GLOBAL-TECH APPLIANCES INC.

2006 ANNUAL REPORT

Dongguan Factory Complex

Appliance Factory

Global Optics Factory

GLOBAL-TECH APPLIANCES INC.
AND SUBSIDIARIES

ANNUAL REPORT
MARCH 31, 2006

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LETTER TO OUR SHAREHOLDERS

Our Company's performance in fiscal 2006, despite the improvement in net sales, was disappointing. The primary reason for the Company's poor performance was that we were unable to pass along significant increases in material costs to our customers. The resulting manufacturing margins were insufficient to offset our corporate overhead and other SG&A expenses. Additionally, the impairment charges we incurred related to our organic light emitting diode (OLED) and flat-panel liquid crystal display television (LCD TV) programs also adversely impacted our financial results.

In our fiscal year ended March 31, 2006, net sales grew 76% to $73.8 million. Most of the net sales were derived from our core business primarily comprised of floor care products. Included in net sales for fiscal 2006 were approximately $5.8 million for sales of CMOS camera modules ("CCMs"). The CCMs, which we produced and sold primarily to cellular phone manufacturers in China, was a new business that we established in May of 2005 and started generating sales from August of 2005. Unfortunately, although material and energy costs for our core business increased significantly during the 2006 fiscal year, we had to lower prices to stay competitive and the net result was that our gross profit margin remained anemic even though throughput improved overall throughout the fiscal year.

Our net loss for the 2006 fiscal year was $11.2 million, which included a loss of approximately $8.0 million related to our display-related programs. For the last two years, our LCD TV and OLED display programs have floundered because market prices have plummeted before we could successfully develop a competitive advantage. Accordingly, we have decided to discontinue the LCD TV program and redirect our OLED program through a joint-venture in China with a publicly listed (in Singapore) equipment manufacturer to develop a more cost effective manufacturing process.

Although the net loss for fiscal 2006 was less than the prior fiscal year, it was still unacceptably high. On a cash flow basis, our loss from operations was $7.6 million, an improvement of $1.1 million from the prior fiscal year. Our cash and short-term investments declined $2.2 million from the prior fiscal year, and this is indicative of our continued commitment to preserve the Company's cash position as it executes its diversification and investment strategies in exploring new business opportunities.

During the last 12 months, we have devised and implemented certain strategic initiatives which we believe will improve our overall business:

- First, in order to support and maintain our core business comprised primarily of floor care products, we have decided to re-emphasize original equipment manufacturing (OEM) to further reduce product development expenditures and minimize our overhead. This strategy will allow us to continue to meet the needs of our existing customers while we continue our efforts to secure new customers.

- Secondly, we plan to continue building our CCM business by expanding into other electronic component areas utilizing sensors, optics, and other digital technologies. To achieve this objective, we recently established an R&D staff in Taiwan to further strengthen our product development capabilities. We believe this commitment will ultimately result in a technological advantage which should enable the Company to better serve its existing PRC-based cellular phone manufacturers and also attract new customers. As an adjunct to the component business, we also plan to pursue other applications that will allow us to incorporate our technology into finished products, including security devices, one of which was recently introduced by the Company.

- The third strategy is rather interesting and currently under evaluation. The Company's factory complex in Dongguan, China covers an area of approximately two million square feet. It is fully equipped with a variety of modern manufacturing equipment, which we believe could be utilized for producing value-added instead of commodity products. We are, therefore, currently evaluating electronic manufacturing services (EMS) opportunities. With our vertically-integrated manufacturing capabilities and low-cost manufacturing infrastructure, we believe that the Company can become an EMS provider to companies currently operating in high-cost locations and are seeking manufacturing partners, such as ourselves, to remain competitive in the marketplace. While this strategy is still embryonic, we are considering allocating certain of our resources and efforts to evaluate the feasibility of such future business opportunities.

- Finally, while our business has suffered in the last few years, our cash and short-term investments were over $46 million as of March 31, 2006, or approximately $3.77 per common share, which we believe is more than sufficient to support our ongoing business initiatives and strategies.

In closing, I would like to extend my wholehearted thanks to those of you who have continued to offer us your patience and understanding. My hope remains that ultimately you will be rewarded.

JOHN C.K. SHAM
President and Chief Executive Officer

October 24, 2006

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

BUSINESS HIGHLIGHTS

Our core business is designing, manufacturing and selling small electrical household appliances to brand marketers in developed countries. While our products and product categories have changed over time, and will continue to change in the future, the total market that we serve remains relatively stable. It is our aim to offer reliable, high-quality manufacturing as a partner to U.S. and European companies that need to procure finished products from the Far East for competitive reasons, but also need to protect their brands' reputations.

In our core business, we historically categorized the appliances we manufacture by function. Our current product categories are floor care products and kitchen appliance products. In both categories, and with respect to the individual products within the category, there are major brands and private label brands competing for retail shelf space and consumer purchase. While our core business, as a whole, has remained fairly stable in the developed countries, it is subject to significant shifts in demand for particular product categories and individual products within such categories.

In the past, we manufactured personal care products, the least complex category in small electrical appliances. However, by 2001, we began to become less competitive in this product category compared to other Chinese manufacturers that did not have a Hong Kong staff or development programs and we decided to de-emphasize this product category and begin to redirect our efforts. At the same time, we expanded our electric motor expertise and entered the floor care product category. Floor care products require sophisticated and complex manufacturing equipment and processes and we made significant investments to upgrade our facility to meet our customers' requirements.

Our initial floor care customers were Royal Appliance (Royal) and Sharper Image. Subsequently, we started to manufacture extractors for Eureka (part of the Electrolux group). For competitive reasons we limited our customer base to the principal players, Royal and Eureka. Since both of these customers were themselves also manufacturers, our opportunities were limited to stock keeping units ("SKUs") that we could produce more cost effectively than they could.

One of our key strategies that historically aided our business success was our emphasis on Original Design Manufacturing ("ODM") as an alternative to contract manufacturing. We designed, engineered and tooled our own products and offered them for sale to well-known household appliance companies for sale under their own brand names. This was particularly effective with kitchen appliances since brand marketers could introduce our products to the market with minimum upfront investment on their part and satisfy the retailers' need for differentiation and novelty. However in recent years with the continuing pricing pressures, maintaining an ODM infrastructure of designers and engineers has become cost prohibitive. As a result, unless we know a customer's particular need for a product, we can no longer afford to allocate the resources needed for engineering, prototyping or tooling. Thus, in our core appliance business, we are now concentrating on being a high quality Original Equipment Manufacturer ("OEM").

A significant portion of our sales are made in U.S. dollars. U.S. and European sales for our products accounted for 73.8% and 11.3%, respectively, of our net sales during fiscal 2006, as compared to 86.0% and 7.1%, respectively, of our net sales during fiscal 2005 and 83.9% and 6.7%, respectively, of our net sales during fiscal 2004. In fiscal 2006, Asian sales accounted for $10.4 million or 14.7% of our net sales as compared to $2.2 million or 5.3% of our net sales in fiscal 2005. The increase in Asian Sales was due to the sales to PRC-based cellular phone manufacturers of CMOS (complementary metal oxide semiconductor) camera modules (“CCMs”), which we started shipping in the second quarter of fiscal 2006.

Small household appliances are sold through a variety of distribution channels, including mass merchandisers, specialty retailers, warehouse clubs, drug store chains, direct marketing organizations and department stores. In the United States, mass merchandisers, such as Wal-Mart and Target, have become the dominant retailers of small household appliances and we believe that a similar trend has evolved in Western Europe. Generally, mass merchandisers prefer to purchase from a limited number of well-known household appliance companies that can provide a variety of high quality, innovative, brand name products on a timely and cost-effective basis. Accordingly, household appliance companies are focusing their resources on marketing and distribution, while increasingly outsourcing engineering and manufacturing.

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

Late in fiscal 2003, we began exploring opportunities in display-oriented products, particularly those utilizing flat-panel liquid crystal displays (LCDs). We concluded that investing in the capital equipment to produce flat-panel modules was not as attractive as sourcing the panels, software, and other electronic components while we focused on utilizing our manufacturing experience and capabilities to produce high–quality, competitive products. In pursuit of this venture, we established a separate subsidiary, Global Display, to develop and market a wide range of such display-oriented products with its own dedicated and experienced technical and marketing staff focused initially on developing flat-panel high definition televisions (HDTVs) incorporating plasma or thin film transistor liquid crystal displays (TFT-LCDs).

In fiscal 2005, we also acquired a majority controlling interest in Winway Technology Development Limited (“Winway”). Winway established its own marketing network for consumer electronic products in certain Asian countries including China.

As a result of a dramatic decline in prices for flat panel televisions in the U.S. and Europe and our late entry into this venture, we were not successful in securing major customers for our consumer LCD televisions, resulting in our inventory of LCD Panels devaluing on a monthly basis. Towards the end of fiscal 2005, we realized that a change of strategy was needed and ceased our commercial efforts with respect to flat panel LCD televisions. During 2006, we liquidated our remaining flat panel display assets and reduced our workforce. Additionally due to the falling market prices for OLED displays, we decided to revise our OLED strategy. Recently, we entered into a joint venture with Anwell Technologies Limited (“Anwell”), a public company in Singapore to develop a more cost effective process for producing OLED equipment rather than just marketing OLED displays.

Between exiting the displays venture and the OLED program, we have taken significant impairment charges but dramatically reduced our overhead and development costs, which should reduce our fixed and SG&A costs by approximately $7.5 million per annum on an ongoing basis.

In late fiscal 2005, we established a new entity, Global Optics Limited, to market CCMs and to develop household electronic products incorporating optical systems. In fiscal 2006 our sales of

CCMs were approximately $5.8 million and we introduced our first home security product to the marketplace.

We believe the opportunity to sell CCMs and other electronic components to cellular phone and PDA manufacturers in the PRC is a promising business for us albeit currently at commodity type margins. At present we source the sensors and lenses so that we can apply our resources to operate a top quality clean room in our manufacturing facility in the PRC for low-cost assembly and concurrently concentrate on product enhancements with a team of experienced electronic and optical engineers.

The following table reflects our net sales for each significant product category in fiscal 2004, 2005 and 2006:

	Fiscal Year Ended March 31,		
	2004	2005	2006
		(In thousands)	
Product category:			
Floor care products	$ 49,734	$ 29,623	$ 54,571
Kitchen appliances	12,044	7,629	7,316
Electronic components	-	-	5,917
Others (1)	5,123	4,599	6,008
Total	$ 66,901	$ 41,851	$ 73,812

(1) Includes garment care and travel products, environmental care products, personal and health care products and accessories for each of our product categories and display product samples as well as tooling income for procurement, design and manufacturing of tooling and molds.

Our long-term business strategy is to gradually diversify and to focus a portion of our manufacturing facility towards the production of higher-value, technology-oriented products which in turn will allow us to leverage our existing development and technical management staff in Hong Kong, and our manufacturing infrastructure in China.

FINANCIAL HIGHLIGHTS

The selected consolidated statement of operations data for the fiscal years ended March 31, 2004, 2005 and 2006 and the selected consolidated balance sheet data as of March 31, 2005 and March 31, 2006 set forth below have been prepared in accordance with U.S. GAAP and are derived from our consolidated financial statements and notes thereto included elsewhere in this annual report. The selected consolidated statement of operations data for the fiscal years ended March 31, 2002 and 2003 and the selected consolidated balance sheet data as of March 31, 2002, March 31, 2003 and March 31, 2004 set forth below have been prepared in accordance with U.S. GAAP and are derived from our consolidated financial statements and notes thereto not included elsewhere in this annual report. The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis", the consolidated financial statements and the notes thereto and other financial information which appear elsewhere in this annual report.

	Fiscal Year Ended March 31,				
	2002	2003	2004	2005 (3)	2006 (4)
	(In thousands, except for per share data)				
Statement of operations data:					
Net sales	$ 85,321	$ 75,489	$ 66,901	$ 41,851	$ 73,812
Cost of goods sold	(65,148)	(54,906)	(52,942)	(44,595)	(69,817)
Gross profit (loss)	20,173	20,583	13,959	(2,744)	3,995
Selling, general and administrative expenses	(14,299)(1)	(15,298) (1)	(19,019)(1)	(16,054)	(18,011)
Other operating income (loss)	—	—	—	(810)	2,380
Operating income (loss)	5,874	5,285	(5,060)	(19,608)	(13,636)
Interest expense	(126)	(57)	(17)	(10)	(55)
Interest income	1,984	1,241	851	977	1,278
Other income (expenses), net	85	228	428	31	(846)
Income (loss) from continuing operations before income taxes	7,817	6,697	(3,798)	(18,610)	(11,259)
Benefit (provision) for income taxes	(1,417)	(624)	(108)	(33)	23
Income (loss) from continuing operations	6,400	6,073	(3,906)	(18,643)	(11,236)
Discontinued operations:					
Loss from operations of discontinued thin film electro-luminescent ("TFEL") display business, net of applicable income tax of $nil for 2002 and 2003	(10,993)(2)	(835)(2)	—	—	—
Gain on disposal of the TFEL display business	—	29 (2)	—	—	—
Net income (loss) before minority interests	(4,593)	5,267	(3,906)	(18,643)	(11,236)
Minority interests	1,570	—	—	20	13
Net income (loss)	$ (3,023)	$ 5,267	$ (3,906)	$ (18,623)	$ (11,223)
Basic and diluted earnings (loss) per common share from continuing operations	$ 0.53	$ 0.50	$ (0.32)	$ (1.52)	$ (0.92)
Basic and diluted earnings (loss) per common share	$ (0.25)	$ 0.43	$ (0.32)	$ (1.52)	$ (0.92)
Basic and diluted weighted average number of shares outstanding	12,140	12,141	12,153	12,215	12,224

(1) Includes provisions of $274,000, $556,000 and $669,000, respectively, against a related party loan and the related interest receivable in fiscal 2002, 2003 and 2004.

(2) On November 1, 2002, we announced that our subsidiary, Global Lite Array (BVI) Limited ("GLA") entered into an agreement to sell Lite Array, Inc.'s ("LA") TFEL display business, including the interest that LA owned in a joint venture manufacturing facility in Jiangmen, China, to the former management of LA. As a result of this agreement, the results of operations for LA's TFEL display business have been reported as a discontinued operation.

(3) For fiscal 2005, other operating income (loss) of $810,000 was reclassified from selling, general and administrative expenses and represented a contingent loss provision.

(4) For fiscal 2006, certain reclassifications have been made to prior year balances in order to conform to the current fiscal year presentation.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions and involve inherent risks and uncertainties. We use words such as "expect," "anticipate," "project," "believe," "plan," "intend," "seek," "should," "estimate," "future," or variations of such words and other similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements. Factors that could contribute to differences include, but are not limited to, the following: 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; the success of new product development and market acceptance especially in the area of cellular phone components and solutions and for our more technologically complex products; 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 our manufacturing capacity to higher-value, technology-oriented products; currency fluctuations including, but not limited to, the revaluation of the Chinese Renminbi; the imposition of China's trading partners of economic sanctions and/or protective tariffs on Chinese manufacturing goods; uncertainties associated with investments; the regulatory environment; the impact of changing global, political and economic conditions; and other risks detailed in Report on Form 20-F and elsewhere in this annual report. We do not undertake to update our forward-looking information, or any other information contained or referenced in this annual report to reflect future events and circumstances.

RESULTS OF OPERATIONS

The following table sets forth certain statements of income data as a percentage of net sales for the periods indicated:

	Fiscal Year Ended March 31,		
	2004	2005	2006
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	79.1	106.6	94.6
Gross profit (loss)	20.9	(6.6)	5.4
Selling, general and administrative expenses	(28.4)	(38.4)	(24.4)
Other operating income (loss)	-	(1.9)	3.2
Operating loss	(7.5)	(46.9)	(15.8)
Interest expense	0.0	0.0	0.0
Interest income	1.3	2.3	1.7
Other income (expenses), net	0.6	0.1	(1.1)
Loss from operations before income taxes	(5.6)	(44.5)	(15.2)
Benefit (provision) for income taxes	(0.2)	(0.1)	0.0
Net loss before minority interests	(5.8)	(44.6)	(15.2)
Minority interests	0.0	0.1	0.0
Net loss	(5.8)	(44.5)	(15.2)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Fiscal Year Ended March 31, 2006 Compared with Fiscal Year Ended March 31, 2005)

Net Sales.

Our net sales include sales of finished goods, parts and accessories, and tooling income from procuring, designing and manufacturing molds for certain products that our customers choose to own. Tooling income is not a primary source of our sales revenue and is immaterial to overall sales. Net sales consist of gross amounts invoiced less discounts and returns. Revenues from product sales are recognized at the time of shipment when title passes. Under the Company's standard terms and conditions of sale, which are mainly FOB shipment point, title and risk of loss transfer to the customer at the time product is delivered to the customer's freight forwarder, and revenue is recognized accordingly unless customer acceptance is uncertain or significant obligations remain. It is rare to have any contingency concerning title passing when explicit shipping terms are stated. We do not recognize sales for those products where the customer has any right of return. Returns historically have been immaterial.

Net sales in fiscal 2006 increased approximately 76.0% to $73.8 million from $41.9 million in fiscal 2005. The increase was primarily due to an increase in sales of floor care products and $5.8 million in net sales of CCMs, a new product category for us.

Net sales are comprised of sales in our two major product categories for these periods: floor care and kitchen appliances products as well as sales of CCMs. Sales in each major category for fiscal 2006 as compared to fiscal 2005 were as follows:

- floor care products sales increased to $54.6 million, or 73.9% of net sales, from $29.6 million, or 70.8% of net sales, primarily due to new floor care models contracted for by our two major customers.

- kitchen appliances sales decreased to $7.3 million, or 9.9% of net sales, from $7.6 million, or 18.2% of net sales, primarily due to a decrease in sales of coffeemakers, breadmakers, and food steamers partially offset by increased sales of deep fryers.

- sales of CCMs, a new product for us in fiscal 2006 amounted to $5.8 million

In fiscal 2006, sales to North America accounted for $54.4 million or 73.8% of net sales as compared to $36.0 million, or 86.0% of net sales in fiscal 2005. In fiscal 2006, sales to Asian countries increased by approximately $8.2 million to $10.4 million, or 14.1% of net sales in fiscal 2006 from $2.2 million, or 5.3% in fiscal 2005. The increased Asian sales were primarily due to the sales of CCMs.

In fiscal 2006, our shipments of display products amounted to approximately $3.0 million compared to less than $1.0 million in fiscal 2005 but consisted mainly of sales of LCD panels from inventory as we liquidated our display assets.

Gross profit (loss).

Gross profit or loss consists of net sales less cost of goods sold, which includes the costs of raw materials, production materials, labor, transportation, depreciation and factory overhead. Gross profit in fiscal 2006 was $4.0 million or 5.4% of net sales, as compared to a gross loss of $2.7 million or 6.6% of net sales in fiscal 2005. The improvement in gross margin as a percentage of net sales was primarily due to higher production levels absorbing fixed overhead offset by higher material costs particularly for plastics and steel. Additionally we continued reducing selling prices to our two main floor care customers to remain competitive with other OEM suppliers in China and Korea. In fiscal 2006, our raw material costs as a percentage of net sales was 76.4% as compared to 70.5% in fiscal 2005. We believe that the increase in raw material commodity pricing while significant in 2006 will continue accelerating in fiscal 2007 and we will make further attempts to get pricing relief from our customers.

Labor and overhead expenses as a percentage of sales were 3.6% and 11.0% respectively in 2006. Included in overhead of $8.3 million was a provision for obsolete inventory of $1.4 million as we discontinued selling a number of kitchen appliance SKUs and incurred a further write down of our display inventories, which provisions amounted to $0.5 million and $0.9 million, respectively. Overhead in fiscal 2005 was $13.0 million but included $1.2 million in impairment and $3.8 million in obsolescence charges. Excluding the aforesaid items overhead only increased approximately 10% in 2006 from the prior year despite a 76% increase in sales.

Selling, general and administrative expenses.
The primary components of our selling, general and administrative ("SG&A") expenses are related to product design and development, transportation of finished goods, salaries for marketing and administrative personnel, professional fees, non-cash compensation expense and utilities. SG&A expenses in fiscal 2006 were $18.0 million or 24.4% of our net sales, as compared to $16.1 million, or 38.4% of net sales in fiscal 2005. Shipping, handling or other costs that are incurred for the sale of products are classified as selling expenses. The 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, 2006 and 2005, shipping costs charged to selling expenses were approximately $1.1 million and $0.7 million, respectively.

Included in SG&A expenses in fiscal 2006 were an impairment charge of $2.1 million and a reversal of stock compensation expense of $0.2 million. Excluding these items SG&A was $16.1 million or 21.8% of net sales versus an equivalent of $18.1 million or 43.2% of net sales in the prior year. The decrease in SG&A expense was primarily due to de-emphasizing the display business and a reduction in our core business sales and administrative staff. Out of the total SG&A expenses in fiscal 2006, $0.5 million relates to our new CCM business and $4.6 million to our various display activities compared to $6.5 million in fiscal 2005. We expect some lingering display related SG&A in fiscal 2007 but we expect it will be materially reduced from fiscal 2006.

The primary components of design and development expenses included in SG&A include design and prototyping costs, patent fees, testing charges, inspection fees and salaries for engineers and designers. In fiscal 2006, total product development expenses were approximately $1.7 million, as compared to $2.5 million in fiscal 2005. Of the $1.7 million, $0.1 million and $1.3 million were incurred in the display and CCM and electronic component programs, respectively.

Due to the pressure on margins we are experiencing in our business, we determined that our SG&A needs to be reduced further. Steps have been taken subsequent to the end of our fiscal 2006 to reduce the technical and marketing staff commensurate with our decision to drop our ODM program for the core business. Additionally, we are reducing our administrative costs by not replacing managers and executives that have left the Company and by transferring some functions to China.

Other operating income (loss).

In fiscal 2006, we recognized other operating income of approximately $2.4 million, compared to an operating loss of approximately $0.8 million in fiscal 2005. The income in 2006 included accruing a contingent loss of $4.7 million relating to a potential judgment against one of our subsidiaries, offset by awards of $4.6 million related to a breach of contract claim (See Note 23 – Contingent liabilities of Notes to Consolidated Financial Statements) and $2.4 million related to a patent infringement claim adjudicated and finalized in fiscal 2006.

Operating income (loss).

In fiscal 2006, we incurred an operating loss of $14.0 million, as compared to an operating loss of $19.6 million in fiscal 2005. The loss in 2006 was mainly due to our gross profit being insufficient to support our SG&A and continuing losses in our display business.

Interest expense, interest income and other income (expense), net.

Interest expense consists of interest on short-term and long-term bank credit facilities. Interest expense was approximately $55,000 in fiscal 2006 as compared to $10,000 in fiscal 2005. The increase in interest expense was due to the use of an average of $700,000 of our overdraft facility under our line of credit from April 2005 to November 2005. Interest income in fiscal 2006 was approximately $1.3 million as compared to $1.0 million in fiscal 2005. The increase was due to the increase in interest rates in the funds invested by the Company. The funds are primarily invested in low risk financial instruments. In fiscal 2006, we had an average invested fund balance which includes cash and cash equivalents and short-term investments of approximately $47.2 million with an average rate of return of approximately 2.9% as compared to an average invested fund balance of approximately $44.8 million with an average rate of return of approximately 2.1% in fiscal 2005. Other expenses, net in fiscal 2006 were approximately $0.8 million compared to other income, net in fiscal 2005 of $0.03 million. For a breakdown of our other income (expenses), net see Note 18 – Other income (expenses), net of Notes to Consolidated Financial Statements.

Income tax.

Our financial statements include a benefit (provision) for profits tax of approximately ($23,000) and $34,000 in fiscal 2006 and 2005, respectively, due to certain of our subsidiaries either being profitable or entitled to a tax refund.

We are not subject to taxation in the British Virgin Islands in accordance with British Virgin Islands tax regulations. We are subject to income tax in each jurisdiction where our subsidiaries do business. Certain of our income accrues in China, where the effective tax rate is 27.0%, and in Hong Kong, where the corporate tax rate is 17.5%, on income from operations but excluding interest, dividend income and capital gains. In Hong Kong, estimated taxes for each fiscal year are paid during the year based on the prior year's taxable earnings from operations. An adjustment in the form of additional taxes paid or refunds to us is then made in the following fiscal year based on actual taxable earnings. Therefore, in each fiscal year, our statement of operations reflects a provision for estimated taxes for the current fiscal year and adjustments for over- or under-provision with respect to the prior fiscal year.

Our Chinese subsidiaries are subject to income tax based upon the taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. Our subsidiary in China was exempted from income tax for two years starting from its first profitable year (after utilizing accumulated tax loss carry forwards or a lapse of five years) followed by a 50% exemption for the next three years. Commencing January 1, 2004, one of our subsidiaries in China is subject to the full tax rate of 27.0%. This Chinese subsidiary is our manufacturing facility that incurs a significant portion of our manufacturing overhead. This subsidiary makes sales of finished goods to our other subsidiaries. For these reasons, we do not believe the full tax rate will have a significant impact on our financial condition or results of operations. In fiscal 2004, we established a new subsidiary in China, Dongguan Lite Array, which is also exempted from income tax for a two-year period effective from its profitable year followed by a 50% exemption for the next three years. In fiscal 2005, our U.S. subsidiary, Lite Array, engaged in trading of OLED raw materials and components to our other subsidiaries. The sales amount was immaterial. We do not believe there was taxable income as this subsidiary incurred a loss and there was also a tax loss carry forward. To the extent that we have income effectively connected with the conduct of a U.S. trade or business in any fiscal year, we would be subject to U.S. taxes at an effective rate up to 55%. The trading of OLED raw materials and components was ceased as we have shifted our focus to development of OLED systems. We do not believe that our current method of operations subjects us to U.S. taxes. We have established a subsidiary in Macau, China where we conduct sales, marketing, administration and other activities. Similar to our subsidiaries established in the British Virgin Islands, we are not subject to taxation in Macau although the Hong Kong Inland Revenue Department may choose to assess Hong Kong taxes on any profits generated in Macau.

Minority interests.
We recorded a share of loss by a minority interest of a newly acquired subsidiary of approximately $13,000 and $20,000 in fiscal 2006 and 2005, respectively.

Net loss.
Net loss for fiscal 2006 was $11.2 million or $0.92 per share, as compared to a net loss of $18.6 million, or $1.52 per share for the fiscal 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Fiscal Year Ended March 31, 2005 Compared with Fiscal Year Ended March 31, 2004)

Net Sales.

Our net sales include sales of finished goods, parts and accessories, and tooling income from procuring, designing and manufacturing molds for certain products that our customers choose to own. Tooling income is not a primary source of our sales revenue and is immaterial to overall sales. Net sales consists of gross amounts invoiced less discounts and returns. Revenues from product sales are recognized at the time of shipment when title passes. Under the Company's standard terms and conditions of sales, which are mainly FOB shipment point, title and risk of loss transfer to the customer at the time the product is delivered to the customer's freight forwarder, and revenue is recognized accordingly unless customer acceptance is uncertain or significant obligations remain. It is rare to have any contingency concerning the title passing when explicit shipping terms are stated. We do not recognize sales for those products where the customer has any right of return. Returns historically have been immaterial.

Net sales in fiscal 2005 decreased approximately 37.4% to $41.9 million from $66.9 million in fiscal 2004. In fiscal 2004 and 2005, our net sales included approximately $0.9 million and $1.3 million of tooling income, respectively. The decrease in net sales was primarily due to declining sales in floor care products and kitchen appliances.

Net sales are comprised of sales in our two major product categories: floor care and kitchen appliances products. Sales in each major category for fiscal 2005 as compared to fiscal 2004 were as follows:

- Sales of floor care products decreased to $29.6 million or 70.8% of net sales from $49.7 million or 74.3% of net sales. The decrease in sales was primarily due to decreased sales of existing floor care products to Royal which was only partially offset by the sales of new models. In addition, our only shipments to Electrolux occurred late in fiscal 2005.

- Sales of kitchen appliances decreased to $7.6 million or 18.2% of net sales, from $12.0 million or 18.0% of net sales, primarily due to decreased sales of coffeemakers and deep fryers, which was partially offset by the increased sales of lemonade makers.

In fiscal 2005, sales of floor care products decreased by approximately $20.1 million from fiscal 2004. Our two major floor care products customers, Royal and Electrolux accounted for 62.7% and 10.3% of our net sales in fiscal 2005, as compared to 48.4% and 26.1% in fiscal 2004. In recent years, we have established a business relationship with Electrolux. There were no sales to this customer in the first three quarters of this fiscal year as they had sufficient inventory of an older discontinued model on hand and we were also still finalizing the engineering specifications for a new floor care product which we began shipping in late fiscal 2005.

In fiscal 2005, we began shipping LCD and plasma TVs. These sales generated revenues of approximately $450,000 or 1.1% of our net sales. In addition we took in aggregate an approximately $4.7 million impairment charge against our display assets including manufacturing and R&D equipment and the write down of our panel inventory to market value.

Gross profit (loss).
Gross profit or loss consists of net sales less cost of goods sold, which includes the costs of raw materials, production materials, labor, transportation, depreciation and factory overhead. Gross loss in fiscal 2005 was $2.7 million or 6.6% of net sales, as compared to a gross profit of $14.0 million or 20.9% of net sales in fiscal 2004. The decrease in gross profit in fiscal 2005 was primarily due to higher material costs and overhead expenses being absorbed over lower net sales. In addition, there was insufficient sales revenue generated from the Global Display and OLED programs to offset their manufacturing overhead.

Raw material costs as a percentage of net sales was approximately 70.5% as compared to 63.6% in fiscal 2004. Included in the material costs were approximately $0.5 million and $0.7 million of inbound freight charges in fiscal 2005 and 2004, respectively. We only include inbound freight charges, receiving, inspection and warehousing and other internal transfer costs in the cost of goods sold and exclude customs declaration and insurance expenses incurred for raw materials acquisition. In fiscal 2005, material costs including plastic resin, metal and motor components that were mostly used in the manufacturing of floor care products, increased approximately 10.0% and we could not pass this increase through to our customers. In particular, we are required to use higher grade plastic resins, which are more expensive, in our manufacture of floor care products. Part of the decrease in net sales also resulted from a price reduction for certain floor care products we offered to retain business; therefore our cost of raw materials, while decreasing in absolute amounts, increased significantly as a percentage of net sales.

Factory overhead was $15.1 million or 36.1% of net sales in the fiscal 2005, as compared to $10.4 million, or 15.5% of net sales in the fiscal 2004. Included in factory overhead for fiscal 2005 was $1.2 million of impairment charges of which $0.3 million and $0.9 million related to our core business and display program, respectively. In addition, we made a provision against our inventory of approximately $3.8 million of which $3.5 million related to writing down our display panels to market value and the remaining $0.3 million was for our core business. In fiscal 2005, cost of sales included $0.5 million of minimum royalty for our OLED program whereas in fiscal 2004 such royalty was included in selling, general and administrative expenses since there were no sales of licensed product. This minimum royalty far exceeded our net sales of OLED displays.

The sales revenue generated from Global Display and OLED programs after deducting the raw material costs was insufficient to cover the overhead expenses incurred by these programs. The excess was absorbed by the core business, thus contributing to a gross loss in fiscal 2005.

Selling, general and administrative expenses.
The primary components of our selling, general and administrative ("SG&A") expenses are related to advertisement and promotion, product design and development, transportation of finished goods, salaries for marketing and administrative personnel, professional fees and utilities. SG&A expenses in fiscal 2005 were $16.1 million or 38.4% of our net sales as compared to $19.0 million, or 28.4% of net sales in fiscal 2004. Shipping expense included in SG&A 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 and 2004, shipping and handling costs charged to selling expenses were approximately $0.8 million and $1.4 million, respectively.

Out of the total SG&A expenses in fiscal 2005, $10.4 million, $4.3 million and $2.2 million respectively were attributable to our core business, Global Display and OLED programs as compared to $14.8 million, $2.0 million and $2.2 million in fiscal 2004. The decrease in SG&A expenses in fiscal 2005 was primarily due to a non-cash stock compensation expense of approximately $2.4 million recognized in fiscal 2004, compared to a reversal of $1.2 million in fiscal 2005, relating to variable accounting for stock options. Approximately 347,538 of the options subject to variable accounting were voluntarily cancelled in September 2005. Excluding the effect of this non-cash stock compensation expense, SG&A expenses were $18.1 million and $16.6 million in fiscal 2005 and 2004, respectively. The aggregate increase of $2.3 million incurred by the Global Display program was the main contributor to our total SG&A expenses increasing by $1.5 million. Lower shipping expense due to lower volume and reductions in the engineering and administrative staff in our core business offset some of the increase in salaries and depreciation and amortization charges in our display and OLED programs.

The primary components of design and development expenses included in SG&A include design and prototyping costs, patent fees, testing charges, inspection fees and salaries for engineers and designers. In fiscal 2005, total product development expenses were approximately $2.5 million, as compared to $2.3 million in fiscal 2004. Out of the total approximately $2.5 million in fiscal 2005, $1.1 million was incurred for our core business, $1.2 million for displays and $0.2 million for our OLED program, as compared to $1.3 million, $0.7 million and $0.3 million for our core business, Global Display and OLED programs in fiscal 2004, respectively. These expenses were primarily attributable to salaries and wages for the research and development staff and sample and design fees incurred for new programs.

Other operating expenses.

Included in fiscal 2005 are other operating expenses of $0.8 million representing a contingent loss provision for pending litigation. See Note 23 (c) – Contingent liabilities of Notes to Consolidated Financial Statements for details of the litigation.

Interest expense, interest income and other income, net.

Interest expense consists of interest on short-term and long-term bank credit facilities. Interest expense was approximately $9,900 in fiscal 2005 as compared to $18,000 in fiscal 2004. The decrease in interest expense was mainly due to a maturity of a long-term loan and decreased borrowing requirements. Interest income was approximately $977,000 in fiscal 2005 as compared to $851,000 in fiscal 2004. Other income, net was approximately $32,000 and $428,000 in fiscal 2005 and 2004, respectively. For a breakdown, see Note 18 – Other income (expenses), net of Notes to Consolidated Financial Statements.

Income tax.

Our financial statements include a provision for profits tax of approximately $34,000 and $108,000 in fiscal 2005 and 2004, respectively, due to some of our subsidiaries being profitable and thus subject to tax.

We are not subject to taxation in the British Virgin Islands in accordance with British Virgin Islands tax regulations. We are subject to income tax in each jurisdiction in which our subsidiaries do business. Certain of our income accrues in China, where the effective tax rate is 27.0%, and in Hong Kong, where the corporate tax rate is 17.5%, on income from operations but excluding interest, dividend income and capital gains. In Hong Kong, estimated taxes for each fiscal year are paid during the year based on the prior year’s taxable earnings from operations. An adjustment in the form of additional taxes paid or refunds to us is then made in the following fiscal year based on actual taxable earnings. Therefore, in each fiscal year, our statement of operations reflects a provision for estimated taxes for the current fiscal year and adjustments for over- or under-provision with respect to the prior fiscal year.

Our Chinese subsidiaries are subject to income tax based upon the taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. Our subsidiary in China was exempted from income tax for two years beginning with its first profitable year (after utilizing accumulated tax loss carry forwards or a lapse of five years) followed by a 50% exemption for the next three years. In September 2002, our subsidiary in China filed amended tax returns with the tax authorities for the periods of 1995 to 2002. The PRC tax authorities confirmed our amended tax returns as submitted, establishing the first profitable year as 1999. Our Chinese subsidiary was not, therefore, subject to tax for 1999 and 2000 and received a 50% exemption for the years from 2001 to 2003. Commencing January 1, 2004, our subsidiary in China is subject to the full tax rate of 27.0%. This Chinese subsidiary is our manufacturing facility that incurs a significant portion of our manufacturing overhead. This subsidiary makes sales of finished goods to our other subsidiaries. For these reasons, we do not believe the full tax rate will have a significant impact on our financial condition or results of operations. In fiscal 2004, we established a new subsidiary in China, Dongguan Lite Array, which is also exempted from income tax for a two-year period effective from its profitable year followed by a 50% exemption for the next three years. In fiscal 2005, our U.S. subsidiary, Lite Array, engaged in trading of OLED raw materials and components to our other subsidiaries. The sales amount was immaterial. We do not believe there was taxable income as this subsidiary incurred a loss and there was also a tax loss carry forward. To the extent that we have income effectively connected with the conduct of a U.S. trade or business in any fiscal year, we would be subject to U.S. taxes at an effective rate up to 55%. We do not believe that our current method of operations subjects us to U.S. taxes. We have established a subsidiary in Macau, China where we conduct sales, marketing, administration and other activities. Similar to our subsidiaries established in the British Virgin Islands, we are not subject to taxation in Macau in accordance with Macau tax regulations. However Hong Kong tax authorities can challenge the Company’s activities in Macau to determine whether same profits could be attributable to Hong Kong.

Minority interests.
In fiscal 2005, we recorded a share of loss by a minority interest of a newly acquired subsidiary of approximately $20,000.

Net loss.
Net loss for fiscal 2005 was $18.6 million or $1.52 per share, as compared to a net loss of $3.9 million, or $0.32 per share for fiscal 2004.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of financing has been cash generated from operating activities. During fiscal 2006, we used approximately $0.8 million of cash in our operating activities as compared to $12.8 million in fiscal 2005. The reduction in negative cash flow in fiscal 2006 is due primarily to non-cash charges in 2006 being $1.9 million higher and a swing in inventory from an increase in fiscal 2005 to a decrease in 2006 of $13.4 million. Inventory decreased in 2006 as we liquidated display inventory accumulated in 2005. The cash flow generated from inventory reduction was offset by a higher level of receivables due to the increased level of business.

Working capital as of March 31, 2006 was $53.1 million compared to $58.2 million as of March 31, 2005. Cash, cash equivalents and short-term investments declined $2.2 million, inventories declined $3.3 million and receivables increased $1.2 million from the prior year.

During fiscal 2006, we sold $5.0 million of callable deposits at a loss of $350,000 due to rising interest rates affecting principle value. All of our cash is now in very short term safe securities since short-term interest rates provide a reasonable return. We plan to manage our business so that our cash and short-term investments, which were $46.0 million at March 31, 2006, will increase to approximately $50.0 million by the end of 2007.

Accounts and bills receivable were $8.4 million at the end of fiscal 2006, compared to $7.2 million at the end of fiscal 2005. Receivables at March 31, 2006 represented 42 days of sales compared to 63 days of sales at March 31, 2005, primarily due to the timing of shipments prior to year end. Sales to Royal and Electrolux represented 40.4% and 34.1% of sales, respectively in fiscal 2006. These two floor care customers enjoy the same extended credit terms and will continue to maintain such terms for the foreseeable future.

During fiscal 2006, we received approximately $2.4 million from an award determined in a U.S. Court and also won a net judgment of $4.6 million (or $5.2 million including interest) which is being held in escrow pending an appeal of a judgment against a subsidiary of the Company in the amount of $4.6 million. Due to the two latter amounts offsetting, there is no material impact on operations for fiscal 2006 from the judgments even though the receipt is certain and the potential payment is uncertain at this time. See Note 23 – Contingent liabilities to Notes to Consolidated Financial Statements.

In October 1998, we made a loan to a start-up U.S. corporation wholly owned by the spouse of an executive of ours in the original principal amount of $1.0 million, bearing interest at a fixed annual rate of 7.0% and payable in quarterly installments of approximately $81,000 commencing October 28, 2003, with any remaining balance due in full on October 28, 2008. As of March 31, 2004, accrued interest on the loan was approximately $700,000. We had reserved fully against the interest due. Effective April 30, 2004, we acquired all of the outstanding shares of this company for $1,000. There was no gain or loss recorded by us as a result of this acquisition since the only assets acquired were cash, short term investments and subscription receivable and we had continued to carry this loan at the same amount as the underlying cash value and short term investments.

In October 1999, we made a loan to an officer for the purchase of a residence and office. The loan was in the principal amount of $460,000, bearing interest at a fixed annual rate of 6.02%, and was secured by a mortgage on the property. The loan was payable in six years with annual installments of approximately $77,000 of principal together with interest on the unpaid principal balance, commencing October 21, 2000. Payments on the loan were forgiven in arrears, however, on each payment due date in consideration for the director's continued service to us. The loan was satisfied in full in fiscal 2006. All transactions with our executive officers and directors must be approved by a majority of our independent directors.

Our aggregate capital expenditures during fiscal 2006 and 2005 were $1.4 million and $3.5 million, respectively. Capital expenditures in fiscal 2006 primarily included construction of a clean room and purchase of equipment and machinery, most of which was devoted to our CCM program. We had incurred an aggregate of approximately $3.3 million in capital expenses to date for a clean room and equipment in our Dongguan facility to support our OLED display development program which are being transferred into our venture with Anwell as part of out capital contribution. Our capital commitments as of March 31, 2006 were approximately $31,000 for the acquisition of tooling and purchase of equipment.

During fiscal 2004, we made a $5.0 million multi-callable deposit that was due to mature on August 11, 2008. The deposit carried variable interest rates of up to 2.5% per annum. The bank had the right to terminate the deposit in full and repay our money on the 11th day of February, May, August and November, commencing November 11, 2003. We decided to access these funds prior to maturity, which required us to fully reimburse the bank for its losses and indemnify it for the costs incurred as a result of its terminating, liquidating, obtaining or re-establishing any hedge or related trading position. This amounted to $350,000, which was reflected in other income (expenses), net.

At the beginning fiscal 2005, we had an aggregate outstanding long-term debt of $374,000. As of March 31, 2005, it had all been repaid. We do not anticipate engaging into any long-term debt arrangement in the reasonably near future. However, there is no assurance that we will not enter into such another loan arrangement for acquiring capital assets for new business development or existing business expansion.

Our revolving credit facilities are with Standard Chartered Bank and Hong Kong Bank with an aggregate facilities limit of approximately $4.1 million as of March 31, 2006. The banking facilities provided by Standard Chartered Bank and Hong Kong Bank bear interest at floating commercial bank lending rates in Hong Kong. The amounts payable each month on the revolving credit facilities varies depending upon the amounts drawn at the time. Our outstanding borrowings traditionally vary according to our seasonal working capital requirements and during 2006 we utilized this line for overdrafts of up to $1.3 million during the period from April 2005 to November 2005, but did not utilize it for the remainder of the year except for issuing bills payable and letters of credit. Our subsidiary in the U.S., Lite Array, Inc. has an aggregate outstanding short-term loan of approximately $38,000 with NC Two, LP, at an interest rate of 13.99% per annum.

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

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

Our acquisition of Lite Array was completed in May 2001. Total consideration for our investment in Lite Array was approximately $9.6 million, of which approximately $3.8 million was settled in cash and we took responsibility for paying the balance due on a license of $1.8 million. The remaining portion of the consideration was satisfied in exchange of convertible notes issued by Lite Array in fiscal 2001. Sometime after making our investment decision, as part of our analysis of the potential for Lite Array's TFEL display business and its joint venture operation, we determined that the long-term prospects were limited. We decided to discontinue the production of TFEL displays and cease funding the joint venture in China as of September 30, 2002. We decided to write off the value of Lite Array's investment in the joint venture, the goodwill associated with the TFEL display business and certain TFEL production equipment owned by us. In fiscal 2003, we sold the TFEL display business to the former management of Lite Array.

Pursuant to the small molecule OLED license we assumed as a result of our acquisition of Lite Array, we were required to pay royalties of a fixed percentage of the net sales of OLED display products that are produced by using the licensed know-how and sold by Lite Array and its subsidiaries before January 1, 2004. Lite Array must pay royalties of the greater of a fixed amount or a fixed percentage of the net sales of OLED display products that are produced by using the licensed know-how and sold by Lite Array and its subsidiaries after January 1, 2004. The license expires in 2023 and could be terminated at any time by us after January 1, 2004. During fiscal 2005, Lite Array was still in the research and development stage and we were paying a fixed amount of the royalties on an annual basis. We ceased using the licensed know-how in 2006 and discontinued royalty payments.

On January 7, 2003, we entered into an asset purchase and lease agreement with Opsys. We purchased their research and development experimental production equipment for small molecule OLED displays for $1.0 million. Concurrent with the purchase of the equipment, we leased it back to Opsys through February 28, 2003 for a rental payment of $1,000 per month. Upon the execution of the purchase and lease agreement, we were granted a warrant to purchase securities of Opsys (and of any of its affiliates that raised capital) having an aggregate valuation of $2.0 million, with such warrants having an exercise price of $0.0001 per share. At the time of the execution of the purchase and lease agreement, we believed that the purchase of the equipment and the opportunity to acquire such securities would accelerate our progress in OLED product development. An involuntary proceeding under Chapter 7 of the United States Bankruptcy Code was commenced against Opsys on May 3, 2003. On September 4, 2003, the Bankruptcy Court for the Northern District of California issued an order to allow us to proceed with removal of the equipment located in Opsys' business location. We removed and shipped the equipment to our facility in Dongguan, China for re-installation. We established a prototype line there in a new clean room which is capable of research and development functions and production of prototypes. This line is part of the assets we contributed to our joint venture with Anwell to develop a more cost effective process for producing OLED equipment rather than continuing to only produce OLED displays.

Inflation.

From 2001 through May 2006, the rate of inflation in Hong Kong has ranged from approximately -4.0% to 2.6% per year (approximately 1.1% during 2005 and 2.0% for the first five months of 2006) and the average rate of inflation in China ranged from approximately -2.2% to 9.8% per year (approximately 1.8% during 2005 and 1.3% for the first five months of 2006). As a general matter, the effect of this inflation with respect to our business is primarily limited to labor costs, which represent a small component of our total expenses. Because we purchase most of our raw materials from outside China, inflation in China does not have a significant effect on our overall costs.

Currency and exchange rates.
The functional currency of our company is the U.S. dollar. The functional currencies of our subsidiaries in the locations outside the U.S. are either the respective local currencies or the U.S. dollars. Nearly all of our sales are denominated in U.S. dollars. The majority of our expenses, including salaries and wages and other production and administrative costs are denominated in Hong Kong dollars and Chinese Renminbi. Certain raw materials and capital equipment are purchased using a variety of currencies including the U.S. dollar, Chinese Renminbi, Japanese yen and EURO, but the majority are purchased using Hong Kong dollars which is pegged to the U.S. dollar. During 2005, we had a long-term loan denominated in EUROs, which was fully paid-off as of March 31, 2005. In aggregate, we have not been significantly affected by exchange rate fluctuations and therefore have not needed to hedge our positions. See Note 3(n) of Notes to Consolidated Financial Statements.

Research and development, patents and licenses, etc.
We spent approximately $1.7 million, $2.5 million and $2.3 million, respectively, on product design and development in each of fiscal 2006, 2005 and 2004. The expense in each year was primarily attributable to the salaries and wages for the technical staff and prototyping and design fees. For a more complete description of our research and development, patents and licenses, etc.

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

- Valuation of property, plant and equipment. We assess impairment periodically for property, plant and equipment when events indicate that future operations will not produce sufficient revenue to cover the related future costs. Impairment losses are recognized when the sum of expected future net cash flows (undiscounted and without interest charges) are less than the carrying amount of the assets.

- Impairment of intangible assets. An appraisal of the fair market value of the license for small molecule PM-OLED technology was performed by an independent appraisal company and this amount was used in our purchase accounting. Based upon the license value and our evaluation of the life of the technology before it is superseded, we determined that the license would be amortized over seven years. Each year we evaluate whether there is any impairment in the carrying value based on an analysis of the financial plan for the OLED display business, a discounted cash flow analysis and an update from the appraisal company. In fiscal 2006 we determined this license was fully impaired.

- Deferred tax valuation allowance. We account for income taxes under the provisions of SFAS No. 109. Deferred tax assets are recognized for losses carried forward but we provide a valuation allowance if we believe that these losses are more likely than not to be utilized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for such a valuation allowance. In the event we were to determine that we would not be able to realize any deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination was made. Likewise, if we later determined that it is more likely than not that the net deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

- Inventory reserves. Inventories are stated at the lower of cost or market value. Cost, calculated on the weighted average basis, comprises materials and, where applicable, direct labor and an appropriate proportion of production overhead expenditure. Market value represents the latest cost quotation less anticipated disposal costs.

- Allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

- Contingencies. We account for various uncertain events, or contingencies in accordance with SFAS No. 5, "Accounting for Contingencies". Under SFAS No. 5, contingent losses must be accrued if available information indicates it is probable that the loss has been or will be incurred given the likelihood of the uncertain event, and the amount of the loss can be reasonably estimated. Management judgment is required in deciding the amount and timing of accrual of a contingency. For example, legal proceedings are inherently uncertain, and in order to determine the amount of any reserves required, we assess the likelihood of any adverse judgment or outcomes in any litigation, as well as potential ranges of probable losses. As of March 31, 2006 we had $5.5 million accrued for contingencies.

Recent changes in accounting standards

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – An Amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Group has already commenced an assessment of the impact of SFAS No. 151, but does not believe it will have a material impact on its operations or financial condition.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123(R)"), to replace SFAS No. 123, Accounting for Stock-Based Compensation, and APB No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires, among other thing, that all share-based payments to employees, including grants of stock options, be measured based on their grant-date fair value and recognized as an expense in the financial statements. Pro forma disclosure is no longer an alternative. The provisions of SFAS No. 123(R) are effective for the annual reporting period that begins on or after December 15, 2005. During the transition period, the Group accounted for shared-based compensation to employees using APB No. 25's intrinsic value method.

The Group adopted SFAS No. 123(R) for its accounting period beginning on April 1, 2006 using the modified prospective method. Under the modified prospective method, compensation expense will be recorded in the financial statements for (i) all awards granted after the adoption of SFAS No. 123(R) and (ii) future vesting of awards outstanding as of the date of adoption of SFAS No. 123(R). The Group believes that the adoption of SFAS No. 123(R) could have a material impact on the Group's consolidated results of operations and earnings per share when it is adopted.

In December 2004, the FASB issued SFAS No. 153 "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 "Accounting for Nonmonetary Transactions" and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005. The Group does not expect the adoption of SFAS No. 153 to have a material effect on our results of operations or financial condition.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 "Accounting Changes" and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 applies to all voluntary changes in accounting principle and changes the requirements of accounting for, and reporting of, a change in accounting principle. SFAS No. 154 carries forward many provisions of APB Opinion No. 20 without change, including the provisions related to the reporting of a change in accounting estimate, a change in reporting entity, and the correction of an error. SFAS No. 154 carries forward the provisions of SFAS No. 3 that govern reporting accounting changes in interim financial statements. It requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires that a change in method of depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. APB Opinion No. 20 previously required that such a change be reported as a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The Group is currently in the process of evaluating any effect the adoption of SFAS No. 154 will have on its consolidated financial statements.

In September 2005, the FASB's EITF reached a final consensus on Issue 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty". EITF 04-13 requires that two or more legally separate exchange transactions with the same counterparty be combined and considered a single arrangement for the purposes of applying APB Opinion No. 29 "Accounting for Nonmonetary Transactions", when the transactions are entered into in contemplation of one another. EITF 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. The Group is evaluating the effect of the adoption of EITF 04-13 but it is not expected to have a material impact on the Group's consolidated financial statements.

In November 2005, the FASB issued FASB Staff Position ("FSP") 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of other-than-temporary impairment and requires disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP115-1 is required to be applied to reporting periods beginning after December 15, 2005. The Group is currently evaluating the impact of the adoption of FSP 115-1, but does not expect that it will have a material impact on the Group's consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155,"Accouting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140". It allows financial instruments that have embedded derivatives that otherwise would 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 a derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued by the Company after January 1, 2007. The Group is currently evaluating the effect of the adoption of SFAF No. 155 but it is not expected to have a material impact on the Group's consolidated financial statements.

FOREIGN ISSUER CONSIDERATIONS

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

Significant corporate governance difference.
Many of the corporate governance rules in the New York Stock Exchange ("NYSE") do not apply to the company as a "foreign private issuer." However, Rule 303A.11 requires us, as a non-U.S. company, to disclose any significant ways in which our corporate governance practices differ from those followed by U.S. companies under the NYSE listing standards. We have provided this disclosure under Item 10 of our Annual Report on Form 20-F for the fiscal year ended March 31, 2006. This Form 20-F may be accessed through our website: http://www.global-webpage.com.

Conditions in China.
China is a socialist state which, since 1949, has been controlled by the Communist Party of China. Changes in the top political leadership of the Chinese government may have a significant impact on policy and the political and economic environment in China. Moreover, economic reforms and growth in China have been more successful in certain provinces than in others and the continuation or increase of such disparities could affect political or social stability. In December 2001, China was admitted to the World Trade Organization after 15 years of negotiations and was granted the full trading rights of a WTO member country, but is still considered to be a high risk nation for business and investment in the Asian region. Although recently China has permitted greater provincial and local economic autonomy and private economic activities, the government of China has exercised and continues to exercise substantial control over virtually every section of the Chinese economy through regulation and state ownership. Accordingly, government actions in the future, including any decision not to continue to support the economic reform program that commenced in the late 1970's and possibly to return to the more centrally-planned economy that existed prior thereto, could have a significant effect on economic conditions in China and on our operations. Also, the legal system of China relating to foreign investments is both new and continually evolving, and there can be no certainty as to the application of its laws and regulations in particular instances.

On June 29, 2003, China and the Hong Kong Special Administrative Region ("HKSAR") entered the Closer Economic Partnership Agreement ("CEPA"), which was implemented on January 1, 2004. Under CEPA, Hong Kong companies can benefit from liberalized measures beyond the scope of China's commitments in its WTO accession treaty. The arrangement covers three areas: trade in goods; trade in services and trade and investment facilitation. Under CEPA, 90% of Hong Kong domestic exports to China can enjoy zero tariffs. CEPA also opens 18 service sectors to Hong Kong companies. In this respect, China has given Hong Kong an advantage under CEPA in that Hong Kong companies can enjoy more benefits under CEPA compared with the provisions of the WTO. The Arrangement presently has limited direct positive impact on us since most of our products are shipped to overseas customers but it could possibly benefit our electronic components business in the future.

All of our products are currently manufactured in China and over 90% of the net book value of our total fixed assets is located in China. We are a party to agreements with certain agencies of the government of China and we sell products to entities based principally in the United States and

Europe. International operations and sales may be subject to political and economic risks, including political instability, currency controls and exchange rate fluctuations, and changes in import/export regulations, tariff and freight rates. In addition, various forms of protectionist trade legislation have been proposed on occasion in the United States and certain European countries. Changes in tariff structures or other trade policies could adversely affect us.

Our location in Southern China offers us low overhead and competitive (although higher than the Northern provinces in China) labor rates. The location of our factory in the township of Dongguan, Guangdong Province provides us with the ability to manage factory operations from Hong Kong and facilitates transportation of our products to markets outside China.

Any recurrence of Severe Acute Respiratory Syndrome ("SARS") or incidence of Avian Influenza in China could negatively impact our manufacturing plant located in Dongguan, China. If our Hong Kong based supervisory staff is unable to travel or if other labor problems arise, it could seriously disrupt our manufacturing operation and cause significant delays in production. In addition, if the outbreak of Avian Influenza in Asian countries, including China, Cambodia, Indonesia, Thailand and Vietnam were to spread to Hong Kong and China, where our executive office and operation facilities are located, it may disrupt our business.

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

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

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

- the imposition of austerity measures intended to reduce inflation, increase taxes or reform unprofitable state owned enterprises,

- the inadequate development of infrastructure, and

- the potential unavailability of adequate power and water supplies, transportation, communications and raw materials and parts.

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

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

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

Conditions in Hong Kong.
Hong Kong, the jurisdiction of incorporation of eight of our subsidiaries and the location of our headquarters, was restored to China on July 1, 1997. We conduct sales, marketing, product design and development, administration and other activities in Hong Kong. Accordingly, we may be materially adversely affected by factors affecting Hong Kong's political situation and its economy or its international political and economic relations.

As of July 1, 1997, Hong Kong became a Special Administrative Region, or SAR, of China, with certain autonomy from the Chinese government, including being a separate customs territory from China with separate tariff rates and export control procedures and maintaining a separate intellectual property registration system. All land leases in effect at the time of the transfer of sovereignty were extended for a period of 50 years, except for those leases without a renewal option expiring after June 30, 1997 and before June 30, 2047. Hong Kong continues to be a member of the WTO and the Hong Kong dollar continues to be legal tender, freely convertible into Renminbi, and not subject to foreign exchange controls. The Hong Kong SAR government, as set up by China, has sole responsibility for tax policies. Notwithstanding the provisions of these international agreements, there can be no assurance as to the continued stability of political, economic or commercial conditions in Hong Kong.

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

Conditions in Macau.

Macau, the jurisdiction of incorporation of one of our subsidiaries, was restored to China on December 19, 1999. We established an office in Macau on November 8, 2001. We conduct sales, marketing, administration and other activities in Macau.

Macau was founded by the Portuguese in 1557. It lies approximately 40 miles west of Hong Kong and has a population of approximately of 500,000. Portugal signed the Sino-Portuguese Joint Declaration with China on April 13, 1987 providing the return to Chinese administration. In the Sino-Portuguese Joint Declaration, China has promised to respect Macau’s existing social and economic systems and lifestyle for 50 years. Similar to Hong Kong, Macau has been set up as a SAR with its own legal and economic systems. Notwithstanding the provision of these international agreements, there can be no assurance as to the continual stability of political, economic or commercial condition in Macau. No treaty exists between Macau and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of Macau are generally prepared to accept a foreign judgment as evidence of a debt due.

Additional considerations.

In addition, shareholders are encouraged to review and carefully consider the risk factors set forth in “Item 3D – Risk Factors” in our annual report on Form 20-F for the fiscal year ended March 31, 2006 filed with the U.S. Securities and Exchange Commission on September 29, 2006.

GLOBAL-TECH APPLIANCES INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2005 AND 2006

AND FOR THE YEARS ENDED MARCH 31, 2004, 2005 AND 2006

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. (the "Company") and its subsidiaries as of March 31, 2005 and 2006, 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, 2006. 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, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles.

Ernst & Young
Hong Kong
August 4, 2006

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2005 AND 2006

	2005 US$	2006 US$
ASSETS		
Current assets:		
Cash and cash equivalents	8,790,594	27,313,746
Restricted cash	430,974	-
Callable deposit	5,000,000	-
Short-term investments	33,966,281	18,715,682
Accounts and bills receivable, net	7,194,894	8,446,502
Prepaid expenses	601,610	252,585
Deposits and other assets	1,722,285	1,677,041
Legal claims receivable	-	4,577,186
Inventories	14,056,562	10,780,816
Total current assets	71,763,200	71,763,558
Loan to a director	76,667	-
Property, plant and equipment, net	27,779,778	24,164,775
Land use rights, net	2,191,759	2,151,444
License, net	2,201,124	-
Total assets	104,012,528	98,079,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term bank borrowings	37,507	37,698
Accounts payable	5,258,005	5,075,248
Salaries and allowances payable	730,976	587,717
Accrued expenses	3,061,568	3,797,401
Accrual for contingent losses	810,000	5,464,134
Income tax payable	3,698,237	3,730,043
Total current liabilities	13,596,293	18,692,241
Deferred tax liabilities	142,888	38,619
Total liabilities	13,739,181	18,730,860
Minority interests	12,528	-
Shareholders' equity:		
Common stock, par value US$0.01; 50,000,000 shares authorized; 12,902,755 shares issued as of March 31, 2005 and 2006	129,028	129,028
Preferred stock, par value US$0.01; 1,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital	83,264,716	83,030,824
Retained earnings	12,103,067	879,673
Accumulated other comprehensive losses	(742,545)	(197,161)
Less: Treasury stock, at cost, 679,147 shares as of March 31, 2005 and 2006	(4,493,447)	(4,493,447)
Total shareholders' equity	90,260,819	79,348,917
Total liabilities and shareholders' equity	104,012,528	98,079,777

The accompanying notes are an integral part of these financial statements.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE FISCAL YEARS ENDED MARCH 31, 2004, 2005 AND 2006

	2004 US$	2005 US$	2006 US$
Net sales	66,901,315	41,851,163	73,812,100
Cost of goods sold	(52,942,382)	(44,595,004)	(69,816,822)
Gross profit (loss)	13,958,933	(2,743,841)	3,995,278
Selling, general and administrative expenses	(19,018,822)	(16,053,820)	(18,010,869)
Other operating income (loss)	-	(810,000)	2,379,964
Operating loss	(5,059,889)	(19,607,661)	(11,635,627)
Interest expense	(17,589)	(9,855)	(55,435)
Interest income	851,066	976,753	1,278,093
Other income (expenses), net	427,814	31,589	(846,015)
Loss from operations before income taxes	(3,798,598)	(18,609,174)	(11,258,984)
Benefit (provision) for income taxes	(107,767)	(33,650)	22,998
Net loss before minority interests	(3,906,365)	(18,642,824)	(11,235,986)
Minority interests	-	19,525	12,592
Net loss	(3,906,365)	(18,623,299)	(11,223,394)
Basic and diluted loss per common share	(0.32)	(1.52)	(0.92)
	Number	Number	Number
Basic and diluted weighted average number of shares outstanding	12,152,592	12,214,800	12,223,608

The accompanying notes are an integral part of these financial statements.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED MARCH 31, 2004, 2005 and 2006

	Number of shares		Amounts					
	Common stock	Treasury stock	Common stock US$	Additional paid-in capital US$	Retained earnings US$	Treasury stock US$	Accumulated other comprehensive losses US$	Total shareholders' equity US$
Balance as of March 31, 2003	12,830,000	(689,147)	128,300	81,753,145	34,682,164	(4,600,127)	(622,163)	111,341,319
Net loss for the year	-	-	-	-	(3,906,365)	-	-	(3,906,365)
Other comprehensive income:								
• unrealized gain on available-for-sale securities, net of income tax of US$nil	-	-	-	-	-	-	43,684	43,684
• foreign currency translation adjustments	-	-	-	-	-	-	22,981	22,981
Total net comprehensive loss								(3,839,700)
Issuance of treasury stock	-	10,000	-	-	-	106,680	-	106,680
Loss on issuance of treasury stock	-	-	-	-	(49,433)	-	-	(49,433)
Stock compensation expense provided on options granted	-	-	-	2,355,319	-	-	-	2,355,319
Shares issued on exercise of options	36,545	-	365	205,868	-	-	-	206,233
Shares retired	(9,500)	-	(95)	(87,782)	-	-	-	(87,877)
Balance as of March 31, 2004	12,857,045	(679,147)	128,570	84,226,550	30,726,366	(4,493,447)	(555,498)	110,032,541
Net loss for the year	-	-	-	-	(18,623,299)	-	-	(18,623,299)
Other comprehensive loss:								
• unrealized loss on available-for-sale securities, net of income tax of US$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 (loss):								
• unrealized gain on available-for-sale securities, net of income tax of US$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

The accompanying notes are an integral part of these financial statements.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MARCH 31, 2004, 2005 and 2006

	2004 US$	2005 US$	2006 US$
Cash flows from operating activities:			
Net loss	(3,906,365)	(18,623,299)	(11,223,394)
Adjustments to reconcile net loss			
to net cash provided by (used in) operating activities:			
Minority interests in loss of a subsidiary	-	(19,525)	(12,592)
Amortization	916,163	774,353	404,028
Depreciation	5,011,615	4,845,764	4,345,648
Loss on disposal of property, plant and equipment	22,354	167,566	8,477
Loss on disposal of callable deposit	-	-	349,599
Provision for impairment of property, plant and equipment	-	1,532,345	783,802
Provision for impairment of license	-	-	1,861,640
Provision for impairment of patents	-	203,828	-
Loss on disposal of short-term investments, net	-	6,567	141,251
Net provision for (write-back of) accounts receivable	(967)	11,756	-
Provision for inventory obsolescence	128,491	3,773,979	1,413,534
Provision for (reversal of) stock compensation expense on options granted , net	2,355,319	(1,247,061)	(233,892)
Issuance of treasury stock in lieu of consultancy fee	57,247	-	-
Deferred tax expense (benefit)	78,528	-	(104,998)
Changes in operating assets and liabilities:			
Accounts and bills receivable, net	257,070	2,784,387	(1,251,608)
Prepaid expenses	(349,983)	(42,056)	349,025
Deposits and other assets	533,941	216,287	45,244
Inventories	(1,429,836)	(9,022,086)	1,862,212
Legal claims receivable	-	-	(4,577,186)
Promissory note and related interest receivable, net	2,272	-	-
Accounts payable	(22,713)	127,418	(182,757)
Fees payable for land use rights	(181,984)	(91,019)	-
Salaries and allowances payable	92,146	53,537	(143,259)
Accrued expenses	508,995	1,024,380	735,833
Accrual for contingent losses	-	810,000	4,654,134
Income tax payable	25,654	(54,888)	31,806
Exchange adjustments	-	(7,372)	-
Net cash provided by (used in) operating activities	4,097,947	(12,775,139)	(743,453)

(To be continued)

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED MARCH 31, 2004, 2005 and 2006 (continued)

	2004 US$	2005 US$	2006 US$
Cash flows from investing activities:			
Decrease in loan to a director	76,667	75,183	76,667
Decrease in promissory note and related interest receivable	161,904	79,017	-
Proceeds from disposal of property, plant and equipment	-	4,928	45,112
Purchases of property, plant and equipment	(3,168,940)	(3,547,996)	(1,426,271)
Increase in land use rights	-	(364,706)	(1,811)
Acquisition of a subsidiary, net of cash acquired	-	(428)	-
Acquisition of minority interests	-	(32,053)	-
(Increase) decrease in restricted cash	431,728	(30,899)	430,974
Decrease (increase) in a callable deposit	(5,000,000)	-	4,650,000
Proceeds from disposal of short-term investments	73,630,776	109,056,860	78,265,013
Purchases of short-term investments	(76,119,942)	(98,738,217)	(63,062,750)
Net cash provided by (used in) investing activities	(9,987,807)	6,501,689	18,976,934
Cash flows from financing activities:			
Capital contribution by minority shareholders	-	64,106	-
Repayment of short-term bank borrowings	-	(10,490)	-
Repayment of long-term bank borrowings	(435,407)	(373,507)	-
Proceeds from stock options exercised	118,356	285,685	-
Net cash used in financing activities	(317,051)	(34,206)	-
Net increase (decrease) in cash and cash equivalents	(6,206,911)	(6,307,656)	18,233,481
Cash and cash equivalents at beginning of fiscal year	21,514,277	15,102,510	8,790,594
Effect of foreign exchange rate changes on cash	(204,856)	(4,260)	289,671
Cash and cash equivalents at end of fiscal year	15,102,510	8,790,594	27,313,746
Supplemental disclosure information:			
Cash paid for interest expense	17,589	9,855	55,435
Cash paid for tax expense	3,585	87,479	77,512

The accompanying notes are an integral part of these financial statements.

GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Organization and principal activities

Global-Tech Appliances Inc. ("Global-Tech" or the "Company") 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 "Group". The Group 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 Group also continues developing higher-value, more technologically advanced consumer electronic products and components. The Group's manufacturing operation is located in Dongguan, the People's Republic of China ("China"). The Group's products are sold to customers primarily in the United States (the "U.S.").

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, 2006 were as follows:

Name of subsidiary	Place of incorporation/ establishment	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
Lite Array 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

2 Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Percentage of equity interest held	Principal activities
GT Investments (BVI) Limited	British Virgin Islands	100%	Investment holding
Consortium Investment (BVI) Limited	British Virgin Islands	100%	Assets and investment holding
Global Optics Limited	Hong Kong	100%	Trading of raw materials and electrical and optical components
Dongguan Wing Shing Electrical Products Factory Company Limited ("DWS")	China	100%	Manufacturing of household appliance products
Dongguan Lite Array Company Limited	China	100%	Manufacturing of electronic and optical components
Lite Array (OLED) H.K. Limited	Hong Kong	100%	Research and development of organic solid state flat-panel displays
Global Display Limited	Hong Kong	100%	Development and trading of multimedia flat-panel display products
Winway Technology Development Limited	Hong Kong	83.33%	Marketing and trading of display products and components in East Asia
Pentalpha Enterprises Limited	Hong Kong	100%	Dormant
Pentalpha Hong Kong Limited ("Pentalpha")	Hong Kong	100%	Trading of raw materials and household appliance products
Global-Tech USA, Inc.	U.S.	100%	Provision of investment-related services

2 Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ establishment	Percentage of equity interest held	Principal activities
MasterWerke Limited ("MasterWerke")	U.S.	100%	Investment holding
Dongguan Litewell (OLED) Technology Co., Ltd	China	100%	Manufacturing of OLED equipment
Wing Shing Products (BVI) Company Limited	British Virgin Islands	100%	Dormant
Global Lite Array (BVI) Limited ("GLA")	British Virgin Islands	76.75%	Investment holding
Lite Array OLED (BVI) Company Limited	British Virgin Islands	76.75%	Trading of raw materials and organic solid state flat-panel displays
Lite Array, Inc. ("LA")	U.S.	76.75%	Trading of raw materials and organic solid state flat-panel displays

3 Summary of significant accounting policies

(a) Statement of compliance and basis of preparation

The consolidated financial statements were 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. Subsidiaries include those majority-owned and controlled domestic and foreign subsidiaries. Majority-ownership represents more than 50% of the issued voting capital. All intercompany balances and transactions have been 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. Actual results could differ from those estimates and assumptions.

(d) Cash equivalents

Cash equivalents consist of commercial paper and other investments that are readily convertible into cash and have original maturities of three months or less.

(e) Investments

Debt and equity investments in available-for-sale securities are stated at fair value. Unrealized holding gains or losses, net of tax, on available-for-sale securities 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 securities are included in gain (loss) on disposal and impairment, respectively, in the consolidated statement 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 securities is included in interest income or dividend income, respectively.

3 Summary of significant accounting policies (continued)

(e) Investments (continued)

When determining whether an impairment of investments exists or a decline in value of an available-for-sale security is other-than-temporary, the Group evaluates evidence to support a realizable value in excess of the current market price for the security. 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 condition of the investment's issuer, and the Group'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 Group's investments in equity investees for which its ownership exceeds 20% or for which the Group owns less than 20% but has the ability to exercise significant influence, but which are not majority-owned, are accounted for using the equity method. Under the equity method, the Group's proportionate share of each equity investee's net income or loss and amortization of any identifiable intangibles arising from the investment is included in "share of income (losses) in equity investees".

All other investments for which the Group does not have the ability to exercise significant influence (generally, when the Group 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 Group periodically evaluates the carrying value of its investments accounted for under the cost method of accounting and any impairment is included in the consolidated statement of operations.

(f) Inventories

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

3 Summary of significant accounting policies (continued)

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of any asset 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 benefit expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalized as an additional cost of that asset. Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The principal annual rates used for this purpose are as follows:

	Annual rate
Leasehold improvements	Over the shorter of the lease term 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 the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the consolidated statement 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 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.

3 Summary of significant accounting policies (continued)

(i) Goodwill and intangible assets

Goodwill represents the excess of cost over the fair value of net tangible and identifiable assets of an acquired business. In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets", goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances.

Intangible assets represent a license and patents. Intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful lives of the respective assets. The estimated useful lives of the intangible assets are as follows:

License	7 years
Patents	11 to 20 years

Intangible assets are tested for impairment annually. If the test indicates that amortized intangible assets may not be recoverable, as determined based on the undiscounted cash flows expected to result from the asset's use over the remaining amortization period, the carrying value of intangible assets is reduced by the estimated shortfall in discounted cash flows. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(j) Impairment of long-lived assets

Long-lived assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset.

(k) Sales and revenue recognition

The Group recognizes revenues in accordance with the Securities and Exchange Commission 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 Group'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.

3 Summary of significant accounting policies (continued)

(l) Advertising costs

Advertising costs represent costs relating to promotional activities intended to stimulate, directly or indirectly, a customer's purchase of goods, and are charged to the consolidated statement of operations as incurred. Advertising expenses were US$100,698, US$104,811 and US$58,693 for the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

(m) Shipping and handling costs

Any shipping, handling or other costs incurred by the Group associated with the sale of products are included in the "Selling, general and administrative expenses" ("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, 2004, 2005 and 2006, shipping and handling costs charged to SG&A were US$1,418,367, US$754,247 and US$1,213,390, respectively.

Any inbound freight charges, receiving, inspection, warehousing and internal transfer costs incurred by the Group are expensed as cost of goods sold. During the fiscal years ended March 31, 2004, 2005 and 2006, inbound freight costs charged to cost of goods sold were US$660,656, US$524,337 and US$597,384, respectively. Other related costs are included in manufacturing overheads.

(n) Foreign currencies

The functional currency of the Company is the U.S. dollar. The functional currencies of the Company's subsidiaries in the locations outside the U.S. are either the respective local currencies or the U.S. dollar.

Transactions denominated in foreign currencies are recorded in the functional currency using the exchange rates in effect at the date 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.

On consolidation, the financial statements of the subsidiaries are translated into the 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.

3 Summary of significant accounting policies (continued)

(o) Income taxes

The Group 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 and financial statement bases of assets and liabilities. Deferred tax assets are also recognized for loss carry forwards. Valuation allowances are established to the extent that deferred tax assets will more likely than not be unrealized.

(p) Stock compensation expenses

The Group applies the intrinsic-value-based method prescribed in Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for employee stock options. Accordingly, compensation expense is generally recognized only when options are granted with a discounted exercise price. Any resulting compensation expense is recognized ratably over the associated service period, which is generally the option vesting term.

On May 10, 2000, Global-Tech offered employees a voluntary program to exchange 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. In accordance with FASB Interpretation No. 44 "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25" ("FIN44"), re-pricing of stock options in any form results in variable accounting. If the exercise price of a stock option is reduced, the modified stock option is accounted for as variable from the date of modification to the date the award is exercised, is forfeited or expires unexercised.

The Group accounts for stock options granted to a counter-party other than an employee in accordance with EITF 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. Measurement date is the date at which (i) a commitment for performance by the counter-party to earn the equity instruments is reached or (ii) the counter-party's performance is completed.

3 Summary of significant accounting policies (continued)

(p) Stock compensation expenses (continued)

The Group has adopted the disclosure-only provisions of SFAS No. 123 "Accounting for Stock Based Compensation". 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 effect on net loss and loss per share for the fiscal years ended March 31, 2004, 2005 and 2006 is as follows:

	Year Ended March 31,		
	2004	2005	2006
	US$	US$	US$
Net loss, as reported	(3,906,365)	(18,623,299)	(11,223,394)
Add (deduct): Provision for (reversal of) stock compensation expense included in net income loss under APB Opinion No. 25	2,355,319	(1,247,061)	(348,162)
Deduct: Total stock compensation expense determined under the fair value method for all awards, net of income tax of US$nil	(6,289)	(34,261)	(574,837)
Pro forma net loss	(1,557,335)	(19,904,621)	(12,146,393)
Loss per share			
Basic – as reported	(0.32)	(1.52)	(0.92)
Basic – pro forma	(0.13)	(1.63)	(0.99)
Diluted – as reported	(0.32)	(1.52)	(0.92)
Diluted – pro forma	(0.13)	(1.63)	(0.99)

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123 (R)"), to replace SFAS No. 123 "Accounting for Stock-Based Compensation", and APB No. 25 "Accounting for Stock Issued to Employees" (Note 3 (y)). The Group will adopt SFAS No. 123(R) for its annual reporting period beginning on April 1, 2006.

(q) 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 statement of operations as they become payable.

3 Summary of significant accounting policies (continued)

(r) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases. Payment made under operating leases net of any incentives received from the lessor 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 fixed assets. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease terms.

(s) 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.

(t) Accounts receivable and allowance for doubtful accounts

Accounts receivable are carried at their original invoiced value less an estimate made for uncollectible amounts. The Group does not charge interest on accounts receivable. The Group 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 collection is considered to be doubtful. Whenever it is clear that the amounts are deemed to be uncollectible, receivables are written off against allowance for doubtful accounts.

(u) Loans receivable

Loans receivable are stated at amortized cost less any allowance for loan losses, loan origination fees (net of direct costs), commitment fees and purchase premiums or discounts. Interest on loans is credited to the consolidated statement of operations based on the contractual terms stipulated in the relevant loan agreement. Premiums are amortized and discounts are accreted over the life of the loans using the effective interest method. Allowance for loan losses is recognized to the consolidated statement of operations to the extent the collection is considered to be doubtful. Any previously recognized allowance for loan losses is reversed upon settlement of outstanding loans in cash.

3 Summary of significant accounting policies (continued)

(v) Treasury stock

The Group 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.

(w) Comprehensive income (losses)

The Group 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 (loss) includes net earnings or loss as well as additional other comprehensive income (losses). The Group's other comprehensive income (losses) consists of unrealized gains and loss on available-for-sale securities and foreign currency translation, all recorded net of tax.

(x) Loss contingencies

The Group provides for costs related to contingencies when a loss is probable and the amount is reasonably estimable. Although management believes, after consultation with the Group's general counsel, that adequate reserves have been provided for all known 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.

(y) Impact of recently issued accounting standards

(i) In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151 "Inventory Costs – An Amendment of ARB No. 43, Chapter 4". SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4 "Inventory Pricing" to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning

3 Summary of significant accounting policies (continued)

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

(i) (continued)
after June 15, 2005. The Group has already commenced an assessment of the impact of the SFAS No. 151 but is not yet in a position to state whether it will have a significant impact on its results of operations and financial position.

(ii) In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123(R)"), to replace SFAS No. 123 "Accounting for Stock-Based Compensation", and APB No. 25 "Accounting for Stock Issued to Employees". SFAS No. 123(R) requires, among other thing, that all share-based payments to employees, including grants of stock options, be measured based on their grant-date fair value and recognized as expense in the financial statements. Pro forma disclosure is no longer an alternative. The provisions of SFAS No. 123(R) are effective for the annual reporting period that begins on or after December 15, 2005. During the transition period, the Group accounted for share-based compensation to employees using APB No. 25's intrinsic value method.

The Group adopted SFAS No. 123(R) for its accounting period beginning on April 1, 2006 using the modified prospective method. Under the modified prospective method, compensation expense will be recorded in the financial statements for (i) all awards granted after the adoption of SFAS No. 123(R) and (ii) future vesting of awards outstanding as of the date of adoption of SFAS No. 123(R). The Group believes that the adoption of SFAS No. 123(R) could have a material impact on the Group's consolidated results of operations and earnings per share.

(iii) In December 2004, the FASB issued SFAS No. 153 "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement of nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 "Accounting for Nonmonetary Transactions'" and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for fiscal periods beginning on or after June 15, 2005. The Group does not expect the adoption of SFAS No. 153 to have a material effect on its results of operations or financial condition.

3 Summary of significant accounting policies (continued)

(y) Impact of recently issued accounting standards

(iv) In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 "Accounting Changes" and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 applies to all voluntary changes in accounting principle and changes the requirements of accounting for, and reporting of, a change in accounting principle. SFAS No. 154 carries forward many provisions of APB Opinion No. 20 without change, including the provisions related to the reporting of a change in accounting estimate, a change in reporting entity, and the correction of an error. SFAS No. 154 carries forward the provisions of SFAS No. 3 that govern reporting accounting changes in interim financial statements. It requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires that a change in method of depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. APB Opinion No. 20 previously required that such a change be reported as a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The Group is currently in the process of evaluating any effect the adoption of SFAS No. 154 will have on its consolidated financial statements.

(v) In September 2005, the FASB's EITF reached a final consensus on Issue 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty". EITF 04-13 requires that two or more legally separate exchange transactions with the same counterparty be combined and considered a single arrangement for the purposes of applying APB Opinion No. 29 "Accounting for Nonmonetary Transactions", when the transactions are entered into in contemplation of one another. EITF 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. The Group is evaluating the effect of the adoption of EITF 04-13 but it is not expected to have a material impact on the Group's consolidated financial statements.

(vi) In November 2005, the FASB issued FASB Staff Position ("FSP") 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary and on measuring such impairment loss.

3 Summary of significant accounting policies (continued)

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

(vi) (continued)
FSP 115-1 also includes accounting considerations subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning on or after December 15, 2005. The Group is currently evaluating the impact of the adoption of FSP 115-1 but does not expect that it will have a material impact on the Group's consolidated financial statements.

(vii) In February 2006, the 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 Group's consolidated financial statements.

(viii) 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 Tax", 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 is effective for fiscal years beginning after December 15, 2006. The Group is evaluating the potential impact of this interpretation on the results of its future operations and financial condition.

4 Cash and cash equivalents

	2005 US$	2006 US$
Cash on hand and at banks	4,535,984	20,920,636
Money market funds	4,254,610	6,393,110
Total cash and cash equivalents	8,790,594	27,313,746

5 Restricted cash

At March 31, 2005, cash of US$430,974 was pledged to banks as collateral for irrevocable letters of credit of the same amount issued for the purchases of material. No cash was pledged as of March 31, 2006.

6 Short-term investments

The following is a summary of available-for-sale debt and equity securities, which are all non-restricted, as of March 31, 2005 and 2006:

	Cost		Unrealized gains (losses)		Fair value	
	US$ 2005	US$ 2006	US$ 2005	US$ 2006	US$ 2005	US$ 2006
Treasury bills	28,796,899	18,635,790	78,521	73,730	28,875,420	18,709,520
Equity securities	3,124	3,140	3,495	3,022	6,619	6,162
	28,800,023	18,638,930	82,016	76,752	28,882,039	18,715,682
Debt securities	5,172,720	-	(88,478)	-	5,084,242	-
	33,972,743	18,638,930	(6,462)	76,752	33,966,281	18,715,682

At March 31, 2006, none of the two types of available-for-sale securities was in an unrealized loss position. During fiscal 2006, the Group recognized a loss of US$141,251 on the disposal of the debt securities.

6 Short-term investments (continued)

The net unrealized gains (losses) consisted of gross unrealized gains of US$76,752 (2005: US$82,016) and gross unrealized losses of US$nil (2005: US$88,478).

The proceeds from disposal of short-term investments for the fiscal years ended March 31, 2004, 2005 and 2006 were US$73,630,776, US$109,056,860 and US$78,265,013, respectively.

The gross realized losses from the sale of available-for-sale securities for each of the three fiscal years ended March 31, 2006 are as follows:

	2004 US$	2005 US$	2006 US$
Gross realized losses	-	6,567	141,251

7 Accounts and bills receivable, net

	2005 US$	2006 US$
Accounts and bills receivable	7,244,764	8,495,217
Less: Allowance for doubtful accounts	(49,870)	(48,715)
Accounts and bills receivable, net	7,194,894	8,446,502

	2004 US$	2005 US$	2006 US$
Allowance for doubtful accounts:			
Balance at beginning of fiscal year	39,083	38,124	49,870
Additions	-	12,887	-
Write-back	(967)	(1,131)	-
Exchange realignment	8	(10)	(1,155)
Balance at end of fiscal year	38,124	49,870	48,715

8 Inventories

	2005	2006
	US$	US$
Raw materials	7,683,584	5,095,208
Work-in-progress	4,209,568	2,471,798
Finished goods	2,163,410	3,213,810
	14,056,562	10,780,816

During the fiscal year ended March 31, 2006, an inventory loss of US$1,413,534 (2004: US$128,491, 2005: US$3,773,979) in aggregate was recognized in the consolidated statement of operations, of which US$861,776 (2004: US$nil, 2005: US$2,832,809) was to write down certain raw materials, work-in-progress and finished goods to their respective estimated market values, which were lower than cost.

As at March 31, 2006, the amount of inventories carried at market value included in the above balance was US$220,502 (2005: US$2,240,587).

9 Related party transactions

A related party is any party that controls or can significantly influence the management or operating policies of the Group to the extent that the Group may be prevented from fully pursuing its own interests. Such parties would 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 financial statements, for the fiscal years ended March 31, 2004, 2005 and 2006, the Group incurred annual real estate rental expenses of approximately US$731,981, US$752,140 and US$755,979 respectively, payable to related companies in which the directors are also the directors of the Company. Included in the aforesaid annual real estate rental expenses were amounts of US$477,088, US$476,954 and US$479,388 paid to two directors of the Company in the fiscal years ended March 31, 2004, 2005 and 2006, respectively, which were included in their remuneration for the respective fiscal years as housing allowances.

10 Loan to a director

In October 1999, the Group made a loan to an executive employee, who is also a director of the Company, for the purchase of a residence. The loan was in the original principal amount of US$460,000, bearing interest at a fixed annual rate of 6.02% and was secured by a mortgage on the property. The loan was repayable in six years with an annual installment of US$76,667 of principal together with interest on the unpaid principal balance, commencing from October 2000. Pursuant to the loan agreement, such annual repayments were forgiven in arrears on each repayment due date in consideration for the executive employee's continued employment by the Group. The amount of loan forgiven during the fiscal year was included in directors' remuneration and charged to the consolidated statement of operations. As of March 31, 2005, the loan balance was US$76,667 and the amount was fully settled in fiscal 2006.

11 Property, plant and equipment, net

	2005 US$	2006 US$
Leasehold improvements and buildings	21,170,581	21,278,618
Plant and machinery	22,379,221	22,268,891
Molds	8,345,124	8,499,520
Transportation equipment	1,462,532	1,414,770
Furniture, fixtures and equipment	4,749,870	4,632,921
Construction in progress	81,322	69,824
	58,188,650	58,164,544
Less: Accumulated depreciation	(30,408,872)	(33,999,769)
Property, plant and equipment, net	27,779,778	24,164,775

(a) During the fiscal year ended March 31, 2006, an impairment loss of US$783,802 (2004: US$nil and 2005: US$1,532,345) in aggregate was recognized in the consolidated statement of operations for certain molds and plant and machinery that are unlikely to generate sufficient future cash flows to support their net book value. The impairment loss recognized during the year was included in the "Cost of goods sold" and the "SG&A" line items on the consolidated statement of operations in the amounts of US$532,217 (2004: US$nil and 2005: US$1,214,115) and US$251,585 (2004: US$nil and 2005: US$318,230), respectively.

11 Property, plant and equipment, net (continued)

(b) As of March 31, 2005 and 2006, buildings with an aggregate net book value of approximately US$111,969 and US$109,796, respectively, are situated in Hong Kong and held under leases expiring in 2044, and manufacturing facilities with an aggregate net book value of approximately US$14,885,679 and US$14,007,529 as of March 31, 2005 and 2006, 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 Group has not yet obtained ownership certificates for all of the manufacturing facility premises as of March 31, 2006 but the ownership certificate for a substantial portion of the land use rights was obtained during fiscal 2006 (Note 12).

(c) The amount of depreciation charged for the fiscal years ended March 31, 2004, 2005 and 2006 was US$5,011,615, US$4,845,764 and US$4,345,648, respectively.

(d) The loss on disposal of property, plant and equipment recognized during the fiscal year ended March 31, 2006 amounted to US$8,477 (2004: US$22,354, 2005: US$167,566).

12 Land use rights, net

Land use rights represent operating lease expenses 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 Group has obtained land use rights certificates covering a substantial portion of the land. Subsequent to the balance sheet date, the Group has entered into a supplementary agreement with the Dongguan local government regarding the use of a 45,208 square meter portion of land which the Group has occupied. The Group has transferred a portion of this land of 13,698 square meters in aggregate, which was previously used as a recreational area, to the Dongguan local government. No cost or liability has been recognized in the consolidated financial statements as a result of this transfer as the amount cannot be reasonably estimated. Additionally, the Group has acquired the rights to use the remaining portion of land of 31,510 square meters until August 6, 2043, on which the Group had already built dormitories for workers. The Group expects to obtain the certificate by the end of 2006. The application for the building ownership certificate will commence only after the land use right certificate for the remaining portion of land has been obtained.

13 License, net

	2005 US$	2006 US$
At cost	4,866,389	-
Less: Accumulated amortization	(2,665,265)	-
License, net	2,201,124	-

	2004 US$	2005 US$	2006 US$
Amortization expense for the fiscal year	695,395	695,867	350,717

The cost of the license represented the appraised fair value of the license on the date of acquisition of LA. Pursuant to the license arrangement, LA had to pay royalties of (i) a fixed percentage of the net sales of products which were produced by using the licensed know-how sold by LA and its subsidiaries before January 1, 2004, and (ii) the greater of a fixed amount and a fixed percentage of the net sales of products, which were produced by using the licensed know-how, sold by LA and its subsidiaries after January 1, 2004. The Group could terminate the license agreement at any time from January 1, 2004 to its expiration in 2023.

By letter dated September 20, 2005, licensor served notice that it terminated the license agreement based upon the failure of LA to pay certain minimum royalties, subject to the right of LA to cure the claimed default within 60 days. By letter dated November 14, 2005, LA notified the licensor that it had rescinded the license agreement based upon misrepresentations that the licensor made to induce LA to enter into the license agreement and demanded the return of US$3.85 million LA has paid to the licensor under the license agreement. Up to the date of this report, neither party has filed any legal action with respect to this dispute but the Group has ceased using any intellectual property related to the license agreement owned by the licensor.

The Group has recognized an impairment loss of US$1,816,640 in the SG&A line item of the consolidated statement of operations for the fiscal year ended March 31, 2006 in respect of the rescinded license agreement.

14 Investment in an equity investee

In January 2005, MasterWerke entered into a joint venture agreement with a third-party venture capital company to form and operate a new entity, Global Commercial Products LLC, which is incorporated in the U.S. as a 50/50 joint venture, for the purpose of (i) utilizing an owned operating company's customer relationships and intellectual property and proprietary know-how and the Group's manufacturing facilities to develop and manufacture the products that both parties agree upon from time to time, and (ii) selling such products in the U.S. and elsewhere throughout the world through the joint venture entity. As of March 31, 2006, the joint venture entity had not commenced any operations nor had any paid-up capital.

15 Short-term bank borrowings

	2005 US$	2006 US$
Short-term bank loans	37,507	37,698

Short-term bank borrowings drawn for working capital purposes are denominated in U.S. dollars and bear interest at a rate of 13.99% (2005: 13.99%) per annum.

As of March 31, 2005 and 2006, the Group had banking facilities denominated in Hong Kong dollars of approximately HK$131,330,000 (equivalent to US$16,838,259) and HK$32,000,000 (equivalent to US$4,123,764), respectively, in aggregate for overdrafts, bank loans, guarantees and letters of credit. There was no utilization of banking facilities denominated in Hong Kong dollars as of March 31, 2006. The amount of banking facilities denominated in US dollars and utilized as at the balance sheet date are summarized as follows:

	2005 US$	2006 US$
Bank loans	37,507	37,698

The Company has provided the banks with an unlimited corporate guarantee for the general banking facilities granted to the Group and an undertaking not to pledge, mortgage or charge, any of the assets in Hong Kong or Mainland China.

16 Business combination

Effective April 30, 2004, a subsidiary of the Company acquired all the shares of MasterWerke, a U.S. corporation wholly owned by the spouse of a director of the Company, for a cash consideration of US$1,000 for the purpose of recovering the promissory note and related interest receivable due from MasterWerke, as well as using MasterWerke for other business purposes.

Details of the assets acquired and liabilities assumed at the date of acquisition are as follows:

	2005 US$
Fair value of assets and liabilities acquired:	
Cash and cash equivalents	572
Short-term investments	473,500
Subscription receivable	1,000
Promissory note and interest payable to the Group	(474,072)
	1,000
Satisfied by:	
Cash consideration	1,000

16 Business combination (continued)

	2005 US$
Net cash outflow from the acquisition of a subsidiary:	
Cash consideration paid	(1,000)
Cash and cash paid equivalents acquired	572
Net cash outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(428)

Had the results of operations for the Group included MasterWerke since April 1, 2004, the Group's pro forma revenue, net loss and net loss per common share for the fiscal year ended March 31, 2004 and 2005 would have been as follows:

	(Unaudited) 2004 US$	(Unaudited) 2005 US$
Pro forma net sales	66,901,315	41,851,163
Pro forma net loss	3,953,329	18,653,557
Pro forma net loss per common share	0.33	1.53

Starting from May 1, 2004, the results of MasterWerke have been included in the Group's consolidated statement of operations.

17 Share capital

During the fiscal year ended March 31, 2004, the Company reissued 10,000 shares of treasury stock to two independent consultants in August 2003.

During the fiscal years ended March 31, 2005 and 2006, no treasury stock was reissued by the Company.

18 Other income (expenses), net

	2004 US$	2005 US$	2006 US$
Exchange gains (losses), net	317,468	(72,639)	(370,485)
Loss on disposal of callable deposit	-	-	(349,599)
Loss on disposal of short-term investments, net	-	(6,567)	(141,251)
Loss on disposal of floating rate bank notes	-	-	(61,229)
Others, net	110,346	110,795	76,549
	427,814	(778,411)	(846,015)

19 Income taxes

Global-Tech and its subsidiaries are subject to income taxes on an entity basis on the income arising in or derived from the tax jurisdictions in which they are domiciled or deemed to operate.

The Company is subject to various tax rates, according to the jurisdictions in which the Company and its subsidiaries operate. The Hong Kong income tax rate is 17.5% (2004 and 2005: 17.5%). The subsidiary operating in Macau is exempted from Macau Complementary Tax.

The subsidiaries established in China, DWS and DGLAD, are subject to income tax at a rate of 27% (24% reduced tax rate and 3% local income tax rate, in the open coastal areas of China). Current income tax is computed based on the taxable income as reported in the statutory financial statements prepared under China accounting regulations. DGLAD is eligible for a consecutive five-year holiday period whereby DGLAD will be 100% exempt from China income tax for two years and a 50% exemption for three years. The holiday period will commence from DGLAD's first year of assessable profit (i.e. after utilizing any available accumulated tax loss carried forward). As of March 31, 2006, the tax holiday period had not commenced, as DGLAD has not recognized its first year of assessable profit.

	2004 US$	2005 US$	2006 US$
Income taxes:			
Current	29,239	33,650	82,000
Deferred	78,528	-	(104,998)
Provision for income taxes	107,767	33,650	(22,998)

19 Income taxes (continued)

The reconciliation of the Hong Kong income tax rate to the effective income tax rate based on the loss from operations before income taxes as stated in the consolidated statement of operations is as follows:

	2004	2005	2006
Hong Kong income tax rate	17.5%	17.5%	17.5%
Non-taxable income (loss) arising from offshore activities	7.3%	(23.4%)	(36.0%)
Non-taxable interest income	5.4%	(1.5%)	(3.3%)
Non-tax deductible expenses	(19.0%)	(0.2%)	11.2%
Changes in valuation allowance	(13.9%)	7.4%	10.8%
Changes in tax rate	(0.1%)	-	-
Effective income tax rate	(2.8%)	(0.2%)	0.2%

Deferred income taxes as of March 31, 2005 and 2006 comprised the following temporary differences:

	2005 US$	2006 US$
Deferred tax assets:		
License	171,834	-
Impairment of property, plant and equipment	330,083	143,699
Provision for inventories	805,782	326,426
Operating losses carried forward	4,539,713	7,021,889
Gross deferred tax assets	5,847,412	7,492,013
Less: Valuation allowance	(5,795,634)	(7,468,912)
	51,778	23,101
Gross deferred tax liabilities:		
Depreciation of property, plant and equipment	(194,666)	(61,720)
Net deferred tax liabilities	(142,888)	(38,619)

19 Income taxes (continued)

The Group provided non-current deferred tax liabilities of US$38,619 (2005: US$142,888) as of March 31, 2006, which arose from the temporary difference on depreciation of property, plant and equipment.

	2004	2005	2006
	US$	US$	US$
Valuation allowance:			
Balance at beginning of fiscal year	269,135	1,557,987	5,795,634
Additions	1,288,852	4,237,647	1,673,278
Balance at end of fiscal year	1,557,987	5,795,634	7,468,912

The Group 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, the Group had tax losses carried forward of US$7,021,889. The losses may be carried forward for 15 years up to an indefinite period, based on tax jurisdiction. Certain of the losses carried forward begin expiring in 2012.

During the fiscal year ended March 31, 2005, the Inland Revenue Department of Hong Kong requested information from one of the Company's subsidiaries regarding its relationship with another subsidiary of the Company. The Group has responded to the Inland Revenue Department request. Management has considered the need for contingent income tax liabilities and provided for such liabilities it believes are probable.

20 Basic and diluted loss per share

Earnings or loss per common share 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 common shares outstanding during the year.

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

	2004	2005	2006
	US$	US$	US$
Numerator for basic and diluted loss per share:			
Net loss attributable to common shareholders	(3,906,365)	(18,623,299)	(11,223,394)
	Number	Number	Number
Denominator for basic and diluted loss per share			
Weighted average number of shares	12,152,592	12,214,800	12,223,608
	US$	US$	US$
Basic and diluted loss per share:			
Net loss attributable to common shareholders	(0.32)	(1.52)	(0.92)

1,126,808, 1,385,095 and 1,086,067 outstanding stock options of the Company during the fiscal years ended March 31, 2004, 2005 and 2006, respectively, had exercise prices below the respective weighted average share prices of the Company during these years, resulting in 210,426, 390,098 and 772,159 incremental common shares, respectively, for the purpose of the diluted loss per share calculation. The effect of the Company's dilutive stock options was not included in the computation of diluted loss per share for the years ended March 31, 2004, 2005 and 2006 because their inclusion would have been anti-dilutive.

21 Design and development costs

The Group expenses all research and development costs when incurred. Included in SG&A line item in the consolidated statement of operations were design and development costs of US$2,322,938, US$2,523,732 and US$1,708,872 for the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

22 Commitments

(a) Capital commitments

As of March 31, 2006, the Group had capital commitments of US$31,484 (2005: US$116,494) for the purchase of property, plant and equipment.

(b) Operating lease commitments

In addition to the land use rights described in Note 12, the Group has entered into various operating lease agreements for parking lots, motor vehicles, equipment and real estate that extend through to 2008. The Group recorded rental expenses excluding the land use rights described in Note 12 for the fiscal years ended March 31, 2004, 2005 and 2006 of US$700,491, US$661,676 and US$628,826, respectively, and recorded sublease income of US$28,877 for the fiscal year ended March 31, 2006 (2004: US$nil and 2005: US$9,577). The operating lease expenses for the land use rights described in Note 12 for the fiscal years ended March 31, 2004, 2005 and 2006 were US$50,988, US$59,376 and US$53,311, respectively. Future minimum rental payments as of March 31, 2006 were as follows:

	2005 US$	2006 US$
Payable:		
Within one year	491,288	163,675
Over one year but not exceeding two years	241,332	121,284
Over two years but not exceeding three years	219,089	-
Over three years but not exceeding three years	116,402	-
	1,068,111	284,959

(c) Purchase commitments

As of March 31, 2005, the Group had purchase obligations of US$430,974 for the purchase of raw materials under irrecoverable letters of credit, which were supported by restricted cash of the same amount as described in Note 5. Such raw materials were subsequently received. As of March 31, 2006, the Group had no purchase obligations for the purchase of raw materials under irrecoverable letters of credit.

23 Contingent liabilities

(a) The Group is involved in patent infringement and 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 Group for breach of contract began on January 12, 2004. On January 16, 2004, the jury returned a verdict in favor of (i) Sunbeam on its claim for indemnity and awarded Sunbeam US$2.5 million against one of the Company's subsidiaries and (ii) the Group on its claim for breach of contract and awarded the Group US$6.6 million. The District Court gave a final judgment on February 11, 2004 to add prejudgment interest to the Jury's award, and awarded Sunbeam US$3.4 million and the Group US$6.6 million. The Group filed a motion to reconsider the calculation of the prejudgment interest, which the Court denied. Sunbeam moved for judgment notwithstanding the verdict and has moved for a new trial. Sunbeam argued, among other things, that the Group should be denied any recovery, or alternatively that any recovery by the Group should be limited to US$1 million.

The District Court denied these motions by an order given on April 12, 2004. On May 10, 2004, Sunbeam filed an appeal against the final judgment, and the Group cross-appealed on May 21, 2005. The United States Court of Appeals for the Eleventh Circuit heard oral arguments on the appeals on March 1, 2005.

On August 12, 2005, the Court of Appeals for the Eleventh Circuit affirmed the judgment of the District Court to the extent that Sunbeam appealed from it and to the extent that Global-Tech and its subsidiary appealed from it, except that the Court of Appeals remanded the case to the District Court for a recalculation of the Group's prejudgment interest on its verdict for US$6.6 million from June 30, 2001, the last date of the relevant product supply agreement. The mandate of the Court of Appeals was issued on September 12, 2005. The time for Sunbeam to petition for certiorari to the United States Supreme Court has expired.

The Group moved in the District Court for an amended judgment to fix the amount of interest to which it was entitled. Sunbeam opposed the motion on the ground that the Group had not properly calculated the interest to which it is entitled. By the amended judgment dated December 12, 2005, the District Court awarded the Group prejudgment interest from June 30, 2001 to February 11, 2004, bringing the judgment entered in favor of the Group as of February 11, 2004 to US$8 million and leaving unchanged the judgment entered against the Group in favor of Sunbeam.

On December 23, 2005, the Group filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. The Group filed its brief on January 25, 2006, arguing that the district erred in failing to award it prejudgment interest until the final amended judgment on December 12, 2005. The appeal has been fully briefed and is scheduled for oral argument in the Court of Appeals on November 15, 2006.

23 Contingent liabilities (continued)

(a) (continued)

Sunbeam has posted a bond in the amount of US$5.2 million, which is attached pursuant to the September 7, 2005 order of the District Court in the action SEB S.A., v. Montgomery Ward et al., pending in the United States District Court for the Southern District of New York.

Since the judgment is final and no further appeal is available to Sunbeam, the Group's right to collect the judgment from Sunbeam, or on the bond from the insurance company, is certain even though the judgment is attached by SEB S.A. ("SEB"). Management recognized a gain of US$8.0 million from its claim against Sunbeam for breach of contract and a loss of US$3.4 million on the claims of Sunbeam for indemnity in its consolidated statement of operation during fiscal 2006.

(b) SEB commenced an action in 1999 in the U.S. District Court for the Southern District of New York for patent infringement against the Company and Pentalpha Enterprises, and Montgomery Ward et al., which filed for bankruptcy protection subsequently. SEB also moved for an order "attaching the judgment" in favor of the Company in the action SEB v. Sunbeam v. Pentalpha Enterprises mentioned in (a) above. The Court then 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 the Company 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$4.6 million.

Both sides have made post-trial motions. The Group has moved for judgment as a matter of law on a wide range of issues, and for a new trial. SEB has moved to enhance the judgment with the addition of treble damages, prejudgment interest and attorneys' fees. The motions have not been fully briefed and are scheduled for oral argument in September 2006. The conference was adjourned on September 26, 2006 until further notice from the District Court. Their outcome is uncertain and the District Court has not entered any judgment based upon the jury verdict. Accordingly, the amount of the judgment as well as the timing of its entry are uncertain.

However, based on SFAS No. 5 "Accounting for Contingencies", management has accrued the contingent loss of US$4.6 million in its consolidated statement of operations during fiscal 2006.

23 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 was determined to be unacceptable. Accordingly, further delivery of the remaining orders was refused. Best Hero alleged that the subsidiary has repudiated the contract and 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 action is currently proceeding to discovery.

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 and legal costs, etc; or

(ii) if Best Hero has not sold the LCD TV panels, the full contractual price together with interest and legal costs but the subsidiary would receive the LCD TV panels in this circumstance.

The subsidiary expects to prevail in the case, but the Group has accrued for a loss contingency in respect to this litigation in the consolidated balance sheets as at March 31, 2005 and 2006 in an amount substantially less than the claim of US$4,250,400 made against the subsidiary but representing management's best estimate of the most likely outcome from this litigation.

(d) On February 23, 2001, Sunbeam commenced an adversary proceeding against Wing Shing Products (BVI) Company Limited ("Wing Shing Products"), asserted that Sunbeam owned U.S. Patent No. Des. 348, 585 or had a permanent license to use it. On March 12, 2001, the subsidiary asserted a counterclaim against Sunbeam for infringement of the Design Patent. On August 24, 2005, the United States Court of Appeals for the Federal Circuit affirmed the US$2,304,403 judgment that the United States Bankruptcy Court for the Southern District of New York had entered on March 15, 2004, in favor of Wing Shing Products. The Court of Appeals cased its mandate on September 14, 2005 for Sunbeam for a writ of certiorari. On or about January 12, 2006, Sunbeam wire transferred US$2,353, 581 to Wing Shing Products. Wing Shing Products recorded such receipt in other operating loss during fiscal 2006.

24 Employee benefits

The Group 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 Group in Hong Kong. Under the MPF scheme, both the Group and the employee contributes the lower of 5% of the employee's basic salary and HK$1,000, subject to a cap of a monthly basic salary of HK$20,000. Employees are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, 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 Group 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 Group and the employee contributes 5% of the employee's basic salary.

The costs of these schemes recognized during the fiscal years ended March 31, 2004, 2005 and 2006 were US$170,622, US$207,194 and US$176,334, respectively.

According to the relevant laws and regulations in China, the Group is required to contribute 10% of the stipulated salary set by the local government of Dongguan, China, to the retirement schemes to fund the benefits of their employees. No forfeited contributions may be used by the employer to reduce the existing level of contributions. Additionally, the Group provides housing, medical care and subsidized meals to all factory employees. The aggregate amounts incurred by the Group for all such benefits were US$642,707, US$628,165 and US$758,737 during the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

25 Segment information

The Group is principally engaged in one reportable segment of manufacturing and trading of consumer electrical products.

(a) Net sales by geographic area

	2004 US$	2005 US$	2006 US$
Australia	486,377	533,334	438,303
Europe	4,461,180	2,982,909	8,316,484
North America	56,116,363	35,995,612	54,438,145
Asia	5,720,742	2,219,058	10,438,473
Other regions	116,653	120,250	180,695
	66,901,315	41,851,163	73,812,100

(b) Net sales by product type

	2004 US$	2005 US$	2006 US$
Floor care products	49,734,017	29,623,372	54,570,730
Kitchen appliances	12,044,008	7,628,507	7,315,672
CMOS camera modules (“CCMs”)	-	-	5,917,146
Others	5,123,290	4,599,284	6,008,552
	66,901,315	41,851,163	73,812,100

(c) Long-lived assets*

	2004 US$	2005 US$	2006 US$
Hong Kong and Macau	2,114,345	2,078,941	1,110,392
Mainland China	30,563,694	27,892,596	25,204,420
United States of America	-	-	1,407
	32,678,039	29,971,537	26,316,219

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

25 Segment information (continued)

(d) Major customers

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

	2004 US$	2005 US$	2006 US$
Royal Appliance Manufacturing Company Limited ("Royal Appliance")	32,357,447	26,222,845	29,851,569
The Electrolux Group (previously known as "The Eureka Company")	17,459,514	4,311,752	25,133,617

During the year ended March 31, 2006, 40% (2005: 63%) of total net sales and 39% (2005: 56%) of total accounts receivable were from Royal Appliance, which is an unrelated customer. The Group is a contract manufacturer of vacuum cleaners that are marketed by Royal Appliance under its brand names.

Royal Appliance has no purchase commitment to the Group for the continuous manufacturing of its products.

26 Risk considerations

The Group's operations are mainly conducted in Hong Kong, Macau and Mainland China. As a result, the Group'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 Group's manufacturing operations are conducted in Mainland China and over 90% of the net book value of the Group's total long-lived assets are situated in Mainland China, the Group 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 environments and foreign currency exchange. The Group'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.

27 Financial instruments

The Group's financial instruments that are subjected to credit risks are limited to its cash and cash equivalents, investments and accounts receivable.

The Group'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 (debt issuance costs) are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss. 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.

The following table sets forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as at March 31, 2005 and 2006. There were no material unrecognized financial assets and liabilities as at March 31, 2005 and 2006.

	Carrying value		Fair value	
	US$	US$	US$	US$
	2005	2006	2005	2006
Current financial assets:				
Cash and cash equivalent	8,790,594	27,313,746	8,790,594	27,313,746
Restricted cash	430,974	-	430,974	-
Callable deposit	5,000,000	-	5,000,000	-
Short-term investments	33,966,281	18,715,682	33,966,281	18,715,682
Accounts and bills receivable, net	7,194,894	8,446,502	7,194,894	8,446,502
Total financial assets	55,382,743	54,475,930	55,382,743	54,475,930

	Carrying value		Fair value	
	US$	US$	US$	US$
	2005	2006	2005	2006
Current financial liabilities:				
Short-term bank borrowings	37,507	37,698	37,507	37,698
Accounts payable	5,258,005	5,075,248	5,258,005	5,075,248
Total financial liabilities	5,295,512	5,112,946	5,295,512	5,112,946

27 Financial instruments (continued)

The carrying amounts of the Group's cash and cash equivalents, accounts and bills receivable and accounts payable approximate to their fair values because of their short maturities. The carrying amounts of the Group's bank loans approximate to their fair values based on borrowing rates currently available for bank loans with similar terms and maturities. The Group's cash and cash equivalents and investments are placed with banking institutions with high credit ratings. The Group performs periodic credit standing evaluation of those banking institutions to limit the Group's exposure to any credit risks.

The accounts receivable balances largely represent amounts due from the Group's principal customers with high credit ratings. Based on the records of the Group, management of the Company believes that the Group's concentration of credit risk is limited.

The Group does not require collateral for any of its financial assets.

28 Stock options

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 stocks options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (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 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 the 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.

28 Stock options (continued)

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.

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. For employees, every 100 old options with an exercise price of US$19.00 per share could be exchanged for 60 new options at an exercise price of US$6.25 per share. For directors and officers holding options with exercise prices ranging from US$8.31 to US$14.50, the number of new options granted on exchange could be approximately 70.30% to 91.09% of the old options. The exchange ratios were determined by independent advisors at an amount that would result in no intrinsic gain at the time of the exchange. The vesting schedule and life for these exchanged stock options remained unchanged. As a result, 914,100 old options were exchanged for 711,175 options with an exercise price of US$6.25 per share as follows:

Pre-exchange exercise price per option US$	Options cancelled on exchange	Options granted on exchange	Post-exchange exercise price per option US$	Options granted six months before and after the cancellation date	Post-exchange number of options
8.31	420,000	382,568	6.25	-	382,568
14.50	312,000	219,347	6.25	-	219,347
19.00	182,100	109,260	6.25	12,500	121,760
	914,100	711,175		12,500	723,675

In accordance with FIN 44, these 711,175 options, together with the 12,500 options granted within six months before or after the date of cancellation of the old options, are subjected to variable accounting prospectively and stock compensation expense is adjusted for subsequent changes in intrinsic value. For the fiscal year ended March 31, 2004, stock compensation expense of US$2,355,319 was provided in the consolidated statement of operations. For the fiscal years ended March 31, 2005 and 2006, US$1,247,061 and US$348,162 of the expense was reversed in the consolidated statement of operations, respectively.

For the fiscal year ended March 31, 2004, Global-Tech granted options to purchase (i) 20,000 shares to an officer with exercise prices based upon the prevailing market price on the dates of vesting; (ii) 12,000 shares to a director with an exercise price of US$7.60 per share; (iii) 94,000 shares to 30 employees, 15,000 shares to two officers and 240,000 shares to three directors with an exercise price of US$7.64 per share. During fiscal year 2004, an aggregate total of 13,880 shares with an exercise price of US$6.25 per share were forfeited upon the resignation of the participants.

28 Stock options (continued)

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 to seven employees, 216,030 to four directors and 100,000 shares to a consultant with an exercise price of US$3.90 per share under the 1997 Plan in 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 in March 31, 2006. During fiscal 2006, 347,538 shares with an exercise price of US$6.25 granted to two directors and a consultant were cancelled, 21,500 shares with exercise prices ranging from US$6.25 to US$7.64 were forfeited upon the resignation of the relevant participants, and 2,500 shares with an exercise price of US$5.75 were expired.

Changes in outstanding options under the Plans during the three fiscal years ended March 31 are as follows:

	2004			2005			2006		
	Options	Range of exercise prices 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	1,141,688	4.55-19.00	5.75	1,473,205	4.55-19.00	6.25	1,391,495	4.55-19.00	6.22
Granted	381,000	7.60-8.32	7.67	-	-	-	810,000	3.90-7.00	4.09
Cancelled	-	-	-	-	-	-	(347,538)	6.25	6.25
Exercised	(35,603)	4.75-6.25	5.55	(45,710)	6.25	6.25	-	-	-
Forfeited/expired	(13,880)	6.25	6.25	(36,000)	6.25-7.64	7.52	(23,800)	5.75-19.00	7.78
Outstanding, end 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
Exercisable, end of fiscal year	1,078,105	4.55-19.00	5.76	1,043,795	4.55-19.00	5.75	1,028,807	3.90-8.32	5.00

Options outstanding as of March 31, 2006				Options exercisable as of March 31, 2006	
Options	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$
760,000	3.90	10.00	3.90	325,000	3.90
690,157	4.55-6.25	4.06	5.45	687,807	5.45
380,000	7.60-8.32	7.87	7.59	16,000	8.05
1,830,157	3.90-8.32	6.76	5.25	1,028,807	5.00

28 Stock options (continued)

The fair values per option granted during the fiscal year ended March 31, 2006 were estimated on the date of grant using the Black-Scholes option-pricing model to be US$2.252, on a weighted-average basis. The fair values of the options granted were estimated on the date of grant using the following assumptions:

	2004	2005*	2006
Risk-free interest rate	3.80%	-	4.07% - 4.79%
Expected dividend yield	0%	-	0%
Expected option life	7 years	-	7 years
Expected stock price volatility	55.54%	-	50.12% - 51.39%

* No option was granted in 2005.

In conjunction with the acquisition of LA on May 31, 2001, GLA established a stock option plan on the date of acquisition. The shares issued under this plan are based on the shares of the subsidiary of GLA and not of the Company. Under this plan, the following options to purchase shares were outstanding as of March 31, 2006:

(a) 800,000 options (2005: 800,000 options) in GLA at an exercise price of US$0.34 per share issued to four directors. These options were fully vested on May 31, 2004 and will expire on May 31, 2011.

(b) 30,000 options (2005: 30,000 options) in GLA at exercise prices ranging from US$0.20 to US$1.50 per share issued to an employee. These options will expire on May 31, 2006.

(c) 20,000 options (2005: 20,000 options) in GLA at an exercise price of US$0.34 per share issued to an employee. These options will expire on November 12, 2012.

29 Subsequent events

(a) On March 17, 2006, the Group entered into an agreement with Anwell Technologies Limited ("Anwell"), a publicly listed company in Singapore, to form a joint venture company, with its manufacturing facilities in China to explore synergies related to the production of OLED systems.

Pursuant to the joint venture agreement, the Group will invest certain of OLED assets in exchange for 30% stake in the joint venture company and a convertible note with a face value of $5.6 million from Anwell.

(b) Global Appliances Holdings Limited has entered into agreement on August 1, 2006, to sell a 30% interest in Global Auto Limited (formerly known as Lite Array (OLED) H.K. Limited) at a consideration of US$38,660, to an independent third party. The transaction will be completed in the second quarter of fiscal 2007.

30 Changes in presentation of comparative consolidated financial statements

For the fiscal year ended March 31, 2005, US$810,000 contingent loss has been reclassified from SG&A line item to other operating loss to conform to the current fiscal year's presentation.

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

2006 Annual Shareholder Meeting

November 14, 2006 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 GlbTApp.

From April 1, 2005 through March 31, 2006, the high and low last reported sale prices for Global-Tech's common shares listed on NYSE were US$7.20 and US$3.53, respectively.

As of August 31, 2006, approximately 33.5% of the outstanding ordinary shares of Global-Tech were held in the United States by 8 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.

GLOBAL-TECH
APPLIANCES INC.

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

(852) 2814-0601
(852) 2873-0591