retirement in 2013, Mr. Yang was the China-USA Director of Holt Asia LLC (now owned by Chesta Co., Inc.) in the U.S. Prior thereto, from 2000 to May 2003, Mr. Yang set up and managed a factory in Shanghai for CHT Co., Limited (now owned by Chesta Co., Inc.) and controlled and managed other manufacturing facilities in China. Mr. Yang has also been involved with the trading companies that were engaged in exporting products to the US.

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Irene Wong Ping Yim. For the past ten years, Ms Wong was the Chief Accountant of CNIM Hong Kong Ltd. From 1994 to 2001, she was the Accounting Manager of Highway Holdings. Ms Wong graduated from Deakin University with a master degree in Business Administration. She is currently a fellow member of the Association of Chartered Certified Accountant and a member of Hong Kong Institute of Certified Public Accountants.

Brian Geary. Mr. Geary was appointed to the Board of Directors in December 2005. Mr. Geary has since 2002 been a director of LMI Aerospace, a public company that manufactures components, assemblies, and kits for the aerospace, defense, and technology industries. From 1978 until 2002, Mr. Geary was the President and owner Versaform Corp. and Versaform Canada, two companies that were sold to LMI Aerospace in 2002.

George Leung Wing Chan. Mr. Leung was appointed to the Board of Directors in December 2005. Since 2004, Mr. Leung has been a management consultant. Prior thereto, from 1995 to 2004, he was the Managing Director/Vice President of Lucky Metal & Plastic Mfg. Co., Ltd.

There is no family relationship between any of the above-named officers, directors or employees. To the Company's knowledge, no arrangement or understanding exists between any such director and executive officer and any major shareholder, customer, supplier or other party pursuant to which any director or executive officer was elected as a director or executive officer of the Company.

Compensation of Directors and Officers

The aggregate amount of compensation (including non-cash benefits) paid by the Company and its subsidiaries during the year ending on March 31, 2016 to all of the directors and officers listed above, as a group (10 people), for services rendered to the Company and its subsidiaries in all capacities was approximately $825,000, excluding amounts paid by the Company as dividends to directors and executive officers in their capacity as shareholders of the Company. Mr. Kohl's new employment agreement expires in March 2019. As Mr. Kohl has previously done in fiscal 2014 and 2015, in the fiscal year ended March 31, 2016 Mr. Kohl once again voluntarily agreed to temporarily reduce his salary by 23%. Mr. Kohl, and the five other senior managers of the Company, are entitled to receive cash payments equal to three times their annual salary in the event of a change of control of the Company without the approval of the Board of Directors.

During the past fiscal year, the Company paid each non-executive director (Tiko Aharonov, Uri Bernhard Oppenheimer, Shlomo Tamir, Kevin Yang Kuang Yu, Irene Wong Ping Yim, Brian Geary, and George Leung Wing Chan) an annual director's fee of $12,000, and reimbursed them for their reasonable expenses incurred in connection with their services as directors. In addition, the Chairman of any committee is paid an additional fee of $2,000 per

year, and the members of a committee are paid an additional fee of $2,000 per year for each committee on which they serve.

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Options of Directors and Senior Management

During the past few years, the Company has not granted any of its officers or directors any options to purchase Common Shares. As a result, as of March 31, 2016 none of the Company's directors or executive officers owned any stock options.

For additional information regarding the share ownership in the Company by the Company's directors, executive officers, and principal shareholders is set forth in Item 7, "Major Shareholders and Related Party Transactions," below.

In 2010 the Company adopted the "2010 Stock Option And Restricted Stock Plan" (the "2010 Option Plan"). Under the 2010 Option Plan, the Company is authorized to grant options, and to issue restricted shares, for a total of 600,000 shares. The 2010 Option Plan is administered by the Compensation Committee appointed by the Board, which determines the terms of the options granted, including the exercise price, the number of Common Shares subject to the option and the option's exercisability. The exercise price of options granted to participants who are not subject to taxation in the United States may be less than the fair market value of the Common Shares on the date of grant. Unless otherwise specified by the Compensation Committee, the maximum term of options granted under the 2010 Option Plan is five years. As of March 31, 2015, no options had been granted under the 2010 Option Plan.

Board Practices

Directors of the Company are elected at the Company's annual meeting of shareholders and serve until their successors take office, or until their death, resignation or removal. The Company's Articles of Association provide for the classification of our Board of Directors into three classes of directors with staggered terms of office. At each annual meeting, one class of directors (consisting of either two or three directors) will be elected for a term of office to expire at the third succeeding annual meeting of shareholders after their election and until their successors have been duly elected and qualified (i.e. directors will be elected for three year terms).

The Company generally holds its annual meeting of shareholders within 90 days after the filing of its Annual Report on Form 20-F with the Commission. Executive officers serve at the pleasure of the Board of Directors of the Company. As of the date of this Annual Report, there are no agreements with any of the Directors that would provide the Directors with any benefits upon termination of employment. However, in the event of a change of control without the approval of the Board of Directors, Mr. Kohl, and the five other senior managers of the Company, are entitled to receive cash payments equal to three times their annual salary.

Audit Committee During fiscal 2016, the members of the Audit Committee of the Board of Directors were Irene Wong Ping Yim, Uri Bernhard Oppenheimer, Shlomo Tamir, George Leung Wing Chan, and Tiko Aharonov. The Audit Committee reviews, acts on and reports to the Board of Directors on various auditing and accounting matters, including the selection of the Company's auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of the independent auditors, any additional services to be provided by the auditors, and the Company's accounting practices. Each of these individuals is a non-employee director and is independent as defined under the Nasdaq Stock Market's listing standards, and each has significant knowledge of financial matters (one of the members has an advanced degree in business administration). Ms. Wong has been designated by the Board as the "audit committee financial expert" as defined under Item 401(h)(2) of Regulation S-K of the Securities Exchange Act of 1934, as amended. The Audit Committee met three times during fiscal 2016. The Audit Committee operates under a formal charter that governs its duties and conduct.

Compensation Committee During the past fiscal year, the Compensation Committee of the Board of Directors consisted of Shlomo Tamir, Uri Bernhard Oppenheimer, Brian Geary and Tiko Aharonov. The Compensation Committee administers the Company's 2010 Stock Option And Restricted Stock Plan and establishes the salaries and incentive compensation of the executive officers of the Company.

All of the Company's directors (there currently are eight directors, seven of whom are independent) participate in the selection of director nominees. Accordingly, the Board of Directors has not yet found it necessary to have a separate Nominating Committee. The Board of Directors has not established any specific minimum qualifications for director candidates or any specific qualities or skills that a candidate must possess in order to be considered qualified to be nominated as a director. Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing board composition. In making its nominations, the Board of Directors generally will consider, among other things, an individual's business experience, industry experience, financial background, breadth of knowledge about issues affecting our company, time available for meetings and consultation regarding company matters and other particular skills and experience possessed by the individual.

Employees

As of June 29, 2016, the Company had a total of 304 persons who were working on a full-time basis for the Company. All of the Company's employees are employed by the Company's various wholly-owned subsidiaries. Of the foregoing workers and employees, as of June 29, 2016, 68 were engaged in the administration of the Company (including marketing, purchasing, personal, book keeping, import/export, material control, shipping, security), engineering, design and development, tool and fixture production, and teaching at the Company's technical training school, and the balance, 236 employees, were engaged in manufacturing, quality assurance, warehousing and other supporting functions.

In addition to the employees hired by the Company (through its 75% owned subsidiaries), Kayser Myanmar, the Myanmar based company in which the Company currently owns a 75% stake, employed a total of 97 employees as of March 31, 2016.

The number of workers employed by the Company fluctuates largely due to the availability of workers and the time of year, and the Company occasionally experiences temporary shortages of workers. From time to time, the availability of workers has been adversely affected because of the high demand for such workers in Shenzhen due to transportation difficulties in bringing workers to Shenzhen, and due to seasonal demands on labor such as harvesting when the mainly rural-based laborers are required to return to their village. In addition, most workers are unavailable during the traditional Chinese holidays, including the Chinese New Year's holiday. Due to these factors, the Company experiences high turnover of employees annually.

Since the enactment of the new Labor Contract Law that became effective on January 1, 2008, Chinese workers are allowed to join an official trade union. However, to the Company's knowledge, none of the Company's employees have joined labor unions or become a party to a collective bargaining agreement. 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. That law formalized workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. The law also requires employers 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 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, reducing the Company's workforce by 20% or more may occur only under specified circumstances. All of these new labor provisions have significantly increased the Company's cost of labor and have restricted certain of the Company's operating procedures. Partly in response to this labor law, the Company has been increasing the amount of automation used in its manufacturing processes and has been reducing the size of its workforce. In addition, in order to partially offset the increasing labor costs in Shenzhen, China, the Company acquired a 75% interest in Kayser Myanmar and has transferred approximately one-half of its assembly operations to the Myanmar assembly facility that is owned by the Myanmar company.

The Company believes that its relations with its employees in Hong Kong and with its managers in China are good. However, most employees engaged in manufacturing, packaging and shipping at the Company's Shenzhen, China, factory are seasonal workers who change jobs at least once a year. Accordingly, the Company's relationship with these transient workers depends is superficial and depends on the labor market in Shenzhen in general. During any operating year, because of the transient nature of its workers (most workers resign during the year and new workers have to be hired), the Company will normally have a turnover rate of over 100% for its workers (excluding managers, technicians and Hong Kong employees). As a result, the Company cannot guarantee that its workers will not strike in the future or otherwise leave and accept employment elsewhere.

Share Ownership

The share ownership of the Company's officers and directors is listed under Item 7 of this Annual Report.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders. The Company is not directly or indirectly owned or controlled by any other corporation or any foreign government. The following table sets forth, as of June 29, 2016, certain information with respect to the beneficial ownership of the Company's Common Shares by each person (i) who is an executive officer or director of the Company, or (ii) known by the Company to own beneficially more than 5% of the outstanding Common Shares outstanding as of such date.

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Name of Beneficial Owner or Identify of Group[1]	Number of Common Shares Beneficially Owned		Percent Beneficial Owned[**]	
Roland W. Kohl	614,067	[2]	16.2	%
Tiko Aharonov	240,000		6.3	%
Holger Will	—		—	
George Leung Wing Chan	3,000		*	
Brian Geary	11,172		*	
Irene Wong Ping Yim	3,000		*	
Kevin Yang Kuang Yu	11,224		*	
Shlomo Tamir	—		—	
Uri Bernhard Oppenheimer	18,000		*	
David Tamir	359,830		9.5	%
Alan Chan	—		—	

* Less than 1%.

** Under the rules of the Securities and Exchange Commission, shares of Common Shares that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(1) The address of each of the named holders is c/o Highway Holdings Limited, Suite 1801, Level 18, Landmark North, 39 Lung Sum Avenue, Sheung Shui, New Territories, Hong Kong.

(2) Includes 245,770 shares of Common Stock registered in the name of Roland Kohl Company Limited, and 245,770 shares held in a trust for Mr. Kohl's daughter. Roland Kohl is the sole trustee of the Roland Kohl Company Limited and of his daughter's trust.

Of our 40 record holders, 26 are residents of the United States. Excluding shares held in street name, the U.S. resident shareholders own 34,821 Common Shares. To the Company's knowledge, foreign record holders own approximately 363,162 Common Shares, although a number of the Company's principals and other foreign shareholders also own shares in streetname. Based on the Company's records of shares owned by its officers, by its record holders, and by other foreign holders who hold their shares in street name, the Company estimates that at least 43% of the Company's outstanding shares are owned by foreign shareholders. There have been no significant changes in the percentage ownership held by any major shareholders during the past three years, and there are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company. All holders of the Common Shares have the same voting rights, and the Company's major shareholders do not have different voting rights.

<u>Related Party Transactions.</u>

The Company did not engage in any related party transactions during the fiscal year ended March 31, 2016.

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Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

We have included consolidated financial statements as part of this annual report.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Dividend Policy.

The Company attempts to pay a cash dividend annually to all holders of its Common Shares, subject to its profitability and cash position. The Company made four dividend payments of $0.10 per share in the fiscal year ended March 31, 2016 (dividends were paid on April 16, 2015, August 10, 2015, September 15, 2015 and December 24, 2015). In addition, the Company paid a $0.10 per share dividend in the current fiscal year, on April 18, 2016.

Dividends are declared and paid at the discretion of the Board of Directors and depend upon, among other things, the Company’s net profit after taxes, the anticipated future earnings of the Company, the success of the Company’s business activities, the Company’s capital requirements, and the general financial conditions of the Company. Although it is the Company’s intention to pay dividends during profitable fiscal years, no assurance can be given that the Company will pay, in fact, pay any dividends in the future even if its has a profitable year or is otherwise capable of doing so.

Legal Proceedings.

The Company may occasionally become subject to legal proceedings and claims that arise in the ordinary course of its business. However, the Company is not currently subject to any pending legal proceedings that involve amounts that are material to the Company’s financial condition.

Item 9. The Listing

A. Offer and Listing Details

The Company's Common Shares are currently traded on the Nasdaq Capital Market under the symbol "HIHO" and are not listed for trading in any trading market outside the United States. On June 29, 2016, the last reported sale price of our Common Shares on the Nasdaq Capital Market was $4.17 per share. As of June 29, 2016, there were 40 holders of record of the Company's Common Shares. However, the Company believes that there are a significantly greater number of "street name" shareholders of the Common Shares.

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The following table sets forth the high and low closing sale prices as reported by The Nasdaq Stock Market for years for each of the last five years ended March 31, 2015:

Year Ended	High	Low
March 31, 2016	$5.66	$2.82
March 31, 2015	$3.69	$2.56
March 31, 2014	$3.70	$1.67
March 31, 2013	$2.52	$1.41
March 31, 2012	$3.85	$2.02

The following table sets forth the high and low closing sale prices of the Common Shares as reported by Nasdaq during each quarter of the two most recent fiscal years.

Quarter Ended	High