



GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

ANNUAL REPORT

MARCH 31, 2007

FORWARD-LOOKING STATEMENTS

Except for historical information, certain statements contained herein are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "should," "estimates," or variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including but not limited to, the impact of competitive products and pricing, demand for new and existing products in our core business, the financial condition of the Company's customers, product demand and market acceptance especially of our new products, the success of new product development especially in the area of cellular phone components and solutions, compact camera modules and other pending projects, reliance on material customers, suppliers and key strategic alliances, the terms and conditions of customer contracts and purchase orders, availability and cost of raw materials, the timely and proper execution of certain business plans, including the plan to diversify and transform a portion of manufacturing capacity to higher-value, technology-oriented products, currency fluctuations, including the revaluation of the Chinese Renminbi, the imposition by China's trading partners of economic sanctions and/or protective tariffs on Chinese manufactured goods, uncertainties associated with investments, the regulatory environment, fluctuations in operating results, the impact of changing global, political and economic conditions and other risks detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission including its most recent Report on Form 20-F. The Company does not undertake to update its forward-looking information, or any other information contained or referenced in this press release to reflect future events or circumstances.

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LETTER TO OUR SHAREHOLDERS

Fiscal 2007 was a transitional year for the Company. While net sales were down in fiscal 2007, our net loss decreased significantly compared to fiscal 2006, even though the Company's core business of floor care and kitchen products continued to be adversely impacted by rising material costs. Gratifyingly, however, sales of our electronic components continued to grow beyond our expectations and are expected to increase rapidly as the cellular phone market continues to expand in China.

In our fiscal year ended March 31, 2007, net sales were \$60.3 million. Most of the net sales were derived from our core business primarily comprised of floor care products. Included in net sales for fiscal 2007 were approximately \$12.3 million of sales of complementary metal oxide semiconductor (CMOS) camera modules (CCMs). Our floor care business declined as the Company decided to de-emphasize the manufacturing of low-end products and one of our major customers chose to move more production to cheaper factories in northern China. Our major floor care customer, however, continues to support our business philosophy of producing quality products and we plan to maintain the relationship as long as it is feasibly and economically possible.

Our net loss for the 2007 fiscal year declined nearly \$10 million to \$1.2 million from \$11.2 million in fiscal 2006, but our level of business in aggregate was not sufficient to return us to profitability. Included in the net loss for fiscal year 2007 was a non-recurring gain of approximately \$4.0 million, which was reflected in gain on disposal of subsidiaries resulting from the establishment of a joint venture with Anwell Technologies Limited (Anwell). Pursuant to this joint venture, the Company sold a 70% stake in one of its subsidiaries to Anwell in exchange for a \$5.6 million convertible note, and the gain from such partial disposal was recognized in fiscal 2007. Our goal, however, is to return to profitability in fiscal 2008, despite anticipating significant cost increases in plastic resin, copper, fuel, labor and other components which we continue to use in our core business.

Fiscal 2007 demonstrated that our strategy of diversifying into other businesses and reallocating our resources to further explore and expand into the China market was on target. As the Chinese currency continues to strengthen and China is less supportive of export businesses, we plan to emphasize and concentrate more of our marketing and sales efforts on the domestic market. We believe that we will be able to expand the Company's products and services as we seek to capitalize on the expanding opportunities in the China market.

We believe the growth of our CCM business is only the beginning. As we become more important to our cellular phone marketers in China, we plan to offer them other components

and manufacturing services to further expand our presence in this business. Currently, we see no end in sight to the worldwide growth in cellular phones as they are becoming the preferred choice for portable communication, entertainment, and Internet access. The non-brand devices that are being sold in China using open platform software are clearly outselling and outgrowing the proprietary, brand name producers. We believe our strategy is on track and our resources are in place to take advantage of this growing opportunity for the Company.

In addition to the CCM business, we are currently exploring other component businesses, as well as preparing ourselves to perform electronic manufacturing services (EMS) for some of our key customers. EMS for printed circuit boards is usually subcontracted by cellular phone and other electronic device marketers and requires sophisticated, high-quality manufacturing utilizing precise and automated equipment. We hope to make EMS an addition to our business sometime in fiscal 2009 and expect it to further enhance our growth and financial performance in the next few years.

On a cautionary note – we are not limiting ourselves to the cellular phone market. We are also looking at other applications for CCMs and electronic components, including home security and other devices that need reliable miniature cameras, as well as expanding into other developing markets. In addition, we are continuing our development efforts with key customers and suppliers to pursue these growth opportunities by fully utilizing our cross-border presence in China and Hong Kong as major operative and competitive advantages. Technology companies outside China prefer doing business with companies such as ours as we are required to report to the public. Trust is critical to many of our technology suppliers and, as our relationship continues to build with these suppliers, we expect it to further fuel our diversification strategy and expansion programs.

As shareholders, the important question is still whether, and if so when, we can achieve some positive results to enhance shareholder value – we believe the results are starting and expect them to improve over the next two years beginning with the second quarter of fiscal 2008.

The last few years have been a bumpy and challenging journey and I deeply appreciate the support of our shareholders and employees. I thank you for your patience and look forward to sharing much better news with you in the months ahead.

JOHN C.K. SHAM
President and Chief Executive Officer

October 23, 2007

12/F., Kin Teck Industrial Building
26 Wong Chuk Hang Road
Aberdeen, Hong Kong
Tel.: (852) 2814-0601
Fax: (852) 2873-0591



**GLOBAL-TECH APPLIANCES INC.
AND SUBSIDIARIES**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006 AND 2007

**AND FOR THE YEARS ENDED MARCH 31,
2005, 2006 AND 2007**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Global-Tech Appliances Inc.:

We have audited the accompanying consolidated balance sheets of Global-Tech Appliances Inc. and its subsidiaries (the "Company") as of March 31, 2006 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Global-Tech Appliances Inc. and its subsidiaries at March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, in fiscal year 2007, Global-Tech Appliances Inc. changed its method of accounting for share-based payments in accordance with the guidance provided in the Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

/s/ Ernst & Young
Hong Kong
September 26, 2007

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2006 AND 2007

	2006 US\$	2007 US\$
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	27,313,746	29,824,914
Time deposit	-	67,688
Available-for-sale investments	18,715,682	14,869,990
Accounts and bills receivable, net	8,446,502	9,535,635
Inventories	10,780,816	9,086,113
Prepaid expenses	252,585	174,422
Deposits and other assets	1,677,041	2,379,856
Legal claims receivable	4,577,186	5,395,377
Amount due from a jointly controlled entity	-	41,082
Total current assets	<u>71,763,558</u>	<u>71,375,077</u>
Interests in jointly controlled entities	-	306,854
Property, plant and equipment, net	24,164,775	20,747,180
Land use rights, net	2,151,444	2,442,535
Convertible note	-	5,241,705
Interest receivable	-	168,000
Total assets	<u>98,079,777</u>	<u>100,281,351</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Short-term bank borrowings	37,698	-
Accounts payable	5,075,248	6,279,477
Temporary receipts	157,402	622,797
Accrued salaries, allowances and employee benefits	1,860,177	2,068,564
Accrued expenses	2,367,539	2,162,003
Accrual for contingent losses	5,464,134	5,638,328
Amount due to a related party	-	4,664
Income tax payable	3,730,043	4,005,811
Total current liabilities	<u>18,692,241</u>	<u>20,781,644</u>
Deferred tax liabilities	38,619	119,463
Total liabilities	<u>18,730,860</u>	<u>20,901,107</u>
Commitments and contingencies (notes 21 and 22, respectively)		
Shareholders' equity:		
Common stock, par value US\$0.01; 50,000,000 shares authorized; 12,902,755 shares issued and outstanding as of March 31, 2006 and 2007	129,028	129,028
Additional paid-in capital	83,030,824	84,154,401
Retained earnings (accumulated deficit)	879,673	(287,028)
Accumulated other comprehensive losses	(197,161)	(122,710)
Less: Treasury stock, at cost, 679,147 shares as of March 31, 2006 and 2007	(4,493,447)	(4,493,447)
Total shareholders' equity	<u>79,348,917</u>	<u>79,380,244</u>
Total liabilities and shareholders' equity	<u>98,079,777</u>	<u>100,281,351</u>

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007

	2005 US\$	2006 US\$	2007 US\$
Net sales	41,851,163	73,812,100	60,290,794
Cost of goods sold	<u>(44,595,004)</u>	<u>(69,816,822)</u>	<u>(56,762,423)</u>
Gross profit (loss)	(2,743,841)	3,995,278	3,528,371
Selling, general and administrative expenses	(16,053,820)	(18,010,869)	(12,454,368)
Other operating income (loss), net	<u>(810,000)</u>	<u>2,379,964</u>	<u>608,244</u>
Operating loss	(19,607,661)	(11,635,627)	(8,317,753)
Interest expense	(9,855)	(55,435)	(317)
Interest income	976,753	1,278,093	2,063,566
Other income (expenses), net	31,589	(846,015)	1,728,337
Gain on disposal of subsidiaries	-	-	3,951,520
Share of losses of jointly controlled entities	<u>-</u>	<u>-</u>	<u>(186,503)</u>
Loss before income taxes	(18,609,174)	(11,258,984)	(761,150)
Benefit from (provision for) income taxes	<u>(33,650)</u>	<u>22,998</u>	<u>(482,661)</u>
Net loss before minority interests	(18,642,824)	(11,235,986)	(1,243,811)
Minority interests	<u>19,525</u>	<u>12,592</u>	<u>77,110</u>
Net loss	<u>(18,623,299)</u>	<u>(11,223,394)</u>	<u>(1,166,701)</u>
Basic and diluted loss per share of common stock	<u>(1.52)</u>	<u>(0.92)</u>	<u>(0.10)</u>
	Number	Number	Number
Basic and diluted weighted average number of shares of common stock	<u>12,214,800</u>	<u>12,223,608</u>	<u>12,223,608</u>
	US\$	US\$	US\$
Rental expense paid to related parties (included in selling, general and administrative expenses)	<u>752,140</u>	<u>755,979</u>	<u>753,919</u>

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007

	Number of shares		Amounts					Total shareholders' equity US\$
	Common stock	Treasury stock	Common stock US\$	Additional paid-in capital US\$	Retained earnings (Accumulated deficit) US\$	Treasury stock US\$	Accumulated other comprehensive income (losses) US\$	
Balance as of March 31, 2004	12,857,045	(679,147)	128,570	84,226,550	30,726,366	(4,493,447)	(555,498)	110,032,541
Net loss for the year	-	-	-	-	(18,623,299)	-	-	(18,623,299)
Other comprehensive losses:								
• unrealized loss on available-for-sale investments, net of income tax of nil	-	-	-	-	-	-	(116,846)	(116,846)
• reclassification adjustment for gains net of losses included in net loss for the year	-	-	-	-	-	-	(36,219)	(36,219)
• foreign currency translation adjustments	-	-	-	-	-	-	(33,982)	(33,982)
Total net comprehensive loss								(18,810,346)
Stock compensation expense reversed on options granted	-	-	-	(1,247,061)	-	-	-	(1,247,061)
Shares issued on exercise of options	45,710	-	458	285,227	-	-	-	285,685
Balance as of March 31, 2005	12,902,755	(679,147)	129,028	83,264,716	12,103,067	(4,493,447)	(742,545)	90,260,819
Net loss for the year	-	-	-	-	(11,223,394)	-	-	(11,223,394)
Other comprehensive income (losses):								
• unrealized gain on available-for-sale investments, net of income tax of nil	-	-	-	-	-	-	199,290	199,290
• reclassification adjustment for gains net of losses included in net loss for the year	-	-	-	-	-	-	(116,076)	(116,076)
• foreign currency translation adjustments	-	-	-	-	-	-	462,170	462,170
Total net comprehensive loss								(10,678,010)
Stock compensation expense provided on options granted	-	-	-	112,600	-	-	-	112,600
Stock compensation expense reversed on options granted	-	-	-	(346,492)	-	-	-	(346,492)
Balance as of March 31, 2006	12,902,755	(679,147)	129,028	83,030,824	879,673	(4,493,447)	(197,161)	79,348,917
Net loss for the year	-	-	-	-	(1,166,701)	-	-	(1,166,701)
Other comprehensive income (losses):								
• share of accumulated comprehensive income of a jointly controlled entity	-	-	-	-	-	-	15,119	15,119
• equity adjustment from translation	-	-	-	-	-	-	(2,623)	(2,623)
• unrealized gain on available-for-sale investments, net of income tax of nil	-	-	-	-	-	-	117,614	117,614
• foreign currency translation adjustments	-	-	-	-	-	-	(55,659)	(55,659)
Total net comprehensive loss								(1,092,250)
Stock compensation expense	-	-	-	1,123,577	-	-	-	1,123,577
Balance as of March 31, 2007	<u>12,902,755</u>	<u>(679,147)</u>	<u>129,028</u>	<u>84,154,401</u>	<u>(287,028)</u>	<u>(4,493,447)</u>	<u>(122,710)</u>	<u>79,380,244</u>

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007

	2005	2006	2007
	US\$	US\$	US\$
<u>Cash flows from operating activities:</u>			
Net loss	(18,623,299)	(11,223,394)	(1,166,701)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Minority interests in losses of subsidiaries	(19,525)	(12,592)	(77,110)
Amortization	774,353	404,028	59,116
Depreciation	4,845,764	4,345,648	3,413,658
Accretion of convertible note discount	-	-	(168,173)
Gain on disposal of subsidiaries	-	-	(3,951,520)
Share of losses of jointly controlled entities	-	-	186,503
Loss on disposal of property, plant and equipment	167,566	8,477	97,997
Loss on disposal of a callable deposit	-	349,599	-
Provision for impairment/loss on the write-off of property, plant and equipment	1,532,345	783,802	17,174
Provision for impairment of license	-	1,861,640	-
Provision for impairment of patents	203,828	-	-
Loss on disposal of available-for-sale investments, net	6,567	141,251	-
Allowance for doubtful accounts, net	11,756	-	3,173
Provision for (reversal of) stock compensation expense on options granted, net	(1,247,061)	(233,892)	1,123,577
Deferred tax expense (benefit)	-	(104,998)	80,967
Changes in operating assets and liabilities:			
Accounts and bills receivable, net	2,784,387	(1,251,608)	(872,029)
Prepaid expenses	(42,056)	349,025	84,594
Deposits and other assets	216,287	45,244	(638,522)
Legal claims receivable	-	(4,577,186)	(853,752)
Amount due from a jointly controlled entity	-	-	41,082
Inventories	(5,248,107)	3,275,746	1,646,669
Interest receivable on a convertible note	-	-	(168,000)
Accounts payable	127,418	(182,757)	1,079,664
Fees payable for land use rights	(91,019)	-	-
Accrued salaries, allowances and employee benefits	353,802	245,113	146,058
Accrued expenses	724,115	347,461	223,970
Accrual for contingent losses	810,000	4,654,134	213,211
Amount due to a related party	-	-	4,664
Income tax payable	(54,888)	31,806	295,880
Exchange adjustments	(7,372)	-	862,735
Net cash provided by (used in) operating activities	<u>(12,775,139)</u>	<u>(743,453)</u>	<u>1,684,885</u>

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GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007 (continued)

	2005	2006	2007
	US\$	US\$	US\$
<u>Cash flows from investing activities:</u>			
Decrease in a loan to a director	75,183	76,667	-
Decrease in a promissory note and related interest receivable	79,017	-	-
Proceeds from disposal of property, plant and equipment	4,928	45,112	70,331
Purchases of property, plant and equipment	(3,547,996)	(1,426,271)	(560,110)
Increase in land use rights	(364,706)	(1,811)	(205,300)
Acquisition of a subsidiary, net of cash acquired	(428)	-	-
Acquisition of minority interests	(32,053)	-	-
Decrease (increase) in restricted cash	(30,899)	430,974	-
Increase in time deposit	-	-	(67,688)
Decrease in a callable deposit	-	4,650,000	-
Proceeds from disposal of available-for-sale investments	109,056,860	78,265,013	37,973,452
Purchases of available-for-sale investments	(98,738,217)	(63,062,750)	(34,071,106)
Net cash provided by investing activities	<u>6,501,689</u>	<u>18,976,934</u>	<u>3,139,579</u>
<u>Cash flows from financing activities:</u>			
Capital contribution by minority shareholders	64,106	-	76,781
Repayment of short-term bank borrowings	(10,490)	-	(37,595)
Repayment of long-term bank borrowings	(373,507)	-	-
Proceeds from stock options exercised	<u>285,685</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(34,206)</u>	<u>-</u>	<u>39,186</u>
Effect of foreign exchange rate changes on cash	<u>(4,260)</u>	<u>289,671</u>	<u>(2,352,482)</u>
Net increase (decrease) in cash and cash equivalents	(6,311,916)	18,523,152	2,511,168
Cash and cash equivalents at beginning of fiscal year	<u>15,102,510</u>	<u>8,790,594</u>	<u>27,313,746</u>
Cash and cash equivalents at end of fiscal year	<u><u>8,790,594</u></u>	<u><u>27,313,746</u></u>	<u><u>29,824,914</u></u>
Supplemental disclosure information:			
Cash paid for interest expense	9,855	55,435	317
Cash paid for tax expense	87,479	77,512	103,655
Supplemental schedule of non-cash activity:			
Disposal of subsidiaries in exchange for a convertible note	<u>-</u>	<u>-</u>	<u>5,073,532</u>

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Organization and principal activities

Global-Tech Appliances Inc. (“Global-Tech”) was incorporated in the British Virgin Islands and is a holding company, which does not engage in daily business operations other than owning subsidiaries. Global-Tech and its subsidiaries are hereinafter collectively referred to as the “Company”. The Company is a designer, manufacturer and marketer of a wide range of consumer electrical products worldwide, including, but not limited to, floor care products and small household appliances. The Company also continues developing higher-value, more technologically advanced consumer electronic products and electronic components. The Company’s manufacturing operation is located in Dongguan, the People’s Republic of China (the “PRC”). The Company’s products are sold to customers primarily in the United States of America (the “U.S.”) and Mainland China.

The common stock of Global-Tech is listed on the New York Stock Exchange under the symbol “GAI”.

2 Subsidiaries

Details of Global-Tech’s subsidiaries as of March 31, 2007 were as follows:

Name of subsidiary	Place of incorporation/ registration	Percentage of equity interest held	Principal activities
Global Appliances Holdings Limited	British Virgin Islands	100	Investment holding
Global Display Holdings Limited	British Virgin Islands	100	Investment holding
Kwong Lee Shun Trading Company Limited	Hong Kong	100	Provision of management services
Global Rich Innovation Limited	Hong Kong	100	Trading of raw materials and household appliance products
Wing Shing Overseas Limited	British Virgin Islands	100	Trading of raw materials and household appliance products
Pentalpha Macau Commercial Offshore Limited (“PMA”)	Macau	100	Trading of raw materials and household appliance products

(Continued/...)

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Subsidiaries (continued)

Details of Global-Tech's subsidiaries as of March 31, 2007 were as follows: (continued)

Name of subsidiary	Place of incorporation/ registration	Percentage of equity interest held	Principal activities
GT Investments (BVI) Limited	British Virgin Islands	100	Investment holding
Consortium Investment (BVI) Limited ("CIBL")	British Virgin Islands	100	Asset and investment holding
Global Optics Limited	Hong Kong	100	Trading of raw materials and electronic and optical components
Dongguan Wing Shing Electrical Products Factory Company Limited ("DWS")	PRC	100	Manufacturing of household appliance products
Dongguan Lite Array Company Limited ("DGLAD")	PRC	100	Manufacturing of electronic and optical components
Global Auto Limited (formerly known as Lite Array (OLED) H.K. Limited)	Hong Kong	70	Trading of car audio products
Global Household Products Limited (formerly known as Global Display Limited)	Hong Kong	100	Trading of raw materials and household appliance products
Winway Technology Development Limited	Hong Kong	83.33	Dormant
Pentalpha Enterprises Limited	Hong Kong	100	Dormant
Pentalpha Hong Kong Limited ("Pentalpha")	Hong Kong	100	Trading of raw materials and multimedia flat-panel display products

(Continued/...)

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Subsidiaries (continued)

Details of Global-Tech's subsidiaries as of March 31, 2007 were as follows: (continued)

Name of subsidiary	Place of incorporation/ registration	Percentage of equity interest held	Principal activities
Global-Tech USA, Inc.	U.S.	100	Provision of investment-related services
Global Digital Imaging Limited	British Virgin Islands	100	Trading of raw materials and digital products
MasterWerke Limited	U.S.	100	Investment holding
Wing Shing Products (BVI) Company Limited	British Virgin Islands	100	Dormant
Global Lite Array (BVI) Limited	British Virgin Islands	76.75	Investment holding
Lite Array OLED (BVI) Company Limited	British Virgin Islands	76.75	Dormant
Lite Array, Inc.	U.S.	76.75	Dormant

3 Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

(b) Basis of consolidation

The consolidated financial statements include the financial statements of Global-Tech and its subsidiaries and all variable interest entities for which the Company is the primary beneficiary, which have the same fiscal year ending March 31, except for Lite Array Holdings Limited ("Lite Array Holdings") and its subsidiaries, the Company's jointly controlled entities. The fiscal year end of Lite Array Holdings and its subsidiaries is December 31 and such date was used for purposes of preparing its consolidated financial statements. There have been no significant transactions in Lite Array Holdings and its

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

subsidiaries, which would materially affect the Company's financial position and results of operations during the period from Lite Array Holdings' fiscal year end to March 31.

Subsidiaries include those majority-owned and controlled domestic and foreign subsidiaries. Majority-ownership represents more than 50% of the issued voting capital. All significant intercompany balances and transactions between group companies are eliminated on consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates with regards to these consolidated financial statements include, but are not limited to, useful lives of property, plant and equipment, provision for impairment losses, provision for inventory obsolescence, provision for doubtful accounts, provision for employee benefits, benefit from (provision for) income taxes, valuation allowance for deferred tax assets, assumptions used for the valuation of options to purchase the Company's common stock, contingencies and measurement of fair values of financial instruments. Actual results could differ from those estimates and assumptions.

(d) Cash and cash equivalents

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

(e) Investments

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(e) Investments (continued)

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

When determining whether an impairment of investments exists or a decline in value of an available-for-sale investment is other-than-temporary, the Company evaluates evidence to support a realizable value in excess of the current market price for the investment. Such information may include the investment's financial performance (including such factors as earnings trends, dividend payments, asset quality and specific events), the near term prospects of the investment, the current and expected financial conditions of the investment's issuer, and the Company's investment intent. A sustained decline in the market value of a quoted security for six months is generally indicative of an other-than-temporary impairment.

The Company's investments in a jointly controlled entity for which its ownership exceeds 20% or for which it, not being the major owner of the entity, owns less than 20% but has the ability to exercise significant influence, is accounted for using the equity method. Under the equity method, the Company's proportionate share of the jointly controlled entity's net income or loss and amortization of any identifiable intangibles arising from the investment is included in "share of profits (losses) in jointly controlled entities".

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

(f) Inventories

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(g) Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of an item of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the consolidated statements of operations in the period the item is derecognized.

(h) Construction in progress

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(i) Impairment of long-lived assets

The Company evaluates long-lived assets, such as property, plant and equipment or asset group, for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. The Company assesses the fair value of the assets based on the undiscounted future cash flow. Assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of asset plus net proceeds expected from disposition of the asset, if any, is less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market value.

(j) Revenue recognition

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

Under the Company’s standard terms and conditions, which are mainly Free On Board shipping point, title and risk of loss are transferred to the customer at the time the product is delivered to the customer’s freight forwarder. At that time revenue is recognized unless customer acceptance is uncertain or significant obligations remain.

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

(k) Advertising costs and design and development costs

Advertising costs represent costs relating to promotional activities intended to stimulate, directly or indirectly, a customer’s purchase of goods, and are charged to the consolidated statement of operations as incurred and are included in “Selling, general and administrative expenses” (“SG&A”). Advertising expenses were US\$104,811, US\$58,693 and US\$11,469 for the fiscal years ended March 31, 2005, 2006 and 2007, respectively.

Design and development costs are expensed as incurred.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(l) Shipping and handling costs

Any shipping, handling or other costs incurred by the Company associated with the sale of products are included in the SG&A line item on the consolidated statement of operations. The primary shipping expense relates to inland freight from the factory to the port, where title is passed to the customer. During the fiscal years ended March 31, 2005, 2006 and 2007, shipping and handling costs charged to SG&A were US\$754,247, US\$1,213,390 and US\$855,644, respectively.

Any inbound freight charges, receiving, inspection, warehousing and internal transfer costs incurred by the Company are expensed as cost of goods sold. During the fiscal years ended March 31, 2005, 2006 and 2007, inbound freight costs charged to cost of goods sold were US\$524,337, US\$597,384 and US\$337,341, respectively. Other related costs are included in manufacturing overheads.

(m) Foreign currencies

The functional currency of the Company is U.S. dollar. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions denominated in foreign currencies are recorded in the respective functional currencies using the exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured into the functional currency using the exchange rates in effect at the balance sheet date. Foreign exchange gains or losses are included in the consolidated statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

On consolidation, the financial statements of the subsidiaries are translated into U.S. dollars, in accordance with SFAS No. 52, "Foreign Currency Translation", at rates of exchange in effect at the balance sheet date for assets and liabilities, and at the average rates of exchange during the year for income and expense items. Translation differences arising therefrom are credited or charged to the accumulated other comprehensive income (losses) account.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(n) Income taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes" which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred income taxes are provided using the liability method. Under the liability method, deferred income taxes are recognized for all temporary differences between the tax base and financial statement bases of assets and liabilities. Deferred tax assets are also recognized for loss carryforward. Valuation allowances are established to the extent that deferred tax assets will more likely than not be unrealized.

(o) Stock compensation expenses

Effective April 1, 2006, the Company adopted the provision of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)") and related interpretations in accounting for its employee stock-options plans. Accordingly, stock compensation cost is measured at the date of grant, based on fair value which is estimated using the Black-Scholes option-pricing model. The compensation cost is amortized over the vesting period of the options using the straight-line method.

The Company accounts for stock options granted to a counterparty other than an employee in accordance with Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to other than Employees for Acquiring, or in Conjunction with Selling Goods or Services". Fair value of the equity instruments is recognized on the measurement date which is the date at which (i) a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the counterparty's performance is completed.

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(o) Stock compensation expenses (continued)

Prior to the adoption of SFAS No. 123(R), the Company applied the intrinsic-value-based method prescribed in Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” and related Interpretations in accounting for employee stock options. The Company has determined pro forma net loss and loss per share information as if the fair value method described in SFAS No.123 had been applied to its employee stock-based compensation. The pro forma effects on net loss and loss per share for the fiscal years ended March 31, 2005 and 2006 are as follows:

	Year ended March 31,	
	2005	2006
	US\$	US\$
Net loss, as reported	(18,623,299)	(11,223,394)
Deduct: Reversal of stock compensation expense included in net loss under APB Opinion No. 25	(1,247,061)	(348,162)
Deduct: Total stock compensation expense determined under the fair value method for all awards, net of income tax of nil	<u>(34,261)</u>	<u>(574,837)</u>
Pro forma net loss	<u>(19,904,621)</u>	<u>(12,146,393)</u>
Loss per share		
Basic – as reported	(1.52)	(0.92)
Basic – pro forma	(1.63)	(0.99)
Diluted – as reported	(1.52)	(0.92)
Diluted – pro forma	(1.63)	(0.99)

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(p) Retirement costs

Retirement cost contributions relating to defined contribution plans are made based on a percentage of the employees' salaries and are included in the consolidated statements of operations as they become payable.

(q) Operating leases

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

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

(r) Earnings (loss) per share

Earnings (loss) per share is computed in accordance with SFAS No. 128, "Earnings Per Share". Under the provision of SFAS No. 128, basic earnings or loss per share is computed by dividing the net income or loss available to common shareholders for the year by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per share is computed by dividing the net income or loss for the year by the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options, are included in diluted earnings or loss per share to the extent that such shares are dilutive.

(s) Accounts receivable and allowance for doubtful accounts

Accounts receivable are carried at their original invoiced value less an estimate made for uncollectible amounts. The Company does not charge interest on accounts receivable. The Company reviews the aged analysis of accounts receivable on a regular basis. Allowance for doubtful accounts is made for those amounts overdue for more than one year from the contractual terms or to the extent that collection is considered to be doubtful. Whenever it is clear that the amounts are deemed to be uncollectible, receivables are written off against the allowance for doubtful accounts.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(t) Treasury stock

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

(u) Comprehensive income (losses)

The Company has adopted SFAS No. 130, “Reporting Comprehensive Income” which establishes guidance for the reporting and display of comprehensive income (losses) and its components. The purpose of reporting comprehensive income (losses) is to report a measure of all changes in equity that resulted from recognized transactions and other economic events of the period other than transactions with shareholders. Total net comprehensive income (losses) includes net earnings or loss as well as additional other comprehensive income (losses). The Company’s other comprehensive income (losses) consists of the Company’s share of accumulated comprehensive income of jointly controlled entities, equity adjustment from translation, unrealized gains and losses on available-for-sale investments and foreign currency translations, all recorded net of tax.

(v) Loss contingencies

The Company provides for costs related to contingencies when a loss is probable and the amount is reasonably estimable. Although management believes, after consultation with the Company’s general counsel, that adequate reserves have been provided for all known loss contingencies, the ultimate cost will depend on the resolution of the uncertainties. Therefore, it is possible that additional reserves could be required in the future.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(w) Impact of recently issued accounting standards

- (i) In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140”. It allows financial instruments with embedded derivatives that would otherwise require bifurcation from the host to be accounted for as a whole, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. The standard also clarifies which interest-only and principal-only strips are not subject to the requirement of SFAS No. 133; establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurred by a company for the fiscal year that begins on or after September 15, 2006. The Company is evaluating the effect of the adoption of SFAS No. 155 but it is not expected to have a material impact on the Company’s consolidated financial statements.

- (ii) In July 2006, the FASB issued SFAS Interpretation No. 48, “Accounting for Uncertainty in Income Tax Positions”. This interpretation clarifies the application of SFAS No. 109, “Accounting for Income Taxes”, by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. In addition to recognition, the interpretation provides guidance on the measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition and is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the potential impact of this interpretation on the results of its future operations and financial condition.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

(w) Impact of recently issued accounting standards (continued)

- (iii) In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurement”. This statement applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under this statement, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This statement clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and lowest priority to unobservable data, for example, the reporting entity’s own data. Under this statement, fair value measurements would be separately disclosed by level within the fair value hierarchy. This statement will become effective for financial statements issued for fiscal years beginning after November 15, 2007, and with interim periods within those years. The Company is evaluating the impact of this statement on the results of its future operations and financial condition.
- (iv) In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB No. 115”. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with the FASB’s long-term measurement objectives for accounting for financial instruments.

This statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Under the SEC’s rule, SFAS No. 159 is effective for the Company’s consolidated financial statements issued for fiscal year beginning on April 1, 2008. The Company does not believe the adoption of SFAS No. 159 will have a material effect on its financial position, cash flows or results of operations.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Cash and cash equivalents

	2006 US\$	2007 US\$
Cash on hand and at banks	20,920,636	18,798,437
Money market funds	<u>6,393,110</u>	<u>11,026,477</u>
Total cash and cash equivalents	<u><u>27,313,746</u></u>	<u><u>29,824,914</u></u>

5 Time deposit

As of March 31, 2007, a time deposit of RMB522,923 (equivalent to US\$67,688) was held in a banking institution with an original maturity greater than three months when acquired.

6 Available-for-sale investments

The following is a summary of available-for-sale debt and equity securities, which are all non-restricted, as of March 31, 2006 and 2007:

	Costs		Net unrealized gains		Fair values	
	US\$ 2006	US\$ 2007	US\$ 2006	US\$ 2007	US\$ 2006	US\$ 2007
U.S. dollar treasury bills	18,635,790	14,672,506	73,730	192,894	18,709,520	14,865,400
Listed equity securities	<u>3,140</u>	<u>3,118</u>	<u>3,022</u>	<u>1,472</u>	<u>6,162</u>	<u>4,590</u>
	<u><u>18,638,930</u></u>	<u><u>14,675,624</u></u>	<u><u>76,752</u></u>	<u><u>194,366</u></u>	<u><u>18,715,682</u></u>	<u><u>14,869,990</u></u>

The U.S. dollar treasury bills as of March 31, 2007 were held with contractual maturities of less than six months. As of March 31, 2007, none of the available-for-sale investments was in an unrealized loss position. During fiscal year 2007, no gain or loss was recognized (2006: loss of US\$141,251) on the disposal of the debt securities.

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

The net unrealized gains consisted of gross unrealized gains of US\$194,366 (2006: US\$76,752) and gross unrealized losses of nil (2006: nil).

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 Available-for-sale investments (continued)

The proceeds from the disposal of available-for-sale investments for the fiscal years ended March 31, 2005, 2006 and 2007 were US\$109,056,860, US\$78,265,013 and US\$37,973,452, respectively.

The gross realized losses from the sale of available-for-sale investments for the fiscal years ended March 31, 2005, 2006 and 2007 are as follows:

	2005 US\$	2006 US\$	2007 US\$
Gross realized losses	<u>6,567</u>	<u>141,251</u>	<u>-</u>

7 Accounts and bills receivable, net

	2006 US\$	2007 US\$
Accounts and bills receivable	8,495,217	9,547,806
Less: Allowance for doubtful accounts	<u>(48,715)</u>	<u>(12,171)</u>
Accounts and bills receivable, net	<u>8,446,502</u>	<u>9,535,635</u>

	2005 US\$	2006 US\$	2007 US\$
Allowance for doubtful accounts:			
Balance at beginning of fiscal year	38,124	49,870	48,715
Additions	12,887	-	3,173
Reversal of allowance	(1,131)	-	-
Write-off during the year	-	(1,262)	(39,618)
Exchange realignment	<u>(10)</u>	<u>107</u>	<u>(99)</u>
Balance at end of fiscal year	<u>49,870</u>	<u>48,715</u>	<u>12,171</u>

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Inventories

	2006 US\$	2007 US\$
Raw materials	5,095,208	4,517,976
Work-in-progress	2,471,798	2,134,630
Finished goods	<u>3,213,810</u>	<u>2,433,507</u>
	<u>10,780,816</u>	<u>9,086,113</u>

During the fiscal years ended March 31, 2005 and 2006, a provision for inventories of US\$3,773,979 and US\$1,413,534, respectively, in aggregate was recognized in the consolidated statement of operations.

9 Related party transactions

A related party is any party that controls, jointly controls or can significantly influence the management or operating policies of the Company to the extent that the Company may be prevented from fully pursuing its own interests. Such parties would also include affiliates, investments accounted for by the equity method, trusts for the benefit of employees, principal shareholders, management, and the immediate family members of shareholders or management.

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements for the fiscal years ended March 31, 2005, 2006 and 2007, the Company had the following material transactions with related parties during those years:

- (a) The Company incurred annual real estate rental expense of approximately US\$752,140, US\$755,979 and US\$753,919, respectively, payable to certain related companies of which certain directors are also the directors of the Company. Included in the aforesaid annual real estate rental expenses were amounts of US\$476,954, US\$479,388 and US\$478,082 paid to two directors of the Company in the fiscal years ended March 31, 2005, 2006 and 2007, respectively, which were included in their remuneration for the respective fiscal years as housing allowances.
- (b) Rental income of US\$49,957 (2005: nil; 2006: nil) was earned for the fiscal year ended March 31, 2007 from a jointly controlled entity. The rental was charged on mutually agreed terms.
- (c) Management fee income of US\$111,992 (2005: nil; 2006: nil) was earned for the fiscal year ended March 31, 2007 from a jointly controlled entity, which was charged with reference to actual costs incurred.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 Related party transactions (continued)

The amount due from a jointly controlled entity and the amount due to a related party, which is a minority shareholder of a subsidiary of the Company, are unsecured, interest-free and have no fixed terms of repayment.

10 Property, plant and equipment, net

	2006 US\$	2007 US\$
Leasehold improvements and buildings	21,278,618	22,682,670
Plant and machinery	22,268,891	21,664,697
Molds	8,499,520	9,164,021
Transportation equipment	1,414,770	1,369,224
Furniture, fixtures and equipment	4,632,921	4,148,531
Construction in progress	<u>69,824</u>	<u>48,631</u>
	58,164,544	59,077,774
Less: Accumulated depreciation	<u>(33,999,769)</u>	<u>(38,330,594)</u>
Property, plant and equipment, net	<u><u>24,164,775</u></u>	<u><u>20,747,180</u></u>

(a) During the fiscal years ended March 31, 2005, 2006 and 2007, an impairment loss/loss on the write-off of property, plant and equipment of US\$1,532,345, US\$783,802, and US\$17,174, respectively, in aggregate was recognized in the consolidated statement of operations for certain molds, plant and machinery, and furniture, fixtures and equipment since the carrying value of these assets exceeds their fair value by the same amount. The determination of fair value was based on using either the market approach for which there is known used market, or the market data approach for sale on the open market of similar items. The impairment loss/loss on the write-off of property, plant and equipment recognized during the fiscal year ended March 31, 2007 was included in the “Cost of goods sold” and “SG&A” on the consolidated statement of operations in the amounts of nil (2005: US\$1,214,115 and 2006: US\$532,217) and US\$17,174 (2005: US\$318,230 and 2006: US\$251,585), respectively.

(b) As of March 31, 2006 and 2007, buildings with aggregate net book value of approximately US\$109,796 and US\$106,304, respectively, are situated in Hong Kong, and manufacturing facilities with an aggregate net book value of approximately US\$14,007,529 and US\$13,725,432 as of March 31, 2006 and 2007, respectively, are situated in Mainland China. The land where the manufacturing facilities are situated is held under land use rights that expire in 2043. The Company has not yet obtained ownership certificates for all of the manufacturing facility premises as of March 31, 2007, but the ownership certificates for a substantial portion of the land use rights were

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 Property, plant and equipment, net

- (b) (continued)
obtained or in the process of obtaining during the fiscal year 2007 as further detailed in note 11 to the financial statements.
- (c) The amount of depreciation charged for the fiscal years ended March 31, 2005, 2006 and 2007 amounted to US\$4,845,764, US\$4,345,648 and US\$3,413,658, respectively.
- (d) The loss on disposal of property, plant and equipment recognized during the fiscal years ended March 31, 2005, 2006 and 2007 amounted to US\$167,566, US\$8,477 and US\$97,997, respectively.

11 Land use rights, net

Land use rights represent payments under operating leases on land use, for a predetermined time period, which are payable in advance. They are charged to the consolidated statement of operations over the lease periods on a straight-line basis. The Company has the rights to use certain pieces of land located in Mainland China and has obtained or in the process of obtaining the land use rights certificates covering a substantial portion of such land. On August 26, 2006, the Company entered into a supplementary agreement with the Dongguan local government regarding the use of a piece of land with a gross area of 45,208 square meters which the Company had occupied. Pursuant to the supplementary agreement, the Company has moved out from a portion of this land (13,698 square meters in aggregate), which was previously used as a recreational area, and has arranged to use the remaining portion of land (31,510 square meters) until August 6, 2043. However, the Company has to pay monthly payment of RMB109,248 (approximately US\$14,141) to the local government for the period from January 1, 2008 to December 31, 2008 and RMB193,048 (approximately US\$24,989) from January 1, 2009 onwards till August 6, 2043 as further detailed in note 21 to the financial statements. Up to March 31, 2007, the Company has obtained a sizable portion of the property ownership certificates (14 properties out of a total of 34) in respect of properties erected on those pieces of land located in Mainland China. The application for the remaining property ownership certificates will commence only after the land use right certificates for relevant pieces of land have been obtained. The Company is in the process of obtaining the remaining land use right and property ownership certificates and expects to obtain those certificates in the near future.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 Disposal of subsidiaries

On March 17, 2006, Consortium Investment (BVI) Limited (“CIBL”), a wholly-owned subsidiary of the Company, entered into a Share Sale and Purchase Agreement with Anwell Technologies Limited (“Anwell”), a publicly listed company in Singapore, to form a joint venture company to exploit the opportunity in the manufacturing and sale of organic light emitting diode (“OLED”) equipment. Pursuant to the Share Sale and Purchase Agreement, CIBL agreed to sell 5,600,000 ordinary shares of US\$1 each in the capital of Lite Array Holdings, a then wholly-owned subsidiary of CIBL, to Anwell, representing a 70% equity interest in Lite Array Holdings, in exchange for a convertible note (the “Convertible Note”) issued by Anwell to CIBL with a face value of US\$5,600,000 on April 3, 2006 as further detailed in note 13 to the financial statements. Lite Array Holdings and its subsidiaries are primarily engaged in developing OLED process technology and equipment. The disposal was completed on April 3, 2006 and the gain on disposal of Lite Array Holdings and its subsidiaries was computed by taking the difference between the fair value of the consideration received and an amount equal to 70% of the net assets disposed of. The Company still retains a 30% interest in Lite Array Holdings and its subsidiaries after the disposal and they have been accounted for as jointly controlled entities of the Company thereafter as further detailed in note 14 to the financial statements.

Details of the net assets disposed of are as follows:

	US\$
Cash and cash equivalents	2,334
Prepayments and other assets	6,747
Machineries and equipment	1,613,232
Amount due to group companies	(19,439)
	<u>1,602,874</u>
70% of the net assets disposed of	1,122,012
Gain on disposal of subsidiaries	<u>3,951,520</u>
	<u>5,073,532</u>
Satisfied by:	
Convertible Note	<u>5,073,532</u>

An analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	US\$
Cash and cash equivalents disposed of and net cash outflow in respect of the disposal of subsidiaries	<u>(2,334)</u>

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Convertible note

	Amortized cost		Fair value	
	US\$ 2006	US\$ 2007	US\$ 2006	US\$ 2007
Convertible Note	-	5,241,705	-	5,466,126

The Convertible Note was issued by Anwell in exchange for a 70% equity interest in Lite Array Holdings as further detailed in note 12 to the financial statements. The face value of the Convertible Note is US\$5,600,000. The Convertible Note carries interest at a rate of 3% per annum, which is payable in full on April 2009 (the “Payment Date”). In the event that during the six months prior to the Payment Date the shares of Anwell, traded on The Singapore Exchange Securities Trading Limited, are at all times not less than Singapore Dollar \$0.38 per share, the Convertible Note and all accrued and unpaid interests thereon will automatically be converted into duly authorized, validly issued, fully paid and unencumbered ordinary shares of Anwell on the Payment Date.

The amount of interest receivable from Anwell in respect of the Convertible Note as of March 31, 2007 is US\$168,000.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Interests in jointly-controlled entities

During the fiscal year ended March 31, 2007, CIBL disposed of 70% of its equity interest in Lite Array Holdings to Anwell as part of an arrangement to set up a joint venture to exploit the opportunity to produce OLED equipment in Mainland China as further detailed in note 12 to the financial statements. Subsequent to the completion of the disposal, the Company still retains 2,400,000 ordinary shares of Lite Array Holdings, representing a 30% equity interest in Lite Array Holdings through CIBL. The Company accounts for its interests in Lite Array Holdings and its subsidiaries, in which the Company does not have unilateral control, but joint control, under the equity method.

Particulars of the jointly-controlled entities as of March 31, 2007 are as follows:

<u>Name</u>	<u>Place of incorporation/ registration</u>	<u>Percentage of equity interest held</u>	<u>Principal activities</u>
Lite Array Holdings Limited	British Virgin Islands	30	Investment holding
Dongguan Litewell (OLED) Technology Limited*	PRC	30	Research and development of OLED equipment
Litewell Technology (HK) Limited*	Hong Kong	30	Provision of management services to Lite Array

* Subsidiaries of Lite Array Holdings

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Short-term bank borrowings

	2006	2007
	US\$	US\$
Short-term bank borrowings	<u>37,698</u>	<u>-</u>

Short-term bank borrowings at March 31, 2006 were denominated in U.S. dollars and borne interest at 13.99% per annum. The banking facilities denominated in U.S. dollars and utilized as of March 31, 2006 amounted to US\$37,698. Such facilities were terminated in the fiscal year 2007.

As of March 31, 2006 and 2007, the Company had banking facilities denominated in Hong Kong dollars of approximately HK\$32,000,000 (equivalent to US\$4,123,764) and HK\$35,000,000 (equivalent to US\$4,478,911), respectively. As of March 31, 2007, such banking facilities were utilized to the extent of US\$18,002 in respect of certain letters of credit and the amount of unutilized banking facilities denominated in Hong Kong dollars amounted to US\$4,460,909. There was no utilization of banking facilities denominated in Hong Kong dollars as of March 31, 2006.

Global-Tech has provided a bank with: (i) an unlimited corporate guarantee for general banking facilities granted to certain subsidiaries of the Company; and (ii) an undertaking not to pledge, mortgage or charge any of the assets of the Company in Hong Kong or Mainland China for general banking facilities granted to a subsidiary of the Company.

16 Share capital

During the fiscal years ended March 31, 2005, 2006 and 2007, no common stock was issued and no treasury stock was reissued by Global-Tech.

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 Other income (expenses), net

	2005	2006	2007
	US\$	US\$	US\$
Exchange gains (losses), net	(72,639)	(370,485)	1,588,565
Loss on disposal of a callable deposit	-	(349,599)	-
Loss on disposal of available-for-sale investments, net	(6,567)	(141,251)	-
Loss on disposal of floating rate bank notes	-	(61,229)	-
Loss on disposal of property, plant and equipment	(167,566)	(8,477)	(97,997)
Rental income from a related party	-	-	49,957
Management fee received from a related party	-	-	111,992
Others, net	<u>278,361</u>	<u>85,026</u>	<u>75,820</u>
	<u>31,589</u>	<u>(846,015)</u>	<u>1,728,337</u>

18 Income taxes

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

The Company’s operating subsidiaries are subject to various statutory tax rates, according to the respective jurisdictions in which they operate. The Company’s subsidiaries in Hong Kong are subject to Hong Kong profits tax at a rate of 17.5% on their assessable income arising in Hong Kong for the fiscal years ended March 31, 2005, 2006 and 2007. The Company’s subsidiary operating in Macau is exempted from Macau Complementary Tax.

The Company’s subsidiaries registered in the PRC, including DWS and DGLAD, are subject to PRC enterprise income tax (“EIT”) on income as reported in their PRC statutory accounts, adjusted in accordance with relevant PRC income tax laws and regulations. DWS and DGLAD are located in coastal open economic zones in Mainland China and, accordingly, are entitled to a preferential tax rate of 27% (24% reduced tax rate and 3% local income tax rate) for their EIT. DGLAD is entitled to a tax concession period (“Tax Holiday”) whereby it is exempt from EIT for its first two profit-making years and is entitled to a 50% tax reduction for the succeeding three years. As of March 31, 2007, the Tax Holiday period for DGLAD had not yet commenced, as DGLAD still had not generated any assessable profit.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 Income taxes (continued)

During the fiscal year 2007, with reference to a circular issued by the State of Administration of Taxation of the PRC on February 28, 2007 and other information available, that clarified prior uncertainties related to income and expense allocation between the Company's subsidiaries, the Company reassessed its tax position and revised its accounting estimate for potential income tax exposure related to its Mainland China subsidiaries. The change in accounting estimate resulted in an incremental increase in tax liabilities of approximately US\$660,405.

	2005 US\$	2006 US\$	2007 US\$
Income tax expenses (benefit):			
Current	33,650	82,000	401,694
Deferred	<u>-</u>	<u>(104,998)</u>	<u>80,967</u>
Total income tax expense (benefit)	<u>33,650</u>	<u>(22,998)</u>	<u>482,661</u>

The reconciliation of income tax benefit computed at the Hong Kong statutory tax rate to loss before income taxes as stated in the consolidated statement of operations to the effective tax rate is as follows:

	2005 US\$	2006 US\$	2007 US\$
Income tax benefit at the Hong Kong statutory income tax	(3,256,605)	(1,970,322)	(133,201)
Foreign rate differential and non-taxable income (loss) arising from offshore activities	4,909,254	2,273,834	(748,380)
Non-taxable interest income	(279,138)	(371,546)	(618)
Non-taxable other income	-	-	(198,494)
Non-tax deductible expenses	37,218	1,261,006	771,510
Over/under provision of tax in prior periods	-	-	352,571
Changes in valuation allowance	<u>(1,377,079)</u>	<u>(1,215,970)</u>	<u>439,273</u>
Total income tax expense (benefit) at effective tax rate	<u>33,650</u>	<u>(22,998)</u>	<u>482,661</u>
Hong Kong statutory income tax rate	17.5%	17.5%	17.5%
Effective income tax rate	<u>(0.2%)</u>	<u>0.2%</u>	<u>(63.4%)</u>

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 Income taxes (continued)

Deferred tax assets and liabilities as of March 31, 2006 and 2007 are comprised of the following:

	2006 US\$	2007 US\$
Deferred tax assets:		
Impairment of property, plant and equipment	143,699	145,263
Provision for inventories	326,425	450,673
Operating losses carried forward	<u>7,021,889</u>	<u>7,161,475</u>
Gross deferred tax assets	7,492,013	7,757,411
Less: Valuation allowance for deferred tax assets	<u>(7,468,912)</u>	<u>(7,757,411)</u>
Net deferred tax assets	23,101	-
Deferred tax liabilities:		
Inventory adjustments	-	(108,768)
Tax over book depreciation of property, plant and equipment	<u>(61,720)</u>	<u>(10,695)</u>
Total deferred tax liabilities	<u>(61,720)</u>	<u>(119,463)</u>
Net deferred tax liabilities	<u>(38,619)</u>	<u>(119,463)</u>

	2005 US\$	2006 US\$	2007 US\$
Valuation allowance:			
Balance at beginning of fiscal year	1,557,987	5,795,634	7,468,912
Additions	<u>4,237,647</u>	<u>1,673,278</u>	<u>288,499</u>
Balance at end of fiscal year	<u>5,795,634</u>	<u>7,468,912</u>	<u>7,757,411</u>

For financial reporting purposes, the Company has established valuation allowances by tax jurisdiction for deferred tax assets, including tax losses carried forward, that management believes are not more likely than not realizable. As of March 31, 2006 and 2007, the Company had tax losses carried forward of US\$31,413,544 and US\$31,922,740, respectively. The tax losses may be carried forward for 5 years up to an indefinite period, based on tax jurisdiction. Certain of the losses carried forward begin expiring in 2010.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 Income taxes (continued)

During the fiscal year ended March 31, 2007, the Inland Revenue Department of Hong Kong (the “IRD”) requested further information from one of the Company’s subsidiaries regarding its relationship with other subsidiaries of the Company and whether it has changed its mode of operation. The subsidiary responded to the request in June 2007 and no further requests have been received from the IRD up to the date of the issuance of these financial statements. Management has considered the need for contingent income tax liabilities and provided for such liabilities it believes are probable.

The impact of the PRC New Corporate Income Tax Law

During the 5th Session of the 10th National People’s Congress, which was concluded on March 16, 2007, the PRC Corporate Income Tax Law (the “New CIT Law”) was approved and will become effective on January 1, 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Company cannot be reasonably estimated at this time.

19 Basic and diluted loss per share

Loss per share of common stock is computed in accordance with SFAS No. 128, “Earnings Per Share”, by dividing the net income or loss for the year by the weighted average number of shares of common stock outstanding during the year.

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

	2005 US\$	2006 US\$	2007 US\$
Numerator for basic and diluted loss per share:			
Loss attributable to common stockholders	<u>(18,623,299)</u>	<u>(11,223,394)</u>	<u>(1,166,701)</u>
	Number	Number	Number
Denominator for basic and diluted loss per share:			
Weighted average number of shares of common stock	<u>12,214,800</u>	<u>12,223,608</u>	<u>12,223,608</u>
	US\$	US\$	US\$
Basic and diluted loss per share:			
Loss attributable to common stockholders	<u>(1.52)</u>	<u>(0.92)</u>	<u>(0.10)</u>

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 Basic and diluted loss per share (continued)

1,385,095, 1,086,067 and none of the outstanding stock options of Global-Tech during the fiscal years ended March 31, 2005, 2006 and 2007, respectively, had exercise prices below the respective weighted average share prices of Global-Tech's common stock during these years, resulting in 390,098, 772,159 and nil incremental common shares, respectively, for the purpose of the diluted loss per share calculation. The effect of Global-Tech's dilutive stock options was not included in the computation of diluted loss per share for the fiscal years ended March 31, 2005, 2006 and 2007 because their inclusion would have been anti-dilutive.

20 Design and development costs

The Company expenses all design and development costs when incurred. Included in the SG&A line item in the consolidated statement of operations were design and development costs of US\$2,523,732, US\$1,708,872 and US\$1,125,817 for the fiscal years ended March 31, 2005, 2006 and 2007, respectively.

21 Commitments

(a) Capital commitments

As of March 31, 2007, the Company had capital commitments of US\$119,379 (2006: US\$31,484) for the purchase of property, plant and equipment.

(b) Operating lease commitments

In addition to the land use rights described in note 11, the Company has entered into various operating lease agreements for parking lots, motor vehicles, equipment and real estate or land that extend to 2043. The Company recorded rental expenses excluding the land use rights payments described in note 11 for the fiscal years ended March 31, 2005, 2006 and 2007 of US\$661,676, US\$628,826 and US\$410,754, respectively, and recorded no sublease income for the fiscal year ended March 31, 2007 (2005: US\$9,577 and 2006: US\$28,877). Future minimum rental payments under noncancelable operating leases as of March 31, 2006 and 2007 were as follows:

	2006 US\$	2007 US\$
Payable:		
Within one year	163,675	360,816
Over one year but not exceeding two years	121,284	219,844
Over two years but not exceeding three years	-	299,859
Over three years but not exceeding four years	-	299,859
Over four years but not exceeding five years	-	299,859
Over five years	-	9,395,576
	<u>284,959</u>	<u>10,875,813</u>

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Contingent liabilities

- (a) Global-Tech and Pentalpha Enterprises Limited (“Pentalpha Enterprises”), a subsidiary of Global-Tech, are involved in breach of contract litigation with Sunbeam Corporation and Sunbeam Products, Inc. (collectively “Sunbeam”), with both parties claiming and counter-claiming. The trial on the claims of Sunbeam for indemnity and the claim of the Pentalpha Enterprises for breach of contract began on January 12, 2004. On January 16, 2004, the jury (the “Jury”) returned a verdict in favor of (i) Sunbeam on its claim for indemnity and awarded Sunbeam approximately US\$2.5 million against Pentalpha Enterprises and (ii) Pentalpha Enterprises on its claim for breach of contract and awarded Pentalpha Enterprises US\$6.6 million. The United States District Court for the Southern District of Florida granted a final judgment on February 11, 2004 to add prejudgment interest to the Jury’s award, and awarded Sunbeam approximately US\$3.4 million and Pentalpha Enterprises US\$6.6 million.

After the appeal, by an amended judgment dated December 12, 2005, the district court awarded Pentalpha Enterprises prejudgment interest from June 30, 2001 to February 11, 2004, bringing the judgment entered in favor of Pentalpha Enterprises as of February 11, 2004 to approximately US\$8 million, and leaving unchanged the judgment entered against Pentalpha Enterprises in favor of Sunbeam.

After the appeal, the district court, on its own initiative, entered a second amended judgment on April 16, 2007 and on June 4, 2007 entered a third amended judgment that awarded Pentalpha Enterprises prejudgment interests from June 30, 2001 until the entry of the second amended judgment on December 12, 2005, at the interest rates required by Florida law and awarded Sunbeam’s prejudgment interest until December 12, 2005. On June 16, 2007, Pentalpha Enterprises filed a notice of appeal to the Court of Appeals to challenge the portion of the judgment in favor of Sunbeam that extends the Sunbeam’s prejudgment interest until December 12, 2005. On June 16, 2007, Pentalpha Enterprises filed a notice of appeal to the Court of Appeals to challenge the portion of the judgment in favor of Sunbeam that extends the prejudgment interest until December 12, 2005. Pentalpha Enterprises filed its brief on appeal on August 25, 2007. The outcome of that appeal is uncertain.

Sunbeam has posted a bond in the amount of approximately US\$5.2 million, which was attached pursuant to the September 7, 2005 order of the United States District Court for the Southern District of New York (the “Court Order”) in the action SEB S.A., (“SEB”) v. Montgomery Ward, Pentalpha Enterprises and Global-Tech et al., pending in the district court. On July 13, 2007, Sunbeam wire transferred to an escrow account of SEB’s attorney approximately US\$5.5 million. SEB’s attorney is holding that money in an escrow account pursuant to the Court Order. Given the Sunbeam’s payment, the district court has discharged the bond that Sunbeam posted.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Contingent liabilities (continued)

(a) (continued)

Since the judgment is final and no further appeal is available to Sunbeam, Pentalpha Enterprises's right to collect the net amount of the judgment from Sunbeam, or on the bond, or from the funds in the escrow account (subsequent to the discharge of the bond) is certain even though the judgment is attached by the Court Order. Accordingly, the Company recognized a gain of approximately US\$8.0 million from its claim against Sunbeam for breach of contract and a loss of approximately US\$3.4 million on the claims of Sunbeam for indemnity in its consolidated statement of operations for the fiscal year 2006. During the fiscal year 2007, Pentalpha Enterprises further recognized post-judgment interest of approximately US\$818,000 in its consolidated statement of operations.

- (b) SEB commenced an action in 1999 in the United States District Court for the Southern District of New York for patent infringement against Global-Tech, Pentalpha Enterprises, and Montgomery Ward et al., then a customer of Pentalpha Enterprises. SEB also moved for an order "attaching the judgment" in favor of Pentalpha Enterprises in the action SEB v. Sunbeam v. Pentalpha Enterprises mentioned in (a) above. The parties resolved the motion by consenting to an order that requires Pentalpha Enterprises, among other things, to give notice to SEB of any attempt to collect the judgment against Sunbeam. The district court attached the entire judgment by order dated September 7, 2005. The district court conducted a trial beginning on April 17, 2006. On April 21, 2006, the jury returned a verdict finding that Pentalpha Enterprises had infringed the SEB patent, that the infringement was willful and that SEB was entitled to a reasonable royalty in the total amount of US\$4.65 million.

Both sides have made post-trial motions. Global-Tech and Pentalpha Enterprises have moved for judgment as a matter of law on a wide range of issues, and for a new trial. SEB has moved to enhance damages with the addition of treble damages, prejudgment interest and attorneys' fees. The motions have been fully briefed. The district court heard oral arguments on April 11, 2007 and June 21, 2007. The district court also heard testimony from a SEB witness on July 19, 2007 with respect to Pentalpha Enterprises' motion for judgment as a matter of certain issues based upon SEB's failure to produce certain documents during the discovery. The district court has not yet rendered a decision. No judgment has yet been entered.

However, in accordance with, SFAS No. 5 "Accounting for Contingencies", the Company already accrued a contingent loss of US\$4.65 million as of March 31, 2006, with a corresponding charge to the consolidated statement of operations for the fiscal year 2006. Based on the development to date, the Company considers that no additional accrual is required as of March 31, 2007.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Contingent liabilities (continued)

- (c) On October 11, 2004, Best Hero Limited (“Best Hero”) issued a writ in the Court of First Instance of the High Court of Hong Kong against a subsidiary of the Company for a payment of US\$4,250,400. The claim relates to two purchase orders issued by the subsidiary on May 31, 2004 and June 1, 2004, respectively, to Best Hero for the purchase of LCD TV panels for a total purchase price of US\$4,620,000. However, the LCD TV panels which were paid for in the initial shipment were determined to be unacceptable. Accordingly, further delivery of the remaining orders was refused. Best Hero alleged that the subsidiary had repudiated the contract, and therefore Best Hero instituted legal proceedings to claim for damages. The subsidiary intends to defend the action on the grounds that it is justified in rejecting the goods for breach of conditions as to descriptions and the sample provided to the subsidiary by Best Hero. A defence and counter-claim was filed by the subsidiary in the High Court on December 28, 2004. Best Hero filed a Reply and Defence to Counterclaim on January 11, 2005. The discovery of documents in this action has been concluded and the parties are still in the course of preparing their respective witness statement.

An unfavorable decision in the outcome of the case would create a liability for the subsidiary to pay Best Hero, depending on the outcome, the amount may be:

- (i) the deficiency in price between the contractual price (US\$4,620,000) and the price at which the LCD TV panels were actually sold by Best Hero (this is still unknown) together with interest, legal and other related costs; or
- (ii) if Best Hero has not sold the LCD TV panels, the full contractual price together with interest, legal and other related costs but the subsidiary would receive the LCD TV panels in this circumstance.

Based on the best estimate of the management of the Company, the subsidiary’s maximum exposure is US\$3,588,000, which is the contractual price and the estimated price at which the LCD TV panels were actually sold by Best Hero together with relevant interest, legal and other related costs. For financial reporting purpose, the Company has accrued for a loss contingency in respect of this litigation in its consolidated balance sheets as of March 31, 2006 and 2007 in an amount of US\$810,000 and US\$873,000, respectively, which representing management’s best estimate of the most likely outcome for this litigation.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23 Employee benefits

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

MPF is available to all employees aged 18 to 64 and with at least 60 days of service as an employee of the Company in Hong Kong. Under the MPF scheme, both the Company and the employee contributes the lower of 5% of the employee’s basic salary and HK\$1,000 (approximately US\$128), subject to a cap of a monthly basic salary of HK\$20,000 (approximately US\$2,571). Employees are entitled to 100% of the Company’s contributions together with accrued returns irrespective of their length of service with the Company, but the benefits are required by law to be preserved until the retirement age of 65. Certain full-time employees in Hong Kong who joined the Company before December 2000 are eligible to participate in the ORSO scheme immediately following the date on which they have completed their probationary period. Under the ORSO scheme, both the Company and the employee contribute 5% of the employee’s basic salary.

The costs of these schemes recognized during the fiscal years ended March 31, 2005, 2006 and 2007 were US\$207,194, US\$176,334 and US\$117,787, respectively.

According to the relevant laws and regulations in the PRC, the Company is required to contribute 10% of the stipulated salary set by the local government of Dongguan, the PRC, to the retirement schemes to fund the benefits for its employees. No forfeited contributions may be used by the employer to reduce the existing level of contributions. The Company also provides housing, medical care and subsidized meals to all factory employees. The aggregate amounts incurred by the Company for all such benefits were US\$628,165, US\$758,737 and US\$579,157 during the fiscal years ended March 31, 2005, 2006 and 2007, respectively. The accrual for such employee benefits has been re-classified in the 2006 financial statements to conform with the fiscal 2007 presentation.

24 Segment information

SFAS No. 131, “Disclosures about Segment of an Enterprise and Related Information”, establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker or decision making group in deciding how to allocate resources and in assessing performance.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 Segment information (continued)

The Company operates in three segments: Home Appliances, Electronic Components and Others. These segments are operated and managed as separate strategic business units that offer different products. These segments are each managed separately because they manufacture and distribute products with different production processes. The Company's "Home Appliances" segment historically has been the core business of the Company and involves primarily manufacturing small electrical household appliances for branded marketers in North America and Europe. The Company's "Electronic Components" segment produces complementary metal oxide semiconductor ("CMOS") camera modules ("CCM") for sale to cellular phone manufacturers in Mainland China. The Company's "Others" segment comprises a number of immaterial product lines and development programs that have not materialized to date into full product businesses, including units focusing on organic light emitting diode ("OLED") and display-oriented products. None of these units has ever individually met the quantitative thresholds for determining reportable segments. The chief operating decision maker evaluates the net income of each segment in assessing performance and allocating resources between segments.

"Electronic Components" and "Others" segments, which were previously grouped to form one reportable business became reportable segments during fiscal year 2007, as the Company started to manage them separately due to the increase in their relatively size and prospects during the fiscal year 2007. Segment information in these financial statements with respect to fiscal years 2006 and 2005 has been restated to reflect this change.

There were no material intersegment sales or transfers during the fiscal years ended March 31, 2005, 2006 and 2007.

(a) The following table provides operating financial information for the three reportable segments:

Year ended March 31, 2005	Home Appliances US\$	Electronic Components US\$	Others US\$	Corporate US\$	Consolidated US\$
Revenues from external customers	<u>41,112,712</u>	<u>-</u>	<u>738,451</u>	<u>-</u>	<u>41,851,163</u>
Interest income	-	-	-	976,753	976,753
Interest expense	(9,854)	-	(1)	-	(9,855)
Depreciation and amortization	(3,398,557)	-	(1,344,634)	(876,926)	(5,620,117)
Segment loss	(3,684,708)	-	(10,412,731)	(4,525,860)	(18,623,299)
Total identifiable assets	41,585,491	-	10,397,827	52,029,210	104,012,528

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 Segment information (continued)

(a) The following table provides operating financial information for the three reportable segments: (continued)

Year ended March 31, 2006	Home Appliances US\$	Electronic Components US\$	Others US\$	Corporate US\$	Consolidated US\$
Revenues from external customers	<u>64,868,351</u>	<u>5,940,788</u>	<u>3,002,961</u>	<u>-</u>	<u>73,812,100</u>
Interest income	-	-	-	1,278,093	1,278,093
Interest expense	(51,798)	(1)	(3,636)	-	(55,435)
Depreciation and amortization	(2,726,815)	(107,338)	(948,105)	(967,418)	(4,749,676)
Segment profit (loss)	932,260	(61,124)	(6,766,654)	(5,327,876)	(11,223,394)
Total identifiable assets	36,678,175	4,262,361	3,425,367	53,713,874	98,079,777
Year ended March 31, 2007	Home Appliances US\$	Electronic Components US\$	Others US\$	Corporate US\$	Consolidated US\$
Revenues from external customers	<u>46,831,503</u>	<u>12,264,440</u>	<u>1,194,851</u>	<u>-</u>	<u>60,290,794</u>
Interest income	-	-	-	2,063,566	2,063,566
Interest expenses	(299)	-	(18)	-	(317)
Depreciation and amortization	(2,543,773)	(157,329)	(327,211)	(444,461)	(3,472,774)
Segment profit (loss)	(2,110,397)	130,383	#2,741,687	(1,928,374)	(1,166,701)
Total identifiable assets	34,097,999	6,081,149	1,455,948	58,646,255	100,281,351

Including gain on disposal of subsidiaries of US\$3,951,520.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 Segment information (continued)

(b) Net sales by geographic area

	2005 US\$	2006 US\$	2007 US\$
Australia	533,334	438,303	496,166
Europe	2,982,909	8,316,484	7,728,412
North America	35,995,612	54,438,145	34,689,223
Asia	2,219,058	10,438,473	16,812,264
Other regions	<u>120,250</u>	<u>180,695</u>	<u>564,729</u>
	<u>41,851,163</u>	<u>73,812,100</u>	<u>60,290,794</u>

(c) Net sales by product type

	2005 US\$	2006 US\$	2007 US\$
Floor care products	29,623,372	54,570,730	39,905,755
Kitchen appliances	7,628,507	7,315,672	5,394,259
CCM	-	5,917,146	12,232,428
Others	<u>4,599,284</u>	<u>6,008,552</u>	<u>2,758,352</u>
	<u>41,851,163</u>	<u>73,812,100</u>	<u>60,290,794</u>

(d) Long-lived assets*

2005	2006 US\$	2007 US\$	US\$
Hong Kong and Macau #	2,078,941	1,110,392	651,967
Mainland China	27,892,596	25,204,420	22,537,748
United States of America	<u>-</u>	<u>1,407</u>	<u>-</u>
	<u>29,971,537</u>	<u>26,316,219</u>	<u>23,189,715</u>

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

#There were no long-lived assets situated in Macau as of March 31, 2007.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 Segment information (continued)

(e) Major customers

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

	2005 US\$	2006 US\$	2007 US\$
Royal Appliance Manufacturing Company Limited ("Royal Appliance")	26,222,845	29,851,569	17,028,868
Electrolux S.A. and subsidiaries ("Electrolux")	<u>4,311,752</u>	<u>25,133,617</u>	<u>20,180,930</u>

During the fiscal years ended March 31, 2005, 2006 and 2007, 63.0%, 40.4% and 28.2%, respectively, of the Company's total net sales were made to and as of March 31, 2005, 2006 and 2007, 56.0%, 39.3% and 25.9%, respectively, of the Company's total accounts and bills receivable were from Royal Appliance, which is an unrelated customer. During the fiscal years ended March 31, 2005, 2006 and 2007, 10.3%, 34.2% and 33.5%, respectively, of the Company's total net sales were made to and as of March 31, 2005, 2006 and 2007, 33.5%, 27.8% and 30.7%, respectively, of the Company's total accounts and bills receivable were from Electrolux, which is an unrelated customer. The Company is a contract manufacturer of vacuum cleaners that are marketed by Royal Appliance and Electrolux under their respective brand names.

25 Concentration of risks

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk primarily consist of cash and cash equivalents, time deposit, amount due from a jointly controlled entity, convertible note, interest receivable, available-for-sale investments and accounts and bills receivable.

As of March 31, 2007, substantially all of the Company's cash and cash equivalents, time deposit and available-for-sale investments were managed by financial institutions that the management believes are of high credit quality.

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25 Concentration of Risks (continued)

Concentration of customers

The Company currently sells a substantial portion of its floor care products to limited number of customers. As a percentage of revenues, the top two customers accounted for 74.4% and 61.7% of consolidated net sales for the fiscal years ended March 31, 2006 and 2007, respectively. Sales to customers are mostly made through non-exclusive, short-term arrangements. The loss of either of these major customers could have a material adverse effect on the Company's business, results of operations and financial conditions.

Current Vulnerability due to Certain Concentrations

The Company's operations are mainly conducted in Hong Kong, Macau and Mainland China. As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in Hong Kong, Macau and Mainland China, and by the general state of the Hong Kong, Macau and Mainland China economies.

As substantially all of the Company's manufacturing operations are conducted in Mainland China and over 90% of the net book value of the Company's total long-lived assets are situated in Mainland China, the Company is subject to different considerations and risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in Mainland China, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation among other things.

26 Financial instruments

The Company's financial instruments that are subject to credit risks are limited to its cash and cash equivalents, time deposit, available-for-sale investments, accounts and bills receivable, amount due from a jointly controlled entity, interest receivable and the Convertible Note.

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 Financial instruments (continued)

The following table sets forth the carrying values and estimated fair values of the Company's financial assets and liabilities recognized as of March 31, 2006 and 2007. There were no material unrecognized financial assets and liabilities as of March 31, 2006 and 2007.

	Carrying value		Fair value	
	2006 US\$	2007 US\$	2006 US\$	2007 US\$
Current financial assets:				
Cash and cash equivalents	27,313,746	29,824,914	27,313,746	29,824,914
Time deposit	-	67,688	-	67,688
Available-for-sale investments	18,715,682	14,869,990	18,715,682	14,869,990
Accounts and bills receivable, net	8,446,502	9,535,635	8,446,502	9,535,635
Amount due from a jointly controlled entity	<u>-</u>	<u>41,082</u>	<u>-</u>	<u>41,082</u>
	54,475,930	54,339,309	54,475,930	54,339,309
Non-current financial assets:				
Convertible Note	-	5,241,705	-	5,466,126
Interest receivable	<u>-</u>	<u>168,000</u>	<u>-</u>	<u>168,000</u>
Total financial assets	<u>54,475,930</u>	<u>59,749,014</u>	<u>54,475,930</u>	<u>59,973,435</u>

	Carrying value		Fair value	
	2006 US\$	2007 US\$	2006 US\$	2007 US\$
Current financial liabilities:				
Short-term bank borrowings	37,698	-	37,698	-
Accounts payable	5,075,248	6,279,477	5,075,248	6,279,477
Amount due to a related party	<u>-</u>	<u>4,664</u>	<u>-</u>	<u>4,664</u>
Total financial liabilities	<u>5,112,946</u>	<u>6,284,141</u>	<u>5,112,946</u>	<u>6,284,141</u>

The carrying amounts of the Company's cash and cash equivalents, time deposit, accounts and bills receivable, amount due from a jointly controlled entity, accounts payable and amount due to a related party approximate their fair values because of their short maturities. The estimated fair value of the Convertible Note is based on the discounted value of future cash flows using the U.S. Treasury yields adjusted for the differences in country risk premium for bonds traded on The Singapore Exchange for similar type of instruments. The carrying amounts of the Company's bank borrowings approximate their fair values based on borrowing rates currently available for bank loans with similar terms and maturities.

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

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 Financial instruments (continued)

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

27 Stock compensation

In September 1997, the Board of Directors adopted Global-Tech's 1997 Stock Option Plan (as amended, the "1997 Plan"). The 1997 Plan provides for the grant of (i) options that are intended to qualify as incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") to employees and (ii) options not intended to qualify as Incentive Stock Options to employees and consultants. The total number of shares of common stock for which options may be granted under the 1997 Plan is 1,600,000 shares.

In October 2005, the Board of Directors adopted Global-Tech's 2005 Stock Option Plan (the "2005 Plan"). The 2005 Plan provides for the grant of (i) "incentive stock options" ("ISOs") within the meaning of Section 422 of the Code; (ii) non-qualified stock options that do not qualify as ISOs ("NQSOs"); and (iii) stock appreciation rights. The total number of shares of common stock for which options may be granted under the 2005 Plan is 1,800,000 shares.

The 1997 plan and 2005 plan ("Plans") are administered by the Board of Directors or a committee of outside directors appointed by the Board of Directors, who determines the terms of options, including the exercise price, the number of shares subject to the option and the terms and conditions of exercise. No option granted under the Plans is transferable by the optionee other than by will or the laws of descent and distribution and each option is exercisable during the lifetime of the optionee only by such optionee. With respect to any participant who owns (or is deemed to own) stock possessing more than 10% of the voting rights of Global-Tech's outstanding capital stock, the exercise price of any Incentive Stock Option must not be less than 110% of the fair market value on the date of grant. The term of each option granted pursuant to the Plans may be established by the Board of Directors, or a committee of the Board of Directors, in its sole discretion; provided, however, that the maximum term of each Incentive Stock Option granted pursuant to both 1997 Plan and 2005 Plan is 10 years. With respect to any Incentive Stock Option granted to a participant who owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of Global-Tech's outstanding capital stock, the maximum term is 5 years. Shares of common stock distributed under the 1997 Plan and 2005 Plan will be from authorized but unissued shares.

Every option granted shall vest and become exercisable in accordance with the terms of the applicable option agreement. Options can be exercised for a period not exceeding 10 years from the date of grant.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27 Stock compensation (continued)

On May 10, 2000, Global-Tech offered a voluntary program to exchange up to approximately 991,900 options previously granted at exercise prices ranging from US\$8.31 to US\$19.00 for a lower number of options at an exercise price of US\$6.25 per share. As a result, 914,100 old options were exchanged for 711,175 options with an exercise price of US\$6.25 per share. In accordance with FASB Interpretation 44, these 711,175 options, together with the 12,500 options (herein collectively referred to as the “repriced options” granted within six months before or after the date of cancellation of the old options, were subject to variable accounting prospectively and stock compensation expense was adjusted for subsequent changes in intrinsic value. For the fiscal years ended March 31, 2005 and 2006, US\$1,247,061 and US\$348,162 of the expense were reversed in the consolidated statement of operations. Adoption of SFAS No. 123(R) under the modified prospective transition method requires that equity awards that previously were accounted for as variable awards under APB 25 that were not liabilities under SFAS No. 123(R) would no longer be accounted for as a variable award. For the fiscal year ended March 31, 2007, no share-based compensation was recognized or reversed as all the repriced options were completely vested as of March 31, 2006.

For the fiscal year ended March 31, 2005, no new options were granted and an aggregate total of 36,000 shares with an exercise price of US\$6.25 per share were forfeited upon resignation of the relevant participants.

For the fiscal year ended March 31, 2006, Global-Tech granted options to purchase (i) 180,000 shares of common stock to seven employees, 216,030 shares to four directors and 100,000 shares to a consultant with an exercise price of US\$3.90 per share under the 1997 Plan on March 31, 2006; and (ii) 313,970 shares to two directors with an exercise price of US\$3.90 per share under the 2005 Plan on March 31, 2006. During the fiscal year ended March 31, 2006, 347,538 shares of common stock with an exercise price of US\$6.25 per share granted to two directors and a consultant were cancelled, 21,500 shares with exercise prices ranging from US\$6.25 to US\$7.64 per share were forfeited upon the resignation of the relevant participants, and 2,500 shares with an exercise price of US\$5.75 per share expired.

For the fiscal year ended March 31, 2007, the Company granted options to purchase 3,000 shares of common stock to three employees and 301,000 shares to five directors with an exercise price of US\$3.30 per shares under the 2005 Plan on March 23, 2007. During fiscal year 2007, 126,200 shares with exercise prices ranging from US\$3.90 to US\$8.32 per share were forfeited upon resignation of the relevant participants. Total compensation expense reversal in the SG&A line item in the consolidated statement of operations for the fiscal years ended March 31, 2005 and 2006 was US\$1,247,061 and US\$233,892, respectively, and total compensation expense recognized for the year ended March 31, 2007 was US\$1,123,577. As a result of adopting SFAS No. 123(R), loss before income taxes and net loss for the fiscal year ended March 31, 2007, were both US\$972,426 more than had the Company continued to account for share-based compensation payment under APB 25. Cash flow from operations for the year ended March 31, 2007 was approximately US\$972,426 less than had the Company continued to account for share-based compensation under APB 25.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27 Stock compensation (continued)

Furthermore, basic and diluted loss per share of common stock for the fiscal year ended March 31, 2007 were approximately US\$0.04 more than had the Company continued to account for share-based compensation under APB 25.

Under the 1997 Plan and the 2005 Plan, which expire in ten years, options granted generally vest 25% after the first year of service and ratably each month over the remaining 36-month period.

In fiscal year 2003, Global-Tech also granted options to acquire an aggregate of 284,500 shares of common stock of Global-Tech to certain senior executives and Board of Directors members, which would vest and become exercisable as certain financial performance measures were met. Upon vesting the grantees would be able to exercise such options until they expire in 2014. None of these performance conditions have been satisfied since granted, and therefore, no share-based compensation expense had been recognized.

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

Changes in outstanding options under both 1997 Plan and 2005 Plan during the fiscal years ended March 31, 2005, 2006 and 2007 are as follows:

	2005			2006			2007		
	Options	Range of exercise price US\$	Weighted-average exercise price US\$	Options	Range of exercise price US\$	Weighted-average exercise price US\$	Options	Range of exercise price US\$	Weighted-average exercise price US\$
Outstanding, beginning of fiscal year	1,473,205	4.55-19.00	6.25	1,391,495	4.55-19.00	6.22	1,830,157	3.90- 8.32	5.25
Granted	-	-	-	810,000	3.90-7.00	4.09	304,000	3.30	3.30
Cancelled	-	-	-	(347,538)	6.25	6.25	-	-	-
Exercised	(45,710)	6.25	6.25	-	-	-	-	-	-
Forfeited/expired	(36,000)	6.25-7.64	7.52	(23,800)	5.75-19.00	7.78	(126,200)	4.55 - 8.32	6.44
Outstanding, end of fiscal year	<u>1,391,495</u>	4.55-19.00	6.22	<u>1,830,157</u>	3.90-8.32	5.25	<u>2,007,957</u>	3.30 - 7.64	<u>4.88</u>
Exercisable, end of fiscal year	<u>1,043,795</u>	4.55-19.00	5.75	<u>1,028,807</u>	3.90-8.32	5.00	<u>1,665,623</u>	3.30 - 7.64	<u>4.44</u>

During the fiscal year 2007, the Company granted an aggregate of 15,000 shares of common stock of Global-Tech to an employee with an effective grant date of November 6, 2006 of which 3,000 of such common stock will vest and be issued on the first anniversary of the date of the stock grant and 3,000 of such common stock will vest and be issued on the second, third, fourth, and fifth anniversary of the date of the stock grant, respectively.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27 Stock compensation (continued)

Changes in outstanding options under both 1997 Plan and 2005 Plan during the fiscal years ended March 31, 2005, 2006 and 2007 are as follows: (continued)

Options	Options outstanding as of March 31, 2007			Options exercisable as of March 31, 2007	
	Range of exercise price per option US\$	Weighted-average remaining contractual life (years)	Weighted-average exercise price per option US\$	Options	Weighted-average exercise price per option US\$
1,034,000	3.30-3.90	9.29	3.72	979,166	3.71
677,457	4.55-6.25	2.77	5.44	677,457	5.44
<u>296,500</u>	7.60-7.64	6.71	7.64	<u>9,000</u>	7.60
<u>2,007,957</u>	3.30-7.64	6.71	4.88	<u>1,665,623</u>	4.44

As of March 31, 2007, there was US\$86,501 unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of one year. To the extent that the actual forfeiture rate is different from the original estimate, actual share-based compensation related to these awards may be different from the expectations.

The fair values per option granted during the fiscal year ended March 31, 2007 were estimated on the date of grant using the Black-Scholes option-pricing model to be US\$0.9671 to US\$1.34, on a weighted-average basis. The fair values of the options granted were estimated on the date of grant using the following assumptions:

	2005*	2006	2007
Risk-free interest rate	-	4.07% - 4.79%	4.48% - 4.51%
Expected dividend yield	-	0%	0%
Expected option life	-	7 years	3 - 5 years
Expected stock price volatility	-	50.12% - 51.39%	34.75% - 37.71%

* No option was granted in the fiscal year 2005.

The weighted-average grant date fair value of options granted during the fiscal years ended March 31, 2006 and 2007 was US\$2.12 and US\$1.01, respectively.

Shareholder Information

BOARD OF DIRECTORS

Kwong Ho Sham
Chairman of the Board

John C.K. Sham
President and Chief Executive Officer

Brian Yuen
Chief Executive Officer, Global-Tech USA, Inc.

Patrick Po-On Hui
Director

Ken Ying-Keung Wong
Director

Barry J. Buttifant
Director

OFFICERS

Kwong Ho Sham
Chairman of the Board

John C.K. Sham
President and Chief Executive Officer

Brian Yuen
Chief Executive Officer, Global-Tech USA, Inc.

Kin Shek Leung
Acting Chief Financial Officer

REGISTRAR AND TRANSFER AGENT

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
(212) 936-5100

INDEPENDENT ACCOUNTANTS

Ernst & Young
Certified Public Accountants
Hong Kong

LEGAL COUNSEL

Calfee, Halter & Griswold LLP
Cleveland, Ohio

2007 ANNUAL SHAREHOLDER MEETING

November 13, 2007 at 10:30 A.M.
Aberdeen Marina Club
8 Shum Wan Road
Aberdeen, Hong Kong

STOCK WATCH

Global-Tech's common shares are traded on The New York Stock Exchange ("NYSE") under the symbol GAI. The usual stock table abbreviation is GIBTApp.

From April 1, 2006 through March 31, 2007, the high and low last reported sale prices for Global-Tech's common shares listed on NYSE were US\$4.00 and US\$2.55, respectively.

As of August 31, 2007, approximately 33.5% of the outstanding ordinary shares of Global-Tech were held in the United States by 13 holders registered on the books of Global-Tech's transfer agent.

AVAILABILITY OF ADDITIONAL INFORMATION

This publication is a summary annual report. A copy of Global-Tech's annual report on Form 20-F and quarterly reports will be furnished without charge upon request to any shareholder. The annual report on Form 20-F is also available on Global-Tech's website at <http://www.global-webpage.com>. Please send requests to:

Investor Relations Department
Global-Tech Appliances Inc.
12/F., Kin Teck Industrial Building,
26 Wong Chuk Hang Road,
Aberdeen, Hong Kong

For further information on Global-Tech, its products and its markets, please call (852) 2814-0601 or fax (852) 2873-0591.