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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 20-F**

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

OR

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

*For the fiscal year ended March 31, 2006*

OR

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

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

OR

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

Date of event requiring this shell company report:

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**GLOBAL-TECH APPLIANCES INC.**

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

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**British Virgin Islands**  
(Jurisdiction of incorporation or organization)

**12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong**  
(Address of principal executive offices)

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

Title of each class:

Common Shares, par value \$0.01 per share

Name of each exchange on which registered:

The New York Stock Exchange

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

Not Applicable

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  
Not Applicable**

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**12,223,608 Common Shares, par value \$0.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

References throughout this annual report to a fiscal year refer to the fiscal year ended on March 31 of that year. “Fiscal 2006,” for example, refers to the fiscal year ended March 31, 2006.

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

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions and involve inherent risks and uncertainties. We use words such as “expect,” “anticipate,” “project,” “believe,” “plan,” “intend,” “seek,” “should,” “estimate,” “future,” or variations of such words and other similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. 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 “Item 3.D—Risk Factors” 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.

## PART I

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

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

Not applicable.

**B. *Advisers.***

Not applicable.

**C. *Auditors.***

Not applicable.

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

**A. *Offer statistics.***

Not applicable.

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

Not applicable.

### Item 3. Key Information.

#### A. Selected financial data.

The selected consolidated statement of operations data for the fiscal years ended March 31, 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 “Item 5—Operating and Financial Review and Prospects,” the consolidated financial statements and the notes thereto and other financial information which appear elsewhere in this annual report.

	Fiscal Year Ended March 31,				
	2002	2003	2004	2005 (3)	2006 (4)
	(In thousands, except for per share data)				
<b>Statement of operations data:</b>					
Net sales	\$ 85,321	\$ 75,489	\$ 66,901	\$ 41,851	\$ 73,812
Cost of goods sold	<u>(65,148)</u>	<u>(54,906)</u>	<u>(52,942)</u>	<u>(44,595)</u>	<u>(69,817)</u>
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)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(810)</u>	<u>2,380</u>
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	<u>85</u>	<u>228</u>	<u>428</u>	<u>31</u>	<u>(846)</u>
Income (loss) from continuing operations before income taxes	7,817	6,697	(3,798)	(18,610)	(11,259)
Benefit (provision) for income taxes	<u>(1,417)</u>	<u>(624)</u>	<u>(108)</u>	<u>(33)</u>	<u>23</u>
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	<u>—</u>	<u>29(2)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) before minority interests	(4,593)	5,267	(3,906)	(18,643)	(11,236)
Minority interests	<u>1,570</u>	<u>—</u>	<u>—</u>	<u>20</u>	<u>13</u>
Net income (loss)	<u>\$ (3,023)</u>	<u>\$ 5,267</u>	<u>\$ (3,906)</u>	<u>\$ (18,623)</u>	<u>\$ (11,223)</u>
Basic and diluted earnings (loss) per common share from continuing operations	<u>\$ 0.53</u>	<u>\$ 0.50</u>	<u>\$ (0.32)</u>	<u>\$ (1.52)</u>	<u>\$ (0.92)</u>
Basic and diluted earnings (loss) per common share	<u>\$ (0.25)</u>	<u>\$ 0.43</u>	<u>\$ (0.32)</u>	<u>\$ (1.52)</u>	<u>\$ (0.92)</u>
Basic and diluted weighted average number of shares outstanding	<u>12,140</u>	<u>12,141</u>	<u>12,153</u>	<u>12,215</u>	<u>12,224</u>

- (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.

The summarized results of discontinued operations are as follows:

	<b>Fiscal Year Ended March 31,</b>	
	<b>2002</b>	<b>2003</b>
Net sales	\$ 444,717	\$ 594,621
Cost of goods sold	392,992	503,889
Gross profit	51,725	90,732
Selling, general and administrative expenses	1,643,896	539,099
Impairment of property, plant and equipment	258,233	—
Share of loss of a joint venture	5,236,684	378,646
Amortization of goodwill	328,316	—
Write-off of goodwill	3,611,472	—
Operating loss	(11,026,876)	(827,013)
Interest income (expense)	34,030	(8,924)
Other income, net	—	491
Loss from discontinued operations	<u>\$(10,992,846)</u>	<u>\$(835,446)</u>

The aggregate assets and liabilities of the discontinued TFEL display business on the date of disposal were \$480,407 and \$3,145,432, respectively.

	<b>At March 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	(In thousands)				
<b>Balance sheet data:</b>					
Working capital <sup>1</sup>	\$ 64,931	\$ 72,356	\$ 73,672	\$ 58,167	\$53,071
Total assets	123,273	123,548	122,286	104,013	98,080
Net assets <sup>2</sup>	106,500	111,341	110,033	90,273	79,349
Total debt <sup>3</sup>	1,062	828	422	38	38
Shareholders' equity	106,500	111,341	110,033	90,261	79,349

<sup>1</sup> Working capital is the excess of current assets over current liabilities.

<sup>2</sup> Net assets are the excess of total assets over total liabilities.

<sup>3</sup> Total debt is the summation of short-term borrowings, current portion of long-term bank borrowings and long-term bank borrowings.

**B. Capitalization and indebtedness.**

Not applicable.

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

Not applicable.

**D. Risk factors.**

**Compliance with Section 404 of the Sarbanes-Oxley Act of 2002.** We are required under Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") to include a report that asserts management's responsibility over internal control, identifies the framework used to evaluate internal control, and provides an assessment of the effectiveness of the Company's internal control over financial reporting beginning with our annual report on Form 20-F for our fiscal year ending on or after July 15, 2007. Further, Section 404 requires that the Company's external auditor attest to, and report on, management's assessment of internal control. A copy of the attestation report must be filed along with the annual report on Form 20-F. Although we are conducting a review of our internal control structure and procedures over financial reporting to comply with the requirements of Section 404, there is no

assurance that our external auditor will ultimately be satisfied with our internal control structure and procedures over our financial reporting, and therefore may decline to attest to management's assessment of internal control or even issue a qualified report. This could result in non-compliance with the Securities and Exchange Commission ("SEC") regulations and/or a decline of our stock value due to the loss of investors' confidence in the reliability of our financial statements, and the Company may be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require the commitment of additional financial and management resources.

**Foreign sales, operations and assets.** Substantially all of our products are currently manufactured in China and over 90% of the net book value of our total fixed assets is located there. We sell products to companies based principally in North America, Europe and Australia. Consequently, our international operations and sales may be subject to the following risks, among others:

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

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

**Renminbi revaluation.** We sell a majority of our products into the U.S. market through our subsidiaries in Hong Kong and also Macau. These sales are generally 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. Although certain raw materials, material components and capital equipment are purchased using a variety of currencies including the U.S. dollar, Chinese Renminbi, Japanese yen and EURO, the majority are purchased with Hong Kong dollars. The Hong Kong dollar is pegged to the U.S. dollar at a rate of approximately \$7.8 Hong Kong dollars to US\$1.0. To date, in the aggregate, we have not been significantly affected by exchange rate fluctuations and therefore have not hedged our positions.

From 1998 until 2005, the People's Bank of China ("PBOC") kept the Renminbi's exchange rate against the U.S. dollar steady at approximately 8.3 Renminbi to the U.S. dollar. In March 2005, China's Premier introduced a number of conditions, including but not limited to, Chinese financial and economic stability that must be achieved before China could implement greater exchange flexibility. At that time the Premier indicated that the Renminbi was likely to be revalued, but gave no timetable for such revaluation.

On July 21, 2005, the PBOC decided to abandon its policy of pegging the Renminbi to the U.S. dollar and instead decided to link the Renminbi to a basket of currencies. The PBOC also strengthened the exchange rate of the Renminbi to 8.11 to the U.S. dollar from 8.28 as the Chinese government took its first step towards a floating currency. This reform will eventually make China products more expensive for U.S. companies. To the extent our operations are based in China, we are exposed to foreign exchange risk with respect to the Renminbi, which could ultimately negatively impact our financial condition and results of operations.

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

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



Under its current leadership, the Chinese government has been pursuing economic reform policies, including the encouragement of private economic activity and greater economic decentralization. In 2001, after 15 years of negotiations, China was admitted to the World Trade Organization, (“WTO”), and is now entitled to the full trading rights afforded a WTO member country. There can be no assurance, however, that China will continue to pursue and implement favorable economic reform policies, that such policies will be successful if pursued or that such policies will not be significantly altered from time to time without notice.

The municipal authorities in each township in China have discretion to impose or waive a large number of fees and taxes including value-added tax, stamp duty, licenses and permits. In the Company’s manufacturing location, it is subject to the laws and regulations of the township of Dongguan, Guangdong Province and the PRC. In the early years of our operations in Dongguan, the majority of the local fees and taxes were waived or abated as a result of negotiation with local authorities. In recent years, however, our requests for waivers and abatements have received less favorable consideration and we believe that we may incur a significant increase in fees and taxes over the coming years.

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

***Outbreak of epidemic diseases.*** Any recurrence of Severe Acute Respiratory Syndrome (“SARS”) and Avian Influenza in China could also significantly 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 Vietnam, South Korea and Japan were to spread to Hong Kong and China, where our executive office and operations facilities are located, there may be disruptions to our business.

***Cost and availability of labor.*** There is an emerging trend of a shortage of supply of migrant workers in China, particularly in Guangdong Province where our factory is located. Both in numbers and in skill, the labor force in China cannot keep up with the current speed of economic development. We have adjusted salaries and fringe benefits in order to attract and retain an adequate labor force. In the coming year, we expect that both a potential shortage of labor and increasing costs will impact our manufacturing operations and further believe the appreciation in value of the Renminbi in relation to the U.S. dollar will also increase our costs in recruiting and retaining a skilled work force.

***Increase in effective tax rates.*** The Company is subject to a lower overall effective tax rate than some U.S. domiciled corporations because of the location of its business operations. We are incorporated in the British Virgin Islands and have subsidiaries incorporated in the British Virgin Islands, Hong Kong, Macau, China and the United States. Our executive and administrative offices are located in Hong Kong and Macau and our manufacturing facilities are in China. Our customers are located primarily in the United States. Changes in tax laws could have a material adverse effect on our results of operations. In addition, one of our subsidiaries in China, Dongguan Wing Shing Electrical Products Factory Company Limited (“Dongguan Wing Shing”), was exempted from income tax for two years (1999 and 2000) followed by a 50% exemption for the next three years (2001 to 2003). Commencing January 1, 2004, Dongguan Wing Shing is subjected to the full tax rate of 27%. Dongguan Wing Shing houses our manufacturing facilities that incur a significant portion of manufacturing overhead. The finished products manufactured at Dongguan Wing Shing are sold to our other subsidiaries. We do not believe application of the full tax rate will have a significant impact on our financial condition and results of operations. In fiscal 2004, we established a new subsidiary, Dongguan Lite Array Company Limited (“Dongguan Lite Array”), which is also exempt from income tax for the two-year period commencing with its first profitable year and followed by a 50% exemption for the next three years. Dongguan Lite Array has yet to attain its first profitable year. Our subsidiary in Macau, Pentalpha Macau Commercial Offshore Limited, is not subject to taxation in Macau in accordance with Macau tax regulations, but there is no assurance that the Hong Kong Inland Revenue Department (“HKIRD”) will not seek to impose taxation on income generated in Macau, which could result in an increase in our effective tax rate.

In fiscal 2005, our U.S. subsidiary, Lite Array, Inc, a Delaware corporation (“Lite Array”), engaged in the trading of raw materials for small molecule organic light emitting diode (OLED) technology for our other subsidiaries. The sales amount was immaterial and we have ceased trading of OLED products subsequent to the balance sheet date. There should be no taxable income recognized as the sales amount was not sufficient to cover the expenses incurred during the period and there were tax losses carried

forward from prior years. At this stage, we do not believe that our current method of operations subjects us to material U.S. taxes. There can be no assurance, however, that U.S. taxes will not be imposed on an additional portion of our income. The imposition of material U.S. income taxes could have an adverse effect on our results of operations.

**Dependence on major customers.** Sales to five major customers accounted for 89.9%, 86.9% and 84.4% of our net sales during each of fiscal 2004, 2005 and 2006, respectively. Royal Appliance Manufacturing Company (“Royal”), a floor care company, continued to be our largest customer in fiscal 2006. Sales to Royal accounted for 40.4% of our net sales in fiscal 2006, as compared to 62.7% of our net sales in fiscal 2005. Over the last two years, we have established a business relationship with The Electrolux Group, which was formerly known as The Eureka Company (“Electrolux”). Sales to Electrolux accounted for 34.1% of our net sales in fiscal 2006 as compared to 10.3% of our net sales in fiscal 2005. Neither Royal, nor Electrolux is contractually obligated to purchase floor care products from us, and we only sell to each of them on the basis of purchase orders.

On December 17, 2002, Techtronic Industries Limited (“TTI”) and Royal jointly announced that they had entered into a definitive agreement for TTI to acquire Royal. Effective April 23, 2003, TTI announced a merger with Royal. Following the completion of the merger, Royal is operating as a wholly-owned subsidiary of TTI. TTI, like the Company, is a full-line electrical products manufacturer based in Hong Kong and China and eventually is likely to produce all of Royal’s products. We have continued offering Royal favorable pricing and payment terms in an attempt to maintain business with them. We cannot predict when TTI will begin producing all of Royal’s products and cease buying from us and we have received no formal or informal notice to that effect. We believe such a result is probable and likely to occur in the reasonably near future and there will be a significant adverse impact on our financial position when we lose this customer unless we are able to replace it with another major floor care company.

Although the relative percentage of net sales to each of our major customers changes each year, we expect to be dependent on between two and four major customers for the foreseeable future. Although we may enter into contracts with general terms for the purchase of products with certain of our major customers, sales are generally made pursuant to purchase orders received by us from time to time. Therefore, there can be no assurance of the level of sales to any of these major customers in the future. The loss of any one of these major customers, particularly Royal or Electrolux, could have a material adverse effect on our business, results of operations and financial condition.

**Increases in cost of raw materials.** We are dependent upon outside suppliers for all of our raw material needs, including plastic resins, and are subject to price increases in these raw materials. The plastic resins we use are derived from natural gas liquids, and prices of these plastic resins have fluctuated in line with the fluctuation in natural gas and crude oil prices, as well as the relative capacity, supply and demand for the resin and petrochemical intermediates from which plastic resins are produced. During fiscal 2006, the price of plastic resin increased 25% overall and may continue to increase as a result of the surge in crude oil prices. We have no long-term supply contracts for the purchase of plastic resin, but we generally maintain a 90-day supply. We have limited ability to increase product prices in response to plastic resin or other material cost increases. We closely monitor crude oil prices that normally affect the price of plastic resin and our inventory levels to ensure we can complete our orders on hand. If our reserves are not sufficient for our production requirements, we have to buy plastic resin at potentially higher prices in order to meet our delivery schedules. There can be no assurance that we will be able to purchase the necessary quantities of plastic resin and other raw materials at reasonable prices. Any future increase in the cost of plastic resins or other raw materials or our continuing inability to pass the increased cost of these or other raw materials onto our customers or to purchase sufficient quantities of plastic resins will have a material adverse effect on our business, results of operations and financial condition. For more information, please see Item 11 – Quantitative and Qualitative Disclosures about Market Risk.

**New product category.** In 2005, we entered the consumer electronic products business concentrating on display-oriented products. Our subsidiary, Global Display Limited, developed a range of consumer products incorporating high-definition flat panel displays (FPDs) that utilized liquid crystal displays (LCDs), plasma display panels (PDP), liquid crystal on silicon (LCOS), optical, and digital display technologies. Lite Array, Inc., another subsidiary of ours, had been developing a range of display modules utilizing proprietary OLED technology. Since we had no commercial success in these new product categories and there was no assurance that we would do so in the future, we were required under U.S. GAAP to provide for impairment of our long-lived assets since the carrying amount of our long-lived assets exceeded the sum of the undiscounted cash flows expected to result from the assets’ use and eventual disposition. In addition, we had to write-down the value of the related inventories to market value. Any future impairment or write-down of inventory arising from a lack of commercial success in a new product category would have a negative impact on our business and results of operations.

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

***Proprietary technology; patent protection.*** We hold a number of patents registered in various jurisdictions, including the United States, the United Kingdom, Germany and France, and hold the exclusive rights with respect to certain technology included in our products. We rely primarily upon a combination of trademark, copyright, know-how, trade secrets and contractual restrictions to protect our intellectual property rights. We believe that such measures afford only limited protection and, accordingly, there can be no assurance that the steps taken by us to protect these proprietary rights will be adequate to prevent misappropriation of the technology or the independent development of similar technology by others. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary.

***Indemnification liability for patent infringement.*** In contracts relating to original design manufacture (“ODM”) products, we typically agree to indemnify customers for all liabilities, costs, expenses or damages payable by our customers based upon a claim of patent infringement by an ODM product manufactured by us, whether such amount is awarded by a court or agreed to in settlement negotiations. The cost of any such customer indemnity or of responding to any infringement assertion could be significant, regardless of whether the assertion is valid. On behalf of a former customer, we are currently appealing a patent infringement judgment relating to a deep fryer model. See “Item 8.A—Financial Information—Legal Proceedings.” No assurance can be given that this current infringement claim will be resolved in our favor or that other parties will not assert infringement claims against us in the future with respect to that, or other products. An adverse decision in any such legal proceeding could have a material adverse effect on our business, results of operations and financial condition.

***Product liability.*** We may be subject to substantial product liability costs if claims arise out of problems associated with our products. We provide a warranty for limited manufacturing defects to certain of our customers. We do not provide warranties, however, that extend to the ultimate consumers of the product. Nevertheless, there can be no assurance that we will not be subject to a suit by a consumer who uses one of our products if the product causes an injury to any person or does not perform properly. We maintain product liability insurance in an amount we believe is sufficient. There can be no assurance, however, that our insurance coverage will be adequate or that all product liability claims will be covered by our current product liability insurance. In addition, these policies must be renewed annually. To date, we have not been subject to any material product liability claim. While we have been able to obtain product liability insurance in the past, premiums continue to increase in cost and may not be available in the future on terms acceptable to us, if at all. The failure to maintain insurance coverage, or a successful claim against us not covered by or in excess of the insurance coverage, could have a material adverse effect on our business, results of operations and financial condition. In addition, product liability claims, regardless of their merit or eventual outcome, may have a material adverse effect on our business reputation.

***Product safety; delays in regulatory approval.*** Our products include several electrical components, which may cause fires if not properly installed. Although we have experienced no significant safety problems with our products in the past and believe that our products do not present safety risks, there can be no assurance that safety problems will not occur in the future. Prior to the commercial introduction of our products into the market, we always obtain approval of our products by at least one of the organizations engaged in testing product safety. The application process for securing these approvals requires a significant commitment of time and resources by our technical staff and could delay the introduction of our products. Our inability to obtain regulatory approval within the projected timeframe for commercial introduction of our products or other product introduction delays could have a material adverse effect on our business, results of operations and financial condition.

***Risks of manufacturing in China; property damage.*** All of our products are manufactured at our factory complex located in the township of Dongguan, Guangdong Province of China. In addition to the political and economic risks of operations in China, firefighting and disaster relief assistance in China is not as sophisticated as in Western countries. We currently maintain property damage insurance in the aggregate of approximately \$72.6 million which covers our inventory, furniture, equipment, machinery and buildings and also maintain business interruption insurance in the aggregate of approximately \$18.9 million for losses relating to our factory. Material damage to, or the loss of, our facilities due to fire, severe weather, flood or other act of God or cause, even if insured against, would have a material adverse effect on our business, results of operations and financial condition.

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

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

**Concentration of ownership.** Wing Shing Holdings Company Limited, a British Virgin Islands company (“Wing Shing Holdings”), beneficially owns approximately 61.8% of our outstanding common shares (issued net of treasury shares). The share ownership of Wing Shing Holdings is held 60% by Kwong Ho Sham and 40% by John Sham, both of whom are directors. Voting control of Wing Shing Holdings is held approximately 42.9% by Kwong Ho Sham and approximately 57.1% by John Sham. As a result, Wing Shing Holdings and its shareholders are in a position to control our activities and policies, including possessing the voting power to elect our Board of Directors and approve all matters requiring shareholder approval and the ability to generally direct our affairs.

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

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

**Macau subsidiary operations.** We established a subsidiary in Macau to buy and sell products to our customers. No treaty exists between Macau and the United States providing for reciprocal enforcement of foreign judgments. However, the courts of Macau are generally prepared to accept a debt due and actions may then be commenced in Macau for recovery subject to specific preconditions being satisfied regarding the authenticity of the foreign judgment.

Enforcement of a foreign judgment in Macau may also be limited or affected by applicable bankruptcy, insolvency, liquidation, arrangement, and moratorium or similar laws relating to or affecting creditors’ rights generally, but will be subject to statutory time limitation within which proceedings may be brought.

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

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

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

**Our status as a foreign private issuer.** We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934. As such, we are exempt from certain of the reporting requirements under the Securities Exchange Act of 1934 and corporate governance standards of the New York Stock Exchange (“NYSE”). Because of these exemptions, investors are not afforded the same protection or information generally available to investors holding shares in public companies organized in the United States or traded on the NYSE. However, the NYSE does not exempt foreign private issuers from independent audit committee requirements and we are required to disclose any significant ways our current corporate governance practices differ from those followed by domestic companies under the NYSE listing standards. In addition, our Chief Executive Officer must notify the NYSE if one of our executive officers becomes aware of any material non-compliance with any applicable NYSE corporate governance listing standards to the NYSE. Please see “Item 10-Additional Information” for more information.

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

**Delisting of our common shares.** Our common shares are listed on the NYSE and the Company is subject to certain NYSE continued listing standards. Under the applicable quantitative continued listing standards, the Company would be considered “below criteria” and our common shares would be subject to delisting procedures if, among other things, (i) the Company’s average market capitalization is less than \$75 million over a 30 trading-day period and shareholders’ equity is less than \$75 million or if (ii) the average market capitalization is less than \$25 million over a 30 day trading-day period. Delisting of our common shares could negatively affect the price and liquidity of our common shares and could impair our ability to raise capital in the future. By a letter dated August 18, 2006, the NYSE advised us of the Company’s potential non-compliance with these standards in the future. The Company cannot provide any assurance that it will be able to continue to satisfy the requirements of the NYSE’s continued listing standards.

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

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

Our legal name is Global-Tech Appliances Inc., and we were organized as an international business company under the laws of the British Virgin Islands on May 2, 1991 and went public on April 7, 1998. The address of our registered office in the British Virgin Islands is TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, and the telephone number at that address is (284) 494-5296.

The address of our principal place of business, and the location of our executive and administrative offices, is 12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong, and the telephone number at that address is (852) 2814-0601. Our e-mail address is investorrelations@global-webpage.com. Our website is located at <http://www.global-webpage.com>.

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

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.

## **Business Strategy**

It is our intention to de-emphasize unprofitable product categories with lower profit margins that merely maintain sales volume and to expand into more technologically advanced product categories. In recent years, we have endeavored to develop new business opportunities and plan to continue seeking out business opportunities that take advantage of our engineering and design expertise, top quality processes and low-cost manufacturing infrastructure.

### **Core Business**

Our business strategy is to be the highest quality, low cost manufacturer of complex small electrical appliances as well as being a reliable partner for a few brand marketers. We have invested in a number of core competencies to support our strategy, as well as efficiency and productivity improvements to provide adequate returns.

We are attempting to establish cooperative relationships with our principal customers to save them money and improve their competitiveness. Since our two largest customers are manufacturers themselves we have to prove working with us gives them an economic benefit. We believe this can be done with a combination of the following:

***Vertically-integrated, low-cost manufacturing.*** We maintain our principal production facility in Dongguan, China, which is set up as a vertically-integrated manufacturing operation. We have made a significant investment, and continue to invest, in sophisticated machinery to create the tooling and components used in the manufacturing process. This machinery, along with the use of relatively inexpensive labor, enables us to produce efficiently many of our components and to assemble these components to create finished products. We also invest where necessary in automation to offset increased labor costs. By locating our manufacturing facilities in close proximity to Hong Kong, we are also able to leverage both the transportation resources and engineering and managerial expertise available in Hong Kong. We believe that our investment in manufacturing machinery, combined with the strategic use of labor and management resources, allows us to provide customers with high-quality, low-cost products in an efficient and timely manner.

***Commitment to quality.*** We are committed to manufacturing high-quality products and we achieve this goal by engaging in quality control testing at each stage of the manufacturing process. We are able to assure the reliability and consistent performance of

our products by testing both the individual components and the fully-assembled finished product. Our quality management system has been certified as conforming to the standards of the International Organization for Standardization (“ISO”). The ISO, based in Geneva, Switzerland, publishes a series of standards for quality management and quality assurance with the goal of providing guidelines for consistent practices worldwide. Our quality control system has been certified by Det Norske Veritas QA Ltd., an accredited unit of the ISO, as conforming to Quality System Standard ISO 9001 for the manufacture of electrical household appliances.

**Expansion of manufacturing capabilities.** We invest either directly or indirectly in all the equipment needed to manufacture our products. In recent years, we have added die casting and electric motor manufacturing to our processes. We have built specialty life testing rigs and clean rooms as well as investing in major injection molding equipment to allow us to make large plastic parts.

**Cost reduction engineering.** We dedicate our limited development engineering resources to implementing our customers’ detailed designs and working on cost reduction programs concentrating on process efficiency, material substitution and weight reduction. Typically engineered cost reductions are passed through to our customers or shared to compensate us for a portion of our material cost increases.

### **Electronic Components and Electronics Products**

Our strategy for electronic components evolved from our efforts to sell OLED displays to cellular phone manufacturers in the PRC. Our targeted “second tier” customers, however, were more interested in incorporating cameras and video using their existing STN-LCD screens than paying a premium for an OLED screen despite its better performance. We therefore diverted some of our technical resources from our display group and hired experienced process engineers in the PRC to enter the CCM business.

**Partnership with vendors.** The sensors and lenses utilized in CMOS cameras are highly specialized and only available from a few vendors. We have established relationships with a major sensor company that views our PRC based operation as a good partner to access many of the PRC cellular phone manufacturers. Additionally we receive technical support from our lens and connector suppliers.

**Innovative product development.** We research applications for CCMs either as a component or a critical feature of an electronic product. We have identified home security devices that incorporate a camera as an attractive area to focus on and are devoting part of our development efforts to this market. We have also hired an experienced engineering team in Taiwan to focus on developing more sophisticated CCMs that incorporate such features as automatic focusing.

**Superior quality PRC based manufacturing.** Utilizing our clean room expertise initially learnt from OLED production, we have been able to produce CCMs with high quality standards, which allows some of our PRC-based customers to purchase CCMs in the PRC rather than importing them from Korea or Taiwan.

**Expansion of manufacturing capabilities.** We have invested in all of the equipment needed to assemble modules in a Class 1,000 clean room. We have added precision mounting equipment and a full range of testing apparatus to support and maintain high quality.

**Focus on home security.** We are in the process of developing consumer products for the home security market that incorporate cameras, optics, recording devices and outsourced proprietary software linking the systems. Our first home security product, “the Intellicorder” was introduced in 2006.

### **Display-Oriented Products**

Late in fiscal 2003, we began exploring opportunities in display-oriented products, particularly those utilizing flat-panel LCD displays. We concluded that investing in the capital equipment required to produce such displays 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 finished, 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 LCD 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 televisions, resulting in our inventory devaluing on a monthly basis as market prices steadily declined. 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.

### **Lite Array’s OLED**

Since the acquisition of Lite Array, we have been active in the development of OLED technology utilizing licensed proprietary single molecule technology. We have built a clean room, acquired a development line and related know-how and started producing OLED display samples for customer evaluation as well as providing them with small quantities of displays from contracted manufacturers in Taiwan and Korea.

Subsequently, however we determined that it was unlikely that we could make a return from our investment in OLED due to the significant capital investment required, market prices decreasing and the ongoing burden of a minimum royalty structure that we could not recover in our pricing.

We, therefore, ceased any plans to manufacture OLED displays using the licensed technology and entered into a venture with Anwell, a public company in Singapore, to develop a more cost effective process for producing OLED equipment rather than continuing to only manufacture OLED displays.

### **Products**

Currently, we design and manufacture a number of small electrical household appliances. During fiscal 2004, 2005 and 2006, ODM products accounted for 24.5%, 26.1% and 18.3% respectively, of our net sales after netting off the tooling income, with the balance of our net sales being from contract manufacturing performed according to product specifications provided by customers. In fiscal 2006, we produced approximately 4 million appliance units including both ODM and OEM products.

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

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

(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.

**Floor care products.** We started manufacturing floor care products in fiscal 2000. Our floor care products include hand-held steam vacuum cleaners, upright vacuum cleaners and extractors. Floor care products represented 74.3%, 70.8% and 73.9% of our net sales in fiscal 2004, 2005 and 2006, respectively. As a contract manufacturer, our sales in this category have been principally driven by our product quality, testing systems, sophisticated electric motor production, and our tooling and injection molding machinery for large plastic parts which are already in place. We believe that we will continue contract manufacturing for our two key customers for the next few years but will continue having difficulty improving margins.

**Kitchen appliances.** We began manufacturing kitchen appliances in 1992, and focused much of our ODM design and development efforts in this area over the next ten years. We manufactured a broad line of kitchen appliances, including blenders, breadmakers, coffeemakers, electric knives, espresso machines, food choppers, food processors, food steamers, ice cream makers, and indoor grills. Kitchen appliances represented 18.0%, 18.2% and 9.9% of our net sales in fiscal 2004, 2005 and 2006, respectively.

During 2001, a number of changes occurred in the kitchen appliance business, which convinced us that the market for many of our kitchen products had changed and that such changes would cease to reward our innovation and development efforts with respect to these products. Accordingly, we decided to concentrate our efforts on manufacturing a smaller number of kitchen appliance products, where innovation is still important, and gradually cease manufacturing other kitchen appliance products. In the past three fiscal years, our most significant reduction in manufacturing has been in coffeemakers, breadmakers and food steamers. The total sales of these products decreased from \$24.0 million in fiscal 2003 to \$5.4 million in fiscal 2006. In addition, the bankruptcies of two of our former major customers, Sunbeam Corporation and Moulinex S.A., coupled with the consolidation in the industry and continued demand by mass merchandisers for lower-priced appliance products have led us to accelerate our diversification strategy and cease development efforts of most kitchen appliance products.

**Electronic components.** We started manufacturing CCMs early in fiscal 2006 utilizing CMOS sensors in two sizes, 0.3 and 1.3 megapixels. We also introduced the “Intellicorder” home security device utilizing our CCM technology. We expect to expand our CCM business by incorporating an automatic focus feature, as well as introducing and offering a 2.0 megapixel model. Additionally, we plan to introduce other home electronics products incorporating optics.

## **Product Design and Development**

Our core business has been designing, manufacturing and selling a wide range of small electrical household appliances for brand marketers in developed countries. We are, however, continuing to acquire new technologies in an effort to expand our capabilities in manufacturing finished products. It is our long-term strategy to gradually diversify and transform a portion of our manufacturing facility located in Dongguan in PRC to produce higher-value, technology-oriented products that will allow us to leverage our existing development and technical management staff in Hong Kong. We have recently redefined our development programs and reduced the technical staff to streamline and refocus our efforts.

### **Small Household Appliances Business**

We recently determined that our design and development efforts would be limited to supporting our existing customers’ programs. As the business became more and more commoditized, we could no longer justify the investment needed to support any further independent design or product development efforts and therefore reduced our overall staff.

The remaining customer technical support team includes mechanical, electrical and electronic engineers to perform detailed engineering and testing of our products. The team supports the products from customer input and design through tooling, manufacturing and life testing. The typical cycle for contract manufacturing is eight to ten months after the concept and design for the product are provided by the customer. Contract manufacturing customers generally bear the cost of tooling for their products but our engineers design and build or procure the necessary tools and debug them during the pilot manufacturing process. When tooling is completed and the appropriate agency listing, such as UL or TUV is obtained, production begins.

Our expenditures for design and development of small household appliance products were approximately \$1.3 million in fiscal 2004, \$1.1 million in fiscal 2005 and \$1.3 million in fiscal 2006, but are expected to decline significantly going forward.

### **Display-Oriented Products Business**

We established our subsidiary, Global Display, to develop and market a wide range of LCD products. Initially, the primary product development function was to design flat-panel high definition HDTVs incorporating plasma or TFT-LCDs. Since the display modules are readily procured from “fab” plants (the capital intensive processing facilities that convert glass, gases and transistors into display modules), we concentrated our efforts on cosmetic design, framing systems and software development. We believed the key to success was developing our own video control board designs in order to satisfy different OEM and ODM client requirements, as well as incorporating differentiated audio and video systems in order to enhance performance.

Due to the dramatic drop in flat-panel LCD television pricing and our late entry into this market, we decided to downsize our display engineering team and transferred a small team of software and optical engineers to our new electronic components team to focus on developing applications and finished products incorporating CCMs.

This group will consist of a few development engineers supported by a large number of PRC based process, electronic and clean room engineers.

Our expenditures for design and development for Global Display and Global Optics were \$0.7 million, \$1.2 million and \$0.3 million in fiscal 2004, 2005 and 2006 respectively. A significant portion of these expenditures were incurred for sample design fees and salaries for our engineers.

### **Lite Array's OLED Business**

The Company's subsidiary Lite Array continued its development of manufacturing processes and product designs for OLEDs throughout fiscal 2006. A vacuum deposition system has been set up in a clean room in our factory in Dongguan, China and the prototyping line, including the photolithography equipment we acquired from Opsys US Corporation ("Opsys"), was installed. The line has the capacity to produce prototypes for customer product evaluation. We recently entered into an agreement with Anwell Technologies Limited, a Singapore public company, to pool our efforts and resources in developing OLED equipment. We allocated all of our equipment, non-licensed know-how and personnel to the venture in which we have a 30% ownership and both parties decided to operate the venture in our Dongguan facility.

Our expenditure for design and development for OLED, excluding license amortization, was approximately \$300,000, \$150,000 and \$99,000 in fiscal 2004, 2005 and 2006 respectively, the majority of which was for salaries and wages of our technical staff and engineers.

### **Manufacturing**

We maintain our principal production facility in the township of Dongguan, Guangdong Province, China, within a self-contained 220,998 square meters vertically-integrated manufacturing complex. Vertical integration enables us to manufacture high-quality products at a low cost. It also allows us to emphasize quality control and provide the flexibility in the manufacturing process necessary to better service our customers' needs. We have made a significant investment in machinery to create the tooling and components used in the manufacturing process for many of our products. This machinery, along with the use of relatively inexpensive labor, enables us to produce efficiently many of our components and assemble these components to create our finished products. We manufacture most of our motors and other components, including thermostats, plastic, metal and die-cast parts, switches and circuit boards. We also have a multi-faceted coatings line and pad printing capability. We subcontract the production of certain components either when they can be bought from other suppliers at lower prices or if we do not have the specialized machinery to produce the component or when we can allocate our production capacity more efficiently to alternative tasks. For our core business, we do not generally depend on other manufacturers to provide key parts or accessories.

Generally, our production schedule is based on purchase orders and forecasts received from our customers once tooling is completed, typically covering a period of three to six months. The first 45 days of orders to be shipped pursuant to the forecasts are generally firm. Later shipments often vary from initial forecasts, depending on the needs of the customer. The relation of actual shipments to forecasted orders is based on industry custom rather than on binding agreements, and thus forecasted orders may be canceled at any time without penalty to the customer or recourse to us. To the extent that a material percentage of forecasted orders from customers are canceled, we could suffer a loss on long-lead item components.

Our physical space is less than fully utilized and we have excess capacity available to meet any temporary surge in our requirements and also for future development. Excluding dormitories, cafeterias and recreation areas, roads and portions of land reserved for future expansion, the completed production area is approximately 176,000 square meters. Currently we are utilizing approximately 80% of our manufacturing facility's production capacity; however, many of our larger injection molding machines and our electric motor line are operating at capacity. Specialized skills are generally not required for most of our manufacturing workforce and we believe that we will be able to acquire the necessary labor when product demand increases. However, due to demand for labor in Guangdong Province exceeding supply, we expect the cost of labor to increase substantially. We therefore plan to invest in more automation to help hold down our cost of production.

We ship our products primarily free on board (FOB) from ports in Hong Kong and China, with customers generally liable for any losses resulting from the transportation of finished products from the port to their final destination. Title to the goods passes to

the customer when the truck is unloaded and the container is accepted by the carrier located in the ports of Hong Kong or China. Transportation of components and finished products between Dongguan, China and port is by truck. Component parts purchased from areas outside Guangdong Province are generally shipped by sea.

Our subsidiary Lite Array, formerly operated a joint venture in Jiangmen, China to produce 1/4 VGA or smaller monochrome TFEL displays. In fiscal 2003, we sold the TFEL display business to the former management of Lite Array including the interest in the joint venture in Jiangmen, China.

We have established an OLED prototype facility in our Dongguan manufacturing complex and plan to make use of the existing administrative, engineering and logistical support, as well as our venture with Anwell, to help minimize our costs.

On January 7, 2003, we entered into an asset purchase and lease agreement with Opsys (the "Purchase Agreement") pursuant to which 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 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 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 have removed and shipped the equipment to our facility in Dongguan, China and we have completed re-installing it in a new clean room. We have now formed a joint venture company with Anwell using this as a research and development line to exploit synergies related to the production of OLED systems.

### **Quality Control**

We are committed to manufacturing products of the highest quality and we achieve this goal by engaging in quality control testing at each stage of the manufacturing process. All incoming raw materials and components are inspected by our quality control personnel. During the production stage, our quality control personnel inspect all work-in-process at several points in the production process. We are able to test the reliability and consistent performance of our products by testing both individual components and the fully-assembled finished product. We provide access to our manufacturing facility for representatives of our major customers to allow them to monitor production and to provide them with direct access to our manufacturing personnel.

Our quality control system has been certified by Det Norske Veritas QA Ltd., an accredited unit of the ISO, as conforming to Quality System Standard ISO 9001 for the manufacture of electrical household appliances. Our receipt of ISO 9001 certification demonstrates that our manufacturing, installation and servicing of products have met specified requirements.

### **Suppliers**

We obtain over 3,400 different component parts from approximately 400 major suppliers. We are not dependent upon any single supplier for any key component except for CMOS sensors used in our CCMs, but we are currently evaluating a second source for these sensors. Certain of our major component parts, such as plastic, metal sheets and packaging, are purchased solely from outside suppliers. Others, such as motors and electrical and electronic parts, are either manufactured by us or purchased from outside suppliers, depending on the complexity of the component and the capacity of our facilities at the time. We believe that we can obtain all of these components from alternate sources if necessary. Raw materials, electronic components and other parts are either sourced in China or from other countries, primarily the United States, Japan and Germany. Raw materials from outside China are generally shipped through Hong Kong and then transported by truck to our factory in China. Transactions with our suppliers are based on purchase orders issued by us from time to time and we have no other written agreements with our suppliers. Orders for components are based on actual orders and forecasts that we receive from our customers that reflect anticipated shipments during the production cycle for a particular model. Many of the raw materials used in our products including plastics that are purchased outside China are subject to any applicable duties.

Since we are dependent upon outside suppliers for all of our raw material needs, including plastic resins, the results of our operations are subject to price fluctuations in these raw materials. The plastic resins used by us are derived from natural gas liquids.

Plastic resin prices may fluctuate as a result of changes in natural gas and crude oil prices, and the relative capacity, supply and demand for resin and petrochemical intermediates from which the resins are produced. We have no long-term supply contracts for the purchase of plastic resin, although we do generally maintain a 90-day supply. In recent months plastic pricing has been very volatile and current prices are 25% higher than a year ago. We work closely with our customers and suppliers in order to minimize the amount of inventory of raw materials we keep on hand and we are working on improving our automated inventory maintenance and control system to assist us in doing this. In order to expedite the production process and reduce the risk of delays caused by the non-delivery of supplies, it is our general policy to source each component from two or more suppliers. This multi-source approach is intended to ensure the delivery of the components necessary in the manufacturing process should one supplier be unable to deliver. Historically, we have not experienced any difficulty in obtaining component parts.

## **Major Customers**

Major customers in 2002 and 2003 included Morphy Richards Limited, Global Marketing Corporation (whose customer sold under the brand name Gevalia) and Black & Decker. As we started to de-emphasize kitchen appliances, sales to these three customers declined to 5% in 2004 from 31% and 27% of consolidated net sales in 2002 and 2003 respectively.

Sales to Royal Appliance Manufacturing Company (which sells under the brand name Dirt Devil) amounted to 42.5%, 44.3%, 48.4%, 62.7% and 40.4% of net sales in the five fiscal years ended March 31, 2006. Sales to our other major floor care customer Electrolux/Eureka started in 2003 and represented 5.6%, 26.1%, 10.3% and 34.1% in the four fiscal years ended March 31, 2006. Decreased sales to Electrolux in fiscal 2005 was due to their holding excess inventory of an older discontinued model on hand and their finalization of the engineering specifications for a new floor care model which we began shipping in late fiscal 2005. However sales to Electrolux recovered to \$25.1 million in fiscal 2006 as the new floor care model was successfully introduced. Sales of floor care products to our major customer, Royal decreased in dollars from \$32.4 million or 48.4% of net sales in fiscal 2004 to \$26.2 million or 62.7% of net sales in fiscal 2005 but increased to \$29.9 million in 2006. On December 17, 2002, TTI and Royal jointly announced that they had entered into a definitive agreement for TTI to acquire Royal. Effective April 23, 2003, TTI announced its acquisition of Royal by way of merger. Following the completion of the merger, Royal has operated as a wholly owned subsidiary of TTI. TTI, like the Company, is a full-line electrical products manufacturer based in Hong Kong and China and eventually is likely to produce all Royal products. We have not received any formal or informal notice from Royal and we cannot predict when TTI will begin producing all of Royal products and stop buying from us, but believe such a result is likely to occur within the reasonably near future. Net sales are expected to decline unless we are able to replace Royal with another major floor care company as a customer in the near future.

Although the relative percentage of sales to each of our major customers changes each year, we expect that in the foreseeable future we will be dependent on between two and four major customers during each fiscal year. While we may enter into contracts with general terms for the purchase of products with certain of our major customers, sales are generally made by purchase orders received by us from time to time without any firm commitment for sales levels over a long-term period.

## **Marketing**

Our marketing for our core small appliance business has been relegated to a basic customer service function concentrating on schedule coordination, logistics and responding to customer requests.

One of the most important areas of the marketing process is communication with the customer. The marketing group maintains contact with the customer after the sale is made, serving as their liaison during the manufacturing and delivery process. These relationships and methods have been cultivated over years and we believe that we have a stable relationship with our major customers. Many of our customers, including most of our major customers, have purchased goods from us for many years. Long-standing relationships, innovation, quality and our reputation in the industry remain the essential elements of our customer support program.

For the electronic component and home electronic products, marketing is designed to give exposure to our innovative, high-quality and cost-effective product capabilities. Generally, we emphasize personal contact with our customers and potential customers in our facilities and frequently at their headquarters. While our customers rely on us for high-quality products, the ultimate consumers of the products rely on the customers' brand name and generally do not know the identity of the manufacturer. The primary concern of our customers in maintaining a relationship with us is buying better products at lower prices. We believe that innovation is the key for both our customers and us in this regard.

Our CCM business is currently a commodity business with price and production capacity being the only criteria in securing sales. However, if our development program is successful and results in technical advances, we will be able to market our product to top tier consumer electronic brands and improve our profit margins.

## **Competition**

We believe that the markets for our core products are mature and highly competitive and that competition is based upon several factors, primarily price, but also product features and enhancements and new product introductions. We compete with established companies in Hong Kong and China, a number of which have substantially greater technical, financial and marketing resources than us. Competition for contract manufacturing products is based primarily on unit price, product quality and availability and service. Except for opening price point products, we believe that we compete favorably in each of these areas, especially if the product is relatively sophisticated to manufacture. In addition, while individual contract manufacturing customers may have preferences among their approved suppliers, management believes that no company dominates the market as contract manufacturing customers tend to order from several different suppliers in order to lessen dependence on any one entity.

Competition in the CCM market is intense as productive capacity comes on line from many companies. However, since the market for cellular phone cameras is also expanding at over 40% per annum, we believe we can sell as much as we can produce but not necessarily at attractive or even adequate margins.

## **Intellectual Property Rights**

We currently hold 84 patents, of which ten were approved in fiscal 2006. Our patents are registered in various jurisdictions, including the United States, the United Kingdom, China and France. We hold the exclusive rights with respect to certain technology included in our products. We rely primarily upon a combination of trademark, copyright, know-how, trade secrets and contractual restrictions to protect our intellectual property rights. We believe that such measures afford only limited protection and, accordingly, there can be no assurance that the steps taken by us to protect these proprietary rights will be adequate to prevent misappropriation of the technology or the independent development of similar technology by others. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary.

Significant and protracted litigation may be necessary to protect our intellectual property rights, to determine the scope of the proprietary rights of others or to defend against claims of infringement. We believe that our systems do not infringe any existing third-party proprietary rights. There can be no assurance, however, that third-party claims alleging infringement will not be asserted against us in the future. If infringement is alleged, we could be required to

- discontinue the use of certain software codes or processes,
- cease the manufacture, use and sale of infringing products,
- incur significant litigation damages, costs and expenses, and
- develop non-infringing technology or obtain licenses to the alleged infringing technology.

There can be no assurance that we would be able to develop any such alternative technologies or obtain any such licenses on terms commercially acceptable to us. Any infringement claim or other litigation against us could have a material adverse affect on our business, operating results and financial condition. See Note 23 – Contingent liabilities to Notes to Consolidated Financial Statements.

Certain agreements with our ODM customers include indemnification provisions against patent infringement claims relating to such products. Along with a customer, we are currently defending a patent infringement claim relating to one of our deep fryer models, a product line that represented 2.0%, 0.5%, 0.3%, 6.2%, 1.2% and 0.0 % of our net sales in fiscal 2001, 2002, 2003, 2004, 2005 and 2006, respectively. See “Item 8.A—Financial Information—Legal Proceedings.” No assurance can be given that this infringement claim will be resolved in our favor or the customer’s or that other parties will not assert infringement claims against us in the future.

At the time of Lite Array’s acquisition, we also acquired a license for small molecule passive matrix (“PM”) OLED display technology. Under the license, we could use the patents and proprietary technology in our manufacturing and marketing of OLED products and it gave us the right to purchase from the licensor certain patented materials for use in the manufacture of OLED products. However, the licensor did not secure its intellectual property in China which put us at a severe competitive disadvantage with other PRC-based producers. Since the minimum royalty was onerous and our competitors could sell royalty free, we decided to discontinue the use of the licensed technology.

## 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.

**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.

### C. Organizational structure.

The following table sets forth the significant subsidiaries owned, directly or indirectly, by us to date.

#### SUBSIDIARIES:

Name	Principal activities	Place of incorporation	Percentage of equity interest held
Global Appliances Holdings Limited	Investment holding	British Virgin Islands	100.0%
Global Display Holdings Limited	Investment holding	British Virgin Islands	100.0
Lite Array Holdings Limited	Investment holding	British Virgin Islands	100.0
Dongguan Wing Shing Electrical Products Factory Company Limited	Manufacturing	China	100.0
Dongguan Lite Array Company Limited	Manufacturing	China	100.0
Dongguan Litewell (OLED) Technology Co., Ltd.	Manufacturing	China	100.0
Global Digital Imaging Limited (Formerly known as Global Display Limited)	Trading	Hong Kong	100.0
Global-Tech USA, Inc.	Investor relations and consulting	United States	100.0
MasterWerke Limited	Investment holding	United States	100.0
GT Investments (BVI) Limited	Investment holding	British Virgin Islands	100.0
Kwong Lee Shun Trading Company Limited	Provision of management services	Hong Kong	100.0
Pentalpha Enterprises Limited	Dormant	Hong Kong	100.0
Pentalpha Hong Kong Limited	Trading	Hong Kong	100.0
Pentalpha Macau Commercial Offshore Limited	Trading	Macau	100.0
Wing Shing Overseas Limited	Trading	British Virgin Islands	100.0
Wing Shing Products (BVI) Company Limited	Dormant	British Virgin Islands	100.0
Global Auto Limited (Formerly known as Lite Array (OLED) H.K. Limited)	Marketing and trading of automobile audio devices	Hong Kong	70.0
Global Optics Limited	Trading of raw materials and electronic and optical components	Hong Kong	100.0
Winway Technology Development Limited	Marketing and trading	Hong Kong	83.33
Consortium Investment (BVI) Limited	Asset and investment holding	British Virgin Islands	100.0
Global Rich Innovation Limited	Trading	Hong Kong	100.0
Lite Array, Inc.	Trading	United States	76.75
Global Lite Array (BVI) Limited	Investment holding	British Virgin Islands	76.75
Lite Array OLED (BVI) Company Limited (Formerly known as Lite Array (BVI) Company Limited)	Procuring and selling	British Virgin Islands	76.75

Global-Tech is a holding company, which does not engage in daily business operations other than owning subsidiaries that design, manufacture and market a wide range of consumer electrical products worldwide, including (but not limited to) floor care products and small electrical appliances.

Global Appliances Holdings Limited is an intermediate holding company of GT Investments (BVI) Limited. GT Investments (BVI) Limited is the intermediate holding company of Wing Shing Overseas Limited, Pentalpha Hong Kong Limited, Pentalpha Enterprises Limited, Global Rich Innovation Limited and Winway Technology Development Limited.

Consortium Investment (BVI) Limited (“CIBL”) is an immediate holding company of Lite Array Holdings Limited and Kwong Lee Shun Trading Company Limited. On March 17, 2006, CIBL entered into an agreement with Anwell Technologies Limited (“Anwell”), a publicly listed company in Singapore, to form a joint venture company which Anwell invested in by purchasing a 70% interest in Lite Array Holdings Limited.

Global Display Holdings Limited is an immediate holding company of Global Optics Limited, Global Display Limited (name changed to Global Digital Imaging Limited on July 21, 2006), and Lite Array (OLED) H.K. Limited (name changed to Global Auto Limited on June 6, 2006). On August 1, 2006, Global Display Holdings Limited transferred its shareholding in Global Auto Limited to Global Appliances Holdings Limited. On the same day, 30% of the shareholdings of Global Auto Limited were registered to an independent third party upon its contribution of capital to the company.

Lite Array Holdings Limited is an immediate holding company of Dongguan Litewell (OLED) Technology Co., Ltd and Litewell Technology (HK) Limited. Litewell Technology (HK) Limited was incorporated on June 19, 2006.

Global Lite Array (BVI) Limited is an immediate holding company of Lite Array OLED (BVI) Company Limited and Lite Array, Inc.

Global-Tech USA, Inc. is an immediate holding company of MasterWerke Ltd.

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

##### **China**

Our manufacturing facility located in Dongguan, China has a land use area of 224,798 square meters. We have the right to use such land, which we acquired from the Dongguan local government. Prior to March 31, 2006, we had obtained only four agreements for the purchase of land aggregating 179,590 square meters but subsequently obtained the formal agreement for the remaining 45,208 square meters from the local authority. As part of the agreement, we have transferred a portion of this land (13,698 square meters), which was previously used as a recreational area to the Dongguan local government. Additionally, the acquisition of rights to use the remaining portion of land (31,510 square meters), on which we had already built dormitories for workers, was confirmed and such rights will expire on August 6, 2043.

The manufacturing complex includes 49 buildings, of which 16 buildings are dormitories with accommodation for up to 4,500 employees and cafeterias and recreational areas. The remaining buildings house manufacturing, quality control, warehousing, product

development and administrative functions. We own all of the 49 buildings on the site and have freely transferable land use rights for a period of 50 years for the land upon which our buildings and facilities are located. Excluding dormitories, cafeterias and recreation areas, roads and a portion of land reserved for future expansion, our completed production area is approximately 145,000 square meters. The land use rights lease for the Dongguan facility between us and the People's Government of Qingxi Town, Dongguan City, Guangdong Province is for a term of 50 years ending August 7, 2043. In fiscal 2004 and 2005, we paid approximately \$291,000 for the outstanding land transfer fees for the formal grant of the lease rights.

During fiscal 2006, the land use right certificate for a substantial portion of land with an aggregate area of 131,400 square meters was obtained and the related property ownership certificate of our production premises is being processed by the government agencies in China. For the remaining portion of the land of 44,208 square meters, we have obtained the purchase agreement, are applying for the land use right certificate and have paid certificate fees of \$0.3 million to the Dongguan Local Land Registration Office.

The formal grant of lease rights is required should we decide to sell this property or lease it to a third party. Although we have no present intention to pursue either of these alternatives, the local government still has the right to demand additional transfer fees before the issuance of the land use right certificate. Therefore, we decided to consummate the land transfer process by the end of 2006. Upon expiration of the 50-year lease term of the land, we have the right to extend the lease for a further 20 years upon payment of a fee of \$23.00 per square meter, or a total of \$4.9 million, for the whole land use right extension. Currently we have set up assembly and testing equipment for CCMs in an approximately 1,700 square meters clean room and also built a clean room for Lite Array. Lite Array has completed the installation of its research and development equipment in its clean room which is now being used by the Anwell joint venture.

We maintain an office in Shenzhen for a small marketing team focused on the China market and on July 7, 2005, we entered into a 12-month lease for our office space there. The total office space was approximately 156 square meters and annual rent for this space was approximately \$27,400. The lease was terminated on July 7, 2006 and no compensation was needed for early termination. We moved to a larger office space of approximately 330 square meters to accommodate our CCM sales and accounting staff with our lease effective from May 1, 2006. The annual rent for this space is approximately \$42,000.

## **Hong Kong**

On December 1, 2004, we entered into an amendment of a lease agreement with our affiliate Wing Shing Products Company Limited (see "Item 7.B, Related Party Transactions"), for office space located in the Kin Teck Industrial Building in Aberdeen, Hong Kong. The lease expired on March 31, 2006 and was renewed on May 15, 2006 but is effective from April 1, 2006 for 24 months. The leased area of the current lease covers approximately 14,680 square feet, a reduction from the 25,690 square feet previously leased for our executive offices and limited warehousing space. Pursuant to the existing lease, we pay annual rent of approximately \$102,000 for this space.

On June 15, 2003, we entered into a 24-month lease for office space located on the 12<sup>th</sup> floor, Kin Teck Industrial Building, Aberdeen, from Wing Shing Products Company Limited effective from April 1, 2003. The total space rented was approximately 7,400 square feet. We leased this office for the product development group of our display business. During fiscal 2006, we relocated our administrative, purchasing, accounting and finance staff back to this space. Annual rent for this space is approximately \$51,000. The lease has been renewed for a further twenty-four month period from Wing Shing Products Company Limited at an annual rent of approximately \$51,000.

Effective April 1, 2004, we entered into a 12-month lease for office space located on the 13<sup>th</sup> floor, Kin Teck Industrial Building, Aberdeen, from Wing Shing Products Company Limited. The total space is approximately 3,670 square feet. We leased this office for the product development group for our core business. Annual rent for this space is approximately \$20,000. Due to the downsizing of the Company's workforce, we have consolidated all our functions in the 12<sup>th</sup> floor, Kin Teck Industrial Building.

On July 29, 2002, we entered into a 77-month lease with Goman Limited for office space located on 21st floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong. The total office space was approximately 13,961 square feet at an annual rent of approximately \$248,000. We relocated our administrative offices back to the 12<sup>th</sup> floor, Kin Teck Industrial Building effective January 2006 and the lease was terminated on March 31, 2006. We have paid approximately \$72,000 to the new tenant of 21st floor, Citicorp Centre as a fit-out subsidy and we did not incur any other early termination penalty.

On January 21, 2005, our subsidiary, Winway, entered into a 36-month lease with Rikon Limited for office space in Office 1, 28th floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong. The total office space is approximately 4,819 square feet at an annual rent of approximately \$67,000.

All related party leases are at market rates.

## Macau

On October 15, 2001, we entered into a 24-month lease for office space on the 15th floor of the Macau Finance Centre, Rua de Pequim 244/246, Macau. The lease expired on October 2003 and was renewable on an annual basis. The current lease will expire on January 14, 2007. The total office space is approximately 1,400 square feet and is occupied by the sales and accounting staff of Pentalpha Macau Commercial Offshore Limited. Annual rent for this space is approximately \$20,100.

We believe that our administrative office space in Hong Kong, China and Macau will be adequate for the operation of our business for the foreseeable future. We believe that with further utilization of our manufacturing facility in Dongguan, we have sufficient manufacturing capacity for at least the next several years. The factory is currently utilized at considerably less than full capacity. We anticipate that any further expansion and diversification of our floor care product line or expansion of our CCM business could increase utilization at the Dongguan facility and require us to expand the infrastructure and purchase additional equipment.

## Item 4A. Unresolved Staff Comments.

Not applicable.

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

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

### A. Operating results.

	<b>Fiscal Year Ended March 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
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	<u>(5.8)</u>	<u>(44.5)</u>	<u>(15.2)</u>

## **Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### ***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. See Item 11—Quantitative and Qualitative Disclosure about Market Risk.

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 other 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 (expenses), 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.

#### ***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. See Item 11 – Quantitative and Qualitative Disclosure about Market Risk.

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.

## **B. 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 our 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.

#### ***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 things, 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 impact 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 effect 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, “Accounting 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 SFAS No. 155 but it is not expected to have a material impact on the Group’s consolidated financial statements.

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

### **C. *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., see “Item 4.B—Business Overview—Product Design and Development and—Intellectual Property Rights.”

#### D. *Trend information.*

See “Item 5.A—Operating and Financial Review and Prospects—Operating Results” and “Item 5.B—Operating and Financial Review and Prospects—Liquidity and Capital Resources” for discussion of the most significant recent trends in our business since the last fiscal year.

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

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

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

The following is a schedule reflecting our aggregate financial commitments as of March 31, 2006:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>More than 4 years</u>
<b>Capital Commitments (1)</b>	\$ 31,484	\$ 31,484	—	—	—	—
<b>Operating Lease Commitments (2)</b>	\$284,959	\$163,675	\$121,284	—	—	—
<b>Purchase Obligations</b>	—	—	—	—	—	—
<b>Other Liabilities (3)</b>	\$500,000	\$500,000	—	—	—	—
<b>Total Contractual Obligations</b>	\$816,443	\$695,159	\$121,284	—	—	—

- (1) Our capital commitments are for the purchase of property, plant and equipment.
- (2) We have various operating lease agreements for parking lots, motor vehicles, equipment and real estate that extend through 2008.
- (3) Includes minimum royalties payable.

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

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

Our directors and senior management at March 31, 2006 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kwong Ho Sham	73	Chairman of the Board of Directors
John C.K. Sham (1)	43	President, Chief Executive Officer and Director
Brian Yuen (1)(2)	51	Chief Executive Officer, Global-Tech USA, Inc. and Director
Norris Lo Yan Lam (4)	52	Chief Operating Officer, Pentalpha Hong Kong Limited
Patrick Po-On Hui (2)(3)	48	Director
Ken Ying-Keung Wong (3)	57	Director
Barry J. Buttifant (3)	61	Director
Kin Shek Leung	42	Acting Chief Financial Officer

- (1) Member of the finance committee.
- (2) Member of the compensation committee.
- (3) Member of the audit committee.
- (4) Resigned May 3, 2006.

**Kwong Ho Sham** is our founder and has been our Chairman of the Board of Directors since our inception in 1963. Mr. Sham has expertise in the area of production engineering and manufacturing. He serves as the Honorary Chairman of the Hong Kong-Shantou Chamber of Commerce, Honorary Chairman of the Hong Kong Chiu Chou Plastics Business Association, and Honorary Chairman of the Overseas Chinese Association of Chiu Chou and was Honorary Chairman and Treasurer of the Hong Kong-Guangdong Committee for the Celebration of the Reunification.

**John C.K. Sham** has served as our President and Chief Executive Officer since June 1992 and has served as a director of Global-Tech since July 1991. Mr. Sham was our Chief Financial Officer from June 1992 through January 2002. Mr. Sham joined us in 1984 as managing director of Kwong Lee Shun Trading Company Limited, a wholly owned subsidiary of ours. From 1982 to 1984, Mr. Sham served as President of Wesi Corp., a New York corporation which specialized in the marketing and distribution of household goods.

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

**Norris Lo Yan Lam** was hired to serve as the Chief Operating Officer of the Company's subsidiary, Pentalpha Hong Kong Limited, effective August 11, 2003. Prior to joining the company, Mr. Lam was President and Chief Executive Officer of Team Concepts Holding Limited, an electronic products manufacturing company. From March 1996 to June 2000, Mr. Lam served as General Manager of various subsidiaries of Mattel, Inc. Mr. Lam, prior to joining Mattel, worked in various sales and marketing positions, primarily in the toy industry. Mr. Lam subsequently resigned on May 3, 2006.

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

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

**Barry John Buttifant** has served as a director of Global-Tech since November 2003. He is currently the Managing Director of Hsin Chong International Holdings Limited; and the Alternate Director of Hsin Chong Construction Group Limited and Synergis Holdings Limited. Before joining Hsin Chong, Mr. Buttifant was an Operating Partner of Barings Private Equity Partners Asia Ltd. He also joined Wo Kee Hong (Holdings) Limited ("Wo Kee Hong") in 2001 as the Managing Director and became the Advisor to the board of directors of Wo Kee Hong from 2002 to 2004. He was the Managing Director of IDT International Limited for over 8 years and had worked for Sime Darby Hong Kong Limited and Polly Peck Group for more than 11 years in the capacity of Finance Director and Managing Director during the period. Mr. Buttifant is an independent non-executive director of a number of listed companies in Hong Kong, including Giordano International Limited, Daiwa Associate Holdings Limited and Alltronics Holdings Limited.

Mr. Buttifant is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Chartered Management Institute; the Hong Kong Management Association and the Hong Kong Institute of Directors.

**Kin Shek Leung** has been our Group Accounting Manager with overall responsibility for the group accounting and finance functions since August 1994. In January 2002, he was appointed to the role of acting Chief Financial Officer.

No family relationship exists among any of our directors and senior management, except for the following:

- Kwong Ho Sham and John Sham are father and son;

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



## **B. Compensation.**

The aggregate direct remuneration paid to all directors and senior management as a group (8 persons) during fiscal 2006 was approximately \$1.8 million (including a housing allowance for two directors). This includes amounts set aside or accrued to provide pension, retirement or similar benefits, but does not include amounts (including business travel, professional and business association dues and expenses) reimbursed to officers and other fringe benefits commonly reimbursed or paid for by companies in Hong Kong.

## **C. Board practices.**

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

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

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

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

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

On December 30, 2002, we announced that the Board of Directors had approved the appointment of Ernst & Young in Hong Kong as our independent auditors. Ernst & Young replaced PricewaterhouseCoopers in Hong Kong as our independent auditors for the fiscal year ending March 31, 2003. The appointment of Ernst & Young was based on the recommendation of the audit committee, which conducted a comprehensive review of alternatives regarding the firm that would conduct our independent audit. The decision to change auditors did not reflect any adverse position towards PricewaterhouseCoopers’ service to the Company. The appointment of Ernst & Young reflected that firm’s extensive experience in servicing companies similar to Global-Tech and the depth of resources that are available primarily in Hong Kong to service our account. Ernst & Young was reappointed as our independent auditor for the fiscal year ended March 31, 2006.

During fiscal 2006, the audit committee had one meeting with the independent auditors, Ernst & Young. In July 2006, the audit committee had a meeting with Ernst & Young as well as the Company's financial executives to discuss the scope of the fiscal 2006 audit.

**Compensation committee.** Our Board of Directors also has a compensation committee. The compensation committee reviews and determines compensation for officers, directors and consultants, as well as bonuses and other incentive programs for employees. As of March 31, 2006, the compensation committee was comprised of Patrick Po-On Hui and Brian Yuen. Mr. Brian Yuen is considered not to be independent since he is also a member of management of the Company.

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

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

At March 31, 2004, 2005 and 2006, we employed 2,660, 3,057 and 2,383 persons, respectively, on a full-time basis. Of our employees at March 31, 2006, 86 were located in Hong Kong, 2,294 in China and 3 in Macau. A breakdown of persons employed by main category of activity is as follows:

<u>Category</u>	<u>No.</u>
Manufacturing	1,845
Production management	28
Finance and administration	185
Receiving and warehousing	100
Quality control	100
Production engineering	38
Product design and development	45
Sales and marketing	34
Human resources	8
	<u>2,383</u>

Since our production levels fluctuate, the number of employees varies from time to time based on our production requirements. During peak production periods in fiscal 2006, we employed a maximum of approximately 3,500 people in our Dongguan factory. Our manufacturing personnel are paid a monthly salary and periodic incentive bonuses and are provided with housing, medical care and subsidized meals in our dormitory complex adjacent to each factory. We have not experienced any significant labor stoppages and we believe that relations with our employees are satisfactory.

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

### E. *Share ownership.*

The following table sets forth information regarding the share ownership in Global-Tech as of April 1, 2006 held by the directors and senior management and options granted to them on our common shares:

<u>Name of Owner(1)</u>	<u>Number of Shares</u>	<u>Percentage<sup>#</sup></u>
Wing Shing Holdings Company Limited(2)	7,555,189	61.8%
Kwong Ho Sham(3)	7,555,189	61.8
John C.K. Sham(4)	8,332,394	68.2
Brian Yuen(5)	338,834	2.8
Barry J. Buttifant(6)	11,000	*
Patrick Po-On Hui(6)	18,218	*
Ken Ying-Keung Wong(6)	12,000	*
Kin Shek Leung(6)	8,550	*
Norris Lo Yan Lam (6)	10,000	*
All officers and directors as a group (8 persons)(7)	8,730,996	71.4

# In accordance with SEC rules, each beneficial owner's holdings have been calculated assuming full exercise of outstanding options covering our common shares, if any, exercisable by such owner within 60 days after April 1, 2006, but no exercise of options covering our common shares held by any other person.

\* Less than 1%

- (1) Unless otherwise indicated, the persons named in the table above have sole voting and dispositive power with respect to all common shares beneficially owned by them.
- (2) Based on a schedule 13G/A filed with the SEC on February 13, 2006, Wing Shing Holdings Company Limited owns 7,555,189 of the issued and outstanding common shares. The share ownership of Wing Shing Holdings Company Limited is held 60% by Kwong Ho Sham and 40% by John Sham. Voting control of Wing Shing Holdings Company Limited is held approximately 42.9% by Kwong Ho Sham and 57.1% by John Sham. Each of Kwong Ho Sham and John Sham disclaim any beneficial ownership in any of the common shares of Global-Tech owned by Wing Shing Holdings Company Limited.
- (3) Includes 7,555,189 shares owned by Wing Shing Holdings Company Limited.
- (4) Includes 7,555,189 shares owned by Wing Shing Holdings Company Limited and 400,000 common shares issuable to John C.K. Sham within 60 days after April 1, 2006 upon exercise of options granted under our 1997 and 2005 stock option plans. In September 2005, Mr. John C.K. Sham voluntarily agreed to the cancellation of options previously granted to him by the Company in the amount of 136,628 common shares.
- (5) Includes 286,628 common shares issuable to Brian Yuen within 60 days after April 1, 2006 upon exercise of options granted under our 1997 and 2005 stock option plans. Excludes 7,900 shares owned by the wife and son of Mr. Yuen who decline any beneficial ownership in such shares. In September 2005, Mr. Yuen voluntarily agreed to the cancellation of options previously granted to him by the Company in the amount of 140,607 common shares.
- (6) Each of Barry J. Buttifant, Patrick Po-On Hui, Ken Ying-Keung Wong, Norris Lo Yan Lam and Kin Shek Leung own less than 1% of the issued and outstanding common shares as of April 1, 2006.
- (7) Includes 7,555,189 common shares owned by Wing Shing Holdings Company and 741,396 common shares beneficially owned by or issuable to various officers and directors within 60 days after April 1, 2006 upon exercise of options granted under our 1997 and 2005 stock option plans. In September 2005, each of Mr. John C.K. Sham and Mr. Yuen voluntarily agreed to the cancellation of options previously granted to each of them by the Company in the amount of 136,628 and 140,607 common shares, respectively.

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

**1997 stock option plan.** Our 1997 stock option plan was adopted by our Board of Directors in September 1997. The plan provides for the grant of:

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

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

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

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

The total number of common shares available for options under the plan is 1.6 million shares. We have granted options to purchase on the dates, in the amounts and at the prices indicated below:

- In September 1997, 322,000 common shares to employees and a consultant with an exercise price of \$14.50 per share;
- In March 1998, 268,800 common shares to employees and consultants with an exercise price of \$19.00 per share;
- In August 1998, 250,000 common shares to two directors with an exercise price of \$8.31 per share;
- In April, May and December 1998, 33,000 common shares to two officers, employees and a consultant with an exercise price of \$19.00 per share;
- In April 1999, 50,000 common shares to a consultant, with 15,000 common shares with an exercise price of \$4.75 per share and 35,000 common shares with an exercise price per share equal to the prevailing market price at the time of vesting;
- In October 1999, 50,000 common shares to an officer with an exercise price of \$5.00 per share;
- In March 2000, 208,100 common shares to directors, employees and a consultant with an exercise prices ranging from \$5.00 to \$19.00 per share;
- In October 2000, 2,500 common shares to a consultant with an exercise price of \$5.75 per share;
- In April 2000 and March 2001, 12,700 common shares to ten employees with an exercise price of \$6.25 per share;
- In May 2001, 300,000 common shares to three directors with an exercise price of \$4.75 per share;
- In June 2001, 12,000 common shares to one new director with an exercise price of \$6.25 per share;
- In November 2002, 9,400 common shares to an officer and employees with an exercise price of \$4.55 per share;

- In November 2003, 12,000 common shares to one new director with an exercise price of \$7.60 per share;
- In December 2003, 240,000 to three directors, 15,000 to two officers and 94,000 to employees all at an exercise price of \$7.64 per share, and 20,000 to an officer at an exercise price to equal the fair market value on the four anniversaries of date of hire; and
- In March 2006, 216,030 common shares to four directors, 100,000 shares to a consultant and 180,000 shares to employees all at an exercise price of \$3.90 per share.

The options vest over varying periods of up to 5 years except for the December 2003 grants which are performance related and are all exercisable for a period of 10 years from the date of grant.

On May 10, 2000, due to our stock price being significantly below the option exercise prices and the corresponding lack of incentive that the options were intended to provide, our Board of Directors authorized a voluntary exchange program for holders of options with an exercise price greater than \$6.25. This exchange program allowed holders to surrender their original options for cancellation by us in return for a reduced number of options with an exercise price of \$6.25 providing for a similar aggregate value as calculated under the Black-Scholes method. Under the offer, all other terms of the original options, including expiration and vesting dates, remained unchanged. As a result of this exchange program, 914,100 old options were cancelled and 711,175 new options were granted on exchange.

During fiscal 2005, an aggregate of 36,000 shares with an exercise price of \$6.25 per share were forfeited upon the resignation of the participants.

During fiscal 2006, a total number of 347,538 shares with an exercise price of \$6.25 granted to two directors and a consultant were voluntarily cancelled. 21,500 shares with an exercise price ranging from \$6.25 to \$7.64 were forfeited upon the resignation of the relevant participants, and 2,500 shares with an exercise price of \$5.75 expired.

**2005 stock option plan.** Our 2005 stock option plan was adopted by our Board of Directors in October 2005. The plan provides for the grant of:

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

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

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

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

The total number of common shares available for options under the plan is 1.8 million shares. We have granted options to purchase on the dates, in the amounts and at the prices indicated below:

- In March 2006, 313,970 shares were granted to two directors with an exercise price of \$3.90.

**1999 employee stock purchase plan.** Our 1999 employee stock purchase plan was adopted by our Board of Directors in January 1999. The plan was approved by our stockholders at our annual meeting of stockholders in March 1999. The total number of common shares which may be granted under the plan is 180,000 common shares. Stock grants may be awarded under the plan to our employees, including officers and directors, and our non-employee directors and consultants in consideration for their service to us. As of March 31, 2006, we have granted, in the aggregate, net of forfeiture, 60,753 common shares under the plan.

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

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

The award of stock grants may, but need not, be conditioned on the participant electing to forego his or her right to all or any part of his or her cash salary or cash bonus. Our Board of Directors may provide that the common shares issued upon receipt of any stock grant shall be subject to such further conditions, restrictions or agreements as they in their discretion may specify prior to the receipt of such stock grant, including without limitation, deferrals on issuance, conditions on vesting or transferability and forfeiture or repurchase provisions. Our Board of Directors may establish rules for the deferred delivery of common shares upon receipt of a stock grant.

**Lite Array stock option plan.** In conjunction with the acquisition of Lite Array on May 31, 2001, our subsidiary, Global Lite Array, established a stock option plan on the date of acquisition. The shares issued under this plan are based on the shares of a subsidiary Global Lite Array and not of the Company. Under this plan, the following options were outstanding as of March 31, 2006.

- 800,000 options at an exercise price of \$0.34 per share issued to four directors. These options were fully vested on May 31, 2004 and will expire on May 31, 2011.
- 30,000 options at exercise prices ranging from \$0.20 to \$1.50 per share issued to an employee. These options will expire during the period on May 31, 2006.
- 20,000 options at an exercise price of \$0.34 per share issued to an employee. These options will expire on November 12, 2012.

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

### **A. Major shareholders.**

The following table sets forth information regarding the share ownership in Global-Tech as of April 1, 2006 of shareholders that are beneficial owners of 5% or more of our outstanding common shares:

<u>Name of Owner</u>	<u>Number of Shares</u>	<u>Percentage</u>
Wing Shing Holdings Company Limited(1)	7,555,189	61.8%
Heartland Advisors, Inc.(2)	1,181,200	9.7
Porter Felleman Inc.(3)	651,700	5.3

- (1) Based on a schedule 13G/A filed with the SEC on February 13, 2006 Wing Shing Holdings Company Limited owns 7,555,189 of the issued and outstanding common shares. The share ownership of Wing Shing Holdings Company Limited is held 60.0% by Kwong Ho Sham and 40.0% by John Sham. Voting control of Wing Shing Holdings Company Limited is held approximately 42.9% by Kwong Ho Sham and 57.1% by John Sham. Each of Kwong Ho Sham and John Sham disclaim any beneficial ownership in any of the common shares of Global-Tech owned by Wing Shing Holdings Company Limited.
- (2) Based on a Schedule 13G/A filed with the SEC on February 3, 2006, Heartland Advisors, Inc. reported share voting and dispositive power over 1,181,200 common shares. As provided in its Schedule 13G/A filed September 8, 2006, Heartland Advisors reported share voting and dispositive power over 598,400 shares common shares.
- (3) Based on a Form 13F-HR filed with the SEC on February 15, 2005, Porter Felleman Inc. reported sole voting authority over 618,200 common shares and shared voting authority over 33,500 common shares.

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

As of August 31, 2006, approximately 33.5%, or 4,322,614 of our outstanding common shares were held in the United States by 8 holders registered on the books of our transfer agent.

To the best of our knowledge, and other than as disclosed in this annual report, we are not directly or indirectly controlled or owned by any other corporation, foreign government or any other natural or legal person, and we are not subject to any arrangements the operation of which may at a subsequent date result in a change in control of Global-Tech.

## **B. Related party transactions.**

### **Lease and Car Rental Agreements with Related Companies:**

- On December 1, 2004, we entered into an amendment of a lease agreement with Wing Shing Products Company Limited, a company owned by the Sham family. The amendment included leasing approximately 14,680 square feet of the 25,690 square feet of space previously leased for our former executive offices and warehouse. Under the amended lease, we pay annual rent of approximately \$102,000, which is at fair market value. The amended lease was effective from December 1, 2004 and expired on March 31, 2006, but was renewed on May 15, 2006, effective from April 1, 2006 for a further two years.
- On December 1, 2004, we entered into an amendment of a lease agreement with Kenmore Assets Limited, a company owned by an officer and director, for an executive apartment in Hong Kong at a monthly rate of approximately \$5,100. The rent is at fair market for such a property, which is used to accommodate business visitors from overseas. The amended lease was effective from December 1, 2004 and expired on March 31, 2006. The lease agreement was renewed at the same rate on April 1, 2006. The lease can be terminated by either party by giving one-month's notice.
- We rent two company cars from Wing Shing Fat Investment Limited and one from Wing Shing Products Co. Ltd. Both companies are owned by the Sham family. Monthly rentals for the three vehicles are approximately \$3,500, which is the estimated fair value of rental or lease rates in Hong Kong for such vehicles.
- On June 15, 2003, we entered into a lease for office space located on the 12<sup>th</sup> floor, Kin Teck Industrial Building, Aberdeen, from Wing Shing Products Company Limited effective from April 1, 2003 which expired on March 31, 2006. The lease was subsequently renewed on May 15, 2006. The total office space is approximately 7,400 square feet. We leased this office for the product development group of our display business but subsequently relocated our administrative group into this space. Annual rent for this space is approximately \$51,000, which is at fair market value.
- Effective from April 1, 2005, we entered into a 12-month lease for office space located on the 13<sup>th</sup> floor, Kin Teck Industrial Building, Aberdeen, from Wing Shing Products Company Limited. The total office space is approximately 3,670 square feet. We leased this office for the product development group for our core business. Annual rent for this space is approximately \$20,000, which is at fair market value. Subsequent to the end of fiscal 2006, we vacated this space.

We believe the leases were on terms no less favorable than could have been received from unaffiliated third parties.

### **Loan to Spouse of an Executive Employee**

In October 1998, we provided an unsecured loan of \$1.0 million to a U.S. corporation wholly owned by the spouse of an executive employee of ours. The loan bears interest at a fixed annual rate of 7.0% and is repayable in quarterly installments of approximately \$81,000 commencing October 28, 2003, with any remaining balance due in full on October 28, 2008. The net balance of the loan plus accrued interest was approximately \$1.4 million and \$1.5 million, respectively, as of March 31, 2003 and 2004. We provided a reserve of approximately \$832,000 and approximately \$978,000, respectively, against the loan and the related interest

receivable as of March 31, 2003 and 2004. The net amount of the loan was included in promissory note and interest receivable on our consolidated balance sheet. Effective April 30, 2004, we acquired all of the outstanding shares of this U.S. corporation 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 the promissory note and interest receivable were carried at the same value as the cash balance.

### **Loan to a Director**

In October 1999, we made a loan to a director for the purchase of a residence. The loan was in the original 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. Such loan payments 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.

### **Our Policy Concerning Certain Transactions**

All transactions with our executive officers and directors must be approved by a majority of our directors who are neither our officers nor employees.

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

Not applicable.

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

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

Our consolidated financial statements for fiscal 2004 have been audited by an independent auditor in accordance with generally accepted auditing standards in the United States of America, whereas fiscal 2005 and 2006 have been audited by the same independent auditor in accordance with the standards of the Public Company Accounting Oversight Board (United States). A consolidated balance sheet is presented for each of fiscal 2005 and 2006 along with a consolidated statement of operations, statement of cash flow and statement of changes in shareholders' equity which are presented for each of fiscal 2004, 2005 and 2006. See "Item 18—Financial Statements" for detailed financial information.

### **Percentage of Export Sales**

Export sales constitute all of our total sales volume. For a breakdown of our export sales by market during the past three fiscal years, see Note 25(a) of Notes to Consolidated Financial Statements. We did not conduct any activities nor make any sales in any regions or countries subject to U.S. economic sanctions.

### **Legal Proceedings**

Except as set forth below, Global-Tech and its subsidiaries are not a party in any material litigation or arbitration, and know of no material litigation, arbitration or claim threatened against them or their properties.

Certain agreements with ODM customers include an indemnification provision whereby the respective subsidiary undertakes to hold harmless and indemnify the respective customer from all suits that may be brought against the customer for infringement of any patent or registered design in connection with the sale of the products purchased from the subsidiary.

### **SEB v. Sunbeam v. Pentalpha Enterprises**

On March 10, 1998, SEB, S.A. filed a patent infringement suit against Sunbeam Corporation and Sunbeam Products, Inc. (collectively "Sunbeam") in the U.S. District Court for the District of New Jersey. SEB later amended its complaint to add Global-Tech and one of its subsidiaries, Pentalpha Enterprises, as additional defendants in the case. SEB alleged that the defendants infringed a patent issued to SEB concerning a deep fryer model. SEB sought to recover unspecified monetary damages. In addition, Sunbeam asserted a third-party claim and a cross-claim against Global-Tech and our subsidiary for breach of an alleged obligation to indemnify Sunbeam from SEB's patent infringement claims. Global-Tech and its subsidiary moved to dismiss the complaint of SEB for lack of personal jurisdiction. By order dated July 16, 1999, the District Court granted the motion and dismissed the complaint against Global-Tech and its subsidiary. Sunbeam then paid SEB \$2 million to settle its claim. Sunbeam's third-party complaint against Global-Tech and its subsidiary remained.



On December 15, 1999, our subsidiary asserted counterclaims against Sunbeam in connection with a product supply agreement. In July 2002, after the case had been transferred to the United States District Court for the Southern District of Florida, Sunbeam moved for summary judgment on all claims. By memorandum decision dated February 19, 2003, the District Court granted Sunbeam's motion insofar as it related to the claim of our subsidiary for fraud in the inducement of the product supply agreement, but denied the motion with respect to the claims of our subsidiary for breach of contract. In addition, the District Court granted Sunbeam's motion for summary judgment on its claims for indemnity against our subsidiary as to liability, but ruled that a trial was necessary to determine the amount of damages that Sunbeam was entitled to recover on its indemnity claim in addition to the \$2 million Sunbeam previously paid to settle SEB's claims of patent infringement.

The trial on Sunbeam's claims for indemnity and the claim of our subsidiary 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 approximately \$2,450,949 against Global-Tech and its subsidiary, and (ii) in favor of our subsidiary on its claim for breach of contract and awarded our subsidiary \$6,600,000. The District Court entered a final judgment on February 11, 2004 to add prejudgment interest to the Jury's award, awarding Sunbeam approximately \$3,430,694 and our subsidiary approximately \$6,632,910. Our subsidiary filed a motion to reconsider the calculation of prejudgment interest, which the Court denied. Sunbeam moved for judgment notwithstanding the verdict and for a new trial. Sunbeam argued, among other things, that our subsidiary should be denied any recovery and, alternatively, that any recovery by our subsidiary should be limited to \$1,000,000. The District Court denied these motions by an order entered April 12, 2004. Sunbeam appealed on May 10, 2004. Global-Tech and its subsidiary cross-appealed on May 21, 2004. The United States Court of Appeals for the 11<sup>th</sup> Circuit heard oral argument on the appeal on March 1, 2005.

By decision dated August 12, 2005, the Court of Appeals for the 11<sup>th</sup> Circuit affirmed the judgment in so far as Sunbeam appealed from it and affirmed the judgment in so far as Global-Tech and its subsidiary appealed from it, except that the Court reversed the district court's calculation of prejudgment interest and remanded for a recalculation of our subsidiary's prejudgment interest from June 30, 2001. 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.

Our subsidiary moved in the District Court for an amended judgment to fix the amount of interest to which it is entitled. Sunbeam opposed the motion on the grounds that our subsidiary has not properly calculated the interest to which it is entitled. By amended judgment dated December 12, 2005, the District Court awarded Pentalpha prejudgment interest from June 30, 2001 to February 11, 2004, bringing the judgment entered in favor of Pentalpha as of February 11, 2004 to \$8,007,849 and leaving unchanged the judgment entered against Pentalpha in favor of Sunbeam.

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

Sunbeam has posted a bond in the amount of \$5,163,076, 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, and further described below.

### **SEB v. Montgomery Ward**

After dismissal of the action in the District Court in New Jersey, SEB commenced an action on August 28, 1999 in the U.S. District Court for the Southern District of New York against Global-Tech, one of its subsidiaries and Montgomery Ward, then a customer, for infringement of SEB's patent relating to a deep fryer model. On December 15, 1999, the District Court entered a preliminary injunction against the sale of the deep fryer that was the subject of the case. This was affirmed on appeal. On August 3, 2000, SEB moved for a further preliminary injunction and a citation for contempt against our subsidiary based upon the sale of a modified deep fryer product by our subsidiary. While that motion was pending, Montgomery Ward filed for bankruptcy protection. That filing stayed the action as against Montgomery Ward. On March 20, 2001, the District Court found that the modified deep fryer infringed the patent under the doctrine of equivalents. However, the District Court denied SEB's application for a contempt citation. SEB then moved to amend its complaint to add certain of our other subsidiaries and John C.K. Sham as additional defendants. The District Court, in an opinion dated September 30, 2002, denied SEB's motion to amend to add additional defendants and denied the

motion of Global-Tech to dismiss for lack of personal jurisdiction. Global-Tech and its subsidiary moved on December 3, 2002, for summary judgment on liability on the grounds that neither engaged in any conduct that infringed the patent because of the extraterritoriality of their acts and for summary judgment on the claim of SEB for lost profits. The District Court heard oral argument on this motion on March 24, 2004.

SEB has also moved for an order attaching the judgment in favor of our subsidiary in the action SEB v. Sunbeam v. Pentalpha Enterprises. The parties resolved the motion by consenting to an order that requires us and our subsidiary, among other things, to give notice to SEB of any attempt to collect the judgment against Sunbeam. On August 19, 2005, our subsidiary notified SEB that it anticipated taking action to enforce the judgment against Sunbeam from the District Court for the Southern District of Florida. On August 24, 2005, SEB served a renewed motion to attach the entire proceeds of the judgment. The Court attached the entire judgment by order dated September 7, 2005. Our subsidiary filed a motion on September 22, 2005 to reduce the amount of the attachment to no more than \$500,000. SEB has opposed the motion of our subsidiary. The District Court heard oral arguments on November 8, 2005, but denied our motion to reduce the amount of the attachment.

By decision and memorandum dated January 5, 2006, the District Court denied our motion for summary judgment.

The District Court conducted a trial beginning on April 17, 2006. On April 21, 2006, the jury returned a verdict finding that the Company and its subsidiary has infringed the SEB patent in violation of 35 U.S.C. § 271 (a) and (b), with respect to both the original deep fryer and the modified deep fryer, that the infringement with respect to both deep fryers were willful and that SEB was entitled to a reasonable royalty in the total amount of \$4,650,000, representing \$3,600,000 for its sales to Sunbeam, \$540,000 for sales to Fingerhut and \$510,000 for sales to Montgomery Ward.

Both sides have made post-trial motions. Our company 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 damages with the addition of treble damages, prejudgment interest and attorneys' fees. The motions have not been fully briefed and are scheduled for oral argument on September 27, 2006. The conference was adjourned on September 26, 2006 until further notice from the District Court. The outcome of the post-trial motions is uncertain and the District Court has not yet entered any judgment based upon the jury verdict. Accordingly, the amount of the judgment, as well as the timing of its entry are uncertain.

We have accrued for a loss contingency in respect of this litigation in our consolidated balance sheet as at March 31, 2006 in an amount of \$4,650,000. An adverse decision in the above action relating to prejudgment interest or treble damages would have a material adverse effect on our results of operations and financial condition.

### **Sunbeam v. Wing Shing Products**

On February 23, 2001, Sunbeam commenced an adversary proceeding against our subsidiary, Wing Shing Products, in the U.S. Bankruptcy Court for the Southern District of New York asserting 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.

The parties concluded a bench trial in the Bankruptcy Court on January 31, 2002. By decision dated June 3, 2003, the Court ruled against Sunbeam on its claims for a declaratory judgment and in favor of our subsidiary on its claims for design patent infringement. The Court further ruled that our subsidiary was entitled to recover Sunbeam's profits from the sale of infringing coffeemakers only for the time period after February 9, 2001. In addition, on June 17, 2003, the Court entered an injunction restraining Sunbeam from further infringing the design patent. The Bankruptcy Court entered a final judgment in favor of our subsidiary on March 15, 2004, in the amount of \$2,304,403.

Sunbeam and our subsidiary appealed the June 3, 2003 decision of the Bankruptcy Court to the U.S. District Court of the Southern District of New York. By memorandum opinion and order entered June 30, 2004, the district court affirmed in part the June 3, 2004 decision of the Bankruptcy Court. It reversed one finding of the Bankruptcy Court and held that the subsidiary, in 1992, breached a contract to negotiate with Sunbeam concerning ownership of certain patent rights. However, because the District Court affirmed the holding of the Bankruptcy Court that the statute of limitations had expired on any claim of Sunbeam for that breach, the reversal by the District Court did not affect the \$2,304,403 judgment entered in favor of our subsidiary by the Bankruptcy Court.

Both Sunbeam and our subsidiary appealed to the United States Court of Appeals from the judgment of the District Court in the action.

On August 24, 2005, the United States Court of Appeals for the Federal Circuit affirmed the \$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 Global-Tech's subsidiary, Wing Shing Products (BVI) Ltd., against Sunbeam Products, Inc. The Court of Appeals cased its mandate on September 14, 2005 for Sunbeam to file a petition for a writ of certiorari to the United States Supreme Court.

On January 9, 2006, the United States Supreme Court denied the petition of Sunbeam for a writ of certiorari. On or about January 12, 2006, Sunbeam wire transferred \$2,353,581 to our subsidiary. Our subsidiary provided a satisfaction of judgment to Sunbeam and released the bond that Sunbeam had previously posted to secure the judgment. This matter has therefore been concluded.

#### **Wing Shing Products v. Simatelex**

On February 9, 2001, Wing Shing Products, our subsidiary commenced an action in the United States District Court for the Southern District of New York against Simatelex Manufactory Corp. claiming infringement of U.S. Patent No. Des. 348,585. The Bankruptcy Court stayed this action by order dated February 26, 2001. The U.S. District Court for the Southern District of New York reinstated the stay of the action originally ordered by the Bankruptcy Court by order dated February 24, 2004, based upon Sunbeam's appeal from the June 3, 2003 memorandum decision. By order dated June 30, 2004, the District Court lifted the stay and directed the attorneys for the parties to appear at a conference on July 23, 2004. The District Court at that time directed the parties to conclude discovery by the end of 2004. Discovery has been substantially completed. Simatelex then moved for summary judgment on the ground that it is not subject to the personal jurisdiction of the New York court and that it did not infringe the design patent because its acts occurred in Asia. Our subsidiary has moved for summary judgment on the ground that Simatelex has infringed the design patent. The District Court again stayed the action by order dated April 18, 2005, pending the resolution of the decision of the Court of Appeals for the Federal Circuit in the action Sunbeam v. Wing Shing.

Given the August 24, 2005 decision of the Court of Appeals for the Federal Circuit, the District Court by order dated September 14, 2005, lifted the stay and directed that discovery be completed by November 1, 2005.

On November 7, 2005, the parties filed cross-motions for summary judgment on the issue of liability for design patent infringement. The district court has not yet acted on those motions but has scheduled oral argument for October 24, 2006. If the District Court does not grant the anticipated motion of Simatelex for summary judgment, a trial will be required.

#### **Wing Shing Products v. Sunbeam Products and Simatelex**

On May 9, 2006, our subsidiary filed an action in the United States District Court for the Southern District of New York against Sunbeam Products, Inc. and Simatelex Manufactory Co. Ltd. for infringement of United States Patent Des. No. 348,585 based on sales of their coffeemakers designated as the AR Series and the Mr. Coffee Commercial. Defendants have responded to the complaint and counterclaimed for a declaratory judgment that the patent is invalid.

The Court has entered a scheduling order directing the completion of discovery by March 15, 2007.

#### **Best Hero Limited v. Pentalpha Hong Kong Ltd.**

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 our subsidiary Pentalpha Hong Kong Limited ("Pentalpha") for payment of \$4,250,400. The claim relates to two purchase orders issued by Pentalpha on May 31, 2004 and June 1, 2004, respectively, to Best Hero for the purchase of LCD TV panels at a total purchase price of \$4,620,000. However, the quality of the initial shipment of LCD panels which were paid for was determined to be unacceptable. Accordingly, further delivery of the remaining orders was refused. Best Hero alleged that our subsidiary has repudiated the contract and instituted the present legal proceedings to claim for damages. We intend to defend the action on the grounds that we were justified in rejecting the goods for breach of conditions as to description and sample on the part of Best Hero. A Defence and Counterclaim was filed by Pentalpha in the High Court on December 28, 2004. Best Hero filed a Reply and Defence to the Counterclaim on January 11, 2005. The discovery of documents in this action has been completed and the parties are now in the course of preparing their respective witness statements.

We have obtained an opinion from legal counsel representing us on the possible outcome of this litigation. Having considered that the parties have not yet exchanged witness statements, our legal counsel has estimated the maximum liability would be:

- The deficiency in price between the contractual price and the price which the LCD TV panels were actually sold by Best Hero (this is still unknown by us) together with the interest and any costs incurred but not limited to legal fees.
- If Best Hero has not sold any of the subject panels, the maximum compensation will be the full contractual price together with interest and legal costs but we would receive the LCD TV panels which would then be subject to net realizable value assessment.

We have accrued for a loss contingency in respect of this litigation in our consolidated balance sheet as at March 31, 2006 in an amount which is less than the claim against us but represents our best estimate of the most likely outcome resulting from this litigation.

#### **Global Display Limited v. Mico Electric (Hong Kong) Limited**

On September 9, 2005, Global Display Limited (“Global Display”) issued a Writ in the Court of First Instance of the High Court of Hong Kong against Mico Electric (Hong Kong) Limited (“Mico”) for payment of \$540,000. The claim relates to a purchase contract entered into between the parties on or about November 2004 (“the Contract”) under which Mico agreed to purchase from Global Display 1,500 LCD TVs at a total purchase price of \$540,000. Mico refused to accept delivery of the said 1,500 pieces and alleged that the LCD TVs did not comply with their requirements. It is the position of Global Display that Mico’s refusal to accept delivery of the said LCD TV’s constitutes a breach of the Contract and after taking legal advice, Global Display instituted the present legal proceedings to claim against Mico for the purchase price and/or damages under the Contract. Mico has filed an Acknowledgment of Service to contest the proceedings and is required to file a Defence within the prescribed time limit.

An adverse decision in any of these legal proceedings could have a material adverse effect on our business, results of operations and financial condition.

Included in “accrued expenses” in our consolidated balance sheets as of March 31, 2002, 2003, 2004, 2005 and 2006 were provision for legal fees of approximately \$285,000, \$98,000, \$230,000, \$190,000 and \$144,000 in relation to certain of the above cases. Unless noted above, we have not included in our financial statements any asset or liability resulting from litigation that has not resulted in a cash deposit into or payment from bank accounts of Global-Tech or its subsidiaries.

#### **Dividends**

We are a holding company and have no business operations other than ownership of our subsidiaries. In the event that we should decide to pay cash dividends, as a holding company, our ability to pay dividends and meet other obligations would depend upon the receipt of dividends or other payments from our operating subsidiaries and our other holdings and investments. In addition, our operating subsidiaries from time to time may be subject to restrictions on their ability to make distributions to us as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions. Restrictions on currency conversion may be in effect from time to time but have not had a material effect on us in the past.

#### **B. Significant changes.**

There have been no significant changes since the date of the financial statements included in this annual report except as set out below:

- (1) On April 2006 a subsidiary of the Company executed a joint venture agreement with Anwell Technologies Limited (“Anwell”) to explore synergies related to the production of OLED systems. The share capital of the subsidiary was established at \$8 million being the value attributed to the total assets related to our OLED clean room and equipment, know-how and development program. We sold 70% of the subsidiary to Anwell in exchange for a \$5.6 million convertible note. Our contribution to the venture amounted to approximately \$2.0 million, which equaled the net book value of tangible assets transferred to the venture.
- (2) In the first quarter of fiscal 2007 the Company reduced its Hong Kong staff by 28 people and incurred a cost of \$500,000 in severance. Annualized savings of \$1 million are anticipated from this headcount reduction.

- (3) Global Appliance Holdings Limited entered into an agreement on August 1, 2006, to sell a 30% interest in Global Auto Limited (formerly known as Lite Array (OLED) H.K. Limited) to an independent third party. Global Auto Limited intends to enter the car audio replacement market.

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

Our common shares began trading on the New York Stock Exchange, or NYSE, under the symbol “GAI” on April 8, 1998. The following table lists the high and low market prices on the NYSE for the periods indicated.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2002:</b>		
Annual	6.35	4.55
<b>Fiscal 2003:</b>		
First Quarter	5.00	4.60
Second Quarter	4.93	4.15
Third Quarter	4.77	3.87
Fourth Quarter	5.20	4.43
Annual	5.20	4.43
<b>Fiscal 2004:</b>		
First Quarter	5.90	4.50
Second Quarter	8.45	5.00
Third Quarter	9.59	6.90
Fourth Quarter	9.90	8.00
Annual	9.90	4.50
<b>Fiscal 2005:</b>		
First Quarter	9.75	7.59
Second Quarter	9.83	8.15
Third Quarter	9.40	7.16
Fourth Quarter	8.95	6.73
Annual	9.83	6.73
<b>Fiscal 2006:</b>		
First Quarter	7.20	4.85
Second Quarter	6.24	4.72
Third Quarter	5.13	3.53
Fourth Quarter	4.75	3.64
Annual	7.20	3.53
<b>Fiscal 2007:</b>		
First Quarter	4.00	3.17
<b>Six Month Period:</b>		
August 2006	3.04	2.40
July 2006	3.27	2.93
June 2006	3.41	3.17
May 2006	3.95	3.41
April 2006	4.00	3.83
March 2006	4.25	3.77

**B. Plan of distribution.**

Not applicable.

**C. Markets.**

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

**D. Selling shareholders.**

Not applicable.

**E. Dilution.**

Not applicable.

**F. Expenses of the issue.**

Not applicable.

## Item 10. Additional Information.

The Company's corporate governance practices are governed by applicable British Virgin Islands law, as well as by its Memorandum and Articles of Association. We have securities that are registered with the SEC and are listed on the NYSE, and are therefore subject to corporate governance requirements applicable to the NYSE-listed non-U.S. companies. Many of the corporate governance rules in the NYSE Listed Company Manual 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. listed companies under these NYSE Listing Rules. We are a foreign private issuer and are permitted to follow home country practice in lieu of the provisions of this Section 303A, except that we are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12(b) and (c). To the extent applicable, we are endeavoring to comply with Section 303A practices beyond those required.

<u>Rules</u>	<u>Requirements</u>	<u>Company Compliance</u>
303A.01 Independent Directors	Listed companies must have a majority of independent directors	It is not mandatory for Global-Tech to comply with this provision.
303A.02 Independent Tests	(a) The director has no material relationship with the listed company (b) NOT independent if: (i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company; (ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); (iii) (A) The director or an immediate family is a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the listed company's audit within that time;	Global-Tech considers whether its board members meet the requirements of being "independent."

Rules	Requirements	Company Compliance
	<ul style="list-style-type: none"> <li>(iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee; or</li> <li>(v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's gross revenues.</li> </ul>	
303A.03 Executive Sessions	To empower non-management directors to serve as a more effective check on management, the non-management directors must meet at regularly scheduled executive sessions without management.	Our non-management directors do not hold regularly scheduled sessions without management.
303A.04 Nominating/Corporate Governance Committee	Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.	It is not mandatory for Global-Tech to have a nominating and corporate governance committee.
303A.05 Compensation Committee	Listed companies must have a compensation committee composed entirely of independent directors.	Mr. Brian Yuen, one member of Global-Tech's compensation committee, is not considered independent since he is a member of management of the Company.
303A.06 Audit Committee	Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	We have an audit committee comprised entirely of independent directors and otherwise comply with Rule 10A-3.
303A.07 Audit Committee Additional Requirements	<ul style="list-style-type: none"> <li>(a) The audit committee must have a minimum of three members;</li> <li>(b) All audit committee members must satisfy the requirements for independence set out in Section 303A.02;</li> <li>(c) The audit committee must have a charter; and</li> <li>(d) Each listed company must have an internal audit function.</li> </ul>	It is not mandatory for Global-Tech to comply with this provision.
303A.08 Shareholder Approval of Equity Compensation Plans	The NYSE Standards requires shareholder approval of all equity compensation plans and material revisions to such plan.	It is not mandatory for Global-Tech to comply with this provision.



<u>Rules</u>	<u>Requirements</u>	<u>Company Compliance</u>
303A.09 Corporate Governance Guidelines	Listed companies must adopt and disclose corporate governance guidelines.	It is not mandatory for Global-Tech to comply with this provision.
303A.10 Code of Business Conduct and Ethics	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Global-Tech has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.
303A.11 Foreign Private Issuer Disclosure	Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards	As presented in this document
303A.12 Certification Requirements	<p>(a) Each listed company Chief Executive Officer must certify to the NYSE each year that he is not aware of any violation by the Company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.</p> <p>(b) Each listed company chief executive officer must notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provision of this Section 303A.</p> <p>(c) Each listed company must submit an executive Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation each time a change occurs to the board or any of the committees subject to Section 303A. The annual and interim Written Affirmation must be in the form specified by the NYSE.</p>	On August 29, 2005, we filed Section 303A Foreign Private Issuer Annual Written Affirmation with the NYSE.

**A. *Share capital.***

Not applicable.

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

**Objects and Purposes**

Our “objects and purposes” are described in Clause 4 of our memorandum and articles of association and generally allow us to engage in any act or activity that is not prohibited under British Virgin Islands law.

**Directors**

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

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

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

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

### **Rights of Shareholders**

Our memorandum authorizes the issuance of 50,000,000 common shares and 1,000,000 preference shares. We do not have any preference shares currently outstanding. The preference shares may be issued by our directors, without further action by shareholders. Our directors also have the right to fix by resolution of directors the designations, powers, preferences, rights, qualifications, limitations and restrictions of the preference shares, such as voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions.

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

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

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

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

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

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

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

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

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

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

Under British Virgin Islands law, unless otherwise provided by a company's memorandum or articles of association, the directors may call meetings of shareholders at any time. Our articles of association require the directors to call meetings upon a written request from shareholders holding 10% or more of the outstanding voting shares.

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

## **Limitations on Share Ownership**

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

## **Indemnity and Insurance**

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

## **Certain Anti-Takeover Matters**

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

## **Ownership Information**

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

## **Differences from United States Law**

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

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

#### *Board composition*

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

#### *Scheduled independent director meeting*

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

#### *Nominating/corporate governance committee*

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

#### *Compensation committee*

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

#### *Audit committee*

The NYSE listing standards require companies to have an audit committee consisting of three independent members of the board if directors governed by a written charter establishing the duties and responsibilities of the audit committee. There is no such requirement under BVI rules. However, we have an audit committee governed by a written charter consisting of three independent directors as defined in Rule 10A-3 of the Securities Exchange Act of 1934, as amended.

#### *CEO Certification*

There is no requirement that the Chief Executive Officer must certify annually to the NYSE that he knows of no violation by the Company relating to corporate governance. Also the Chief Executive Officer must notify the NYSE in writing if an executive officer of the Company becomes aware of any material non-compliance of the NYSE corporate governance listing requirements, notwithstanding our status as a foreign private issuer.

#### *Code of business conduct and ethics*

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

#### *Indemnification*

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

### *Inspection of books and records*

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

### **C. *Material contracts.***

On March 17, 2006, we contributed our OLED fixed assets (including a clean room and prototyping equipment) in Dongguan Lite Array Company Limited into Lite Array Holdings Limited (“Lite Array”) and also transferred all of our know-how and personnel associated with our OLED development program into Lite Array.

Effective April 3, 2006, we sold 70% of Lite Array to Anwell Technologies Limited (“Anwell”) a publicly listed company in Singapore for a \$5.6 million convertible note. The transaction is expected to result in a net gain when recorded.

Lite Array will continue to operate in our Dongguan facility and will leverage the design and manufacturing capabilities of both Anwell and ourselves to pursue potential opportunities in the OLED market. The key objective of Lite Array is to design and implement a significantly improved and less costly process for manufacturing OLEDs.

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

#### **General**

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

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

## **UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

### **General**

This section summarizes the material U.S. federal income tax consequences to holders of our common shares as of the date of this annual report. The summary applies to you only if you hold our common shares as a capital asset for tax purposes (that is, for investment purposes). The summary does not cover state, local or foreign law, or the possible application of U.S. federal estate, gift or excise tax. In addition, this summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark to market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax exempt organization;
- a person that holds our common shares as part of a straddle or a hedging, integrated, constructive sale or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar;
- a person liable for alternative minimum tax; or
- a person that owns, or is treated as owning, 10% or more of our common shares.

The discussion is based on current law. Changes in the law may alter your tax treatment of holding our common shares, possibly on a retroactive basis.

The discussion does not cover tax consequences that depend upon your particular tax circumstances. We recommend that you consult your tax advisor about the consequences of your holding our common shares in your particular situation.

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

- an individual U.S. citizen or resident alien (as specifically defined for tax purposes);
- a corporation, or entity taxable as a corporation, that was created under U.S. law (federal or state);
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (a) if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (b) if it has a valid election in effect under applicable treasury regulations to be treated as a United States person.

If you are not a U.S. holder, you are a “Non U.S. holder,” and the discussion below titled “Tax Consequences to Non U.S. Holders” will apply to you.

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

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

**Distributions.** We typically retain all earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. If distributions are made, however, the gross amount of any such distribution (other than in liquidation) that you receive with respect to our common shares generally will be taxed to you as dividend income to the extent such distribution does not exceed our current or accumulated earnings and profits, as calculated for U.S. federal income tax purposes. Such income will be includable in your gross income on the date of receipt and may be treated as “qualified dividend income,” which is currently subject to taxation at a maximum rate of 15% in the case of individual taxpayers (subject generally, to a 60-day holding period requirement). In the event of such a distribution, we will indicate its eligibility for treatment as “qualified dividend income” on the 1099-DIV form or other informational return that is furnished to recipients. To the extent any distribution exceeds our accumulated earnings and profits, the distribution will first be treated as a tax free return of capital to the extent of your adjusted tax basis in our common shares and will be applied against and reduce such basis on a dollar-for-dollar basis (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of such shares). To the extent that such distribution exceeds your adjusted tax basis, the distribution will be taxed as a gain recognized on a sale or exchange of our common shares. See “Sale or Other disposition of common shares” below. Because we are not a U.S. corporation, no dividends received deduction will be allowed to corporations with respect to dividends paid by us. Dividends paid with respect to our common shares will generally be treated as foreign source “passive income” or, in the case of certain types of financial institutions, “financial services income,” for purposes of computing allowable foreign tax credits for U.S. foreign tax credit purposes.

**Sale or other disposition of common shares.** Generally speaking, in connection with the sale or other taxable disposition of our common shares:

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

**Passive foreign investment company.** U.S. holders generally would be subject to a special, adverse tax regime (that would differ in certain respects from that described above) if we are or were to be classified as a passive foreign

investment company for U.S. federal income tax purposes. Although the determination of whether a corporation is a passive foreign investment company is made annually, and thus may be subject to change, we do not believe that we are, nor do we expect to become, a passive foreign investment company. Notwithstanding the foregoing, we urge you to consult your own U.S. tax advisor regarding the adverse U.S. federal income tax consequences of owning the shares of a passive foreign investment company and of making certain elections designed to lessen those adverse consequences.

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

**Distributions.** If you are a Non U.S. holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on distributions made on our common shares unless you conduct a trade or business in the United States and the distributions are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of income from our common shares, such distributions are attributable to a permanent establishment that you maintain in the United States).

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

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

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

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

### **Backup Withholding and Information Reporting**

Payments (or other taxable distributions) in respect of our common shares that are made in the United States or by a U.S. related financial intermediary will be subject to U.S. information reporting rules. Unless we are notified by the IRS, you will not be subject to “backup” withholding of U.S. federal income tax currently at a rate of 28% provided that:

- you are a corporation or other exempt recipient; or
- you provide a taxpayer identification number (which, in the case of an individual, is his or her taxpayer identification number) and certify that no loss of exemption from backup withholding has occurred.

If you are not a U.S. person, you generally are not subject to information reporting and backup withholding, but you may be required to provide a certification of your non U.S. status in order to establish that you are exempt.

Amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service.

## **BRITISH VIRGIN ISLANDS TAX CONSEQUENCES**

Under the International Business Companies Act of the British Virgin Islands as currently in effect, a holder of common equity, such as our common shares, who is not a resident of the British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the common equity and all holders of common equity are

not liable to the British Virgin Islands for income tax on gains realized on sale or disposal of such shares. The British Virgin Islands does not impose a withholding tax on dividends paid by a company incorporated under the International Business Companies Act.

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

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

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

Not Applicable.

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

Not Applicable.

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

For further information with respect to us and our common shares, we refer you to the filings we have made with the SEC. Statements contained in this annual report concerning the contents of any contract or any other documents are not necessarily complete. If a contract or document has been filed as an exhibit to any filing we have made with the SEC, we refer you to the copy of the contract or document that has been filed. Each statement in this annual report relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. We are subject to certain of the informational requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, file reports and other information with the SEC. Our registration statements, including the exhibits and schedules thereto, and such reports and other information, can be inspected and copied at the following public reference facilities maintained by the SEC:

Woolworth Building  
233 Broadway  
New York, New York 10279

175 W. Jackson Boulevard  
Suite 900  
Chicago, Illinois 60604

Copies of these materials can also be obtained by mail at prescribed rates from the Public Reference Section of the SEC, 100 F Street, NE, Room 1580, Washington, DC 20549 or by calling the SEC at 1 800 SEC 0330. The SEC maintains a website that contains registration statements, reports and other information regarding registrants that file electronically with the SEC at <http://www.sec.gov>.

**I. *Subsidiary information.***

Not Applicable.

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

We are exposed to the impact of foreign currency fluctuations, interest rate changes and the potential increases in cost of plastic resins and metals. We have not entered into foreign currency hedge, interest rate swaps or commodity futures for speculative purposes or otherwise.

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



Effective January 1, 1994, China adopted a floating currency system whereby the official exchange rate equals the market rate. Since the market rate and official rates were unified, the value of the Renminbi against the Hong Kong dollar and U.S. dollar has been stable. On July 21, 2005, the People's Bank of China ("PBOC") decided to abandon its policy of pegging the Renminbi to the U.S. dollar and link the Renminbi to a basket of currencies. The PBOC also strengthened the exchange rate of the Renminbi at that time to 8.11 to the U.S. dollar from 8.28. The Chinese authorities have therefore taken their first step towards a floating currency. This reform will cost U.S. companies more to buy Chinese products. Revaluation will have a different impact on different segments of our business but we believe our most significant foreign exchange risk results from our manufacturing operations in China. Labor and other overhead expenses (excluding non-cash depreciation charges) in our Chinese factory incurred in Renminbi were approximately 25.5% and 10.8% of our net sales in fiscal 2005 and 2006, respectively. We believe any future appreciation of the Renminbi would result in an increase in our operating costs in China and materially impact our financial results. A 1% appreciation in the Renminbi would increase our operating costs by approximately US\$80,000. As of March 31, 2006, the exchange rate was 8.0617 and as of September 26, 2006 the exchange rate was 7.9135, a 1.3% appreciation since our fiscal year end. Our foreign currency exposure in our assets and liabilities were immaterial at March 31, 2006.

Our primary interest rate risk exposure results from floating rate debt. At the beginning fiscal 2005, all of our long-term debt consisted of floating rate debt and we had an aggregate outstanding long-term debt of \$374,000. As of March 31, 2005, all our long-term debt had been repaid. From April 2005 to November 2005 we utilized our Hong Kong dollar overdraft facilities under our line of credit averaging approximately US\$700,000 for the eight month period. Our overdraft interest rate was 7.75%. Since the Hong Kong dollar is pegged to the U.S. dollar, we might have to bear higher interest expense for any future bank loans if U.S. interest rates continue to increase. We currently do not hedge our exposure to floating interest rate risk and have no debt outstanding denominated in currencies other than the U.S. dollar.

We are dependent upon outside suppliers for all of our raw material needs, including plastic resins and various metals. Consequently, the results of our operations are subject to price fluctuations in these raw materials. The plastic resins used by us are derived from natural gas liquids, which may fluctuate as a result of changes in natural gas and crude oil prices, and the relative capacity, supply and demand for resin and petrochemical intermediates from which the resins are produced. We have no long-term supply contracts for the purchase of plastic resin, although we do generally maintain a 90-day supply. In the past, we have had limited ability to increase prices to offset plastic resin price increases. Currently, plastic resin prices are increasing significantly due to the international supply and demand for oil and the political instability in the Middle East. We expect that plastic resin prices will continue to increase in the near future and that it will be difficult for us to pass these cost increases on to our customers. Our total purchase of plastic resins in fiscal 2004, 2005 and 2006 were \$11.0 million, \$12.0 million and \$13.3 million, respectively. If plastic resins prices in fiscal 2007 were to increase on an average of 10.0% from March 31, 2006 prices, and assuming we use the same amount of plastic resins as during fiscal 2006, the additional annual expense to us in fiscal 2007 would be approximately \$1.3 million. As of August 31, 2006, resin prices had already increased over 25% from their March 31, 2006 level and our customers are still not willing to compensate us in any way for the additional cost.

We also use significant quantities of stainless steel and copper wire. Our total purchases of steel and other metal products (excluding copper wire) in fiscal 2004, 2005 and 2006 were approximately \$1.3 million, \$1.9 million and \$4.5 million, respectively. If metal prices were to increase 10% in fiscal 2007 from fiscal 2006 and we use the same quantities and mix of metal, the additional expense to us would be approximately \$450,000. Copper used primarily in our electric motors and wiring has been particularly volatile. Our purchases of copper wire in fiscal 2006 amounted to approximately \$300,000. The spot price in cents per pound has risen from 135.85 as of March 31, 2004 to 248.80 as of March 31, 2006. Since our year end copper increased a further 39% to 346.90 as of August 31, 2006 and to date we have not received any pricing relief for any of these cost increases.

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

### **A. Debt securities.**

Not applicable.

### **B. Warrants and rights.**

Not applicable.

## **PART II**

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

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

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

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

**Use of Proceeds**

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

**Item 15. Controls and Procedures.**

The Company maintains a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures under supervision and with the participation of management, including the Company's Chief Executive Officer and Acting Chief Financial Officer, as of the end of the period covered by this report. Based upon that evaluation, the company's Chief Executive Officer and Acting Chief Financial Officer concluded that the company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic SEC filings.

In making its assessment of internal control as of March 31, 2006, the Company's independent auditors notified us that they had identified inadequate knowledge of U.S. GAAP in its internal accounting staff as a material weakness. Management recognizes that complex accounting issues initially were not fully applied or understood completely and the internal staff had to be advised by external consultants on the appropriate application of the relevant standards. All necessary corrections were made well prior to any public announcements or filings with the SEC. Management recognizes the need to enhance its accounting staff's U.S. GAAP knowledge and the Company has begun to implement corrective action, including hiring additional experienced staff, and improving the process to identify and evaluate complex U.S. issues and new accounting standards. It also believes that external resources will continue to be necessary to advise our internal accounting staff if it is to remain current with the voluminous pronouncements and standards that constitute the body of U.S. GAAP.

There are inherent limitations to the effectiveness of any system of controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Further, the design of an internal control system must reflect the fact that we are subject to resource constraints, and the derived benefit must be evaluated as related to costs. When preparing its financial statements for fiscal 2005, the Company discovered an inadvertent error in its previously reported results for its fiscal year ended March 31, 2004 and previously announced fiscal 2005 periods. This unintentional error resulted from the failure for the last three quarters of fiscal 2004 and the first three quarters of fiscal 2005 to recognize non-cash compensation expense and income, respectively, related to the application of variable accounting to unexercised stock options issued by the Company in 2000 in an option exchange program. The Company took remedial action to issue a press release to the public and has filed an amended Form 20-F for fiscal 2004 and an amended Form 6-K with an amended quarterly report for the three and nine months ended December 31, 2004 to include the restated financial statements reflecting these changes.

It should be noted that the design of any system of control is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. No significant changes were made to the Company's internal controls or other factors that could significantly affect these controls subsequent to the date of evaluation.

**Item 16. [Reserved].**

Not applicable.

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

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

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

The audit committee is currently comprised of three independent directors, Barry J. Buttifant, Patrick Po-On Hui and Ken Ying-Keung Wong. Mr. Buttifant is the chairman of the audit committee. The board of directors has determined that Barry J. Buttifant meets or exceeds the training, knowledge and requirements for a financial expert ("as defined") and is thus designated as the Company's financial expert on the audit committee. We have to file Section 303A Foreign Private Issuer Annual Written Affirmation as required by NYSE to assert the independence of our audit committee members and other matters within 30 days of the date a company files its report on Form 20-F with the U.S. Securities and Exchange Commission.

Mr. Buttifant is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Chartered Management Institute; the Hong Kong Management Association and the Hong Kong Institute of Directors. See Item 6.A – Directors and senior management for his biography.

**Item 16B. Code of Ethics.**

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

**Item 16C. Principal Accountant Fees and Services.**

Ernst & Young became our independent auditors in fiscal 2003. Fees payable for the fiscal years ended March 31, 2006 and 2005 to Ernst & Young are detailed below:

	Fiscal Year Ended March 31, 2006	Fiscal Year Ended March 31, 2005
Audit fees	\$ 219,000	\$ 165,000
Audit-related fees	Nil	Nil
Tax fees	Nil	Nil
All other fees	4,000	Nil
Total fees	<u>\$ 223,000</u>	<u>\$ 165,000</u>

The nature of each category of fee is described below:

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

**Audit-Related Fees.** We did not engage Ernst & Young for any other audited-related services arrangement.

**Tax Fees.** We did not engage Ernst & Young for any other tax services arrangement.

**All Other Fees.** The services include the statutory audit and review of documents filed with the SEC.

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

**PART III**

**Item 17. Financial Statements.**

Not applicable.

**Item 18. Financial Statements.**

See pages F-1 through F-45 incorporated herein by reference.

**Item 19. Exhibits.**

See “Exhibit Index” on page E-1.

**SIGNATURES**

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

Date: September 29, 2006

GLOBAL-TECH APPLIANCES INC.

By:                                 /s/ JOHN C.K. SHAM                                  
**John C.K. Sham**  
**President and Chief Executive Officer**

Audited Financial Statements

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

March 31, 2005 and 2006

GLOBAL-TECH APPLIANCES INC.  
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## 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.

/s/ Ernst & Young  
Hong Kong  
August 4, 2006



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

	<u>2005</u>	<u>2006</u>
	US\$	US\$
<b>ASSETS</b>		
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	<u>71,763,200</u>	<u>71,763,558</u>
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	<u>104,012,528</u>	<u>98,079,777</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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	<u>13,596,293</u>	<u>18,692,241</u>
Deferred tax liabilities	142,888	38,619
Total liabilities	<u>13,739,181</u>	<u>18,730,860</u>
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	<u>90,260,819</u>	<u>79,348,917</u>
Total liabilities and shareholders' equity	<u>104,012,528</u>	<u>98,079,777</u>

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**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	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)
	<u>Number</u>	<u>Number</u>	<u>Number</u>
Basic and diluted weighted average number of shares outstanding	<u>12,152,592</u>	<u>12,214,800</u>	<u>12,223,608</u>

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					Total shareholders' equity
	Common stock	Treasury stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive losses	
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	<u>12,857,045</u>	<u>(679,147)</u>	<u>128,570</u>	<u>84,226,550</u>	<u>30,726,366</u>	<u>(4,493,447)</u>	<u>(555,498)</u>	<u>110,032,541</u>

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					Total shareholders' equity US\$
	Common stock	Treasury stock	Common stock US\$	Additional paid-in capital US\$	Retained earnings US\$	Treasury stock US\$	Accumulated other comprehensive losses US\$	
Balance as of								
March 31, 2004	12,857,045	(679,147)	128,570	84,226,550	30,726,366	(4,493,447)	(555,498)	110,032,541
Net loss for the year	—	—	—	—	(18,623,299)	—	—	(18,623,299)
Other comprehensive 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	<u>12,902,755</u>	<u>(679,147)</u>	<u>129,028</u>	<u>83,264,716</u>	<u>12,103,067</u>	<u>(4,493,447)</u>	<u>(742,545)</u>	<u>90,260,819</u>

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					Total shareholders' equity US\$
	Common stock	Treasury stock	Common stock US\$	Additional paid-in capital US\$	Retained earnings US\$	Treasury stock US\$	Accumulated other comprehensive losses US\$	
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	<u>12,902,755</u>	<u>(679,147)</u>	<u>129,028</u>	<u>83,030,824</u>	<u>879,673</u>	<u>(4,493,447)</u>	<u>(197,161)</u>	<u>79,348,917</u>

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**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	US\$
<b>Cash flows from operating activities:</b>			
Net loss	(3,906,365)	(18,623,299)	(11,223,394)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>			
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 a 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)
<b>Changes in operating assets and liabilities:</b>			
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)	—
<b>Net cash provided by (used in) operating activities</b>	<u>4,097,947</u>	<u>(12,775,139)</u>	<u>(743,453)</u>

(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)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	US\$
<b>Cash flows from investing activities:</b>			
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	<u>(9,987,807)</u>	<u>6,501,689</u>	<u>18,976,934</u>
<b>Cash flows from financing activities:</b>			
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	<u>(317,051)</u>	<u>(34,206)</u>	<u>—</u>
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	<u>15,102,510</u>	<u>8,790,594</u>	<u>27,313,746</u>
<b>Supplemental disclosure information:</b>			
Cash paid for interest expense	17,589	9,855	55,435
Cash paid for tax expense	<u>3,585</u>	<u>87,479</u>	<u>77,512</u>

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:

<u>Name of subsidiary</u>	<u>Place of incorporation/ establishment</u>	<u>Percentage of equity interest held</u>	<u>Principal activities</u>
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



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

**2 Subsidiaries (continued)**

<u>Name of subsidiary</u>	<u>Place of incorporation/ establishment</u>	<u>Percentage of equity interest held</u>	<u>Principal activities</u>
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 electrical 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

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

**2 Subsidiaries (continued)**

<u>Name of subsidiary</u>	<u>Place of incorporation/ establishment</u>	<u>Percentage of equity interest held</u>	<u>Principal activities</u>
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.

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

**3 Summary of significant accounting policies (continued)**

**(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.

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.

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

**3 Summary of significant accounting policies (continued)**

**(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.

**(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:

	<u>Annual rate</u>
Leasehold improvements	Over the shorter of the lease term or 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.

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

**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.

## GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 3 Summary of significant accounting policies (continued)

##### (k) Sales and revenue recognition (continued)

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.

##### (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.

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

**3 Summary of significant accounting policies (continued)**

**(n) Foreign currencies (continued)**

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.

**(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.

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

**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	<u>(1,557,335)</u>	<u>(19,904,621)</u>	<u>(12,146,393)</u>
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.



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

**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.

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

**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 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.

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

**3 Summary of significant accounting policies (continued)**

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

- (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.

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

**3 Summary of significant accounting policies (continued)**

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

- (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.

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

**3 Summary of significant accounting policies (continued)**

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

- (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. 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 Group is currently 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 Taxes”, by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. In addition to recognition, the interpretation provides guidance on the measurement and derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition and 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.

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

**4 Cash and cash equivalents**

	<u>2005</u>	<u>2006</u>
	US\$	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	<u>8,790,594</u>	<u>27,313,746</u>

**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	—
	<u>33,972,743</u>	<u>18,638,930</u>	<u>(6,462)</u>	<u>76,752</u>	<u>33,966,281</u>	<u>18,715,682</u>

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	US\$
Gross realized losses	<u>—</u>	<u>6,567</u>	<u>141,251</u>

**7 Accounts and bills receivable, net**

	<u>2005</u>	<u>2006</u>
	US\$	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	<u>7,194,894</u>	<u>8,446,502</u>

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	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	<u>38,124</u>	<u>49,870</u>	<u>48,715</u>

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

**8 Inventories**

	<u>2005</u>	<u>2006</u>
	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
	<u>14,056,562</u>	<u>10,780,816</u>

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.



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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**

	<u>2005</u>	<u>2006</u>
	US\$	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
	<u>58,188,650</u>	<u>58,164,544</u>
Less: Accumulated depreciation	<u>(30,408,872)</u>	<u>(33,999,769)</u>
Property, plant and equipment, net	<u>27,779,778</u>	<u>24,164,775</u>

- (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.
- (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).

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

**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**

	<u>2005</u>	<u>2006</u>
	US\$	US\$
At cost	4,866,389	—
Less: Accumulated amortization	<u>(2,665,265)</u>	<u>—</u>
License, net	<u>2,201,124</u>	<u>—</u>
	<u>2004</u>	<u>2005</u>
	US\$	US\$
Amortization expense for the fiscal year	<u>695,395</u>	<u>695,867</u>
	<u>2006</u>	<u>2006</u>
	US\$	US\$
	<u>350,717</u>	<u>350,717</u>

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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**

	<u>2005</u>	<u>2006</u>
	US\$	US\$
Short-term bank loans	<u>37,507</u>	<u>37,698</u>

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 has been 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:

	<u>2005</u>	<u>2006</u>
	US\$	US\$
Bank loans	<u>37,507</u>	<u>37,698</u>

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:

	<u>2005</u>
	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	<u>(474,072)</u>
	<u>1,000</u>
Satisfied by:	
Cash consideration	<u>1,000</u>

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

**16 Business combination (continued)**

	<u>2005</u>
	US\$
Net cash outflow from the acquisition of a subsidiary:	
Cash consideration paid	(1,000)
Cash and cash 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	(Unaudited) 2005
	US\$	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.

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

**18 Other income (expenses), net**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	US\$
Exchange gains (losses), net	317,468	(72,639)	(370,485)
Loss on disposal of a 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
	<u>427,814</u>	<u>31,589</u>	<u>(846,015)</u>

**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.

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

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:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	%	%	%
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	<u>(2.8)%</u>	<u>(0.2)%</u>	<u>0.2%</u>

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

**19 Income taxes (continued)**

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

	<u>2005</u> US\$	<u>2006</u> US\$
Deferred tax assets:		
License	171,834	—
Impairment of property, plant and equipment	330,083	143,699
Provision for inventories	805,782	326,425
Operating losses carried forward	<u>4,539,713</u>	<u>7,021,889</u>
Gross deferred tax assets	5,847,412	7,492,013
Less: Valuation allowance	<u>(5,795,634)</u>	<u>(7,468,912)</u>
	51,778	23,101
Gross deferred tax liabilities:		
Depreciation of property, plant and equipment	<u>(194,666)</u>	<u>(61,720)</u>
Net deferred tax liabilities	<u>(142,888)</u>	<u>(38,619)</u>

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.

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

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.

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

**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:

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

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.

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

**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\$
<b>Payable:</b>		
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 four 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 irrevocable 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 irrevocable letters of credit.



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

**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.

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.

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

**23 Contingent liabilities (continued)**

(a) (continued)

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 and 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.

- (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.

## GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 23 Contingent liabilities (continued)

- (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 eased its mandate on September 14, 2005 for Sunbeam to file a petition for a writ of certiorari to the United States Supreme Court. On January 9, 2006, the United States Supreme Court denied the petition of 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 income (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 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.

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

**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

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	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
	<u>66,901,315</u>	<u>41,851,163</u>	<u>73,812,100</u>

(b) Net sales by product type

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	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
	<u>66,901,315</u>	<u>41,851,163</u>	<u>73,812,100</u>

(c) Long-lived assets\*

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	US\$	US\$	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
	<u>32,678,039</u>	<u>29,971,537</u>	<u>26,316,219</u>

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

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

**25 Segment information (continued)**

(d) Major customers

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

	<u>2004</u> US\$	<u>2005</u> US\$	<u>2006</u> 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")	<u>17,459,514</u>	<u>4,311,752</u>	<u>25,133,617</u>

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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\$ 2005	US\$ 2006	US\$ 2005	US\$ 2006
<b>Current financial assets:</b>				
Cash and cash equivalents	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	<u>7,194,894</u>	<u>8,446,502</u>	<u>7,194,894</u>	<u>8,446,502</u>
<b>Total financial assets</b>	<b><u>55,382,743</u></b>	<b><u>54,475,930</u></b>	<b><u>55,382,743</u></b>	<b><u>54,475,930</u></b>

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

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.

## GLOBAL-TECH APPLIANCES INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 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.

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

**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
	<u>914,100</u>	<u>711,175</u>		<u>12,500</u>	<u>723,675</u>

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.

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 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 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.



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**28 Stock options (continued)**

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 price US\$	Weighted-average exercise price US\$	Options	Range of exercise price US\$	Weighted-average exercise price US\$	Options	Range of exercise price US\$	Weighted-average exercise price US\$
Outstanding, beginning of fiscal year	1,141,688	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	Options outstanding as of March 31, 2006			Options exercisable as of March 31, 2006	
	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

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.

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

**28 Stock options (continued)**

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.

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Memorandum of Association of Global-Tech, as amended. (Incorporated herein by reference to Exhibit 3.1 to Global-Tech's Registration Statement on Form F-1, SEC File No. 333-8462 (the "Registration Statement"))
1.2	Articles of Association of Global-Tech, as amended. (Incorporated herein by reference to Exhibit 1.2 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2005)
1.3	Resolution of the Board of Directors authorizing an amendment to the Articles of Association of Global-Tech, as amended. (Incorporated herein by reference to Exhibit 1.3 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2005)
4.1	Commission Agreement between Global-Tech and Eyal Lior. (Incorporated herein by reference to Exhibit 10.1 to the Registration Statement.)
4.2	Employment Agreement between Global-Tech and Kwong Ho Sham. (Incorporated herein by reference to Exhibit 10.2 to the Registration Statement.)
4.3	Employment Agreement between Global-Tech and John C.K. Sham. (Incorporated herein by reference to Exhibit 10.3 to the Registration Statement.)
4.4	Supply Agreement between Global-Tech and Sunbeam Products, Inc. (Incorporated herein by reference to Exhibit 10.4 to the Registration Statement.)
4.5	Lease Agreement between Global-Tech and the People's Government of Qingxi Town, Dongguan City, Guangdong Province, together with the English language translation thereof. (Incorporated herein by reference to Exhibit 10.5 to the Registration Statement.)
4.6	License Agreement between Global-Tech and the Buji Economic Development Company, together with the English language translation thereof. (Incorporated herein by reference to Exhibit 10.6 to the Registration Statement.)
4.7	Lease Agreement between Global-Tech and Wing Shing Products Company Limited. (Incorporated herein by reference to Exhibit 10.7 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 1999.)
4.8	Amendment to Tenancy Agreement dated April 17, 2002. (Incorporated herein by reference to Exhibit 4.8 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2002.)
4.9	Amended and Restated 1997 Stock Option Plan of Global-Tech. (Incorporated herein by reference to Exhibit 10.8 to the Registration Statement.)
4.10	1999 Employee Stock Purchase Plan of Global-Tech. (Incorporated herein by reference to Exhibit 1 to Global-Tech's Report on Form 6-K for the month of February 1999.)
4.11	Credit Facility Agreement between Global-Tech and Standard Chartered Bank. (Incorporated herein by reference to Exhibit 10.11 to the Registration Statement.)
4.12	Supplemental advice letter dated April 26, 1999 from Standard Chartered Bank. (Incorporated herein by reference to Exhibit 10.10 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 1999.)

## **Table of Contents**

- 4.13 Supplemental advice letter dated June 1, 2000 from Standard Chartered Bank. (Incorporated herein by reference to Exhibit 4.12 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2001.)
- 4.14 Supplemental advice letter dated July 10, 2000 from Standard Chartered Bank. (Incorporated herein by reference to Exhibit 4.13 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2001.)
- 4.15 Credit Facility Agreement with HongkongBank. (Incorporated herein by reference to Exhibit 10.12 to the Registration Statement.)
- 4.16 Supplemental advice letter dated September 30, 2000 from HongkongBank. (Incorporated herein by reference to Exhibit 4.15 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2001.)
- 4.17 Credit Facility Agreement dated April 7, 2000 with Citibank, N.A. (Incorporated herein by reference to Exhibit 4.16 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2001.)
- 4.18 Supplemental advice letter dated February 1, 2001 from Citibank, N.A. (Incorporated herein by reference to Exhibit 4.17 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2001.)
- 4.19 Lease Agreement dated July 29, 2002 between Goman Limited and Pentalpha Hong Kong Limited. (Incorporated herein by reference to Exhibit 4.19 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2002.)
- 4.20 Credit Facility Agreement dated May 27, 2002 between Standard Chartered Bank and Pentalpha HK Ltd. (Incorporated herein by reference to Exhibit 4.20 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2003.)
- 4.21 Credit Facility Agreement dated May 27, 2002 between Standard Chartered Bank and Wing Shing Products (BVI) Co, Ltd. (Incorporated herein by reference to Exhibit 4.21 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2003.)
- 4.22 Credit Facility Agreement dated May 27, 2002 between Standard Chartered Bank and Kwong Lee Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.22 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2003.)
- 4.23 Credit Facility Agreement dated December 5, 2002 with Citibank, N.A. (Incorporated herein by reference to Exhibit 4.23 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2003.)
- 4.24 Credit Facility Agreement dated June 20, 2002 between Pentalpha Macau Commercial Offshore Ltd. with HongkongBank. (Incorporated herein by reference to Exhibit 4.24 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2003.)
- 4.25 Credit Facility Agreement dated March 26, 2003 between Pentalpha Hong Kong Ltd. with HongkongBank (Incorporated herein by reference to Exhibit 4.25 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)
- 4.26 Banking facilities letter dated November 4, 2003 between Pentalpha Macau Commercial Offshore Ltd. and HongkongBank. (Incorporated herein by reference to Exhibit 4.26 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)

## Table of Contents

- 4.27 Credit Facility Agreement dated November 3, 2003 between Pentalpha Hong Kong Ltd. with Hongkong Bank. (Incorporated herein by reference to Exhibit 4.27 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)
- 4.28 Credit Facility Agreement dated September 24, 2003 between Standard Chartered Bank and Pentalpha Hong Kong Ltd. (Incorporated herein by reference to Exhibit 4.28 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)
- 4.29 Credit Facility Agreement dated July 28, 2003 between Standard Chartered Bank and Pentalpha Macau Commercial Offshore Ltd. (Incorporated herein by reference to Exhibit 4.29 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)
- 4.30 Credit Facility Agreement dated September 24, 2003 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.30 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)
- 4.31 Credit Facility Letter dated September 22, 2004 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.31 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2005.)
- 4.32 Credit Facility Letter dated September 22, 2004 between Standard Chartered Bank and Pentalpha Hong Kong Ltd. (Incorporated herein by reference to Exhibit 4.31 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2005.)
- 4.33 Tenancy Agreement dated January 21, 2005 between Rikon Limited and Winway Technology Development Limited. (Incorporated herein by reference to Exhibit 4.31 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2005.)
- 4.34 Novation Agreement in respect of 21/F., Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong. (Incorporated herein by reference to Exhibit 4.31 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2005.)
- 4.35 Credit Facilities Agreement dated January 26, 2006 between Standard Chartered Bank and Pentalpha Hong Kong Ltd. \*
- 4.36 Credit Facilities Agreement dated November 18, 2005 between Standard Chartered Bank and Pentalpha Macau Commercial Offshore Limited. \*
- 4.37 Credit Facilities Agreement dated January 26, 2006 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. \*
- 4.38 Credit Facilities Agreement dated March 21, 2006 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. \*
- 4.39 Credit Facilities Agreement dated January 26, 2006 between Standard Chartered Bank and Global Rich Innovation Ltd. \*
- 4.40 2005 Stock Option Plan of Global-Tech. \*
- 4.41 Share Sale and Purchase Agreement and Shareholders' Agreement, each dated March 17, 2006, between Anwell Technologies Limited and Consortium Investment (BVI) Limited. \*
- 8.1 List of Subsidiaries. \*
- 11.1 Code of Ethics. (Incorporated by reference to Exhibit 14.1 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004.)
- 12.1 Rule 13a-14(a) Certification by Chief Executive Officer. \*
- 12.2 Rule 13a-14(a) Certification by Acting Chief Financial Officer. \*
- 13.1 Certification by Chief Executive Officer. \*
- 13.2 Certification by Acting Chief Financial Officer. \*
- 15.1 Consent of Independent Registered Public Accounting Firm \*
- 15.2 Consent of Independent Registered Public Accounting Firm. \*
- 15.3 Consent of Independent Registered Public Accounting Firm. \*

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\* Filed Herewith



**Date:** 26th January 2006  
**Our ref:** CR/LC/TEAM1/CEB

**CONFIDENTIAL**

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

Attn.: Mr. John Sham / Mr. Samuel Leung

Dear Sirs,

**BANKING FACILITIES**

Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 (the "Bank") (the "Bank") is pleased to offer the following banking facilities (the "Facilities") to the Customer below for the purposes of general working capital, trade finance and treasury requirement, subject to the Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and the terms and conditions set out in this facility letter.

**A. CUSTOMER:**

Pentalpha Hong Kong Ltd.

**B. FACILITY LIMITS:**

**(1) General Banking Facilities**

Type(s) of Facility	Facility Limit(s)	Designated Customer(s) and Sub-limit(s), if applicable
1. Trade Finance (Please refer to Appendix 1 for product details.)	HKD2,000,000.-	
(a) Trade Finance Group All		• The Customer (HKD2,000,000.-)
(b) Trade Finance Group 1		• The Customer (HKD2,000,000.-)
(c) Trade Finance Group 2		• The Customer (HKD2,000,000.-)
2. Corporate Visa Cards	(HKD580,000.-)	• The Customer

**Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司**  
 Wholesale Bank  
 Credit Risk Control

**11th Floor Standard Chartered Tower**  
 388 Kwun Tong Road Kwun Tong Hong Kong



<b>Total Facility Limit:</b>	<b>HKD2,000,000.-</b>
<b>Notes:-</b> <ul style="list-style-type: none"> <li>The aggregate outstanding of Facilities 1 and 2 shall not at any time exceed HKD2,000,000.-.</li> <li>The aggregate outstanding of all Sub-limits shall not at any time exceed the Facility Limit of that Facility and the Total Facility Limit.</li> </ul>	

- (2) Treasury Facilities** (The Bank may arrange for these facilities to be available through Standard Chartered Bank or other members of the Standard Chartered Group and separate documentation would be executed where necessary.)

Type(s) of Facility	Designated Customer(s) and Sub-limits, if applicable
1. Foreign Exchange Contracts (Spot and Forward) Facility Limit to be determined by the Bank on a case by case basis.	<ul style="list-style-type: none"> <li>The Customer</li> </ul>

**Note:-**

- The aggregate outstanding of foreign exchange contract(s) (spot and forward) facility and the Facilities 1 and 2 specified in the "General Banking Facilities" above shall not at any time exceed HKD2,000,000.-.

**C. PRICING AND CONDITIONS:**

1. Trade Finance	<p><b>Interest:</b> HKD/foreign currency import/export facilities: 0.25% per annum over the Bank's standard bills finance rates.</p> <p><b>Commission:</b> Standard rates unless otherwise stipulated.</p> <p><b>Letters of Credit Issuance Commission:</b></p> <table> <tr> <td>First USD50,000.-</td> <td>1/4%</td> </tr> <tr> <td>Balance</td> <td>1/16%</td> </tr> </table> <p><b>Maximum tenor for:</b> Export facilities: 90 days.</p> <p>Individual drawee limit on group combined basis not to exceed HKD10,000,000.- each.</p>	First USD50,000.-	1/4%	Balance	1/16%
First USD50,000.-	1/4%				
Balance	1/16%				



2. Corporate Visa Cards	<u>Interest:</u> at the Bank's prevailing Visa Card rate. Subject to the terms and conditions stipulated in the related Corporate Card Agreement executed by the relevant Customer.
3. Foreign Exchange Contracts (Spot and Forward)	For transactions in the ordinary course of business of the Customer. <u>Tenor:</u> up to 180 days.
Handling Fee of Facilities:	HKD15,000.-, payable upon your signing of this letter, and other handling fee to be mutually agreed and payable on each anniversary of the date of this letter if the Facilities are continuing.

#### D. SECURITY AND CONDITIONS PRECEDENT:

The availability of the Facilities is conditional upon the Bank's receipt of the following documents, items and evidence (both in form and substance) satisfactory to the Bank:

1. This letter duly executed by the Customer.
2. A corporate guarantee executed by Global-Tech Appliances Inc. for an unlimited amount.
3. A letter of undertaking by Global-Tech Appliances Inc. covenanting:-
  - (i) not to pledge, mortgage or charge any of its assets in Hong Kong or in China to any party, nor will it issue any guarantee/indemnity, directly or indirectly, in support of any banking facility, borrowing or financial assistance given or to be given by any bank or financial institution to any party, outside British Virgin Islands, Hong Kong or China without first obtaining the prior written consent of the Bank.
  - (ii) to assure the security position of the Bank shall rank at least pari-passu with all other bankers of the Group in extending similar facilities.
4. Original/Certified copies of all necessary consents, approvals and other authorisations (including board resolutions) in connection with the execution, delivery and performance of this letter and all other documents mentioned above, if applicable.
5. (if any of the facilities referred to in this letter are to be made available by Standard Chartered Bank or other members of the Standard Chartered Group) All such documents, items or evidence with, in favour of or to Standard Chartered Bank or, as the case may be, such member of the Standard Chartered Group as the Bank may request.
6. Such other documents, items or evidence that the Bank may request from time to time.





**Pentalpha Hong Kong Ltd.**

**E. COVENANTS AND UNDERTAKINGS:**

The Customer undertakes to the Bank that:

1. it will promptly submit to the Bank:
  - a certified copy of the annual audited financial statements of the Customer within 9 months after its financial year end;
  - a certified copy of the annual audited financial statements of Global-Tech Appliances Inc. within 6 months after its financial year end;
  - a certified copy of the quarterly management accounts of Global-Tech Appliances Inc. within 120 days after the end of the relevant account period; and
  - other information that the Bank may request from time to time.
2. it will immediately inform the Bank:
  - of any change of the Customer's directors or beneficial shareholders or amendment to its memorandum or articles of association or equivalent constitutional documents;
  - of any substantial change to the general nature of the Customer's existing business; or
  - if it becomes, or is aware that any of its directors, shareholders, partners or managers becomes, a Related Person (as defined in paragraph 5 of section F of this letter).
3. not to pledge, mortgage or charge any of its assets in Hong Kong or in China to any party, nor will it issue any guarantee/indemnity, directly or indirectly, in support of any banking facility, borrowing or financial assistance given or to be given by any bank or financial institution to any party, outside British Virgin Islands, Hong Kong or China without first obtaining the prior written consent of the Bank.
4. to assure the security position of the Bank shall rank at least pari-passu with all other bankers of the Group in extending similar facilities.

**F. OTHER TERMS AND CONDITIONS:**

1. The Facilities are available at the sole discretion of the Bank. The Bank may at any time immediately terminate, cancel or suspend the Facilities or otherwise modify the Facilities without the consent of any party.
  2. Notwithstanding any provisions stated in this letter, the Facilities are repayable on demand by the Bank. The Bank has the overriding right at any time to require immediate payment and/or cash collateralisation of all or any sums actually or contingently owing to it under the Facilities.
  3. The Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business ("Standard Terms and Conditions") attached and/or referred to in this letter forms an integral part of this letter and the Customer agrees to observe and be bound by such Standard Terms and Conditions.
  4. The terms and conditions set out or referred to in this letter supersede and replace those set out in our letter (if any) previously sent to the Customer(s).
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**Pentalpha Hong Kong Ltd.**

- 5. Please note that section 83 of the Banking Ordinance imposes on the Bank certain limitations on advances to persons (including firms, partnerships and companies) related to its directors, employees with lending authority or controllers (each person so related shall be referred to as a **“Related Person”**). When acknowledging and accepting this facility letter, the Customer should advise the Bank if it is, or any of its directors, shareholders, partners or managers is, a Related Person within the meaning of the Banking Ordinance. If subsequent to the acceptance of this facility letter, the Customer becomes, or is aware that any of its directors, shareholders, partners or managers is or becomes, a Related Person, it should immediately advise the Bank in writing.
- 6. This letter shall be governed by and construed in accordance with the laws of Hong Kong SAR.

Please sign and return to us the enclosed copy of this letter together with the attached Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business to the Bank’s Credit Risk Control at 11th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon within one month after the date of this letter, failing which this offer shall lapse.

If you have any queries, please feel free to contact any of the following persons:-

Queries on	Name	Telephone No.
Execution of bank documents	Ms. Lilian Cheng, Credit Documentation Manager	2282-6422
Banking arrangements	Mr. Monte Wong, Relationship Manager	2821-1863

Yours faithfully,  
 For and on behalf of  
**STANDARD CHARTERED BANK (HONG KONG)**  
**LIMITED 渣打銀行 (香港) 有限公司**

/s/ Lilian Cheng \_\_\_\_\_  
 Lilian Cheng  
 Credit Documentation Manager

LC/mc  
Encl.

We agree and accept all the terms and conditions set out above and the Bank’s Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and/or referred to in this letter, which we have read and understood.

For and on behalf of  
**PENTALPHA HONG KONG LTD.**

/s/ Kwong Ho Sham \_\_\_\_\_





Appendix 1

TRADE FINANCE FACILITY

Trade Finance Group All

- Negotiation of export credit documents with discrepancies on a with recourse basis

Trade Finance Group 1

- Purchase of documents against payment bills with title documents on parties acceptable to the Bank on a with recourse basis
- Purchase of documents against acceptance bills with ECA/approved insurance cover on a with recourse basis
- Issuance of import letters of credit - sight and usance
  - with title documents

Trade Finance Group 2

- Purchase of documents against acceptance bills without ECA/approved insurance cover on a with recourse basis
  - Purchase of documents against payment bills without title documents on parties acceptable to the Bank on a with recourse basis
  - Issuance of import letters of credit - sight and usance
    - with title documents
-



**Date:** 18th November 2005

**Our ref:** C&I/MACAU/MIA

**CONFIDENTIAL**

Pentalpha Macau Commercial Offshore Limited  
21/F., Citicorp Centre, 18 Whitfield Road,  
Causeway Bay,  
Hong Kong.

Attn. : Mr. John Sham / Mr. Samuel Leung

Dear Sirs,

**BANKING FACILITIES:  
PENTALPHA MACAU COMMERCIAL OFFSHORE LIMITED**

We are pleased to confirm that the Bank is willing to make available to your company (the "Company") the following working capital facilities up to the amounts indicated.

- 1. CURRENT ACCOUNT OVERDRAFT – HKD1,000,000.-**
- 2. TRADE FINANCE GROUP ALL (Discrepant Credit Bills Negotiated – with recourse) – HKD13,000,000.-**
- 3. TRADE FINANCE GROUP 1 – HKD13,000,000.-**
- 4. TRADE FINANCE GROUP 2 – HKD13,000,000.-**

The above Trade Finance Groups All, 1 and 2 are complementary and the combined outstandings are not to exceed HKD13,000,000.-. For product availability of the Trade Finance facilities, please see the attachment to this letter.

Prior evidence of insurance is required for all "free on board" and "cost and freight" shipments under import letters of credit.

Usance period of export facilities is not to exceed 90 days.

Standard Chartered Bank  
Macau Branch

Room 807, 8/F Office Tower, Macau  
Landmark Avenida da Amizade, Z. A. P. E.  
Macau

Tel (853) 786 111  
Fax (853) 786 222  
Swift SCBLHKHHMAC

Incorporated in England with limited liability by Royal Charter 1853

The Principal Office of the Company is situated in England at 1 Aldermanbury Square London EC2V 7SB Reference Number ZC 18

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Individual drawee acceptable to the Bank with drawee limit allowed at the Bank's sole discretion.

**INTEREST, COMMISSIONS AND FEES**

Unless otherwise specified, interest on all sums advanced will be payable monthly in arrears at 1% per annum over Prime or HIBOR, whichever is higher. "Prime" means the rate which we announce or apply from time to time as our prime rate for lending Hong Kong Dollars and "HIBOR" means the rate which we determine to be the Hong Kong Interbank Offered Rate for the relevant period.

Commissions will be charged at our standard rates unless otherwise stipulated. Export bills will be discounted and import bills will be financed at our standard bills finance rates plus 0.25% per annum.

Letters of Credit Opening Commission

First USD50,000.- 1/4%  
Balance 1/8%

A default rate of 8% per annum over Prime or HIBOR, whichever is higher, will apply to amounts not paid when due or in excess of agreed facility amounts. All past due bills shall bear interest at 4% per annum above the rates charged on your regular bills outstandings.

You shall pay to the Bank an arrangement fee of HKD15,000.-, payable on the date on which the Bank's offer of the above facilities are accepted by you as signified by your counter-signing of this letter. The arrangement fee is non-refundable in any event. A handling fee in an amount to be mutually agreed will be payable on each anniversary of the date of this letter if the facilities are continuing. The fees will be debited to your current account

Whether or not the documentation for the above facilities is executed or the facilities are made available to you as contemplated following your acceptance of this letter, you shall forthwith on demand reimburse the Bank all out of pocket expenses (including but not limited to legal fees and disbursements) incurred by the Bank in connection with the facilities including, without limitation, the negotiation, preparation, execution and/or enforcement of this letter and the documentation referred to below.





### **AVAILABILITY AND REPAYMENT**

The above facilities are subject to periodic review by the Bank at its discretion, and it is expressly agreed that they will at all times be available at the sole discretion of the Bank. Notwithstanding any other provisions contained in this letter or in any other document, the Bank will at all times have the right to require immediate payment and/or cash collateralisation of all or part of any sums actually or contingently owing to it, and the right to immediately terminate or suspend, in whole or in part, the facilities and all further utilisation of the facilities.

### **ASSIGNMENT**

The Company may not assign or transfer all or any of its rights, benefits or obligations under this letter (and any documentation or transactions to which this letter relates) without the Bank's prior written consent.

The Bank may at any time assign or transfer to any one or more banks or other financial institutions all or any of its rights, benefits or obligations under this letter (and any documentation or transactions to which this letter relates) or change its lending office.

### **DOCUMENTATION**

Before the above facilities may be used, the enclosed copy of this letter and the Bank's standard form General Customer Agreement must be signed by the Company and returned to us together with certified copies of appropriate authorising board resolutions.

The following documentation will also be required:

- Unlimited corporate guarantee by Global-Tech Appliances Inc.
- Certified true copies of the Company's certificate of incorporation and memorandum and articles of association together with Offshore Services License issued by the Macau Institute for the Promotion of Commerce and Investment.
- Certified original copies of audited financial statements of the Company and Global-Tech Appliances Inc. within 9 months after their financial year end. A signed original copy of the quarterly management accounts of Global-Tech Appliances Inc. within 120 days after the end of the relevant accounting period. Such other information as the Bank may request from time to time.

### **UNDERTAKING**

The Company undertakes to the Bank that it will:

- Immediately inform the Bank of any change of the Company's directors or beneficial shareholders or amendment of its memorandum or articles of association.
-



By acceptance of this letter the Company gives consent to the Bank to disclose details of the Company's account relationship with the Bank (including credit balances and any security given for the facilities) to all or any of the following persons (whether in or outside Hong Kong): (i) its Head Office and any of its offices, branches, related companies or associates, (ii) any actual or proposed participant or sub-participant in, or assignee or novatee of the Bank's rights in relation to the Company's accounts, (iii) any agent, contractor or third party service provider which provides services of any kind to the Bank in connection with the operation of its business, (iv) any financial institution with which the Company has or proposes to have dealings to enable credit checks to be conducted on the Company, and (v) any person to whom the Bank is under an obligation to make disclosure under the requirements of any law binding on the Bank or any of its branches.

Please sign the enclosed copy of this letter and return it to the Bank at 11th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong for the attention of Ms. Peggy Yiu, within one month after the date of this letter, after which this offer will lapse. This letter will be governed by Hong Kong SAR law.

We enclose a set of documents which should also be completed and returned to the Bank at the above-mentioned address. If you have any queries regarding the completion of the required documents, please contact Ms. Peggy Yiu, whose telephone number is 852-2282-6611. With regard to queries on banking arrangements, you can contact Mr. Monte Wong, whose telephone number is 852-2821-1863.

We are pleased to be of service to you and take this opportunity to thank you for your custom.

Yours faithfully,  
For and on behalf of **STANDARD CHARTERED BANK**

/s/ John Sham  
\_\_\_\_\_  
Authorized Signature

PF/EL/PY/htc  
Encl.

Agreed.  
For and on behalf of  
**PENTALPHA MACAU COMMERCIAL OFFSHORE LIMITED**

/s/ John Sham  
\_\_\_\_\_

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## **Pentalpha Macau Commercial Offshore Limited**

### **Attachment Regarding Trade Finance Products**

This attachment forms an integral part of our banking facility letter dated 18th November 2005.

You may use any product or aggregate of products in any one group up to the limit shown in the attached banking facility letter.

#### Trade Finance Group ALL

- Discrepant Credit Bills Negotiated - with recourse

#### Trade Finance Group 1

- Purchase of Documents against Payment Bills of Exchange secured by goods
- Purchase of Documents against Acceptance Bills of Exchange with ECA/approved insurance cover
- Import Letters of Credit - sight and usance  
- secured by goods

#### Trade Finance Group 2

- Purchase of Documents against Acceptance Bills of Exchange without ECA/approved insurance cover
  - Purchase of Documents against Payment Bills of Exchange not secured by goods
  - Import Letters of Credit - sight and usance  
- not secured by goods
-





**Date:** 26th January 2006

**Our ref:** CR/LC/TEAM1/CEB

**CONFIDENTIAL**

Kwong Lee Shun Trading Co. Ltd.  
12/F., Kin Teck Industrial building,  
26 Wong Chuk Hang Road,  
Aberdeen,  
Hong Kong.

Attn.: Mr. John Sham/Mr. Samuel Leung

Dear Sirs,

**BANKING FACILITIES**

Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 (the "Bank") (the "Bank") is pleased to offer the following banking facilities (the "Facilities") to the Customer below for the purposes of general working capital, trade finance and treasury requirement, subject to the Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and the terms and conditions set out in this facility letter.

**A. CUSTOMER:**

Kwong Lee Shun Trading Co. Ltd.

**B. FACILITY LIMITS:**

**(1) General Banking Facilities**

Type(s) of Facility	Facility Limit(s)	Designated Customer(s) and Sub-limits, if applicable
1. Trade Finance (Please refer to Appendix 1 for product details.)	HKD6,000,000.-	
(a) Trade Finance Group All		• The Customer (HKD6,000,000.-)
(b) Trade Finance Group 1		• The Customer (HKD6,000,000.-)
(c) Trade Finance Group 2		• The Customer (HKD6,000,000.-)

**Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司**

Wholesale Bank  
Credit Risk Control

11th Floor Standard Chartered Tower  
388 Kwun Tong Road Kwun Tong Hong Kong



<b>Total Facility Limit:</b>	HKD6,000,000.-
<p><u>Note:-</u></p> <ul style="list-style-type: none"> <li>The aggregate outstanding of all Sub-limits shall not at any time exceed the Facility Limit of that Facility and the Total Facility Limit.</li> </ul>	

- (2) **Treasury Facility** (The Bank may arrange for this facility to be available through Standard Chartered Bank or other members of the Standard Chartered Group and separate documentation would be executed where necessary.)

Type(s) of Facility	Designated Customer(s) and Sub-limit(s), if applicable
1. Foreign Exchange Contracts (Spot) Facility Limit to be determined by the Bank on a case by case basis.	<ul style="list-style-type: none"> <li>The Customer</li> </ul>
<p><u>Note:-</u></p> <ul style="list-style-type: none"> <li>The aggregate outstanding of foreign exchange contract(s) (spot) facility and the Facility 1 specified in the "General Banking Facilities" above shall not at any time exceed HKD6,000,000.-.</li> </ul>	

### C. PRICING AND CONDITIONS:

1. Trade Finance	<p><u>Interest:</u>            HKD/foreign currency import/export facilities: 0.25% per annum over the Bank's standard bills finance rates.</p> <p><u>Commission:</u>            Standard rates unless otherwise stipulated.</p> <p><u>Letters of Credit Issuance Commission:</u>            First USD50,000.- 1/4%            Balance 1/16%</p> <p><u>Maximum tenor for:</u>            Export facilities: 90 days</p> <p>Individual drawee limit on group combined basis not to exceed HKD10,000,000.- each.</p>
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2. Foreign Exchange Contracts (Spot)	For transactions in the ordinary course of business of the Customer. <u>Tenor</u> : up to 2 days
Handling Fee of Facilities:	HKD15,000.-, payable upon your signing of this letter, and other handling fee to be mutually agreed and payable on each anniversary of the date of this letter if the Facilities are continuing.

#### D. SECURITY AND CONDITIONS PRECEDENT:

The availability of the Facilities is conditional upon the Bank's receipt of the following documents, items and evidence (both in form and substance) satisfactory to the Bank:

1. This letter duly executed by the Customer.
2. A corporate guarantee executed by Global-Tech Appliances Inc. for an unlimited amount.
3. Original/Certified copies of all necessary consents, approvals and other authorisations (including board resolutions) in connection with the execution, delivery and performance of this letter and all other documents mentioned above, if applicable.
4. (if any of the facilities referred to in this letter are to be made available by Standard Chartered Bank or other members of the Standard Chartered Group) All such documents, items or evidence with, in favour of or to Standard Chartered Bank or, as the case may be, such member of the Standard Chartered Group as the Bank may request.
5. Such other documents, items or evidence that the Bank may request from time to time.

#### E. COVENANTS AND UNDERTAKINGS:

The Customer undertakes to the Bank that:

1. it will promptly submit to the Bank:
  - a certified copy of the annual audited financial statements of the Customer within 9 months after its financial year end;
  - a certified copy of the annual audited financial statements of Global-Tech Appliances Inc. within 6 months after its financial year end;
  - a certified copy of the quarterly management accounts of Global-Tech Appliances Inc. within 120 days after the end of the relevant account period; and
  - other information that the Bank may request from time to time.
2. it will immediately inform the Bank:
  - of any change of the Customer's directors or beneficial shareholders or amendment to its memorandum or articles of association or equivalent constitutional documents;
  - of any substantial change to the general nature of the Customer's existing business; or
  - if it becomes, or is aware that any of its directors, shareholders, partners or managers becomes, a Related Person (as defined in paragraph 5 of section F of this letter).



**F. OTHER TERMS AND CONDITIONS:**

1. The Facilities are available at the sole discretion of the Bank. The Bank may at any time immediately terminate, cancel or suspend the Facilities or otherwise modify the Facilities without the consent of any party.
2. Notwithstanding any provisions stated in this letter, the Facilities are repayable on demand by the Bank. The Bank has the overriding right at any time to require immediate payment and/or cash collateralisation of all or any sums actually or contingently owing to it under the Facilities.
3. The Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business ("Standard Terms and Conditions") attached and/or referred to in this letter forms an integral part of this letter and the Customer agrees to observe and be bound by such Standard Terms and Conditions.
4. The terms and conditions set out or referred to in this letter supersede and replace those set out in our letter (if any) previously sent to the Customer.
5. Please note that section 83 of the Banking Ordinance imposes on the Bank certain limitations on advances to persons (including firms, partnerships and companies) related to its directors, employees with lending authority or controllers (each person so related shall be referred to as a "**Related Person**"). When acknowledging and accepting this facility letter, the Customer should advise the Bank if it is, or any of its directors, shareholders, partners or managers is, a Related Person within the meaning of the Banking Ordinance. If subsequent to the acceptance of this facility letter, the Customer becomes, or is aware that any of its directors, shareholders, partners or managers is or becomes, a Related Person, it should immediately advise the Bank in writing.
6. This letter shall be governed by and construed in accordance with the laws of Hong Kong SAR.

Please sign and return to us the enclosed copy of this letter together with the attached Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business to the Bank's Credit Risk Control at 11th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon within one month after the date of this letter, failing which this offer shall lapse.

If you have any queries, please feel free to contact any of the following persons:-

Queries on	Name	Telephone No.
Execution of bank documents	Ms. Lilian Cheng Credit Documentation Manager	2282-6422
Banking arrangements	Mr. Monte Wong, Relationship Manager	2821-1863



**Kwong Lee Shun Trading Co. Ltd.**

Yours faithfully,  
For and on behalf of

**STANDARD CHARTERED BANK (HONG KONG) LIMITED 渣打銀行 (香港) 有限公司**

/s/ Lilian Cheng

\_\_\_\_\_  
Lilian Cheng  
Credit Documentation Manager

LC/mc  
Encl.

We agree and accept all the terms and conditions set out above and the Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and/or referred to in this letter, which we have read and understood.

For and on behalf of  
**KWONG LEE SHUN TRADING CO. LTD.**

/s/ Kwong Ho Sham





Appendix 1

TRADE FINANCE FACILITY

Trade Finance Group All

- Negotiation of export credit documents with discrepancies on a with recourse basis (“CBN”)

Trade Finance Group 1

- Purchase of documents against payment bills with title documents on parties acceptable to the Bank on a with recourse basis
- Purchase of documents against acceptance bills with ECA/approved insurance cover on a with recourse basis
- Issuance of import letters of credit - sight and usance
  - with title documents

Trade Finance Group 2

- Purchase of documents against acceptance bills without ECA/approved insurance cover on a with recourse basis
  - Purchase of documents against payment bills without title documents on parties acceptable to the Bank on a with recourse basis
  - Issuance of import letters of credit - sight and usance
    - without title documents
-

## Trade Finance Supplement - TCT (04)

This Supplement forms an integral part of the Standard Terms and Conditions for Banking Facilities and Services (“Standard Terms and Conditions”) of Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司. Except otherwise defined, the words defined in the Standard Terms and Conditions shall have the same meanings when used in this Supplement.

### 1. Application

- 1.1 Each documentary credit shall be subject to the Uniform Customs and Practice for Documentary Credits (“UCP”) of the International Chamber of Commerce (“ICC”) (including eUCP, if applicable) as are in effect from time to time.
- 1.2 Each standby letter of credit shall be subject to the UCP or International Standby Practices (“ISP”) of the ICC (as stipulated in the relevant application form(s) or the text of the instrument) as are in effect from time to time.
- 1.3 Each guarantee, bond or payment undertaking issued by the Bank shall be subject to ISP, Uniform Rules for Demand Guarantees (“URDG”) of the ICC as are in effect from time to time or the governing law as stipulated in the relevant application form(s) or the text of the instrument.
- 1.4 Collection (either documentary or clean) shall be subject to the Uniform Rules for Collections (“URC”) of the ICC as are in effect from time to time.
- 1.5 In the event of any conflict or inconsistency between the Agreement and the UCP, ISP, URC, URDG or any other ICC rules, the Agreement shall prevail.

### 2. Commercial Documentary Credits / Standby Letters of Credit / Guarantees / Bonds / Indemnities or the like (the “Payment Undertakings”)

- 2.1 The Bank is authorized to accept and pay all documents drawn or purporting to be drawn and presented or negotiated under each of the Payment Undertakings issued by the Bank.
- 2.2 The Bank may restrict negotiations of any documentary credit or standby letter of credit to its own offices or to any correspondent or agent of its choice.
- 2.3 The Customer will reimburse the Bank on demand any amount paid by the Bank and will pay the Bank no later than the applicable date an amount equal to the amount due under each of the Payment Undertakings issued by the Bank or any bills of exchange accepted by the Bank under any inward collection transactions.
- 2.4 The Customer agrees that the Bank is fully entitled to reject any discrepant documents presented under any of the Payment Undertakings notwithstanding that the Customer may have waived such discrepancies.
- 2.5 The Customer agrees that the Bank may, at its sole discretion and without notice or consent from the Customer, amend the terms and conditions submitted by the Customer and/or insert additional terms and conditions into the Payment Undertakings as the Bank thinks appropriate including cancellation of the whole or any unused balance of any Payment Undertakings issued by the Bank.
- 2.6 The Customer agrees and undertakes to examine the customer copy of each of the Payment Undertakings issued by the Bank and irrevocably agrees that failure to give a notice of objection about the contents of the Payment Undertakings within 90 calendar days after the sending of the customer copy of the Payment Undertakings to the Customer by the Bank shall be deemed to have agreed to waive any rights to raise objections or pursue any remedies against the Bank in respect thereof.

### 3. Pledge of Goods

- 3.1 In consideration of the Facilities and/or Services, the Bank shall have a pledge on (i) the goods and (ii) the documents, bills of exchange, negotiable instruments, documents of title, transport documents, insurance policies, delivery orders, godown warrants and any other documents processed or handled through the Bank (“Documents”), until all the obligations owed by the Customer to the Bank have been fully discharged.
- 3.2 The pledge shall be a continuing security in addition to any other security held by the Bank and the Bank is authorised to sell, dispose of or otherwise deal with any of the goods or Documents subject to the pledge.
- 3.3 The risks in the goods shall be with the Customer and the Bank shall not be responsible for any loss or damage or

depreciation in value of any goods or Documents held by the Bank as security.

#### **4. Back-to-back Credit**

- 4.1 If the Bank issues any documentary credit for the account of the Customer ("Back-to-Back Credit") against the support of a documentary credit issued in favour of the Customer ("Master Credit"), the Bank is authorised (but not obliged) to:-
- (a) retrieve the documents presented under the Back-to-Back Credit and to take any actions that the Bank thinks appropriate for the drawing of the Master Credit;
  - (b) negotiate or discount the Master Credit; and
  - (c) apply the proceeds of the Master Credit to pay the corresponding drawing(s) under the Back-to-Back Credit irrespective of discrepancies in any of the presented documents (all of which, if any, are hereby waived).
- 4.2 The Customer shall not, without the Bank's prior written consent, assign the proceeds of any Master Credit to any other party.

#### **5. Assignment of Export Credit Proceeds**

If the Bank makes a loan to the Customer against an export documentary credit deposited by the Customer with the Bank or issues a Back-to-Back Credit against such export documentary credit, the Customer shall absolutely assign all its rights, title, interest and benefits in and to all the proceeds of such documentary credit as continuing security for the payment and discharge of the Customer's obligations and liabilities to the Bank. All monies received by the Bank in respect of such documentary credit shall be applied to discharge the obligations and liabilities of the Customer in such order and manner as the Bank determines.

#### **6. Export Documents**

- 6.1 Notwithstanding the provisions of the UCP or other ICC rules, the Customer hereby expressly agrees that the Bank will have full recourse against it and it will reimburse the Bank on demand for any advances (including purchase, negotiation or financing of any draft(s) and/or documents) against any Documents which have not been duly taken on presentation or in respect of which payment has not been duly made to the Bank on the due date due to whatever reason.
- 6.2 The Customer will refund to the Bank on demand for any monies received by the Customer under any guarantee or indemnity
-



**Standard Terms and Conditions for Banking Facilities and Services - TC2 (04)  
(For Corporate, Sole Proprietor & Partnership)**

Any request or application made by the Customer for the utilisation of the Facilities and/or Services is subject to and on the basis that the Customer has agreed to be bound by the Agreement (as defined below).

**1. Definitions and Interpretation**

1.1 In the Agreement:-

“**Agreement**” means the Standard Terms and Conditions for Banking Facilities and Services (including any supplement) (“**Standard Terms and Conditions**”), any Facility Letter and any other agreement incorporating the Standard Terms and Conditions;

“**Assets**” includes present and future properties, revenues and rights of every description;

“**Bank**” means Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 which includes all its branches and offices wherever situated and its successors and assigns;

“**Customer**” means the customer(s) specified in the Facility Letter and, as the case may be, any other person(s) who agree to the Standard Terms and Conditions, and where there is more than one Customer, all references to the “Customer” shall mean all such persons or any one or more of them;

“**Exchange Rate**” means the rate for converting one currency into another currency which the Bank determines to be prevailing in the relevant foreign exchange market at the relevant time, such determination to be conclusive and binding on the Customer;

“**Facilities**” means the banking facilities (or any part of it) specified in the Facility Letter;

“**Facility Letter**” means the facility letter(s) (including all its schedules and appendices) issued by the Bank in relation to the Facilities extended by the Bank to the Customer, and includes references to any accession letter executed by any Customer for acceding to the Facility Letter;

“**HIBOR**” means the Hong Kong Interbank Offered Rate quoted by the Bank for the relevant period;

“**LIBOR**” means the London Interbank Offered Rate quoted by the Bank for the relevant period;

“**Prime**” means the respective rates which the Bank announces or applies from time to time as its prime rates for lending Hong Kong Dollars and United States Dollars;

“**SCB**” means Standard Chartered Bank (including all its branches), and

“**Services**” means any banking services provided by the Bank or SCB to the Customer.

1.2 Unless a contrary indication appears, a reference in the Agreement to:-

- (a) a person includes an individual, a company, sole proprietorship, partnership or body unincorporated and its successors and assigns;
- (b) any document includes a reference to that document as amended, varied, supplemented, replaced or restated from time to time; and
- (c) a provision of law is a reference to that provisions as amended or re-enacted.

1.3 The obligations and liabilities of the Customer to the Bank include all its past, present and future, actual and contingent obligations and liabilities to the Bank, whether incurred alone or jointly with another.

1.4 Unless the context otherwise requires, words importing the singular include the plural and vice versa and the neuter gender includes the other genders.

1.5 The headings in the Agreement are for convenience only and are to be ignored in construing the Agreement.

**2. Application**

2.1 The Standard Terms and Conditions shall apply to any Facilities and Services which the Bank or SCB, in its sole discretion, may agree to make available and provide to such extent and in such manner as the Bank thinks fit.

2.2 The Standard Terms and Conditions shall be subject to such other terms and conditions which may be specified by

the Bank and/or SCB from time to time in other documents, agreements or applications.

- 2.3 In the event of any conflict or inconsistency between the Standard Terms and Conditions and the provisions of any agreement between the Customer and the Bank, the latter shall prevail.

### **3. Payments**

- 3.1 All payments by the Customer to the Bank shall be made without any set-off, counterclaim, deduction, withholding or condition of any kind. If the Customer is compelled by law to make any withholding, or deduction, the sum payable by the Customer shall be increased so that the amount actually received by the Bank is the amount it would have received if there had been no such withholding or deduction.
- 3.2 Payment by the Customer to the Bank shall be in the currency of the relevant liability or, if the Bank so agrees in writing, in a different currency, in which case the conversion to that different currency shall be made at the Exchange Rate. The Customer shall be liable for any shortfall if the converted currency is less than the outstanding liability.
- 3.3 Any monies paid to the Bank in respect of the Customer's obligations may be applied in or towards satisfaction of the same or placed to the credit of a suspense account with a view to preserving the Bank's rights to prove for the whole of the Customer's outstanding obligations.
- 3.4 If any payments paid to the Bank in respect of the Customer's obligations are required to be repaid by virtue of any law relating to insolvency, bankruptcy or liquidation or for any other reason, the Bank shall be entitled to recover such sums from the Customer as if such monies had not been paid.

### **4. Drawings Against Uncleared Effects**

If the Bank permits the Customer to draw against funds to be collected or transferred from any account(s), the Customer shall on demand reimburse the Bank in full the amount so drawn if the Bank does not receive the funds in full at the time the Bank ought to have received the same or if, after the Bank has accepted the transfer, the Bank is prevented from collecting or freely dealing with the funds in accordance with usual banking practice.

### **5. Treasury Facilities**

- 5.1 Any foreign exchange, options, futures, swap or other structured or derivative products ("Treasury Products") applications will only be considered by the Bank or SCB subject to its receipt of the documentation that the Bank may require from time to time. Any Treasury Products contract will be entered into by the Customer at the rate(s) quoted by the Bank at its absolute discretion.
- 5.2 The terms included or referred to in the relevant confirmation issued by the Bank shall apply to all Treasury Products transactions between the Customer and the Bank.
- 5.3 The Customer warrants that it will enter into any transaction with the Bank or SCB solely in reliance upon its own judgement and at its own risk, and the Bank shall not be responsible for any loss incurred by the Customer, whether or not acting on advice received from the Bank. The Customer further warrant that he/she understands and is aware of the risks involved.
- 5.4 The Treasury Products contracts amounts shall be subject to the relevant facility limit(s) (if any) stipulated in the Facility Letter and the risk exposure limit(s) set (either advised or otherwise) by the Bank or SCB from time to time.
- 5.5 The Bank or SCB may from time to time mark the Customer's outstanding Treasury Products contracts to market by reference to the prevailing market rate or quotation in order to calculate the Customer's gain or loss under the contracts. If the Bank or SCB determines that the Customer has incurred a loss under any such contracts by the then prevailing mark-to-market calculation, the Customer shall forthwith pay such sum or deliver such collaterals as required by the Bank to cover such loss.
- 5.6 The Bank or SCB has the right to close out and/or terminate any or all outstanding Treasury Products contracts of the Customer if:
- (a) the Customer fails to perform any terms of the Agreement including its default in payment;
  - (b) the outstanding contracts amounts exceed the facility limit(s) (if any) or the Bank's risk exposure limit(s);
  - (c) the Customer shall become insolvent or generally suspended payment of any debt when due or subject to any bankruptcy or winding-up petition; or
  - (d) any circumstances have arisen or continued which, in the Bank's opinion, might adversely affect the Bank's position under the relevant contracts.

Upon closing-out or termination of the Treasury Products contracts, the Customer shall pay to the Bank or SCB any loss incurred under those contracts. Such loss shall be determined by the Bank or SCB (acting in good faith) based

on the replacement market value of the contracts so closed-out or terminated, which determination shall be binding and conclusive on the Customer.

## **6. Security**

- 6.1 The Bank holds all Assets of the Customer including those Assets held to the Bank's order or for account of the Customer (whether for safe custody, collection, security or for any specific purpose or generally) as continuing security for the payment and discharge of all the Customer's obligations and liabilities to the Bank.
- 6.2 The Bank may (at any time, without prior notice to the Customer or any other person and in such manner as the Bank thinks fit) sell, dispose of or otherwise deal with any of the Assets of the Customer the subject of the security hereby created.
- 6.3 The Bank may apply the net proceeds of any sale, disposition or dealing in or towards discharge of the Customer's obligations to the Bank in whatever priority that the Bank may determine.
- 6.4 The Customer shall, upon demand by the Bank:
  - (a) provide such further security in form and value as may be required in the opinion of the Bank sufficient to secure any of the Customer's obligations to the Bank; and
  - (b) execute and deliver to the Bank any documents in form and substance satisfactory to the Bank over any of the Customer's Assets as the Bank specifies in any such demand.
- 6.5 Save for gross negligence or wilful default, the Bank shall not be liable for any loss or damages or depreciation in value of any security granted in favour of the Bank due to the Bank's exercise of any of its rights over any security.

## **7. Interest**

- 7.1 The Bank shall charge interest on any sum(s) outstanding or owing by the Customer from time to time. Unless otherwise specified, interest will accrue on a daily basis and shall be calculated, compounded and payable on such basis and in such manner as the Bank may determine at its absolute discretion.
- 7.2 Unless otherwise stipulated, a default rate of 8% per annum over Prime or the Bank's cost of funding, whichever is higher, will apply to amounts not paid when due or in excess of any facility limit.

## **8. Cost and Expenses**

- 8.1 The Customer shall pay to the Bank on demand the commissions, fees and charges in connection with the Facilities and/or Services (including insurance cover) at the rates and in the amount and manner stipulated by the Bank. The Customer shall indemnify against the Bank for all costs and expenses (including legal costs on a full indemnity basis) in connection with the performance.
-

## Terms and Conditions for Foreign Exchange Business - TC3 (04)

The following terms and conditions shall apply to all transactions between Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 (the "Bank") (the Bank is registered with the Securities & Futures Commission in HK as a registered institution, CE number AJ1614) at 32nd Floor, 4-4A Des Voeux Road Central, Hong Kong and the customer (the "Customer") for the purchase by one party of one currency against the sale by it to the other of another currency ("FX Transactions"), except to the extent that any term shall be varied by agreement in writing between the parties.

### 1. Confirmations

The Bank shall deliver to the Customer a written confirmation of each FX Transaction. Any delay or failure in delivering a confirmation shall not affect the validity of the relevant FX Transaction. In the absence of manifest error all confirmations and statements sent by the Bank will be conclusive and binding on the Customer unless, within one business day of receipt, notice in writing is given to the Bank of any objection.

### 2. Payments

- (a) All payments to the Bank shall be made in the currency required and in immediately available funds free from set off or counterclaim and without any deduction of, or withholding for any taxes, duties, or charges. If and to the extent that any payment is subject to any such deduction or withholding, the amount of the payment shall be increased so that the amount of the payment received after any such required deduction or withholding is equivalent to the amount otherwise payable under the FX Transaction.
- (b) The Bank may at its discretion withhold payment of monies due to the Customer under an FX Transaction until such time as it is satisfied that it has received or will receive the amount due from the Customer thereunder.
- (c) In the event that a Customer fails to make a payment under an FX Transaction on its due date the Customer will pay interest to the Bank on demand at a rate equal to two per cent (2%) per annum above the cost to the Bank (conclusively certified by the Bank) of funding the amount in default from the due date to the date of payment and also fully indemnify the Bank for any loss incurred by it (including legal costs of enforcement) by reason of such late payment. The Bank shall have the right at any time to debit any account of the Customer with such default interest and losses payable by the Customer.

### 3. Termination of FX Transactions

- (a) The Bank may, at its discretion, and without prior notice, terminate any or all outstanding FX Transactions on the happening of any of the following events:-
  - (i) the Customer fails to perform, or indicates its intention not to perform, any obligation of the Customer to the Bank or to any other financial institution; or
  - (ii) the occurrence of a material adverse change in the financial position of the Customer; or
  - (iii) the Bank requires as a condition of a FX Transaction that any margin or other security be given to the Bank and the margin or security is not provided or maintained at a level satisfactory to the Bank; or
  - (iv) the aggregate mark-to-market losses to the Customer under outstanding FX Transactions exceed any limit which has been previously advised by the Bank to the Customer; or
  - (v) the Bank determines that it is or is likely to be impracticable or illegal for either the Bank or the Customer, or both, to perform any FX Transaction; or
  - (vi) the Customer becomes insolvent or any proceedings are commenced seeking a judgment of or arrangement for bankruptcy, rehabilitation, reorganisation, administration, winding up, liquidation or other similar relief in respect of the Customer or the Customer's debts or assets, or the appointment of a trustee, receiver, liquidator, conservator, administrator or other similar official of the Customer or any substantial part of the Customer's assets.
- (b) Upon the termination of any FX Transaction pursuant to this condition, the payments otherwise due on the maturity date of each FX Transaction so terminated shall not be required to be made, but instead the payment provided for in sub-clause (c) below shall be made by the relevant party.
- (c) The Bank shall determine, for each terminated FX Transaction, the amount of its loss (expressed as a negative

amount) or profit (expressed as a positive amount) as a result of the termination of such FX Transaction, and shall notify the Customer of the amounts determined. The net sum of such profits and losses for all terminated FX Transactions shall be immediately due and payable, by the Customer in the case of a negative amount, or by the Bank, in the case of a positive amount, but without prejudice to the Bank's rights of set-off.

**4. Set-off**

The Bank shall be entitled at any time and without notice to the Customer to set off any obligations of the Bank to the Customer in or towards satisfaction of any obligations of the Customer to the Bank or Standard Chartered Bank, whether the obligations of the Customer or the Bank or Standard Chartered Bank are actual or contingent, primary or collateral, booked or payable at different branches (including overseas branches), or in different currencies. The Bank may effect any necessary conversions at the rate of exchange at which the Bank is able to purchase the currency of the Customer's obligations.

If the amount of an obligation is unascertained, the Bank may estimate that amount and set-off in respect of the estimate, subject to a final settlement being made between the Customer and the Bank when the amount of the obligation is ascertained.

**5. Miscellaneous**

- (a) The Customer may not assign or encumber any FX Transaction without the consent of the Bank.
- (b) Where the Customer consists of more than one person, each such person shall be jointly and severally liable under each FX Transaction.

**6. Governing Law and Jurisdiction**

These Terms and all FX Transactions shall be governed by and construed in accordance with the laws of Hong Kong and the Customer irrevocably submits to the non-exclusive jurisdiction of the Courts of Hong Kong.

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**Date:** 21st March 2006

**Our ref:** CR/LC/TEAM1/CEB

**CONFIDENTIAL**

Kwong Lee Shun Trading Co. Ltd.  
12/F., Kin Teck Industrial building,  
26 Wong Chuk Hang Road,  
Aberdeen,  
Hong Kong.

Attn.: Mr. John Sham/Mr. Samuel Leung

Dear Sirs,

**BANKING FACILITIES**

We, Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 (“the Bank”), refer to our letter dated 26th January 2006 together with the Bank’s Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business setting out the facilities made available to the Customer(s) below (the “Existing Facility Letter”).

**CUSTOMER**

Kwong Lee Shun Trading Co. Ltd.

Following our recent discussions, we are pleased to confirm that the terms of the facilities will be varied as follows:

**B. FACILITY LIMITS:**

The entire section of the “Facility Limits” under the heading of General Banking Facilities will be revised to read as follows:

Type(s) of Facility	Facility Limit(s)	Designated Customer(s) and Sub-limits, if applicable
1. Trade Finance <i>(Please refer to Appendix 1 for product details.)</i>	HKD8,000,000.-	—
(a) Trade Finance Group All		• The Customer (HKD8,000,000.-)
(b) Trade Finance Group 1		• The Customer (HKD8,000,000.-)
(c) Trade Finance Group 2		• The Customer (HKD8,000,000.-)
<b>Total Facility Limit:</b>	<b>HKD8,000,000.-</b>	

Note:-

- The aggregate outstanding of all Sub-limits shall not at any time exceed the Facility Limit of that Facility and the Total Facility Limit.

**Standard Chartered Bank (Hong Kong) Limited** 渣打銀行 (香港) 有限公司

Wholesale Bank

Credit Risk Control

11th Floor Standard Chartered Tower

388 Kwun Tong Road Kwun Tong Hong Kong

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**Kwong Lee Shun Trading Co. Ltd.**

Please sign the enclosed copy of this letter by **a director for and on behalf of the Customer** and return it to the Bank at 11th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong, for the attention of the undersigned, within one month after the date of this letter. When the variations take effect, this letter will amend the terms of the Existing Facility Letter which the Bank has issued to the Customer, as set out above. In all other respects, the terms of the Existing Facility Letter will remain in full force and effect. This letter shall be governed by and construed in accordance with the laws of Hong Kong SAR.

If you have any queries, please contact our Relationship Manager, Mr. Monte Wong, whose telephone number is 2821-1863.

We are pleased to be of service to you and take this opportunity to thank you again for your custom.

Yours faithfully,  
For and on behalf of

**STANDARD CHARTERED BANK (HONG KONG) LIMITED 渣打銀行 (香港) 有限公司**

/s/ Lilian Cheng \_\_\_\_\_  
Lilian Cheng  
Credit Documentation Manager

LC/mc  
Encl.

We agree and accept all the terms and conditions set out above and the Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and/or referred to in this letter, which we have read and understood.

For and on behalf of **KWONG LEE SHUN TRADING CO. LTD.**

/s/ Kwong Ho Sham \_\_\_\_\_  
**Director**







**Date:** 26th January 2006  
**Our ref:** CR/LC/TEAM1/CEB

**CONFIDENTIAL**

Global Rich Innovation Ltd.  
 12/F., Kin Teck Industrial building,  
 26 Wong Chuk Hang Road,  
 Aberdeen,  
 Hong Kong.

Attn. : Mr. John Sham / Mr. Samuel Leung

Dear Sirs,

**BANKING FACILITIES**

Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 (the "Bank") is pleased to offer the following banking facilities (the "Facilities") to the Customer(s) below for the purpose of general working capital and trade finance requirement, subject to the Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and the terms and conditions set out in this facility letter.

**A. CUSTOMER(S):**

Global Rich Innovation Ltd.

**B. FACILITY LIMITS:**

**General Banking Facilities**

Type(s) of Facility	Facility Limit(s)	Designated Customer(s) and Sub-limit(s), if applicable
1. Current Account Overdraft	HKD3,000,000.-	• The Customer
2. Corporate Visa Cards	(HKD580,000.-)	• The Customer
3. Trade Finance (Please refer to Appendix 1 for product details.)	HKD6,000,000.-	
(a) Trade Finance Group All		• The Customer (HKD6,000,000.-)

**Standard Chartered Bank (Hong Kong) Limited** 渣打銀行 (香港) 有限公司  
 Wholesale Bank  
 Credit Risk Control

11th Floor Standard Chartered Tower  
 388 Kwun Tong Road Kwun Tong Hong Kong



(b) Trade Finance Group 1		• The Customer (HKD6,000,000.-)
(c) Trade Finance Group 2		• The Customer (HKD6,000,000.-)
<b>Total Facility Limit:</b>	<b>HKD9,000,000.-</b>	
<p><u>Notes-</u></p> <ul style="list-style-type: none"> <li>• The aggregate outstanding of Facilities 1 and 2 shall not at any time exceed HKD3,000,000.-.</li> <li>• The aggregate outstanding of all Sub-limits shall not at any time exceed the Facility Limit of that Facility and the Total Facility Limit.</li> </ul>		

### C. PRICING AND CONDITIONS:

1. Current Account Overdraft	<u>Interest:</u> 1% per annum over the higher of Prime or HIBOR, payable monthly in arrears.				
2. Corporate Visa Cards	<u>Interest:</u> at the Bank's prevailing Visa Card rate. Subject to the terms and conditions stipulated in the related Corporate Card Agreement executed by the relevant Customer.				
3. Trade Finance	<p><u>Interest:</u> HKD/foreign currency import/export facilities: 0.25% per annum over the Bank's standard bills finance rate.</p> <p><u>Commission:</u> Standard rates unless otherwise stipulated.</p> <p><u>Letters of Credit Issuance Commission</u></p> <table> <tr> <td>First USD50,000.-</td> <td>1/4%</td> </tr> <tr> <td>Balance</td> <td>1/16%</td> </tr> </table> <p><u>Maximum tenor for:</u> Export facilities: 90 days</p> <p>Individual drawee limit on group combined basis not to exceed HKD10,000,000.- each.</p>	First USD50,000.-	1/4%	Balance	1/16%
First USD50,000.-	1/4%				
Balance	1/16%				

### D. SECURITY AND CONDITIONS PRECEDENT:

The availability of the Facilities is conditional upon the Bank's receipt of the following documents, items and evidence (both in form and substance) satisfactory to the Bank:

1. This letter duly executed by the Customer.





2. A corporate guarantee executed by Global-Tech Appliances Inc. for an unlimited amount.
3. Certified true copies of the certificate of incorporation, memorandum and articles of association or equivalent constitutional documents of the Customer.
4. Original/Certified copies of all necessary consents, approvals and other authorisations (including board resolutions) in connection with the execution, delivery and performance of this letter and all other documents mentioned above, if applicable.
5. (if any of the facilities referred to in this letter are to be made available by Standard Chartered Bank or other members of the Standard Chartered Group) All such documents, items or evidence with, in favour of or to Standard Chartered Bank or, as the case may be, such member of the Standard Chartered Group as the Bank may request.
6. Such other documents, items or evidence that the Bank may request from time to time.

**E. COVENANTS AND UNDERTAKINGS:**

The Customer undertakes to the Bank that:

1. promptly submit to the Bank:
  - certified copies of the annual audited financial statements of the Customer within 9 months after their financial year end;
  - a certified copy of the annual audited financial statements of Global-Tech Appliances Inc. within 6 months after its financial year end
  - a certified copy of the quarterly management accounts of Global-Tech Appliances Inc. within 120 days after the end of the relevant account period; and
  - other information that the Bank may request from time to time.
2. it will immediately inform the Bank:
  - of any change of the Customer's directors or beneficial shareholders or amendment to its memorandum or articles of association or equivalent constitutional documents;
  - of any substantial change to the general nature of the Customer's existing business; or
  - if it becomes, or is aware that any of its directors, shareholders, partners or managers becomes, a Related Person (as defined in paragraph 5 of section F of this letter).

**F. OTHER TERMS AND CONDITIONS**

1. The Facilities are available at the sole discretion of the Bank. The Bank may at any time immediately terminate, cancel or suspend the Facilities or otherwise modify the Facilities without the consent of any party.
  2. Notwithstanding any provisions stated in this letter, the Facilities are repayable on demand by the Bank. The Bank has the overriding right at any time to require immediate payment and/or cash collateralisation of all or any sums actually or contingently owing to it under the Facilities.
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3. The Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) ("Standard Terms and Conditions") and Terms and Conditions for Foreign Exchange Business attached and/or referred to in this letter forms an integral part of this letter and the Customer agrees to observe and be bound by such Standard Terms and Conditions.
4. The terms and conditions set out or referred to in this letter supersede and replace those set out in our letter (if any) previously sent to the Customer(s).
5. Please note that section 83 of the Banking Ordinance imposes on the Bank certain limitations on advances to persons (including firms, partnerships and companies) related to its directors, employees with lending authority or controllers (each person so related shall be referred to as a "**Related Person**"). When acknowledging and accepting this facility letter, you should advise us if you are, or any of your directors, shareholders, partners or managers is, a Related Person within the meaning of the Banking Ordinance. If subsequent to your acceptance of this facility letter, you become, or are aware that any of your directors, shareholders, partners or managers is or becomes, a Related Person, you should immediately advise us in writing.
6. This letter shall be governed by and construed in accordance with the laws of Hong Kong SAR.

Please sign and return to us the enclosed copy of this letter together with the attached Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business to the Bank's Credit Risk Control at 11th Floor, Standard Chartered Tower, 388 Kwun Tong Road, Kwun Tong, Kowloon within one month after the date of this letter, failing which this offer shall lapse.

If you have any queries, please feel free to contact any of the following persons:-

Queries on	Name	Telephone No.
Execution of bank documents	Ms. Lilian Cheng, Credit Documentation Manager	2282-6422
Banking arrangements	Mr. Monte Wong, Relationship Manager	2821-1863

Yours faithfully,  
For and on behalf of

**STANDARD CHARTERED BANK (HONG KONG) LIMITED** 渣打銀行 (香港) 有限公司

/s/ Lilian Cheng

\_\_\_\_\_  
Lilian Cheng  
Credit Documentation Manager

LC/mc  
Encl.



Global Rich Innovation Ltd.

We agree and accept all the terms and conditions set out above and the Bank's Standard Terms and Conditions for Banking Facilities and Services (including the Trade Finance Supplement) and Terms and Conditions for Foreign Exchange Business attached and/or referred to in this letter, which we have read and understood.

For and on behalf of  
**GLOBAL RICH INNOVATION LTD.**

/s/ Kwong Ho Sham \_\_\_\_\_

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Appendix 1

TRADE FINANCE FACILITY

Trade Finance Group All

- Negotiation of export credit documents with discrepancies on a with recourse basis.

Trade Finance Group 1

- Purchase of documents against payment bills with title documents on parties acceptable to the Bank on a with recourse basis
- Purchase of documents against acceptance bills with ECA/approved insurance cover on a with recourse basis
- Issuance of import letters of credit - sight and usance
  - with title documents

Trade Finance Group 2

- Purchase of documents against acceptance bills without ECA/approved insurance cover on a with recourse basis
  - Purchase of documents against payment bills without title documents on parties acceptable to the Bank on a with recourse basis
  - Issuance of import letters of credit - sight and usance
    - without title documents
-

**Standard Terms and Conditions for Banking Facilities and Services - TC2 (04)  
(For Corporate, Sole Proprietor & Partnership)**

Any request or application made by the Customer for the utilisation of the Facilities and/or Services is subject to and on the basis that the Customer has agreed to be bound by the Agreement (as defined below).

**1. Definitions and Interpretation**

1.1 In the Agreement:-

“**Agreement**” means the Standard Terms and Conditions for Banking Facilities and Services (including any supplement)

(“**Standard Terms and Conditions**”), any Facility Letter and any other agreement incorporating the Standard Terms and Conditions;

“**Assets**” includes present and future properties, revenues and rights of every description;

“**Bank**” means Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 which includes all its branches and offices wherever situated and its successors and assigns;

“**Customer**” means the customer(s) specified in the Facility Letter and, as the case may be, any other person(s) who agree to the Standard Terms and Conditions, and where there is more than one Customer, all references to the “Customer” shall mean all such persons or any one or more of them;

“**Exchange Rate**” means the rate for converting one currency into another currency which the Bank determines to be prevailing in the relevant foreign exchange market at the relevant time, such determination to be conclusive and binding on the Customer;

“**Facilities**” means the banking facilities (or any part of it) specified in the Facility Letter;

“**Facility Letter**” means the facility letter(s) (including all its schedules and appendices) issued by the Bank in relation to the Facilities extended by the Bank to the Customer, and includes references to any accession letter executed by any Customer for acceding to the Facility Letter;

“**HIBOR**” means the Hong Kong Interbank Offered Rate quoted by the Bank for the relevant period;

“**LIBOR**” means the London Interbank Offered Rate quoted by the Bank for the relevant period;

“**Prime**” means the respective rates which the Bank announces or applies from time to time as its prime rates for lending Hong Kong Dollars and United States Dollars;

“**SCB**” means Standard Chartered Bank (including all its branches), and

“**Services**” means any banking services provided by the Bank or SCB to the Customer.

1.2 Unless a contrary indication appears, a reference in the Agreement to:-

- (a) a person includes an individual, a company, sole proprietorship, partnership or body unincorporated and its successors and assigns;
- (b) any document includes a reference to that document as amended, varied, supplemented, replaced or restated from time to time; and
- (c) a provision of law is a reference to that provisions as amended or re-enacted.

1.3 The obligations and liabilities of the Customer to the Bank include all its past, present and future, actual and contingent obligations and liabilities to the Bank, whether incurred alone or jointly with another.

1.4 Unless the context otherwise requires, words importing the singular include the plural and vice versa and the neuter gender includes the other genders.

1.5 The headings in the Agreement are for convenience only and are to be ignored in construing the Agreement.

**2. Application**

2.1 The Standard Terms and Conditions shall apply to any Facilities and Services which the Bank or SCB, in its sole discretion, may agree to make available and provide to such extent and in such manner as the Bank thinks fit.

- 2.2 The Standard Terms and Conditions shall be subject to such other terms and conditions which may be specified by the Bank and/or SCB from time to time in other documents, agreements or applications.
- 2.3 In the event of any conflict or inconsistency between the Standard Terms and Conditions and the provisions of any agreement between the Customer and the Bank, the latter shall prevail.

### **3. Payments**

- 3.1 All payments by the Customer to the Bank shall be made without any set-off, counterclaim, deduction, withholding or condition of any kind. If the Customer is compelled by law to make any withholding, or deduction, the sum payable by the Customer shall be increased so that the amount actually received by the Bank is the amount it would have received if there had been no such withholding or deduction.
- 3.2 Payment by the Customer to the Bank shall be in the currency of the relevant liability or, if the Bank so agrees in writing, in a different currency, in which case the conversion to that different currency shall be made at the Exchange Rate. The Customer shall be liable for any shortfall if the converted currency is less than the outstanding liability.
- 3.3 Any monies paid to the Bank in respect of the Customer's obligations may be applied in or towards satisfaction of the same or placed to the credit of a suspense account with a view to preserving the Bank's rights to prove for the whole of the Customer's outstanding obligations.
- 3.4 If any payments paid to the Bank in respect of the Customer's obligations are required to be repaid by virtue of any law relating to insolvency, bankruptcy or liquidation or for any other reason, the Bank shall be entitled to recover such sums from the Customer as if such monies had not been paid.

### **4. Drawings Against Uncleared Effects**

If the Bank permits the Customer to draw against funds to be collected or transferred from any account(s), the Customer shall on demand reimburse the Bank in full the amount so drawn if the Bank does not receive the funds in full at the time the Bank ought to have received the same or if, after the Bank has accepted the transfer, the Bank is prevented from collecting or freely dealing with the funds in accordance with usual banking practice.

### **5. Treasury Facilities**

- 5.1 Any foreign exchange, options, futures, swap or other structured or derivative products ("Treasury Products") applications will only be considered by the Bank or SCB subject to its receipt of the documentation that the Bank may require from time to time. Any Treasury Products contract will be entered into by the Customer at the rate(s) quoted by the Bank at its absolute discretion.
- 5.2 The terms included or referred to in the relevant confirmation issued by the Bank shall apply to all Treasury Products transactions between the Customer and the Bank.
- 5.3 The Customer warrants that it will enter into any transaction with the Bank or SCB solely in reliance upon its own judgement and at its own risk, and the Bank shall not be responsible for any loss incurred by the Customer, whether or not acting on advice received from the Bank. The Customer further warrant that he/she understands and is aware of the risks involved.
- 5.4 The Treasury Products contracts amounts shall be subject to the relevant facility limit(s) (if any) stipulated in the Facility Letter and the risk exposure limit(s) set (either advised or otherwise) by the Bank or SCB from time to time.
- 5.5 The Bank or SCB may from time to time mark the Customer's outstanding Treasury Products contracts to market by reference to the prevailing market rate or quotation in order to calculate the Customer's gain or loss under the contracts. If the Bank or SCB determines that the Customer has incurred a loss under any such contracts by the then prevailing mark-to-market calculation, the Customer shall forthwith pay such sum or deliver such collaterals as required by the Bank to cover such loss.
- 5.6 The Bank or SCB has the right to close out and/or terminate any or all outstanding Treasury Products contracts of the Customer if:
  - (a) the Customer fails to perform any terms of the Agreement including its default in payment;
  - (b) the outstanding contracts amounts exceed the facility limit(s) (if any) or the Bank's risk exposure limit(s);
  - (c) the Customer shall become insolvent or generally suspended payment of any debt when due or subject to any bankruptcy or winding-up petition; or
  - (d) any circumstances have arisen or continued which, in the Bank's opinion, might adversely affect the Bank's position under the relevant contracts.



Upon closing-out or termination of the Treasury Products contracts, the Customer shall pay to the Bank or SCB any loss incurred under those contracts. Such loss shall be determined by the Bank or SCB (acting in good faith) based on the replacement market value of the contracts so closed-out or terminated, which determination shall be binding and conclusive on the Customer.

## **6. Security**

- 6.1 The Bank holds all Assets of the Customer including those Assets held to the Bank's order or for account of the Customer (whether for safe custody, collection, security or for any specific purpose or generally) as continuing security for the payment and discharge of all the Customer's obligations and liabilities to the Bank.
- 6.2 The Bank may (at any time, without prior notice to the Customer or any other person and in such manner as the Bank thinks fit) sell, dispose of or otherwise deal with any of the Assets of the Customer the subject of the security hereby created.
- 6.3 The Bank may apply the net proceeds of any sale, disposition or dealing in or towards discharge of the Customer's obligations to the Bank in whatever priority that the Bank may determine.
- 6.4 The Customer shall, upon demand by the Bank:
  - (a) provide such further security in form and value as may be required in the opinion of the Bank sufficient to secure any of the Customer's obligations to the Bank; and
  - (b) execute and deliver to the Bank any documents in form and substance satisfactory to the Bank over any of the Customer's Assets as the Bank specifies in any such demand.
- 6.5 Save for gross negligence or wilful default, the Bank shall not be liable for any loss or damages or depreciation in value of any security granted in favour of the Bank due to the Bank's exercise of any of its rights over any security.

## **7. Interest**

- 7.1 The Bank shall charge interest on any sum(s) outstanding or owing by the Customer from time to time. Unless otherwise specified, interest will accrue on a daily basis and shall be calculated, compounded and payable on such basis and in such manner as the Bank may determine at its absolute discretion.
- 7.2 Unless otherwise stipulated, a default rate of 8% per annum over Prime or the Bank's cost of funding, whichever is higher, will apply to amounts not paid when due or in excess of any facility limit.

## **8. Cost and Expenses**

- 8.1 The Customer shall pay to the Bank on demand the commissions, fees and charges in connection with the Facilities and/or Services (including insurance cover) at the rates and in the amount and manner stipulated by the Bank. The Customer shall indemnify against the Bank for all costs and expenses (including legal costs on a full indemnity basis) in connection with the performance.
-

## Trade Finance Supplement - TCT (04)

This Supplement forms an integral part of the Standard Terms and Conditions for Banking Facilities and Services (“Standard Terms and Conditions”) of Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司. Except otherwise defined, the words defined in the Standard Terms and Conditions shall have the same meanings when used in this Supplement.

### 1. Application

- 1.1 Each documentary credit shall be subject to the Uniform Customs and Practice for Documentary Credits (“UCP”) of the International Chamber of Commerce (“ICC”) (including eUCP, if applicable) as are in effect from time to time.
- 1.2 Each standby letter of credit shall be subject to the UCP or International Standby Practices (“ISP”) of the ICC (as stipulated in the relevant application form(s) or the text of the instrument) as are in effect from time to time.
- 1.3 Each guarantee, bond or payment undertaking issued by the Bank shall be subject to ISP, Uniform Rules for Demand Guarantees (“URDG”) of the ICC as are in effect from time to time or the governing law as stipulated in the relevant application form(s) or the text of the instrument.
- 1.4 Collection (either documentary or clean) shall be subject to the Uniform Rules for Collections (“URC”) of the ICC as are in effect from time to time.
- 1.5 In the event of any conflict or inconsistency between the Agreement and the UCP, ISP, URC, URDG or any other ICC rules, the Agreement shall prevail.

### 2. Commercial Documentary Credits / Standby Letters of Credit / Guarantees / Bonds / Indemnities or the like (the “Payment Undertakings”)

- 2.1 The Bank is authorized to accept and pay all documents drawn or purporting to be drawn and presented or negotiated under each of the Payment Undertakings issued by the Bank.
- 2.2 The Bank may restrict negotiations of any documentary credit or standby letter of credit to its own offices or to any correspondent or agent of its choice.
- 2.3 The Customer will reimburse the Bank on demand any amount paid by the Bank and will pay the Bank no later than the applicable date an amount equal to the amount due under each of the Payment Undertakings issued by the Bank or any bills of exchange accepted by the Bank under any inward collection transactions.
- 2.4 The Customer agrees that the Bank is fully entitled to reject any discrepant documents presented under any of the Payment Undertakings notwithstanding that the Customer may have waived such discrepancies.
- 2.5 The Customer agrees that the Bank may, at its sole discretion and without notice or consent from the Customer, amend the terms and conditions submitted by the Customer and/or insert additional terms and conditions into the Payment Undertakings as the Bank thinks appropriate including cancellation of the whole or any unused balance of any Payment Undertakings issued by the Bank.
- 2.6 The Customer agrees and undertakes to examine the customer copy of each of the Payment Undertakings issued by the Bank and irrevocably agrees that failure to give a notice of objection about the contents of the Payment Undertakings within 90 calendar days after the sending of the customer copy of the Payment Undertakings to the Customer by the Bank shall be deemed to have agreed to waive any rights to raise objections or pursue any remedies against the Bank in respect thereof.

### 3. Pledge of Goods

- 3.1 In consideration of the Facilities and/or Services, the Bank shall have a pledge on (i) the goods and (ii) the documents, bills of exchange, negotiable instruments, documents of title, transport documents, insurance policies, delivery orders, godown warrants and any other documents processed or handled through the Bank (“Documents”), until all the obligations owed by the Customer to the Bank have been fully discharged.
- 3.2 The pledge shall be a continuing security in addition to any other security held by the Bank and the Bank is authorised to sell, dispose of or otherwise deal with any of the goods or Documents subject to the pledge.

3.3 The risks in the goods shall be with the Customer and the Bank shall not be responsible for any loss or damage or depreciation in value of any goods or Documents held by the Bank as security.

#### **4. Back-to-back Credit**

4.1 If the Bank issues any documentary credit for the account of the Customer ("Back-to-Back Credit") against the support of a documentary credit issued in favour of the Customer ("Master Credit"), the Bank is authorised (but not obliged) to:-

- (a) retrieve the documents presented under the Back-to-Back Credit and to take any actions that the Bank thinks appropriate for the drawing of the Master Credit;
- (b) negotiate or discount the Master Credit; and
- (c) apply the proceeds of the Master Credit to pay the corresponding drawing(s) under the Back-to-Back Credit irrespective of discrepancies in any of the presented documents (all of which, if any, are hereby waived).

4.2 The Customer shall not, without the Bank's prior written consent, assign the proceeds of any Master Credit to any other party.

#### **5. Assignment of Export Credit Proceeds**

If the Bank makes a loan to the Customer against an export documentary credit deposited by the Customer with the Bank or issues a Back-to-Back Credit against such export documentary credit, the Customer shall absolutely assign all its rights, title, interest and benefits in and to all the proceeds of such documentary credit as continuing security for the payment and discharge of the Customer's obligations and liabilities to the Bank. All monies received by the Bank in respect of such documentary credit shall be applied to discharge the obligations and liabilities of the Customer in such order and manner as the Bank determines.

#### **6. Export Documents**

6.1 Notwithstanding the provisions of the UCP or other ICC rules, the Customer hereby expressly agrees that the Bank will have full recourse against it and it will reimburse the Bank on demand for any advances (including purchase, negotiation or financing of any draft(s) and/or documents) against any Documents which have not been duly taken on presentation or in respect of which payment has not been duly made to the Bank on the due date due to whatever reason.

6.2 The Customer will refund to the Bank on demand for any monies received by the Customer under any guarantee or indemnity.

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### Terms and Conditions for Foreign Exchange Business - TC3 (04)

The following terms and conditions shall apply to all transactions between Standard Chartered Bank (Hong Kong) Limited 渣打銀行 (香港) 有限公司 (the "Bank") (the Bank is registered with the Securities & Futures Commission in HK as a registered institution, CE number AJI614) at 32nd Floor, 4-4A Des Voeux Road Central, Hong Kong and the customer (the "Customer") for the purchase by one party of one currency against the sale by it to the other of another currency ("FX Transactions"), except to the extent that any term shall be varied by agreement in writing between the parties.

#### 1. Confirmations

The Bank shall deliver to the Customer a written confirmation of each FX Transaction. Any delay or failure in delivering a confirmation shall not affect the validity of the relevant FX Transaction. In the absence of manifest error all confirmations and statements sent by the Bank will be conclusive and binding on the Customer unless, within one business day of receipt, notice in writing is given to the Bank of any objection.

#### 2. Payments

- (a) All payments to the Bank shall be made in the currency required and in immediately available funds free from set off or counterclaim and without any deduction of, or withholding for any taxes, duties, or charges. If and to the extent that any payment is subject to any such deduction or withholding, the amount of the payment shall be increased so that the amount of the payment received after any such required deduction or withholding is equivalent to the amount otherwise payable under the FX Transaction.
- (b) The Bank may at its discretion withhold payment of monies due to the Customer under an FX Transaction until such time as it is satisfied that it has received or will receive the amount due from the Customer thereunder.
- (c) In the event that a Customer fails to make a payment under an FX Transaction on its due date the Customer will pay interest to the Bank on demand at a rate equal to two percent (2%) per annum above the cost to the Bank (conclusively certified by the Bank) of funding the amount in default from the due date to the date of payment and also fully indemnify the Bank for any loss incurred by it (including legal costs of enforcement) by reason of such late payment. The Bank shall have the right at any time to debit any account of the Customer with such default interest and losses payable by the Customer.

#### 3. Termination of FX Transactions

- (a) The Bank may, at its discretion, and without prior notice, terminate any or all outstanding FX Transactions on the happening of any of the following events:-
  - (i) the Customer fails to perform, or indicates its intention not to perform, any obligation of the Customer to the Bank or to any other financial institution; or
  - (ii) the occurrence of a material adverse change in the financial position of the Customer; or
  - (iii) the Bank requires as a condition of a FX Transaction that any margin or other security be given to the Bank and the margin or security is not provided or maintained at a level satisfactory to the Bank; or
  - (iv) the aggregate mark-to-market losses to the Customer under outstanding FX Transactions exceed any limit which has been previously advised by the Bank to the Customer; or
  - (v) the Bank determines that it is or is likely to be impracticable or illegal for either the Bank or the Customer, or both, to perform any FX Transaction; or
  - (vi) the Customer becomes insolvent or any proceedings are commenced seeking a judgment of or arrangement for bankruptcy, rehabilitation, reorganisation, administration, winding up, liquidation or other similar relief in respect of the Customer or the Customer's debts or assets, or the appointment of a trustee, receiver, liquidator, conservator, administrator or other similar official of the Customer or any substantial part of the Customer's assets.
- (b) Upon the termination of any FX Transaction pursuant to this condition, the payments otherwise due on the maturity date of each FX Transaction so terminated shall not be required to be made, but instead the payment provided for in sub-clause (c) below shall be made by the relevant party.

- (c) The Bank shall determine, for each terminated FX Transaction, the amount of its loss (expressed as a negative amount) or profit (expressed as a positive amount) as a result of the termination of such FX Transaction, and shall notify the Customer of the amounts determined. The net sum of such profits and losses for all terminated FX Transactions shall be immediately due and payable, by the Customer in the case of a negative amount, or by the Bank, in the case of a positive amount, but without prejudice to the Bank's rights of set-off.

#### **4. Set-off**

The Bank shall be entitled at any time and without notice to the Customer to set off any obligations of the Bank to the Customer in or towards satisfaction of any obligations of the Customer to the Bank or Standard Chartered Bank, whether the obligations of the Customer or the Bank or Standard Chartered Bank are actual or contingent, primary or collateral, booked or payable at different branches (including overseas branches), or in different currencies. The Bank may effect any necessary conversions at the rate of exchange at which the Bank is able to purchase the currency of the Customer's obligations.

If the amount of an obligation is unascertained, the Bank may estimate that amount and set-off in respect of the estimate, subject to a final settlement being made between the Customer and the Bank when the amount of the obligation is ascertained.

#### **5. Miscellaneous**

- (a) The Customer may not assign or encumber any FX Transaction without the consent of the Bank.
- (b) Where the Customer consists of more than one person, each such person shall be jointly and severally liable under each FX Transaction.

#### **6. Governing Law and Jurisdiction**

These Terms and all FX Transactions shall be governed by and construed in accordance with the laws of Hong Kong and the Customer irrevocably submits to the non-exclusive jurisdiction of the Courts of Hong Kong.

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**EXHIBIT A****GLOBAL-TECH APPLIANCES INC.  
2005 EMPLOYEE STOCK OPTION PLAN**

This Global-Tech Appliances Inc. 2005 Employee Stock Option Plan (the "2005 Plan") is intended to: (1) provide an incentive to employees, directors and consultants of the Company, or any of its subsidiaries or a parent; (2) offer an additional inducement in obtaining the services of well-qualified persons; and (3) provide or increase such persons' proprietary interests in the Company and align their interests with those of the Company's shareholders. The 2005 Plan provides for the grant of: (a) "incentive stock options" ("ISOs") within the meaning of section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); (b) nonqualified stock options that do not qualify as ISOs ("NQSOs"); and (c) stock appreciation rights.

**Section 1****ELIGIBILITY**

Awards may be granted to any person who is an employee, director or consultant of Global-Tech Appliances Inc. (the "Company"), any of its Subsidiaries or a Parent.

**Section 2****AVAILABLE SHARES**

The aggregate number of common shares, \$0.01 par value per share, of the Company ("Common Shares"), which may be issued under the 2005 Plan may not exceed one million eight hundred thousand (1,800,000). Such Common Shares may be, either in whole or in part, authorized but unissued Common Shares or Common Shares held in the treasury of the Company.

Any Common Share subject to an award which for any reason expires, is canceled or is terminated prior to exercise or which ceases for any reason to be exercisable shall again become available for the granting of awards under the 2005 Plan. For purposes of the aggregate limit on the number of Common Shares which may be issued under the 2005 Plan, only shares which are actually distributed upon exercise of stock appreciation rights awards shall count against the aggregate limit.

**Section 3****ADMINISTRATION OF THE 2005 PLAN**

The 2005 Plan shall be administered by a committee of at least two directors of the Company which is designated by the Board of Directors (the "Committee"). Unless otherwise determined by the Board of Directors, the Compensation Committee of the Board of Directors shall be the Committee. A majority of the members of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, and any acts approved in writing by all members without a meeting, shall be the acts of the Committee.

The Committee shall have the authority, in its sole discretion, to: (i) determine the employees, directors and consultants who shall be granted awards; (ii) determine the terms of awards (including, without limitation, whether an option is an ISO or NQSO, terms relating to exercise dates, the form and timing of the payment of exercise prices, vesting, acceleration of exercise rights, the form and timing of payment and transfer restrictions); (iii) determine whether to subject the grant or exercise of all or any

portion of an award to the fulfillment of contingencies as specified in the contract referred to in Section 11 (the "Contract") and whether such contingencies have been met; (iv) determine whether a grantee has suffered a Disability (as defined in Section 19); (v) determine the amount, if any, necessary to satisfy the obligation of the Company, a subsidiary or a parent to withhold taxes or other amounts; (vi) determine the fair market value of a Common Share; (vii) construe, interpret, administer and implement the terms of the 2005 Plan, Contracts and related documents and practices; (viii) with the consent of the grantee, cancel or modify an award to the extent consistent with the then-prevailing 2005 Plan terms; (ix) create, modify and rescind rules, regulations and administrative forms relating to the Plan; and (x) correct any defect, supply any omission and reconcile any inconsistency in or between the 2005 Plan, any Contract and any related documents or practices.

Any controversy or claim arising out of or relating to the Plan, any award granted under the Plan or any Contract shall be resolved or determined unilaterally by the Committee in its sole discretion. The resolutions and determinations of the Committee on the matters referred to in this Section 3 shall be conclusive and binding on all parties.

No member or former member of the Committee shall be liable for any action, failure to act or determination made in good faith with respect to the 2005 Plan or any award hereunder. In addition, the Company shall indemnify and hold harmless each member and former member of the Committee and their respective successors, assigns, heirs and personal representatives from and against any liability, loss, claim, damage and expense (including, without limitation, attorneys' fees and expenses) incurred in connection therewith by reason of any action, failure to act or determination made in good faith or in connection with the 2005 Plan or any award hereunder to the fullest extent permitted with respect to directors under the Company's memorandum of association, articles of association, other governing documents and applicable law.

#### **Section 4**

#### **ELIGIBILITY**

The Committee may from time to time, in its sole discretion, consistent with the purposes of the 2005 Plan, grant awards to employees, directors and consultants of the Company, its subsidiaries, or a parent. Such awards granted shall cover such number of Common Shares as the Committee may determine, in its sole discretion, subject to the terms of the 2005 Plan; provided, however, that the aggregate market value (determined at the time an option is granted in accordance with Section 5) of the Common Shares for which any eligible employee may be granted ISOs under the 2005 Plan or any other plan of the Company, or of a Parent or a Subsidiary of the Company, which are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. Such ISO limitation shall be applied by taking ISOs into account in the order in which they were granted. Any option (or the portion thereof) granted in excess of such ISO limitation amount shall be treated as a NQSO.

#### **Section 5**

#### **EXERCISE PRICE**

The exercise price of the Common Shares under each award shall be determined by the Committee in its sole discretion; provided, however, that the exercise price of an award shall never be less than the Fair Market Value of the Common Shares subject to such award on the date of grant; and further, provided, that if, at the time an ISO is granted, the optionee owns (or is deemed to own under section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, of any of its subsidiaries or of a parent, the exercise price of such

ISO shall not be less than one hundred ten percent (110%) of the Fair Market Value of the Common Shares subject to such ISO on the date of grant.

The Fair Market Value of a Common Share on any day shall be: (a) if the principal market for the Common Shares is a national securities exchange, the average of the highest and lowest sales price per Common Share on such day as reported by such exchange or on a composite tape reflecting transactions on such exchange, (b) if the principal market for the Common Shares is not a national securities exchange and the Common Shares are quoted on The Nasdaq Stock Market ("Nasdaq") and (i) if actual sales price information is available with respect to the Common Shares, the average of the highest and lowest sales price per Common Share on such day on Nasdaq, or (ii) if such information is not available, the average of the highest bid and lowest asked prices per Common Share on such day on Nasdaq, or (c) if the principal market for the Common Shares is not a national securities exchange and the Common Shares are not quoted on Nasdaq, the average of the highest bid and lowest asked prices per Common Share on such day as reported on the OTC Bulletin Board or by the Pink Sheets or a comparable service. If clauses (a), (b) and (c) of this paragraph are all inapplicable, or if no trades have been made or no quotes are available for a particular day, the Fair Market Value of the Common Shares shall be determined by the Board of Directors by any reasonable valuation method that it selects that is consistent with exclusion of the 2005 Plan and the applicable Contract from coverage under section 409A of the Code.

## **Section 6**

### **TERM**

The term of each award granted pursuant to the 2005 Plan shall be such term as is established by the Committee, in its sole discretion, provided, however, that the term of each ISO granted pursuant to the Plan shall be for a period not exceeding ten (10) years from the date of grant thereof, and further, provided, that if, at the time an ISO is granted, the optionee owns (or is deemed to own under section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes or stock of the Company, of any of its subsidiaries or of a parent, the term of the ISO shall be for a period not exceeding five (5) years from the date of grant. Awards shall be subject to earlier termination as herein provided.

## **Section 7**

### **EXERCISE, ADJUSTMENT OF SHARES SUBJECT TO AWARDS**

Each award shall vest and become exercisable in accordance with the terms of the applicable Contract. An award (or any part or installment thereof), to the extent then exercisable, shall be exercised by giving written notice to the Company (in advance as determined by the Committee) at its principal office stating which award is being exercised, specifying the number of Common Shares or stock appreciation rights as to which such award is being exercised and accompanied by payment in full of the aggregate exercise price therefor, if any (or the amount due on exercise if the Contract permits installment payments, if any).

The aggregate exercise price shall be paid: (a) in cash or by certified check; or (b) if the applicable Contract permits: (i) with previously acquired Common Shares having an aggregate Fair Market Value on the date of exercise (determined in accordance with Section 5) equal to the aggregate exercise price of all awards being exercised; or (ii) with any combination of cash, certified check or Common Shares. Notwithstanding the foregoing, the Committee may, in its sole discretion, permit payment of the exercise price of an award by delivery by the grantee of a properly executed notice, together with a copy of his irrevocable instructions to a broker acceptable to the Committee to deliver



promptly to the Company the amount of sale or loan proceeds sufficient to pay such exercise price. In connection therewith, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

A person entitled to receive Common Shares upon the exercise of an award shall not have the rights of a shareholder with respect to such Common Shares until the date of issuance of a stock certificate to him for such shares; provided, however, that until such stock certificate is issued, any grantee using previously acquired Common Shares in payment of an exercise price shall continue to have the rights of a shareholder with respect to such previously acquired shares.

No fractional Common Shares may be purchased or issued under the 2005 Plan. Except as may otherwise be provided in a Contract, any fractional shares shall be eliminated in determining the number of shares to be issued upon exercise of an award.

## **Section 8**

### **TERMINATION OF RELATIONSHIP**

Except as may be otherwise be expressly provided in the applicable Contract, any grantee whose relationship with the Company, its parent and subsidiaries as an employee, director or consultant (a "Relationship") has terminated for any reason (other than as a result of the death or Disability of the optionee) may exercise such award, to the extent exercisable on the date of such termination, for a period not to exceed three months after the date of such termination. Notwithstanding the foregoing, but except as may otherwise be determined by the Committee in its sole discretion, if such Relationship is terminated: (a) for cause; or (b) without the consent of the Company, the award shall terminate immediately.

For the purposes of the 2005 Plan, an employment relationship shall be deemed to exist between an individual and a company if, at the time of the determination, the individual is an employee of such company for purposes of section 422 (a) of the Code. As a result, an individual on military, sick leave or other bona fide leave of absence shall continue to be considered an employee for purposes of the 2005 Plan during such leave if the period of the leave does not exceed ninety days and the individual's right to reemployment is not guaranteed by statute or by contract, the employment relationship shall be deemed to ) have terminated on the ninety-first day of such leave.

Except as may otherwise be expressly provided in the applicable Contract, awards granted under the 2005 Plan shall not be affected by any change in the status of the grantee so long as the grantee continues to be an employee of, director of, or a consultant to, the Company, any of its subsidiaries or a parent (regardless of having changed from one to the other or having been transferred from one corporation to another).

Nothing in the 2005 Plan or in any award granted under the 2005 Plan shall confer on any person any right to continue in the employ of, or as a consultant to, the Company, any of its subsidiaries or a parent, or interfere in any way with any right of the Company, any of its subsidiaries or a parent to terminate the grantee's relationship at any time for any reason whatever without liability to the Company, its subsidiaries or a parent.

For purposes of this 2005 Plan, "cause" shall mean fraud or embezzlement by the grantee, gross negligence by the grantee in the performance or nonperformance of his duties for the Company, its subsidiaries or a parent, or the grantee's material failure or refusal to perform his duties at any time as an employee of, director of, or consultant to, the Company, a subsidiary or a parent.

## **Section 9**

### **DEATH OR DISABILITY OF A GRANTEE**

Except as may otherwise be expressly provided in the applicable Contract, if a grantee dies while he or she is an employee of, director of, or consultant to, the Company, any subsidiaries or a parent, or his or her Relationship terminates by reason of his or her Disability, the award may be exercised, to the extent exercisable on the date of his or her death or in the event of his or her Disability, upon the effective date of such termination, by the grantee or his or her Legal Representative (as defined in Section 19) for a period not to exceed the twelve month period after the date of death or the effective date of such termination.

## **Section 10**

### **COMPLIANCE WITH LAWS**

The Committee may require, in its sole discretion, as a condition to any award being exercisable that either (a) a Registration Statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Shares to be issued upon such exercise shall be effective and current at the time of exercise, or (b) there is an exemption from registration under the Securities Act for the issuance of the Common Shares upon such exercise. Nothing herein shall be construed as requiring the Company to register shares subject to any award under the Securities Act or to keep any Registration Statement effective or current.

The Committee may require, in its sole discretion, as a condition to the exercise of any award that the grantee execute and deliver to the Company representations and warranties, in form, substance and scope satisfactory to the Committee, which the Committee determines are necessary or convenient to facilitate the perfection of an exemption from the registration requirements of the Securities Act, other applicable securities laws or other legal requirement, including without limitation that (a) the Common Shares to be issued upon the exercise of the award are being acquired by the grantee for his own account, for investment only and not with a view to the resale or distribution thereof, and (b) any subsequent resale or distribution of Common Shares by such grantee will be made only pursuant to (i) a Registration Statement under the Securities Act which is effective and current with respect to the Common Shares being sold, or (ii) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption, the grantee shall prior to any offer of sale or sale of such Common Shares provide the Company with a favorable written opinion of counsel satisfactory to the Company, in form, substance and scope satisfactory to the Company, as to the applicability of such exemption to the proposed sale or distribution.

In addition, if at any time the Committee shall determine, in its sole discretion, that the listing or qualification of the Common Shares subject to such award on any securities exchange, Nasdaq or under any applicable law, or the consent or approval of any governmental authority or regulatory body, is necessary or desirable as a condition to, or in connection with, the granting of an award or the issue of Common Shares thereunder, such award may not be exercised in whole or in part unless such listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

The Company does not represent or warrant, either expressly or impliedly, that any option meets the requirements for ISOs or that any award is exempt from taxation under section 409A of the Code.

## **Section 11**

### **AWARD CONTRACTS**

Each award shall be evidenced by an appropriate Contract which shall be duly executed by the Company and the grantee, and shall contain such terms, provisions and conditions not inconsistent herewith as may be determined by the Committee. A Contract may provide that, upon exercise of stock appreciation rights, a grantee is entitled to a distribution of Common Shares with a Fair Market Value equal to the difference between the exercise price and the Fair Market Value of the underlying Common Shares, cash equal to the difference between the exercise price and the Fair Market Value of the Common Shares or a combination thereof.

## **Section 12**

### **ADJUSTMENTS UPON CHANGES IN COMMON SHARES**

Notwithstanding any other provision of the 2005 Plan, in the event of a stock dividend, spin-off, split-up, combination, reclassification, recapitalization, merger in which the Company is the surviving corporation, or exchange of shares or other capital adjustment that results in a change in the number or kind of Common Shares which are authorized for issuance or which are outstanding immediately prior to such event, the aggregate number and kind of shares subject to the 2005 Plan, the aggregate number and kind of shares subject to each outstanding award and the exercise price thereof may be adjusted accordingly by the Board of Directors, whose determination shall be conclusive and binding on all parties.

In the event that the Company is merged or consolidated with another corporation and, whether or not the Company shall be the surviving corporation, there shall be any changes in the Common Shares by reason of such merger or consolidation, or in the event that all or substantially all of the assets of the Company are acquired by another person, or in the event of a reorganization or liquidation of the Company (each such event being hereinafter referred to as a "Reorganization Event") or in the event that the Board of Directors shall propose that the Company enter into a Reorganization Event, the Committee may in its discretion take any or all of the following actions:

- (i) by written notice to each grantee provide (i) that his awards will be terminated unless exercised within fifteen days (or such longer period as the Committee shall determine in its sole discretion) after the date of such notice (without acceleration of the exercisability of such awards), and
- (ii) advance the dates upon which any or all outstanding awards shall become vested and exercisable.

Whenever deemed appropriate by the Committee, any action referred to in the preceding paragraph may be made conditional upon the consummation of the applicable Reorganization Event.

## **Section 13**

### **AMENDMENTS AND TERMINATION OF THE 2005 PLAN**

The 2005 Plan was adopted by the Board of Directors on October 6, 2005. No award may be granted under the 2005 Plan after October 6, 2015. The Board of Directors, without further approval of the Company's shareholders, may at anytime suspend or terminate the 2005 Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable, including, without limitation, in order that ISOs granted hereunder meet the requirements for "incentive stock options" under the Code, to

comply with the provisions of Rule 16b-3, section 409A of the Code, or any change in applicable law; provided, however, that no amendment shall be effective without the prior or subsequent shareholder approval required under applicable law or the Code which would (a) except as contemplated in Section 12, increase the maximum number of Common Shares for which awards may be granted under the 2005 Plan; or (b) change the eligibility requirements to receive award hereunder. No termination, suspension or amendment of the 2005 Plan shall, without the consent of the holder of an existing and outstanding award affected thereby, materially and adversely affect his rights under such award. The power of the Committee to construe and administer any awards granted under the 2005 Plan prior to the termination or suspension of the 2005 Plan nevertheless shall continue after such termination or during such suspension.

#### **Section 14**

##### **NON-TRANSFERABILITY OF AWARDS**

Except as may be permitted in a Contract upon express terms approved by the Committee, no award granted under the 2005 Plan shall be transferable otherwise than by will or the laws of descent and distribution, and options and stock appreciation rights may be exercised, during the lifetime of the optionee or right holder, only by the optionee, right holder or his Legal Representatives. Except to the extent provided above, options and stock appreciation rights may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process, and any such attempted assignment, transfer, pledge, hypothecation or disposition shall be null and void ab initio and of no force or effect.

#### **Section 15**

##### **WITHHOLDING TAXES**

The Company may withhold: (a) cash; (b) subject to any limitations under Rule 16b-3, Common Shares to be issued with respect thereto having an aggregate fair market value on the exercise date (determined in accordance with Section 5); or (c) any combination thereof, in an amount equal to the amount which the Committee determines is necessary to satisfy the obligation of the Company, a Subsidiary or a Parent to withhold federal, state and local income taxes or other amounts incurred by reason of the grant or exercise of an award, its disposition, or the disposition of the underlying Common Shares. Alternatively, the Company may require the holder to pay to the Company such amounts, in cash, promptly upon demand.

#### **Section 16**

##### **STOCK LEGENDS; PAYMENTS OF EXPENSES**

The Company may endorse such legend or legends upon the certificate for Common Shares issued upon exercise of an award under the 2005 Plan and may issue such "stop transfer" instructions to its transfer agent in respect of such shares as it determines, in its discretion, to be necessary or appropriate to: (a) prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act and any other applicable securities laws; (b) implement the provisions of the 2005 Plan or any agreement between the Company and the optionee with respect to such Common Shares; or (c) permit the Company to determine the occurrence of a "disqualifying disposition," as described in section 421(b) of the Code, of the Common Shares issued or transferred upon the exercise of an ISO granted under the 2005 Plan.

The Company shall withhold taxes to the extent required by law upon issuance of shares of Common Stock or payment of cash pursuant to the exercise of any award granted under the 2005 Plan.

## **Section 17**

### **USE OF PROCEEDS**

The cash proceeds from the sale or distribution of Common Shares pursuant to the exercise of awards under the 2005 Plan shall be added to the general funds of the Company and used for such corporate purposes as the Board of Directors may determine.

## **Section 18**

### **SUBSTITUTIONS AND ASSUMPTIONS OF AWARDS OF CERTAIN CONSTITUENT CORPORATIONS**

Anything in this 2005 Plan to the contrary notwithstanding, the Board of Directors may, without further approval by the shareholders, substitute new awards for prior awards of a Constituent Corporation (as defined in Section 19) or assume the prior options of such Constituent Corporation.

## **Section 19**

### **DEFINITIONS**

For the purpose of the 2005 Plan, the following terms shall be defined as set forth below:

- (a) Constituent Corporation. The term "Constituent Corporation" shall mean any corporation which engages with the Company, any of its subsidiaries or a parent in a transaction to which section 424(a) of the Code applies (or would apply if the option assumed or substituted were an ISO), or any Parent or any Subsidiary of such corporation.
- (b) Disability. The term "Disability" shall mean a permanent and total disability within the meaning of section 22(e) (3) of the Code.
- (c) Legal Representative. The term "Legal Representative" shall mean the executor, administrator or other person who at the time is entitled by law to exercise the rights of a deceased or incapacitated optionee with respect to an option granted under the Plan.
- (d) Parent. The term "Parent" shall have the same definition as "parent corporation" in section 424(e) of the Code.
- (e) Subsidiary. The term "Subsidiary" shall have the same definition as "subsidiary corporation" in section 424(f) of the Code.

## **Section 20**

### **NATURE OF PAYMENTS**

Any and all payments of Common Shares hereunder shall be granted, transferred or paid in consideration of services performed for the Company or any of its Subsidiaries or Parent by the grantee.

All such grants, issuances and payments shall constitute a special incentive payment to the grantee and shall not, unless otherwise determined by the Committee, be taken into account in computing the amount of salary or compensation of the grantee for the purposes of determining any pension,

retirement, death or other benefits under (i) any pension, retirement, life insurance or other benefit plan of the Company or any of its Subsidiaries or Parent or (ii) any agreement between the Company or any of its Subsidiaries or Parent, on the one hand, and the grantee on the other hand.

Nothing contained in the 2005 Plan shall be deemed in any way to limit or restrict the Company, any of its Subsidiaries or Parent or the Committee from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

## **Section 21**

### **GOVERNING LAW AND CONSTRUCTION**

The 2005 Plan, such awards as may be granted hereunder and all related matters shall be governed by, and construed in accordance with, the laws of the British Virgin Islands, without regard to conflict of law provisions.

Neither the 2005 Plan nor any Contract shall be construed or interpreted with any presumption against the Company by reason of the Company causing the 2005 Plan or Contract to be drafted. Whenever from the context it appears appropriate, any term stated in either the singular or plural shall include the singular and plural, and any term stated in the masculine, feminine or neuter gender shall include masculine, feminine and neuter.

## **Section 22**

### **PARTIAL INVALIDITY**

The invalidity, illegality or unenforceability of any provision in the 2005 Plan or any Contract shall not affect the validity, legality or enforceability of any other provisions, all of which shall be valid, legal and enforceable to the fullest extent permitted by applicable law.

## **Section 23**

### **SHAREHOLDER APPROVAL**

The 2005 Plan shall take effect upon its adoption by the Board of Directors, but the 2005 Plan shall be subject to the approval of the holders of a majority of the securities of the Company present, in person or by proxy, and entitled to vote at a meeting of shareholders held in accordance with applicable law. No awards granted hereunder may be exercised prior to such approval; provided, however, that the date of grant of any award shall be determined as if the 2005 Plan had been subject to such approval. Notwithstanding the foregoing, if the 2005 Plan is not approved by a vote of the shareholders of the Company on or before November 30, 2005, the 2005 Plan and any awards granted hereunder shall be null and void ab initio.

## **Section 24**

### **NONQUALIFIED DEFERRED COMPENSATION**

The 2005 Plan and all awards hereunder are intended to meet the requirements for exclusion from the definition of “nonqualified deferred compensation” under section 409A of the Code. Except to the extent expressly and unambiguously provided to the contrary in any Contracts, the 2005 Plan, all Contracts and related documents shall be construed and administered in a manner consistent with the requirements for exclusion from coverage under section 409A of the Code. Without limiting the foregoing, in no event shall a grantee have an opportunity to defer his or her award or the proceeds thereof, whether under the 2005 Plan or any other plan, program or arrangement of the Company, a Subsidiary or a Parent, except for the deferral of income inherent in the award itself.

DATED THIS 17<sup>th</sup> DAY OF MARCH, 2006

Between

ANWELL TECHNOLOGIES LIMITED

And

CONSORTIUM INVESTMENT (BVI) LIMITED

---

SHARE SALE AND PURCHASE AGREEMENT

---

COLIN NG  
~~MANAGEMENT & CONSULTANTS~~  
**PARTNERS**  
50 Raffles Place #29-00  
Singapore Land Tower  
Singapore 048623

A handwritten signature in black ink, appearing to be 'A for'.



**THIS SHARE SALE AND PURCHASE AGREEMENT** is made on the 17<sup>th</sup> day of March, 2006

**BETWEEN**

- (1) **ANWELL TECHNOLOGIES LIMITED** (Company No. 200308707W) a company incorporated under the laws of Singapore and having its registered office at 18, Cross Street #08-03, Marsh & McLennan Centre, Singapore 048423 (“Anwell” which expression shall include its successors and permitted assigns);

**AND**

- (2) **CONSORTIUM INVESTMENT (BVI) LIMITED**, a company incorporated in the British Virgin Islands and having its principal office at c/o Global-Tech Appliances Inc., 12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong (“CIBL” which expression shall include its successors and permitted assigns).

(Where the context permits, each shall be referred to as a “**Party**” and collectively referred to as the “**Parties**”).

**WHEREAS**

- (A) Anwell and CIBL are desirous of establishing and operating a joint venture company (the “Company”) in the People’s Republic of China for the purpose of carrying out the “Business” (as hereinafter defined).
- (B) The Company has been or will be established as a wholly owned subsidiary of a corporation formed in the British Virgin Islands (the “Holding Company”), which will be owned as provided for in the Shareholders’ Agreement (the “Shareholders’ Agreement”) being entered into by Anwell and CIBL simultaneously herewith. Per the Shareholders Agreement the Holding Company will at all times own and hold 100% of the issued and outstanding shares of stock of the Company.
- (C) In consideration of CIBL (or one or more of its subsidiaries or affiliates, agreeing to sell the Assets to the Company pursuant to the Sale Contract, the Holding Company shall allot and issue at par 8,000,000 number of shares (the “Shares”) representing 100% of the then total issued share capital of the Holding Company to CIBL.
- (D) CIBL is desirous of selling and Anwell is desirous of purchasing, the Sale Shares (as hereinafter defined) on the terms and subject to the conditions, contained in this Agreement.

**NOW IT IS AGREED** as follows:-

1. DEFINITIONS AND INTERPRETATION

- 1.1 In this Agreement, unless the context otherwise requires, the following terms shall have the following meanings:-

“**Assets**” means certain OLED assets as described in Appendix 1 which are owned by CIBL and/or its parent, subsidiaries or affiliates and which are to be used by the Company to manufacture OLED equipment for sale to third parties (the “**Business**”);

“**Business Day**” means a day (excluding Saturday, Sunday and public holidays) on which commercial banks are open for business in Hong Kong;



**“Completion”** means completion of the sale and purchase of the Sale Shares under this Agreement;

**“Completion Date”** means the date the Sale Shares are sold by CIBL to Anwell, which in any event will be not later than April 1, 2006 [FILL IN DATE];

**“Confidential Information”** means any information which is proprietary and confidential to a Party, including but not limited to the terms and conditions of this Agreement, information concerning or relating in any way whatsoever to its business arrangements, principals, any of the trade secrets or confidential operations, processes or inventions carried on or used by a Party, any information concerning the organisation, business, finances, transactions or affairs of a party, dealings of a party, secret or confidential information which relates to the business or party or any of its principals’, clients’, suppliers’ or customers’ transactions or affairs, any Party’s technology, designs, documentation, manuals, budgets, financial statements or information, accounts, dealers’ lists, customers’ lists, marketing studies, drawings, notes, memoranda and the information contained therein, and plans for development or marketing of such products or services, and information and material which is either prominently marked confidential or, if given in non-tangible form, is identified as confidential by the disclosing party;

**“Encumbrance”** includes any mortgage, assignment, debenture, lien, hypothecation, charge, pledge, adverse claim, rent-charge, title retention, claim, equity, option, pre-emption right (other than those which appear in a company’s articles of association or constitutive document), right to acquire, security agreement and security interest or other right of whatever nature and **Encumbrances** shall be construed accordingly;

**“S\$”** means the lawful currency of Singapore;

**“Sale Contract”** means the contract entered into between CIBL and the Holding Company as annexed hereto as Appendix 2;

**“Sale Shares”** means 5,600,000 ordinary shares of US\$1 each in the capital of the Holding Company, which will represent 70.0% issued and fully paid-up share capital of the Holding Company as at Completion;

**“SGX-ST”** means the Singapore Exchange Securities Trading Limited; and

**“US\$”** means the lawful currency of the United States of America;

- 1.2 Unless the context otherwise requires words denoting the singular shall include the plural and vice versa and words denoting any one gender shall include all genders and words denoting persons shall include bodies corporate, unincorporated associations and partnerships.
- 1.3 The headings in this document are inserted for convenience only and shall not affect the construction or interpretation of this Agreement.

## 2. SALE AND PURCHASE OF SHARES AND SALE SHARES

- 2.1 Within 6 weeks of the execution of this Agreement CIBL will have caused the formation of the Company in the People’s Republic of China, which will be a private company limited by shares by the name “Dongguan Litewell (OLED) Technology Co., Ltd.”, or such other name as the Registrar of Companies in People’s Republic of China shall allow and the parties hereto may agree.
- 2.2 Within 6 weeks of the execution of this Agreement CIBL will have caused the

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formation and incorporation in the British Virgin Islands of the Holding Company, which will be a private company limited by shares by the name "Lite Array Holdings Limited", or such other name as applicable law shall allow and the parties hereto may agree. Unless the parties hereto otherwise agree in writing, the Holding Company will at all times hereafter own and hold 100% of the issued and outstanding shares of stock of the Company. Following its formation the Holding Company will issue the Shares (which will then constitute all of the issued and outstanding stock of the Holding Company) to CIBL. As the sole and total consideration of the issuance to it of the Shares CIBL will transfer (or cause its affiliate to transfer) to the Company all and sole right, title and interest in and to the Assets in accordance with the Sale Contract (which will be entered into by the Holding Company and CIBL within 120 days of the formation of the Holding Company and the Company).

- 2.3 The Shares, when issued to CIBL will be duly and validly issued, fully paid, and nonassessable, issued in compliance with all applicable laws.
- 2.4 Subject to the terms and conditions of this Agreement, concurrent with the issuance to CIBL of the Shares CIBL agrees to sell, transfer and deliver the Sale Shares to Anwell, and Anwell agrees to purchase and accept the transfer and delivery of the Sale Shares, free from all Encumbrances and together with all rights and benefits attaching thereto.
- 2.5 The purchase consideration to be paid by Anwell to CIBL for the Sale Shares is US\$5,600,000 and Anwell shall settle the said consideration in full by the issuance to CIBL or its designee, upon the transfer to Anwell of the Sale Shares, of a convertible note ("**Convertible Note**") In the form of Appendix 4 hereto and on the terms and conditions as set out in Schedule 1 to the Convertible Note.

### 3. CONDITIONS PRECEDENT

- 3.1 The obligations of Anwell to purchase the Sale Shares in the manner hereinafter provided, shall be subject to the fulfillment of the following conditions precedent (the "**Conditions Precedent**"):-
  - (a) **Representations and Covenants.** The warranties of CIBL contained in this Agreement shall be true in all material respects on and as of Completion Date with the same force and effect as though made on and as of such Completion Date. The Company, Holding Company and CIBL shall have materially performed and complied with all covenants and agreements required by this Agreement to be performed or complied with by the Company, Holding Company and CIBL with respect to the Sale Shares on, or prior to, such Completion Date;
  - (b) **Consents and Approvals.** All consents or approvals (if any) as may be necessary from any third party, governmental or regulatory body or relevant competent authority having jurisdiction over the transactions contemplated under this Agreement being granted or obtained (such consents and approvals not being subsequently withdrawn or revoked) and if such consents or approvals are granted or obtained subject to any conditions, such conditions being acceptable to Anwell;
  - (c) **Waiver of Pre-emption Rights.** The waiver by the existing shareholders in the Holding Company of any pre-emptive rights in respect of the transfer of the Sale Shares;
  - (d) **Shareholders Agreement.** The entry by the Parties into the Shareholders' Agreement substantially in the form of Appendix 3 to this Agreement;
  - (e) all necessary approvals of the SGX-ST and/or shareholders of Anwell having been obtained (if necessary) (and Anwell will use all reasonable efforts, as its sole cost and expense, to promptly obtain such approvals); and

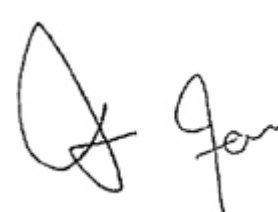
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- (f) prior to Completion the completion of the sale of Assets as set out in the Sales Contract such that the Company is the legal and beneficial owner of the Assets.
- 3.2 The obligations of CIBL to sell the Sale Shares in the manner hereinafter provided, shall be subject to the fulfilment of the following conditions precedent (also being the “**Conditions Precedent**”):
- (a) **Representations and Covenants.** The warranties of Anwell contained in this Agreement shall be true in all material respects on and as of Completion Date with the same force and effect as though made on and as of such Completion Date. The Company, Holding Company and Anwell shall have materially performed and complied with all covenants and agreements required by this Agreement to be performed or complied with by the Company, Holding Company and Anwell with respect to the Sale Shares on, or prior to, such Completion Date;
  - (b) **Consents and Approvals.** All consents or approvals (if any) as may be necessary from any third party, governmental or regulatory body or relevant competent authority having Jurisdiction over the transactions contemplated under this Agreement being granted or obtained (such consents and approvals not being subsequently withdrawn or revoked) and if such consents or approvals are granted or obtained subject to any conditions, such conditions being acceptable to CIBL;
  - (c) **Shareholders Agreement.** The entry by the Parties into the Shareholders’ Agreement substantially in the form of Appendix 3 to this Agreement; and
  - (d) all necessary approvals of the SGX-ST and/or shareholders of Anwell with respect to the purchase of the Sale Shares, the issuance of the Convertible Note and all other actions to be taken by Anwell hereunder having been obtained (if necessary) (and Anwell will use all reasonable efforts, as its sole cost and expense, to promptly obtain such approvals).
- 3.3 The Parties shall in good faith co-operate and use their best efforts to ensure that the Conditions Precedent are fulfilled. Unless specifically waived by the other Party to this Agreement, if any of such conditions precedent are not fulfilled on or before the date falling ninety (90) days from the date of this Agreement or such later date as the Parties may agree in writing, this Agreement shall automatically terminate and neither Party shall have any claim of any nature whatsoever against the other Party under this Agreement (save in respect of any breaches by any Party of any rights and liabilities which have accrued prior to termination).
- 3.4 Each party must promptly notify the other parties if it becomes aware that any condition specified in Clause 3.1 or 3.2 is satisfied or becomes incapable of being satisfied.

#### 4. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

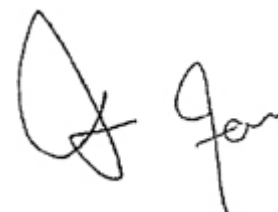
##### 4.1 WARRANTIES BY CIBL

- 4.1.1 CIBL represents, warrants and undertakes to Anwell (with the intent that the provisions of this Clause 4 shall continue to have full force and effect notwithstanding Completion) as follows:
- (a) that CIBL is (or immediately prior to Completion will be) the registered holder of the Sale Shares and will at Completion be legally

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and beneficially entitled to or is otherwise able to procure the transfer of the legal and beneficial title of the Sale Shares to Anwell;

- (b) that the Sale Shares are or will at the Completion Date be free from all and any Encumbrances whatsoever and with all rights now or hereafter attached thereto;
  - (c) that the Company has or will, immediately prior to Completion have, title to the Assets and is the legal and beneficial owner of the Assets which are free from all and any Encumbrances whatsoever;
  - (d) CIBL is entitled to sell and transfer or procure the transfer of the Sale Shares to Anwell free from all and any Encumbrances together with all rights and benefits now attaching and no other person has or shall have any pre-emptive or similar rights over such Sale Shares;
  - (e) the Sale Shares are, and on Completion, shall have been authorised, validly allotted, issued and fully paid-up;
  - (f) CIBL has full power and authority to execute and deliver this Agreement and the agreements contemplated herein, and to consummate the transactions contemplated hereby and thereby and that this Agreement and all such other agreements and obligations entered into and undertaken in connection with the transactions contemplated hereby constitute its valid and legally binding obligations, enforceable against it in accordance with their respective terms (except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies), and the execution and delivery of, and the performance by it of its obligations under, this Agreement (including without limitation, the transfer of its interests in the Holding Company ) and the subsequent change in management of the Holding Company (if any) resulting therefrom shall not:
    - (i) infringe, or constitute a default under, any instrument, contract, document or agreement to which it or the Holding Company is a party or by which it, the Holding Company or their respective properties or assets are bound to the extent the same would materially and adversely affect CIBL's or the Holding Company's ability to carry out their obligations under this Agreement; and/or
    - (ii) result in a breach of any law, rule, regulation, ordinance, order, judgment or decree of or undertaking to any court, government body, statutory authority or regulatory, administrative or supervisory body (including, without limitation, any relevant stock exchange or securities council) to which it or the Holding Company is a party or by which it, the Holding Company or their respective properties or assets are bound, whether in Singapore or elsewhere to the extent the same would materially and adversely affect CIBL's or the Holding Company's ability to carry out their obligations under this Agreement;
  - (g) each of the warranties given by CIBL herein is true and accurate in all material respects.
- 4.1.2 CIBL further represents and warrants to and undertakes with Anwell

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(with the intent that the provisions of this Clause shall continue to have full force and effect notwithstanding Completion), that:

- (a) all warranties of CIBL contained herein will be fulfilled and will be true and correct at Completion in all material respects as if they had been given afresh at Completion; and
- (b) In relation to any warranty which refers to the knowledge, information or belief of CIBL, that CIBL has made due and proper enquiry into the subject matter of that warranty.

4.1.3 CIBL hereby acknowledges that Anwell has entered into this Agreement in full reliance upon and on the basis of each of the warranties of CIBL contained herein.

4.1.4 The said representations, warranties and undertakings in this Clause 4.1 shall be separate and independent and shall not be limited by anything in this Agreement.

4.1.5 The representations, warranties and undertakings given under or pursuant to this Clause 4.1 shall not in any respect be extinguished or affected by Completion.

4.1.6 If prior to Completion, any event shall occur which results in any of the warranties of CIBL being unfulfilled, untrue or incorrect in any material respect at Completion, CIBL shall promptly notify Anwell in writing thereof prior to Completion and CIBL shall provide Anwell such information relating thereto as Anwell may reasonably request.

4.1.7 In the event of it becoming apparent on or before Completion that CIBL is in breach of any of its warranties or any other term of this Agreement, Anwell may, at its sole discretion, provided that CIBL has not cured the same within fifteen days of its receiving written notice thereof from Anwell, rescind this Agreement by notice in writing to CIBL (and such notice may only be given prior to Completion). Upon termination of this Agreement under this Clause by Anwell, each party is released from its obligations to further perform this Agreement except those imposing on it obligations of confidentiality under this Agreement.

## 4.2 WARRANTIES BY ANWELL

4.2.1 Anwell hereby represents, warrants and undertakes to and with CIBL (with the intent that the provisions of this Clause shall continue to have full force and effect notwithstanding Completion) that it has full power and authority to execute and deliver this Agreement, the Convertible Note and the agreements contemplated herein, and to consummate the transactions contemplated hereby and thereby and that this Agreement, and all such other agreements and obligations entered into and undertaken in connection with the transactions contemplated hereby constitute its valid and legally binding obligations, enforceable against it in accordance with their respective terms (except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies) and the execution and delivery of, and the performance by it of its obligations under, this Agreement and the Convertible Note shall not:

- (a) result in a breach of its memorandum and articles and do not infringe, or constitute a default under, any instrument, contract, document or agreement to

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which it is a party or by which it or its properties assets are bound to the extent the same would materially and adversely affect Anwell's ability to carry out their obligations under this Agreement or the Convertible Note; and/or

- (b) be subject to any party's pre-emptive rights or result in a breach of any law, rule, regulation, ordinance, order, judgment or decree of or undertaking to any court, government body, statutory authority or regulatory, administrative or supervisory body (including, without limitation, any relevant stock exchange or securities council) to which it is a party or by which it or its properties assets are bound, whether in Singapore or elsewhere to the extent the same would materially and adversely affect Anwell's ability to carry out their obligations under this Agreement or the Convertible Note.

4.2.2 Anwell hereby represents, warrants and undertakes to CIBL that the Convertible Note when issued will be duly authorised and free from Encumbrances, that it has obtained all necessary consents and approvals for the issuance of the Convertible Note and the carrying out by Anwell of its obligations thereunder, and that that all representations and warranties contained in the Convertible Note are and as of the Completion will be true and correct;

4.2.3 Anwell hereby represents, warrants and undertakes to CIBL that the issuance by Anwell of the Convertible Note under this Agreement is not prohibited by any statute, order, rule, directive or regulations promulgated by any legislative, executive or regulatory body or authority of Singapore.

4.2.4 Anwell hereby acknowledges that CIBL has entered into this Agreement in full reliance upon and on the basis of each of the warranties of Anwell contained herein.

4.2.4 The said representations, warranties and undertakings in this Clause 4.2 shall be separate and independent and shall not be limited by anything in this Agreement.

4.2.5 The representations, warranties and undertakings given under or pursuant to this Clause 4.2 shall not in any respect be extinguished or affected by Completion.

4.2.6 If prior to Completion, any event shall occur which results in any of the warranties of Anwell being unfulfilled, untrue or incorrect in any material respect at Completion, Anwell shall promptly notify CIBL in writing thereof prior to Completion and Anwell shall provide CIBL such information relating thereto as CIBL may reasonably request.


4.2.7 In the event of it becoming apparent on or before Completion that Anwell is in breach of any of its warranties or any other term of this Agreement, CIBL may, at its sole discretion, provided that Anwell has not cured the same within fifteen days of its receiving written notice thereof from CIBL, rescind this Agreement by notice in writing to Anwell (and such notice may only be given prior to Completion). Upon termination of this Agreement under this Clause by CIBL, each party is released from its obligations to further perform this Agreement except those imposing on it obligations of confidentiality under this Agreement.

## 5. COMPLETION

5.1 Subject to Clause 3, Completion shall take place on the Completion Date in Singapore at the office of Colin Ng & Partners, at 50 Raffles Place, #29-00, Singapore Land Tower, Singapore 048623 (or at such other place and/or on such other date as may be agreed by the Parties hereto in writing), where all of the events described below shall occur.

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- 5.2 Subject to Anwell having complied with Clause 5.3, on the Completion Date, CIBL shall deliver (or cause to be delivered) to Anwell the following:-
- (a) the share certificates in respect of the Sale Shares to Anwell;
  - (b) a certificate signed by CIBL confirming that all of its warranties have been complied with and would be correct in all material respects as if repeated on the Completion Date and that all the undertakings on the part of CIBL contained in this Agreement have been fully performed and observed by CIBL to the extent required to be performed and observed by the Completion Date;
  - (c) the instrument of transfer duly executed by CIBL in respect of the transfer of the Sale Shares to Anwell;
  - (d) such documents as may be required for submission in respect of any duty payable on the transfer of the Sale Shares and signed by a director or secretary of the Company; and
  - (e) certified true copies of the resolutions of the directors and/or shareholders of CIBL approving (in such terms as Anwell may approve, such approval not to be unreasonably withheld):
    - i) this Agreement and the Shareholders' Agreement and such other agreements as may be contemplated pursuant to this Agreement and approving the entry by the CIBL into these agreements; and
    - (ii) approving the transfer of the Sale Shares to Anwell.
- 5.3 Subject to CIBL having complied with Clause 5.2, Anwell shall, on the Completion Date deliver to CIBL the following:
- (a) the Convertible Note as full purchase consideration for the Sale Shares;
  - (b) a certificate signed by Anwell confirming that all of its warranties have been complied with and would be correct in all material respects as if repeated on the Completion Date and that all the undertakings on the part of Anwell contained in this Agreement have been fully performed and observed by Anwell to the extent required to be performed and observed by the Completion Date;
  - (c) certified true copies of the resolutions of the directors (and, to the extent necessary, the shareholders) of Anwell approving (in such terms as CIBL may approve, such approval not to be unreasonably withheld):
    - i) this Agreement, the purchase of the Sale Shares from CIBL and such other agreements and actions as may be contemplated pursuant to this Agreement and the Shareholders' Agreement, (including the making of loans ("**Loans**") by Anwell to the Company as provided for

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under the Shareholders' Agreement) and the entry by Anwell into such agreements;

- ii) the issuance of the Convertible Note to CIBL or its designee; and
- iii) the Shareholders Agreement and the entry by Anwell into the Shareholders Agreement.

5.4 Without prejudice to its other rights and remedies conferred by law or otherwise, if a Party (the "**Defaulting Party**") falls or is unable to perform its obligations under Clauses 5.2 or 5.3 by the Completion Date, the other Party (the "**Non-Defaulting Party**") shall not be obliged to complete the sale and purchase of the Sale Shares and may by written notice to the Defaulting Party elect to:-

- (a) defer Completion to a date not more than fourteen (14) days after the original Completion Date (so that the provisions of this sub-Clause shall apply to Completion as so deferred); or
- (b) proceed to Completion to the extent that the Defaulting Party is ready, able and willing to do so, and specify a later date on which the Defaulting Party shall be obliged to complete its outstanding obligations (without prejudice to the Non-Defaulting Party's rights hereunder against the Defaulting Party); or
- (c) require specific performance of this Agreement by the Defaulting Party (without prejudice to the Non-Defaulting Party's rights hereunder against the Defaulting Party); or
- (d) rescind this Agreement (without prejudice to the Non-Defaulting Party's rights hereunder against the Defaulting Party).

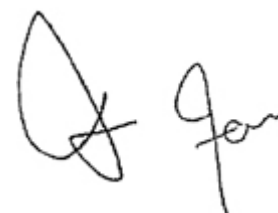
5.5 For the avoidance of doubt, the rights of the Non-Defaulting Party under Clause 5.4 are in addition to (and not in substitution of) all other rights and remedies available to the Non-Defaulting Party at law, in equity, under contract or otherwise.

## 6. CONFIDENTIALITY

6.1 Each Party agrees to keep strictly secret and confidential, and shall not under any circumstances whatsoever, disclose to any person or entity which is not a party hereto, any Confidential Information except as necessary to enforce its rights or carry out its obligations under this Agreement or the other agreements to be delivered hereunder.

6.2 The confidentiality obligation under Clause 6.1 shall not apply to:-

- (a) any information of the other Party which is required to be disclosed pursuant to any applicable laws or to any competent governmental or statutory authority or pursuant to rules or regulations of any relevant regulatory, administrative or supervisory body (including without limit to the foregoing, the SGX-ST), provided that the Party required to make such disclosure shall promptly advise the other Party in writing of the necessity of such disclosure;
- (b) any information disclosed by the Parties to their respective financial advisers, consultants and legal or other advisers on a need to know basis for purposes of this Agreement, so long as all such parties abide by the confidentiality provisions hereof;
- (c) any information generally available to the public other than by reason of breach of this Agreement;

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- (d) any information provided to a Party by a third party with the right to disclose the same without any obligation of confidentiality, or any information independently developed by a Party; or
  - (e) any information disclosed by one Party with the express prior written consent of the other Party.
- 6.3 This Clause 6 shall survive Completion (and any rescission of this Agreement) and shall continue until three years from the date hereof or, if the Completion occurs, three years from the dissolution of the Company.

7. RESTRICTION ON ANNOUNCEMENTS

- 7.1 Save as may be required to be disclosed pursuant to any applicable laws or to any competent governmental or statutory authority or rules or regulations of any relevant regulatory, administrative or supervisory body (including without limit to the foregoing, the SGX-ST), or as CIBL may believe necessary to avoid any liability to an investor or other third party, each Party undertakes that prior to Completion, it will not make any announcement in connection with this Agreement unless the other Party shall have given their consent to such announcement (which consent may not be unreasonably withheld or delayed). In no event will Anwell, Holding Company or the Company at any time make any public statements regarding CIBL or its parent, subsidiaries or affiliates without first obtaining CIBL's written consent in each instance.
- 7.2 This Clause 7 shall survive Completion and shall continue without limit of time.

8. COSTS

- 8.1 Each Party to this Agreement shall pay its own costs of and incidental to the negotiation, finalisation and execution of this Agreement and the sale and purchase hereby agreed to be made.
- 8.2 Anwell shall bear the stamp duty chargeable for the transfer of the Sale Shares under this Agreement.

9. FURTHER ASSURANCE

The Parties shall do and execute or procure to be done and executed all such further acts, agreements, things and documents as may be reasonably necessary to give effect to the terms of this Agreement (including, with respect to Anwell, the registration of shares for Issuance to CIBL upon conversion of the Convertible Note), and to provide such assistance and record as the other party may reasonably request in connection with any tax return, tax investigation or audit, judicial or administrative proceeding or other similar matter relating to the Parties.

10. INDEMNITY

- 10.1 Each party hereby irrevocably undertakes to keep the other and the and its respective officers, directors, employees, representatives and agents fully and effectively indemnified against any and all losses, costs, damages, claims, demands, actions, proceedings, liabilities and expenses whatsoever (including but not limited to all reasonable legal costs or reasonable attorney's fees on a full Indemnity basis) that the indemnified party or any of its officers, directors, employees, representatives or agents may incur or suffer in connection with or arising from any breach of or inaccuracies of any of the warranties and/or any default by the indemnifying party of its obligations under this Agreement, the Shareholders' Agreement (including Anwell's obligation to

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make Loans) or the Convertible Note. In no event will a Party be liable to any other Party for any consequential or incidental damages incurred in respect of this Agreement or the Shareholders' Agreement.

10.2 Any liability to a Party hereunder may in whole or in part be released, compounded or compromised, or time or indulgence may be given, by the Party in its absolute discretion without in any way prejudicing or affecting its rights against the other Party. Any release or waiver or compromise shall be in writing and shall not be deemed to be a release, waiver or compromise of similar conditions in the future.

#### 11. ENTIRE AGREEMENT

This Agreement, and the documents referred to in it, constitute the entire agreement and understanding of the Parties relating to the subject matter of this Agreement and neither of the Parties hereto has entered into this Agreement in reliance upon any representation, warranty or undertaking of the other Party which is not set out or referred to in this Agreement. The Parties hereto agree that no variations or modifications shall be made to this Agreement unless agreed to by the Parties hereto in writing.

#### 12. SEVERABILITY OF PROVISIONS

If at any time any provision (in whole or in part) of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the laws of Hong Kong, such provision or part thereof shall to the extent be deemed not to form part of this Agreement and the legality, validity and enforceability of such provision under the laws of any other jurisdiction, and of the remaining provisions of this Agreement, shall not be affected or impaired thereby.

#### 13. REMEDIES AND WAIVERS

No failure on the part of any Party to this Agreement to exercise, and no delay on its part in exercising, any right or remedy under this Agreement will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

#### 14. TIME OF ESSENCE


Any date, time or period mentioned in any provision of this Agreement may be extended by mutual written agreement between the Parties hereto but as regards any date or period (whether or not extended as aforesaid), time shall be of the essence.

#### 15. COUNTERPARTS

This Agreement may be signed in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this Agreement by signing any such counterpart and each counterpart may be signed and executed by the Parties and transmitted by facsimile transmission and shall be as valid and effectual as if executed as an original.

#### 16. OMITTED

#### 17. NOTICES

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- 17.1 (a) Any notice or other communication required to be given by any Party hereto to the other Party, in connection with this Agreement, shall be in writing and signed by or on behalf of the Party giving it. It shall be deemed validly served by sending via facsimile to the number set out in Clause 17.2 or by delivering it by hand or sending it by pre-paid post return receipt requested, or by overnight mail, to the address set out in Clause 17.2 (or such other facsimile number or address as may from time to time be notified for this purpose). Any such notice or other communication shall be deemed to have been validly served:
- (b) if delivered by hand, at the time of delivery; or
  - (c) if sent by pre-paid post return receipt requested, at the expiration of four Business Days after the envelope containing the same shall have been put into the post; or
  - (d) if sent by overnight mail, two business days after being sent; or
  - (e) if sent by facsimile, one business day after the receipt by the sender of the confirmation note indicating that the notice or communication has been sent in full to the recipient's facsimile machine, or such other similar medium of receipt.

17.2 The addresses, facsimile and telephone numbers of the Parties for the purpose of Clause 17.2 are as follows:-

**CIBL**

Address: c/o Global-Tech Appliances Inc.  
12/F., Kin Teck Industrial Building  
26 Wong Chuk Hang Road  
Aberdeen, Hong Kong

Facsimile number: +852 2554 0349  
Telephone number: +852 2814 0601

**Anwell**

Address: c/o Anwell Precision Technologies (HK) Limited  
Units 10-15, 9/F Metro Loft, 38 Kwai Hei Street  
Kwai Chung, New Territories, Hong Kong  
Attention: Mr. Ken Wu

Facsimile number: +852 2499 9170  
Telephone number: +852 2499 9178

**18. GOVERNING LAW AND JURISDICTION**

18.1 This Agreement shall be governed by, and construed in accordance with, the laws of Hong Kong. The Parties hereto irrevocably submit to the exclusive jurisdiction of the courts of Hong Kong, and all suits or actions relating to this Agreement shall be brought only in such courts.

**19. NO PARTNERSHIP**

Nothing in this Agreement shall be taken to constitute a partnership between the Parties and each Party shall not have any authority to bind any other.



20. SUCCESSORS AND ASSIGNS

This Agreement shall be binding on and shall enure for the benefit of each of the Parties' successors and assigns. Any reference in this Agreement to any of the Parties shall be construed accordingly.

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**IN WITNESS WHEREOF** this Agreement has been entered into on the date appearing at the beginning hereof.

Signed by \_\_\_\_\_ )

/s/ John Sham

For and on behalf of Consortium Investment (BVI) Limited

in the presence of: \_\_\_\_\_ )

Signed by \_\_\_\_\_ )

/s/ Fan Kai Leung

For and on behalf of Anwell Technologies Limited

in the presence of: \_\_\_\_\_ )

**APPENDIX 1**  
**[List of Assets]**

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## APPENDIX 2

This SALE CONTRACT dated March 17, 2006 is entered into between Consortium Investment (BVI) Limited (or one or more of its shareholders or affiliates) a British Virgin Islands corporation with an address at 12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong ("Seller"), Dongguan Litewell (OLED) Technology Co., Ltd., a corporation incorporated in the People's Republic of China with an address at Galaxy Industrial Area, Qingxi, Dongguan, Guangguan, Chian ("Purchaser") and Lite Array Holdings Limited, a corporation incorporated in the British Virgin Islands with an address at 12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong ("Issuer").

### WITNESSETH:

WHEREAS, Seller is the owner of the assets (the "**Assets**") described in Exhibit A, attached hereto and made a part hereof; and

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, the Assets; and

WHEREAS, In consideration of its purchase of the Assets Purchaser will cause issuer to issue to Seller 8,000,000 shares (the "**Shares**") of the stock of Issuer, constituting 100% of the then issued and outstanding stock of Issuer;

NOW, THEREFORE, Seller, Issuer and Purchaser hereby agree as follows:

1. Sale and Purchase of Assets. Concurrently herewith, and by virtue of the execution of this Agreement, Seller is conveying, selling, transferring and assigning to Purchaser all of Seller's right, title and interest in and to the Assets.

2. Purchase Price. In full consideration of the sale of the Assets from Seller to Purchaser Issuer has agreed to issue to Seller the Shares (and Seller need not pay any sums to Purchaser or Issuer in respect of such issuance of the Shares, as the sale of the Assets to Purchaser hereunder is the sole consideration Seller need pay in respect of its purchase of the Shares). Issuer acknowledges it wishes to issue the Shares to Seller as Issuer is the sole shareholder of Purchaser, and will benefit from Purchaser's purchase of the Assets.

3. Assets Being Purchased As-Is. Purchaser and Issuer agree that Purchaser is purchasing the Assets in "as-is, where-is" condition. Seller's sole representation to Purchaser and Issuer regarding the Assets is that Seller is transferring the Assets to Purchaser free and clear of all claims, liens and encumbrances, and that Seller has, immediately prior to the sale of the Assets to Purchaser, sole right, title and interest in and to the Assets. OTHER THAN THE FOREGOING WARRANTY SELLER HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE ASSETS, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT WILL ANY PARTY HERETO BE LIABLE TO THE OTHERS UNDER THIS AGREEMENT FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS.

4. Delivery of Assets to Purchaser. Purchaser shall be solely responsible for delivery of the Assets to Purchaser, and will effect such delivery at its sole cost and expense. Purchaser shall hereafter be responsible for any loss or damage to the Assets, and Seller will have no responsibility or obligations in respect thereof.

5. Issuance of Shares. The Shares are being issued to Seller concurrently herewith, and are and shall be duly and validly issued, fully paid and nonassessable, and free and clear of any claims, liens or encumbrances.

6. Indemnification. (a) Seller agrees to promptly indemnify Purchaser and

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Issuer and their respective officers, directors and shareholders against, and to hold them harmless from, any and all loss, damage or liability, and all reasonable expenses (including without limitation reasonable attorneys' fees), incurred by any of them resulting from, related to or arising out of any breach of any of the representations, warranties or covenants made by Seller under this Agreement.

(b) Purchaser and Issuer each, jointly and severally, agree to promptly indemnify Seller and its officers, directors and shareholders against, and to hold them harmless from, any and all loss, damage or liability, and all reasonable expenses (including without limitation reasonable attorneys' fees), incurred by any of them resulting from, related to or arising out of (i) any breach of any of the representations, warranties or covenants made by Purchaser or Issuer under this Agreement, and (ii) any use, sale or exploitation of any of the Assets by any party after the date hereof.

7. Entire Agreement. This Agreement contains the entire agreement of the parties regarding the subject matter hereof, and may only be amended by a further writing signed by the parties.

8. Descriptive Headings. The descriptive headings of this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of Hong Kong. Each party irrevocably and unconditionally submits to the exclusive jurisdiction of the courts of Hong Kong for determining any dispute or for any suit or action concerning this Agreement or the transactions contemplated by this Agreement. Each party waives any right that it may have to object to an action being brought in those courts, to claim that the action has been brought in an inconvenient forum, or to claim that those courts do not have jurisdiction.

10. Counterparts. This Agreement may be executed in counterparts each of which, when so executed shall be deemed an original, and all such counterparts when taken together shall be deemed one and the same instrument.

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**IN WITNESS WHEREOF**, the undersigned have executed this Agreement on the date first above written.

CONSORTIUM INVESTMENT (BVI) LIMITED

By: /s/ John Sham

DONGGUAN LITEWELL (OLED) TECHNOLOGY CO., LTD.

By: /s/ John Sham

LITE ARRAY HOLDINGS LIMITED

By: /s/ John Sham

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**Exhibit A**

[List of Assets]

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Dated this 17<sup>th</sup> DAY OF March, 2006

Between

ANWELL TECHNOLOGIES LIMITED

And

CONSORTIUM INVESTMENT (BVI) LIMITED

---

SHAREHOLDERS' AGREEMENT

---

COLIN NG  
           &             
PARTNERS

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**THIS AGREEMENT** is made on the 17th day of March, 2006

**BETWEEN:-**

- (1) **ANWELL TECHNOLOGIES LIMITED** (Company No. 200308707W) a company incorporated under the laws of Singapore and having its registered office at 18, Cross Street #08-03, Marsh & McLennan Centre, Singapore 048423 ("Anwell" which expression shall include its successors and permitted assigns); and
- (2) **CONSORTIUM INVESTMENT (BVI) LIMITED**, a company incorporated in the British Virgin Islands and having its principal office at c/o Global-Tech Appliances Inc., 12/F., Kin Teck Industrial Building, 26 Wong Chuk Hang Road, Aberdeen, Hong Kong ("CIBL" which expression shall include its successors and permitted assigns).

**WHEREAS:-**

- (A) Anwell and CIBL are desirous of establishing and operating a joint venture company (the "Company") in the People's Republic of China for the purpose of carrying out the "Business" (as hereinafter defined).
- (B) The Company has been or will be established as a wholly owned subsidiary of a corporation formed in the British Virgin Islands (the "Holding Company"), which will be owned by the Shareholders as provided for in Clause 4.3 below.
- (B) The parties hereto, in order to give effect to their intentions as aforesaid and to regulate their relationship *inter se* as shareholders of the Holding Company, have agreed to enter into this Agreement and be bound by the terms and conditions set out hereinafter.

**IT IS AGREED** as follows:-

1. INTERPRETATION

1.1 In this Agreement the following expressions shall, unless the context otherwise requires, have the following meanings:-

"**Affiliates**" means in relation to an entity:

- (i) its Senior Executive; and
- (ii) any other entity which is its (a) subsidiary; (b) holding corporation; (c) subsidiary of such holding corporation; or (c) one in the equity of which it and / or such other corporation or corporations taken together (directly or indirectly) have an Interests of 30% or more;

"**Articles**" means the Articles of Association of the Holding Company;

"**Board**" means the board of Directors of the Holding Company;

"**Business**" means the activities of the Company as described in Clause 3 below;

"**Chairman**" means chairman of the Board;



“**Directors**” means the directors of the Holding Company; and “**Director**” shall mean each or any one of them;

“**HK\$**” or “**\$**” means the lawful currency for the time being of Hong Kong;

“**Memorandum**” means the memorandum of association of the Holding Company;

“**Post-Tax Profits**” means the profit of the Company after tax less minority interests in the relevant financial year as shall be determined by auditors of the Company;

“**Sale Contract**” shall have the same meaning as ascribed to it under the Share Sale and Purchase Agreement;

“**Share Sale and Purchase Agreement**” means the agreement dated the date hereof entered into between Anwell and CIBL;

“**Senior Executives**” means the president, general manager, chief executive, finance director, financial controller or publisher in each of the territories where Anwell and CIBL (or either of their Affiliates) have entered into written joint venture agreements with each other with respect to the Business and “**Senior Executive**” means any such executives for any such joint ventures;

“**Shareholders**” means the parties hereto and any other person holding Shares who shall have executed a deed of ratification and accession pursuant to Clause 5.10 (as the case may be), and “**Shareholder**” means any one of the foregoing; and

“**Shares**” means the shares in the capital of the Holding Company.

1.2 In this Agreement, unless the context otherwise requires:-

1.2.1 words in the singular shall include the plural, and vice versa;

1.2.2 words denoting any gender shall include every other gender;) a reference to a Clause or Schedule shall be a reference to a Clause or Schedule (as the case may be) of or to this Agreement; and

1.2.3 the headings in this Agreement are for convenience only and shall not affect the interpretation of any provision of this Agreement,

1.3 The Schedules shall form an integral part of this Agreement.

## 2. FORMATION OF THE COMPANY AND THE HOLDING COMPANY

2.1 The parties hereto shall, as soon as practicable after the signing of this Agreement (if they have not already done so), and as provided for in the Share Sale and Purchase Agreement, procure the formation and incorporation in the People’s Republic of China of the Company, which will be a private company limited by shares by the name “Dongguan Litewell (OLED) Technology Co., Ltd.”, or such other name as the Registrar of Companies in People’s Republic of China shall allow and the parties hereto may agree.

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- 2.2 The parties hereto shall, as soon as practicable after the signing of this Agreement (if they have not already done so), and as provided for in the Share Sale and Purchase Agreement, procure the formation and incorporation in the British Virgin Islands of the Holding Company, which will be a private company limited by shares by the name "Lite Array Holdings Limited", or such other name as applicable law shall allow and the parties hereto may agree. Unless the parties hereto otherwise agree in writing, the Holding Company will at all times hereafter own and hold 100% of the issued and outstanding shares of stock of the Company.
- 2.3 All reasonable expenses incurred in connection with the incorporation of the Company and the Holding Company shall be borne by the Company (and to the extent a party hereto bears such expenses the Company shall reimburse the party for the same upon receiving reasonable proof of such expenses).
- 2.4 The parties agree that upon its formation, the Company shall purchase and CIBL's parent, Global- Tech Appliances Inc. (and/or one or more of its Affiliates) shall sell certain assets for the manufacturing of OLED equipment in accordance with the terms and conditions of the Sale Contract to be entered into within 120 days from the date of incorporation of the Company. Any reasonable costs incurred by CIBL (or its Affiliates) or Anwell in moving or installing such assets for the benefit of the Company shall be promptly reimbursed by the Company.
- 2.5 The parties hereto agree that PricewaterhouseCoopers shall be appointed as the auditors of the Company and of the Holding Company for each of their first financial year ending 31 December 2006 (or, if formed in 2005, for each of their first financial year ending 31 December 2005). The auditors of the Company and the Holding Company thereafter shall be nominated by Anwell which must be approved by the board of directors of the Holding Company and the Board of Directors, respectively.

### 3. BUSINESS OF THE COMPANY

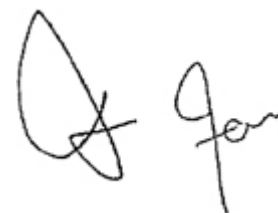
The Shareholders agree that the principal business of the Company shall be the manufacturing of OLED equipment and sale of such equipment to its customers, including Anwell, CIBL and their Affiliates (the "Business").

### 4. SHARE CAPITAL & MATTERS RELATING THERETO

- 4.1 The Holding Company shall on incorporation have an authorised share capital of US\$1 divided into 1 Shares of US\$1 each and an initial issued and paid up capital of US\$1 divided into 1 Shares of US\$1 each. The Company shall on incorporation have a registered capital of \$60,000,000.
- 4.2 In consideration of CIBL (or one or more of its subsidiaries or affiliates) agreeing to sell the OLED equipment to the Company pursuant to the Sale Contract, the Holding Company shall allot and issue at par 8,000,000 number of shares representing 100% of the total issued share capital of the Holding Company to CIBL.
- 4.3 Simultaneous with the completion of the sale and purchase pursuant to the Sale Contract as mentioned above, CIBL shall sell and Anwell shall purchase 70% of the total issued share capital of the Holding Company in accordance with the terms and conditions of the Share Sale and Purchase Agreement, resulting in the percentage of the total issued share capital of the Holding Company held by the parties in the following proportions (expressed as a percentage of issued and paid up capital):

	<u>Percentage of Shareholding</u>	<u>No. of Shares</u>
Anwell Technologies Ltd	70%	5,600,000
Consortium Investment (BVI) Limited	30%	2,400,000
Total	100%	8,000,000

- 4.4 Subject to Clause 5, the Shareholders shall at all times hereafter maintain their shareholdings according to its proportion as set out in Clause 4.3. In the event the Holding Company were (and after obtaining the consents required by Clause 10.1.1 below) to make an allotment and issuance of new shares to a third party, the parties shall have the right to subscribe for such new shares on a pro-rata basis on the same terms as are offered to any third party (and only if a Shareholder does not subscribe for its pro-rata portion may the Holding Company issue shares to such third party, but only if the issuance occurs within sixty days of the date that the Shareholders are given written notice of such offering, and the shares are sold to such third party on terms no more favorable to the third party than the terms that were offered to the Shareholders). The foregoing shall not apply to shares issued to employees of the Holding Company under option agreements unanimously approved by the Shareholders.
- 4.5 For the avoidance of doubt, save and except for Clauses 2, 3, 4 and 15, this Agreement shall only become effective upon the completion of the Share Sale and Purchase Agreement.
5. TRANSFER OF SHARES
- 5.1 Except in the event of a deadlock as provided in Clause 8.1 or an event of default as provided in Clause 13 or as provided for in this Clause 5, no Shareholder shall transfer shares held by it in the capital of the Holding Company or otherwise sell, dispose, or deal with all or any part of its interest in such shares otherwise than in accordance with the provisions of the Articles.
- 5.2 No Shareholder shall create or have outstanding any pledge, lien, charge or other encumbrance or security interest on or over any shares in the capital of the Holding Company or any part of its interest in such shares.
- 5.3 Unless otherwise unanimously agreed upon by the Shareholders in writing, every Shareholder who desires to transfer any share or shares of the Holding Company (the "Transferor") shall give to the Holding Company notice in writing, addressed to the Holding Company Secretary at the registered office of the Holding Company, of such desire (a "Transfer Notice"). The Transfer Notice shall state the identity of the party to whom (the "Transferee") and the price per share at which the Transferor proposes to sell the said shares ("Price"). Subject as hereinafter mentioned, a Transfer Notice shall constitute the Holding Company the Transferor's agent for the sale of the share or shares specified therein (the "Sale Shares") in one or more lots at the discretion of the Directors to the Shareholders other than the Transferor at the Price indicated in the Transfer Notice. A Transfer Notice shall not be revocable except with the approval of the Board.

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- 5.4 Upon the receipt of the Transfer Notice, the Holding Company shall forthwith by notice in writing inform each Shareholder, other than the Transferor, of the number and Price of the Sale Shares and invite each such Shareholder to apply in writing to the Holding Company within thirty (30) days of the date of receipt of the notice for such maximum number of the Sale Shares (being all or any thereof) as it shall specify in such application. The Transferor shall also promptly give each other Shareholder such other information regarding the proposed sale as such Shareholder may reasonably request.
- 5.5 If the Shareholders (other than the Transferor, who shall not have the right to so apply) shall within the said period of thirty (30) days apply for all or any of the Sale Shares, the Board shall allocate the Sale Shares (or so many of them as shall be applied for as aforesaid) to or amongst the applicants and in the case of competition pro rata (as nearly as possible) according to the shareholding proportion of the applicants provided that no applicant shall be obliged to take more than the maximum number of shares specified by it as aforesaid; and the Holding Company shall forthwith give notice of such allocations (an "Allocation Notice") to the Transferor and to the Shareholders to whom the shares have been allocated and shall specify in such Allocation Notice the place and time (being not earlier than fourteen (14) and not later than twenty-eight (28) days after the date of the notice) at which the sale of the shares so allocated shall be completed.
- 5.6 The Transferor shall be bound to transfer the shares comprised in the Allocation Notice to the purchasers named therein at the time and place therein specified and, if it shall fall to do so, the Chairman of the Board or some other person appointed by the Board shall be deemed to have been appointed attorney of the Transferor with full power to execute, complete and deliver, in the name and on behalf of the Transferor, transfers of the shares to the purchaser thereof against payment of the Price to the Holding Company. On payment of the Price to the Holding Company, the purchaser shall be entitled to insist upon its name being entered in the Register of Members as the holder by transfer of the shares. The Holding Company shall forthwith pay the Price into a separate bank account in the Holding Company's name and shall hold the Price in trust for the Transferor.
- 5.7 To the extent a Shareholder does not exercise his, her or its right of refusal pursuant to Clauses 5.3-5.6 above then such Shareholder (such Shareholder participating in the co-sale described in this Clause 5.7 being a "Selling Shareholder") that notifies the Transferor and the Holding Company in writing within thirty (30) days after receipt of the Transfer Notice shall have the right to participate in such sale of Sale Shares and sell to the Transferee his, her or its Shares on the same terms and conditions as specified in the Transfer Notice (with each Selling Shareholder having the right to sell up to the same number of Shares as is being sold by the Transferor, and if more than one Selling Shareholder wishes to so sell his or its Shares, the right to sell Shares shall be allocated between or among them pro-rata in accordance with their shareholding proportion). Such Selling Shareholder's notice to the Transferor and to the Holding Company shall indicate the number of Shares the Selling Shareholder wishes to sell under his, her or its right to participate. To the extent one or more of the Selling Shareholders exercise such right of participation in accordance with the terms and conditions set forth herein the number of Sale Shares that the Transferor may sell in the Transfer shall be correspondingly reduced.
- 5.8 Each Selling Shareholder shall effect its participation in a sale by promptly delivering to the Transferor for transfer to the Transferee one or more certificates, properly endorsed for transfer, which represent: the Shares which such Selling Shareholder elects to sell. The share certificate or certificates that the Selling Shareholder delivers to the Transferor pursuant to this Clause 5.8 shall be transferred to the Transferee in consummation of the sale of the Sale Shares pursuant to the terms and conditions specified in the Transfer Notice, and the Transferor shall concurrently

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therewith remit to such Selling Shareholder that portion of the sale proceeds to which such Selling Shareholder is entitled by reason of its participation in such sale. To the extent that any Transferee prohibits such assignment or otherwise refuses to purchase Shares from a Selling Shareholder exercising his, her or its rights of co-sale hereunder, the Transferor shall not sell to such Transferee any Sale Shares unless and until, simultaneously with such sale, the Transferor shall purchase such Shares from such Selling Shareholder for the same consideration and on the same terms and conditions as the proposed transfer described in the Transfer Notice.


- 5.9 During the period of thirty (30) days following the expiry of the said period of thirty (30) days referred to in Clauses 5.4 and 5.7 above, the Transferor shall be at liberty to transfer to any third party at any price (not being less than the Price set out in the Transfer Notice) and on terms and conditions no more favourable to the Transferee than that set out in the Transfer Notice, any share not allocated by the Board in an Allocation Notice (and not reduced per Clause 5.7 above).
- 5.10 It shall be a condition precedent to the right of any Shareholder to transfer shares in the capital of the Holding Company that the purchaser or transferee (if not already bound by the provisions of this Agreement) executes, in such form as may be reasonably required and agreed between the other Shareholders, a deed of ratification and accession under which the purchaser or transferee shall agree to be bound by and shall be entitled to the benefit of this Agreement as if an original party hereto in place of the transferring Shareholder.
- 5.11 Upon the transfer by any Shareholder of all title and interest in its shares and the execution by the Transferee of such deed of ratification and accession it shall be released from all its obligations hereunder (other than under Clauses 15 and 16 for the periods set forth therein) and shall no longer have any rights hereunder in respect of future events, but without prejudice to any right or obligation of such Shareholder to the other Shareholders which may have accrued under this Agreement prior to such release.
- 5.12 Notwithstanding anything contained herein, no party shall without the prior written consent of the other party transfer any Shares within a period of two years from the date of execution of this Agreement, unless in the event of a deadlock as provided in Clause 8.1 or an event of default as provided in Clause 13.

## 6. BOARD OF DIRECTORS

- 6.1 The Holding Company shall be managed by the Board who may exercise all such powers as may be conferred upon them by the Articles. Save as otherwise provided in this Agreement, the Board of the Holding Company shall consist of three Directors.
- 6.2 Unless otherwise agreed by the Shareholders in writing, following the completion of the transfer of shares pursuant to the Share Sale and Purchase Agreement and Clause 4 above, the Board shall at all times be comprised of two Directors appointed by Anwell ("**Anwell Directors**") and one Director appointed by CIBL ("**CIBL Director**"). The Managing Director of the Board shall be a Director nominated by Anwell, subject to the approval of the Board. If at any time CIBL and its Affiliates in the aggregate hold more Shares than Anwell and its Affiliates hold in the aggregate then, for such period the Board shall be comprised of one Director appointed by Anwell (who shall be the "**Anwell Director**") and two Directors appointed by CIBL (who shall be the "**CIBL Directors**"), and all rights held by Anwell or the Anwell Directors under Clause 2.4, this Clause 6.2, Clause 6.7, and Clause 12.2 shall instead be held, respectively, by CIBL or the CIBL Directors.
- 6.3 The right of appointment conferred on a Shareholder under Clause 6.2 shall include a right to remove from office at any time such person so appointed as a Director by that Shareholder.

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- 6.4 Subject to Clause 10.1.11 and as permitted by law, in the event that the Holding Company increases or decreases the size of the Board, Anwell and CIBL shall have the right to designate additional Directors or remove the relevant Directors, as the case may be, in proportion to their respective current board entitlement as set out in Clause 6.2.
- 6.5 In the event that Anwell or CIBL disposes of all its Shares, Anwell or CIBL, as the case may be, shall procure the resignation of the Director(s) which it had nominated and shall no longer have the right to nominate Directors and the remaining Directors shall as soon as is practicable, pass a board resolution to accept such resignation(s). Anwell or CIBL, as the case may be, shall in removing the Director which it had nominated, be responsible for and shall hold harmless the other Shareholders and the Holding Company from and against any claim for unfair or wrongful dismissal arising out of such removal and any reasonable costs and expense incurred in defending such proceedings, including, without prejudice to the generality of the foregoing, legal costs actually incurred.
- 6.6 A Director shall be entitled at any time and from time to time, to the extent permitted by law, to appoint any person or persons to act as his alternate or alternates and to terminate the appointment of such person or persons and in that connection the provisions of the Articles shall be complied with. Such alternate Director shall be entitled while holding office as such to receive notices of meetings of the Board and to attend and vote as a Director at any such meetings at which the Director appointing him is not present and generally to exercise all the powers, rights, duties and authorities and to perform all functions of his appointor as Director.
- 6.7 The Chairman of the Board shall be a Director nominated by Anwell Directors, subject to the approval of the Board. The Chairman shall not have a casting vote.
- 6.8 The quorum necessary for the transaction of business at a meeting of the Board of Directors (including any adjourned meeting) shall (provided all Directors have received proper notice of such meeting) be any two (2) Directors. A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the powers and discretion exercisable by the Directors. There shall be at least four meetings of the Board each year and notice of such Board meeting shall be given to each Director at least ten (10) days before the meeting. Any Director may participate in a Board of Directors meeting via conference call.
- 6.9 If within two hours from the time appointed for the meeting a quorum is not present, the meeting shall be adjourned to the same day fourteen (14) days later (and if such day does not fall on a business day in Hong Kong then the meeting shall be adjourned to the next business day following such day) at the same time and place or to such other day (no earlier than fourteen (14) days) and at such other time and place as the Directors present may determine. Notice of any adjourned meeting shall be given to each Director at least seven (7) days before the adjourned meeting.
- 6.10 A resolution in writing signed by a majority of the Directors (which must include one (1) Director appointed by CIBL and one appointed by Anwell) shall be valid and effectual as if it had been a resolution passed at a meeting of the Board of Directors duly convened and held. Any such resolution may consist of several documents in the like form each signed by one or more Directors. Such documents may include any copy of the resolution duly signed by a Director and received by way of facsimile. Such resolution in writing shall be effective as of the date of the resolution, or if the resolution is signed in two or more counterparts, as of the last date appearing on the counterparts. The Directors may participate in and hold any Board meeting by means of conference telephone or similar communications equipment whereby all persons participating in the Board meeting can hear each other. A Director participating by conference telephone or similar equipment shall be deemed to be present in person at such meeting. For the avoidance of doubt,

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any meeting held by such means of conference telephone or similar communications equipment shall comply with the quorum requirements set out in Clause 6.8 and a decision of the Board made at such meeting shall comply with the voting requirements set out in Clause 6.8.

6.11 The board of directors of the Company shall also be subject to and comply with all of the provisions of this Article 6, including with respect to election of directors, quorum requirements, meetings and voting requirements.

## 7. EXECUTIVE COMMITTEE

7.1 The Company shall have and the Board shall appoint the Executive Committee to take charge of the day to day management and administration of the business and affairs of the Company and exercise such powers and duties as set out more specifically in Schedule 1 and to have such other powers and discretion as may from time to time be determined and unanimously delegated to the Executive Committee by the Board; it being understood that any power or discretion delegated to the Executive Committee shall at all times be subject to any limitation or requirement applicable to the Board. A unanimous decision by the Board may revoke at any time such delegation without assigning any reason thereto.

- 7.2 (a) The Company shall have an Executive Committee which shall comprise of at least one director from Anwell Director, one director from CIBL Director and such number of Senior Executives from the Company as may be unanimously determined by the Board. The Executive Committee shall be chaired by the Managing Director of the Company.
- (b) The right of appointment conferred on the Board under Clause 7.1 shall include the right of removal exercisable at any time provided that no one Director on the Executive Committee shall be removed without the consent of the majority of the Anwell Directors and no one Director on the Executive Committee shall be removed without the consent of the majority of CIBL Directors.
- (c) A member of the Executive Committee shall be entitled to appoint his or her alternate or another Director to attend any meeting of the Executive Committee on his or her behalf and such substitute shall be deemed for the purpose of such meeting to be a member of the Executive Committee.
- (d) If for any reason any member of the Executive Committee shall during his or her term of office cease to be a Director of the Company, the Board shall forthwith appoint his or her substitute in accordance with Clauses 7.2 (a) and (c).
- 7.3 (a) The Executive Committee shall meet for the despatch of business, adjourn or otherwise regulate its meetings as it thinks fit PROVIDED ALWAYS that the Executive Committee shall meet at least twelve (12) times a year.
- (b) Subject to the provisions of Clause 7.3(c), at least 4 business days' written notice of every meeting of the Executive Committee shall be given to all the members thereof.
- (c) Notwithstanding Clause 7.3(b), all the members of the Executive Committee present at a meeting of the Executive Committee may waive or agree to shorter notice thereof.
- 7.4 (a) Subject to Clause 7.4(b) the quorum for meetings of the Executive Committee shall be 2 members comprising at least one Director appointed by each of Anwell and CIBL.

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- (b) If within 30 minutes of such time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to 7 days later at the same time and place (and if such day does not fall on a business day in Hong Kong then the meeting shall be adjourned to the next business day following such day). The members present at such adjourned meeting shall constitute a quorum, so long as one member present was appointed by Anwell and one member present was appointed by CIBL. No notice of any such adjournment shall be required to be given to the members of the Executive Committee or their substitutes.
  - (c) A meeting at which a quorum is present shall be competent to exercise all the powers and discretions for the time being exercisable by the Executive Committee.
- 7.5 In the event of an equality of votes at a meeting of the Executive Committee, the matter shall be referred to the Board.
- 7.6 The Executive Committee shall be constituted at the first Board meeting.

## 8. DEADLOCK

### 8.1 In the event that:-

- (a) a material matter relating to the affairs of the Company or the Holding Company has been considered at a meeting of the directors of the Company or the Directors of the Holding Company (as the case may be) and/or the parties;
- (b) no agreement has been reached by the directors of the Company or the Directors of the Holding Company (as the case may be) or the parties for dealing with the said matter in accordance with the provisions of this Agreement; and
- (c) such matter is not resolved within 30 days from the date of such disagreement (with such 30 day period measured from the time that one party gives the other written notice of the deadlock)

the parties hereto agree that they shall attempt to settle by negotiations between them in good faith all disputes or differences which arise between them out of or in connection with this Agreement (provided both parties consider that such negotiations would be assisted thereby) by referring the matter to the President of the Institute of Certified Public Accountants or such other conciliator appointed by such person ("Conciliator") to assist the parties in such negotiations. Both parties agree to co-operate fully with the Conciliator and provide such assistance as is necessary to enable the Conciliator to discharge his or her duties, and to bear equally between them the fees and expenses of the Conciliator.

- 8.2 If any such meeting fails to result in a settlement, each party shall make an offer to purchase all the Shares of the other Shareholder by delivering to the Holding Company Secretary a notice of intention to purchase the Shares of the other Shareholder ("Notice of Intention"). Such Notice of Intention shall state the price of the Shares at which the Shareholder intends to purchase.
- 8.3 Upon delivering the Notice of Intention, the Shares shall be purchased within 30 days by the Shareholder who offers the higher price, whereupon the selling Shareholder shall, provided the purchase price therefor is paid, be obliged to deliver to the purchasing Shareholder properly signed and stamped and authenticated share transfers together with the relevant scrip and the written resignation of its appointee(s) as a director(s) effective forthwith or to take effect immediately



subsequent to a Board meeting, at which meeting the transfer of the said Shares shall be approved by the Board.

- 8.4 Upon registration of the purchasing Shareholder as Shareholder of the shares of the selling Shareholder (or at any other time that a Shareholder or its Affiliates ceases to hold any Shares), the selling Shareholder shall cease to be bound by the terms and provisions of this Agreement and its rights under this Agreement shall be extinguished save and except the rights and obligations of the parties under Clauses 15 and 16 shall continue in force and effect for the periods set forth therein but without prejudice to any rights accrued to any party prior to such time, and the selling Shareholder will not be released In respect of events which occurred prior to such sale.

## 9. RESPONSIBILITIES OF PARTIES

- 9.1 The parties hereby agree that:-

9.1.1 Anwell shall provide the Company, without charge:-

- (a) its finance and account, marketing, marketing communications, business developments expertise; and
- (b) planning and other management and corporate advisory assistance

as may be reasonably required by the Company in connection with the Business from time to time.

9.1.2 CIBL shall (or shall cause an Affiliate to) provide the Company: (a) certain of its employees, who shall be hired by and whose salaries will be paid by the Company. In addition, CIBL (or an Affiliate) will make available a facility for use by the Company, and such facility will be operated by the Company at its expense (and CIBL or the Affiliate will receive a monthly rent from the Company of HK\$30,000 (Thirty Thousands Hong Kong Dollars) **[FILL IN DOLLAR AMOUNT]** per month in respect of such rental).

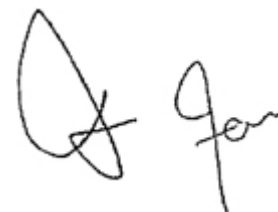
## 10. UNANIMOUS CONSENT

- 10.1 The Shareholders agree that the following matters may only be approved by the unanimous written consent of the Shareholders, present in person or by their alternate or proxy:-

10.1.1 any change in the Holding Company's or the Company's capital structure, including without limitation, any new issues of shares (including any debt convertible into shares, or the grant of any options or other rights to acquire shares), or rights issue, any increase or reduction in the Holding Company's or the Company's loan capital, any redemption of shares, any increase or reduction in the Holding Company's or Company's authorised or Issued share capital or the rights attached to any class of Shares or other shares and all calls in respect of the Shares or other shares other than as a necessary consequence of the provisions of this Agreement;

10.1.2 any amendment to the Memorandum or the Articles (or to the corresponding documents of the Company);

10.1.3 any change in the name of the Company or the Holding Company;

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- 10.1.4 any change in the principal business of the Company or the Holding Company including but without limitation to the acquisition, cessation or launch of any titles;
- 10.1.5 any change in the dividend policy of the Company or the Holding Company or any capitalisation of profits or reserves, or the approval, declaration or payment of dividends (whether interim or final and including those payable under Clause 12 below) or other distributions of the Company's or the Holding Company's profits, earnings and directors' fees otherwise than in accordance with the terms of this Agreement;
- 10.1.6 any single expenditure incurred by the Company or the Holding Company which is in excess of US\$250,000;
- 10.1.7 any change in the financial year of the Company or the Holding Company or in the appointment or change of the Company's or the Holding Company's auditors;
- 10.1.8 the Company or the Holding Company giving any guarantee or indemnity or creating any pledge, lien, mortgage, charge or other encumbrance over any part of its undertaking or assets;
- 10.1.9 the Company extending credit or making any loan to any employee which is in excess of 6 months' basic salary, unless approved in the annual budget pursuant to Clause 10.1.20;
- 10.1.10 commencement or settlement by the Company or the Holding Company of any legal proceedings if the amount involved is in excess of US\$250,000;
- 10.1.11 any determination, change in the number of Directors on the Board or in the number of directors on the board of the Company, or in the number of members of the Executive Committee, or the Company or the Holding Company paying or varying any fees or remuneration or benefits to any director or Director (respectively) for his or her services;
- 10.1.12 the entry by the Company or the Holding Company into any material contract or arrangement which is outside the ordinary course of the Company's or the Holding Company's business and/or the entry by the Company or the Holding Company into any transactions or arrangement with Anwell or its Affiliates, and any material amendments or material actions taken in respect of any such contracts or arrangements. For the purposes of this Clause, the word "material" shall mean any matter which involves or would involve a sum exceeding US\$1,000,000 or 10% of the audited net assets value of the Company calculated at the relevant time, whichever is the higher;
- 10.1.13 any merger or amalgamation or reconstruction of the Company or the Holding Company;
- 10.1.14 the sale, lease, exchange or other disposition of 10% or more of the gross value of the tangible assets of the Company or the Holding Company;
- 10.1.15 the establishment or liquidation of a branch or a subsidiary of the Company or the Holding Company;
- 10.1.16 the purchase and sale by the Company or the Holding Company of any immovable property or any lease of property which requires a payment of more than US\$250,000 per annum unless approved in the annual budget pursuant to Clause 10.1.20;
- 10.1.17 any change in the operating instructions and/or account signatories to the Company's or the Holding Company's bank accounts;

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- 10.1.18 any investment of the funds of the Company or the Holding Company unless approved in annual budget pursuant to Clause 10.1.20;
- 10.1.19 any external borrowing which is in excess of US\$2,500,000 except for lease financing of fixed assets of the Company unless approved in the annual budget pursuant to Clause 10.1.20;
- 10.1.20 any repayment of the "Anwell Note" (as defined below) other than in accordance with its terms, or any amendment of the terms of the Anwell Note ; and
- 10.1.21 the annual budget of the Company.

Provided Always that if any matter has been approved in the Company's annual budget, the above provisions shall not apply.

## 11. FINANCE

- 11.1 For the purpose of the working capital of the Company, Anwell has agreed to and will, promptly after purchasing the "Sale Shares" (as defined in the Share Sale and Purchase Agreement), provide a long term shareholder's loan ("**Shareholder's Loan**") bearing interest (the "**Interest Rate**") of SIBOR (Singapore Inter-bank offer rate) plus 1.5% per annum for an aggregate maximum principal amount of Fifteen Million US Dollars (US\$15,000,000). The proceeds of the Shareholder's Loan will be used to fund the operations of the Company, and accordingly the Shareholder's Loan will drawn on by the Company from time to time as may be necessary for its operations (and Anwell will cause the Company to draw down on such facility as needed). The Shareholder's Loan together with any interests accrued shall be repayable within two years after the first draw down of such facility, and any unpaid interests shall be compounded. The note (the "**Anwell Note**") representing the Shareholder's Loan will be substantially in the form attached hereto as **Appendix 1**. The Shareholder's Loan may be terminated or cancelled any time at Anwell's discretion after the period ending three years from the date of the initial making of the Shareholder's Loan.
- 11.2 Notwithstanding Clause 11.1 above, the parties hereto agree that in the event that any additional working capital is required by the Company each of the parties shall use reasonable endeavours to ensure that such working capital shall, to the extent possible, be through the use of overdraft facilities to be obtained from such financial institutions as the Board may from time to time agree.
- 11.3 With regard to any bank facilities:  

In respect of any loan or financial facilities to be obtained from financial institutions, such credit shall be secured by all or such assets of the Company as the Board shall determine and if the lender requires the provision of any guarantee, such guarantee may be (but need not be) provided by any party hereto.
- 11.4 The accounting period for each of the Company and the Holding Company will commence on February 1, 2006 or, for each entity, as soon thereafter as the entity is formed. Anwell will cause the Company and the Holding Company to furnish CIBL with monthly, quarterly and annual written financial statements, not later than thirty (30) days after the end of each such period (and for the annual financial statement, within 45 days after the end of each entity's fiscal year). All such financial statements shall be (i) in accordance with the books and records of the Company and the Holding Company, (ii) true, correct and complete in all material respects and present fairly the





financial condition of the Company and the Holding Company at the date therein indicated, and (iii) have been prepared in accordance with generally accepted accounting principles in the United States, applied on a consistent basis throughout the periods therein indicated.

## 12. DIVIDEND POLICY

- 12.1 The parties hereby agree to co-operate and work together in promoting the Business as well as the smooth and efficient administration and operations of the Company and the Holding Company.
- 12.2 If, in respect to any accounting period, the Company has net profits available for distribution, the parties shall procure that, in the absence of any written agreement to the contrary, at least ten percent (10%) but not more than fifty percent (50%) of such profits (the "Range") shall be distributed by way of cash dividends to the Holding Company by the Company and then to the Shareholders provided always that the directors of Company appointed by Anwell shall nominate the dividend policy of the Company within the Range, giving due regard to the sound financial management and financial needs of the Company, and such nomination must be approved by the board of the Company. In deciding whether in respect of any accounting period the Company has net profits available for distribution the parties hereto shall procure the auditors of the Company to certify whether such profits are available or not and the amount thereof (if any). In giving such certificate the auditors shall act as experts and not as arbitrators and their determination shall be binding on the parties hereto.

## 13. DURATION, DEFAULT AND TERMINATION

- 13.1 This Agreement shall come into force on the date hereof and (unless terminated in accordance with its terms) shall continue in full force and effect and continue to bind each Party for so long as it or its Affiliates holds Shares, Provided Always That the provisions of Clauses 15 and 16 shall survive any termination of this Agreement for the periods provided for therein.
- 13.2 An "Event of Default" shall occur with respect to a Shareholder if:-
- 13.2.1 the Shareholder materially breaches this Agreement and, such Shareholder fails to cure such default no later than ten (10) business days after such a Shareholder receives written notice of such breach from any other Shareholder;
- 13.2.2 the Shareholder shall:-
- (a) have an order for relief (or comparable filing in the relevant jurisdiction which relates to the commencement of insolvency proceedings) entered with respect to it under applicable bankruptcy or insolvency laws;
  - (b) make an assignment for the benefit of creditors;
  - (c) apply for, seek, consent to or acquiesce in the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property; or
  - (d) institute any proceedings seeking an order for relief under the applicable bankruptcy or insolvency laws seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, winding up, liquidation, re-organisation, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganisation; and

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13.2.3 any proceeding or administrative action shall be commenced against the Shareholder or any of its principals or members of senior management by any governmental authority or agency, which action has the effect of materially impairing such Shareholder's ability to perform its obligations under this Agreement (and, with respect to events described in clauses 13.2.2 or this 13.2.3, the proceeding or action described is not terminated within 60 days of its inception).

13.3 If an Event of Default occurs then any other Shareholder (a "Non-Defaulting Party") may notify in writing the Party to whom the Event of Default applies (the "Defaulting Party") that the Non-Defaulting Party has elected to terminate this Agreement. In such event the Non-Defaulting Party shall have the right (but not the obligation, and which right shall be in addition to any other remedies available to the Non-Defaulting Party or to the Company) to purchase all (but not less than all) of the Shares of the Defaulting Party at the price which is the higher of 6 times the Post-Tax Profits of the Company in the preceding financial year multiplied by the Defaulting Party's shareholding in the Holding Company or the original investment by such party into the Holding Company as at the date of this Agreement (it being understood that if there is more than one Non-Defaulting Party each Non-Defaulting Party shall have such right to purchase its pro rata portion (equal to its percentage ownership of the remaining shares) of the Defaulting Party's Shares; it being further understood that if only one Non-Defaulting Party wishes to purchase such Shares, it may purchase all (but not less than all) of the Defaulting Party's Shares. If no Non-Defaulting Party elects to purchase the Defaulting Party's Shares, the Non-Defaulting Shareholder may, at its option, and in addition to any other remedies available to it or the Company, cause the liquidation and dissolution of the Company in accordance with its governing documents and of the Holding Company in accordance with the Articles (and the Defaulting Party will take such actions as the Non-Defaulting Party may request to cause such liquidation and dissolution) and each Shareholder shall receive the proceeds of such liquidation in accordance with the Articles; provided that the distribution of the proceeds payable to the Defaulting Party shall be subject to, and shall be subject to set-off against, any obligation owing to a Non-Defaulting Party under this Agreement or any damages suffered by the Non-Defaulting Party as a result of or in respect of the Event of Default.

13.4 The termination of this Agreement from any cause shall not release any Shareholder from any liability hereunder or in relation to its ownership of Shares of the Company which at the time of termination has already accrued, or which thereafter may accrue.

#### 14. SPIRIT OF AGREEMENT AND INTENTION

In entering into this Agreement the Shareholders realise that it is impractical to make provision for every contingency that may arise in the course of observance or performance thereof. Accordingly, the Shareholders hereby declare it to be the spirit of this Agreement and their common intention that:-

14.1 the provisions of this Agreement shall be construed with fairness and without detriment to the interests of any of the Shareholders;

14.2 they will at all times use their reasonable endeavours to further the interests of the Company and the Holding Company and cause the Company and the Holding Company to operate as efficiently and profitably as possible (provided that to the extent a Shareholder's consent is required under this Agreement it may give or withhold such consent in its sole discretion); and

14.3 none of the Shareholders shall knowingly procure or cause the Company or the Holding Company to undertake or engage in any business or activity which would result in a breach of its governing

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documents or the Articles, respectively, or which will cause the other Shareholder to be in breach of any law or regulation of the jurisdiction to which the other Shareholder is subject.

#### 15. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

15.1 Each Shareholder including its, his or her agents, officers, employees, servants and contractors shall keep in strict confidence any confidential information (and to be deemed confidential information any tangible information must be prominently labeled as such or, if given in non-tangible form, it must be identified as confidential at the time of disclosure) that he, she or it or they has/have acquired or may acquire from the Company, the Holding Company or the other Shareholders (or its Affiliates) or have access to, with respect to any of the Shareholders or their Affiliates, the Company or the Holding Company, including the design, engineering, construction, maintenance, operation, management, sales and all other activities of or relating to the Company, the Holding Company and the other Shareholder or its Affiliates and shall not without the prior consent of the party who has disclosed such information use such information in any way or manner for any purposes other than management assistance to the Company or to the Holding Company, except for such information as:-

15.1.1 is already publicly known at the time when such information is disclosed to the other party hereto;

15.1.2 has become publicly known without any fault of the other party hereto;

15.1.3 is required by any applicable law or regulation to be disclosed;

15.1.3 is independently developed by the Shareholder;

15.1.4 is necessary to be disclosed by a Shareholder in order to exercise its rights or carry out its obligations under this Agreement or any other agreement entered into by it or its Affiliates with the Company or the Holding Company or the other Shareholder or its Affiliates; or

15.1.5 is provided to a Shareholder by a third party who has the right to provide the same without any obligation of confidentiality to the other Shareholder, the Holding Company or the Company.

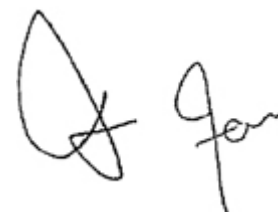
15.2 The obligations imposed by this Clause 15 shall survive the termination of this Agreement for the three year period following such termination and notwithstanding the provisions of Clauses 8 and 13 above.

#### 16. RESTRAINT AND NON-COMPETITION

16.1 Each of the Shareholders hereto shall not directly or indirectly:-

(a) either on his, her or its own account or for any other person directly or indirectly solicit, interfere with or endeavour to entice away from the Company any person who to his, her or its knowledge is now or has been a client, customer or employee of, or in the habit of dealing with the Company.

(b) without the prior written consent of the other Shareholder either alone or jointly with or as manager, agent for or employee of any person, directly or indirectly carry on or be engaged or concerned or interested in the Business other than through the Company except to the

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extent already engaged in the same (provided the foregoing will not prevent a party from owning publicly traded stock of any entity engaged in the Business, so long as the party does not own in excess of five percent of the issued and outstanding securities of such entity).

- (c) act as a director or otherwise (except with the prior written consent of the Company) of any other person, firm or company materially engaging in the Business except to the extent already doing so; and
- (d) use the name of the Company (or any confusingly similar name) in connection with any business not belonging to the Company.

16.2 The restrictions contained in Clause 16.1 shall apply for a period 2 years after such party ceases to be a shareholder of the Holding Company (provided that if a party is a shareholder of the Holding Company for less than six months starting from the time that Anwell acquires its Shares then such restriction will end when such party is no longer a shareholder of the Holding Company).

16.3 The restrictions contained in this Clause are considered reasonable by the parties, but in the event that any such restriction shall be found to be void but would be valid if some part thereof were deleted, or the period or area of application reduced, such restriction shall apply with such modification as may be necessary to make it valid and effective.

## 17. MISCELLANEOUS

17.1 No failure or delay on the part of any Shareholder in exercising any power or right hereunder shall operate as a waiver thereof nor shall any single or partial exercise of such right or power preclude any other or further exercise of any other right or power hereunder.

17.2 In the event of any conflict between the terms of this Agreement and the Articles or the governing documents of the Company, the terms of this Agreement shall as between the Shareholders prevail and the Shareholders shall forthwith cause such necessary amendments to be made to the Articles or such governing documents as are required (to the extent permitted under applicable law) so as to remove such conflict.

17.3 Where to give effect to all or any of the provisions of this Agreement, a resolution of the members of the Company or the Holding Company in general meeting is required under any applicable law or regulation each Shareholder shall exercise its voting rights for the time being in the Company and the Holding Company and take all such steps as reasonably lie within its powers as are necessary to give effect thereto.

17.4 The termination of this Agreement, howsoever arising, shall not affect such of the provisions hereof as are expressed to survive, operate or have effect thereafter or to continue to survive, operate or have effect thereafter and shall be without prejudice to any right of action already accrued to either Shareholder in respect of any breach of this Agreement by the other Shareholder.

## 18. WARRANTIES

Each Shareholder hereby represents and warrants as follows:-

18.1 It is duly organised, incorporated and in good standing under the laws of its jurisdiction of incorporation, has due corporate existence, is a separate legal entity capable of suing and being sued.

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- 18.2 It has full power and authority to execute and deliver this Agreement and any other document or instrument attendant hereto or thereto and to perform and observe the provisions of this Agreement and such other documents and instruments.
- 18.3 The execution, delivery and performance by it of this Agreement and any other document or instrument attendant hereto or thereto have been duly authorised by all necessary corporate action and do not contravene any requirement of law, require any government approval or contravene any contractual restriction or agreement binding on or affecting it or any of its property to the extent the same would materially and adversely affect its ability to execute, deliver and perform this Agreement or such other documents and instruments.
- 18.4 This Agreement, when duly executed by such Shareholder shall constitute the legal, valid and binding obligations of such Shareholder enforceable in accordance with their terms.
- 18.5 There is not pending nor, to the best knowledge of such Shareholder, is there threatened, any action or proceeding affecting such Shareholder, before any court, government agency or arbitral tribunal, which may individually or in the aggregate have a material adverse effect upon such Shareholder's ability to enter into and carry out its obligations under this Agreement.

#### 19. FORCE MAJEURE

Save as otherwise specifically provided in this Agreement, the Shareholders shall not be liable for failures or delays in performing their obligations hereunder arising from any cause beyond their control, including but not limited to acts of God, acts of civil or military authority, fires, strikes, lockouts, or labour disputes, epidemics, governmental restrictions, wars, riots, earthquakes, storms, typhoons and floods and in the event of any such delay the time for any party's performance shall be extended for a period equal to the time lost by reason of the delay which shall be remedied with all due dispatch in the circumstances.

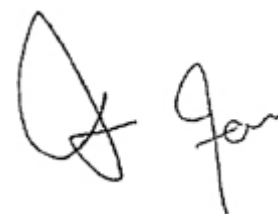
#### 20. NOTICES

20.1 A notice, approval, consent or other communication given or sent in connection with this Agreement:-

20.1.1 must be in writing;

20.1.2 must be marked for the attention of that party's designated officer(s) or representatives as set out below; and

20.1.3 must be left personally at the address of that party, or sent by prepaid registered or certified mail, return receipt requested, or by overnight mail to that party or sent by facsimile to the facsimile number of the addressee which is specified in this Clause or if that Party notifies otherwise then to that address or facsimile number.

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20.2 The address, facsimile number and designated officer of each Party are as follows:-

Anwell

Address: c/o Anwell Precision Technologies (HK) Limited  
Units 10-15, 9/F Metro Loft, 38 Kwai Hei Street  
Kwai Chung, New Territories, Hong Kong  
Facsimile : +852 2499 9170  
Attention : Mr. Ken Wu

CIBL

Address c/o Global-Tech Appliances Inc., 12/F., Kin Teck Industrial Building, 26  
Wong Chuk Hang Road, Aberdeen, Hong Kong  
Facsimile : +852 2554 0349  
Attention : Mr. Samuel Leung

20.3 A notice, approval, consent or other communication shall take effect from the time it is received (or, if earlier, the time it is deemed to be received in accordance with Clause 20.4).

20.4 A letter or facsimile is deemed to be received:-

20.4.1 In the case of a posted letter, unless actually received earlier, on the third business (seventh, if posted overseas) day after posting; and

20.4.2 In the case of a facsimile, one business day after production of a transmission report from the terminal from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the facsimile number of the recipient; and

20.4.3 If sent by overnight mail, two business days after being sent.

21. ENTIRE AGREEMENT

This Agreement embodies all the terms and conditions agreed upon between the parties hereto as to the subject matter of this Agreement and supersedes and cancels in all respects all previous agreements and understandings, if any, between the parties hereto with respect to the subject matter hereof, whether such be written or oral. This Agreement may only be amended by a further writing signed by the parties hereto.

22. COSTS

Each Party shall bear its own legal and other costs and expenses incurred in connection the preparation, negotiation and execution of this Agreement.

23. GOVERNING LAW, JURISDICTION AND SERVICE OF PROCESS

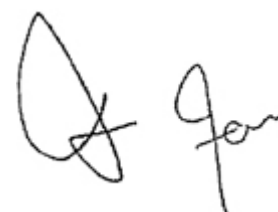
23.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong,

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23.2 Each Party Irrevocably and unconditionally submits to the exclusive jurisdiction of the courts of Hong Kong for determining any dispute or for any suit or action concerning this Agreement or the transaction contemplated by this Agreement. Each Shareholder waives any right that it may have to object to an action being brought in those courts, to claim that the action has been brought in an inconvenient forum, or to claim that those courts do not have jurisdiction.

24. COUNTERPARTS

This Agreement may be signed in any number of counterparts, each of which taken together when delivered to each Party shall constitute one and the same instrument. Any Party may enter into this Agreement by signing any such counterpart.

A handwritten signature in black ink, consisting of a large, stylized initial 'A' followed by the letters 'for' in a cursive script.

**IN WITNESS** of which the parties hereto have executed this Agreement on the date first mentioned above.

SIGNED by )

/s/ Fan Kai Leung )  
for and on behalf of )  
**ANWELL TECHNOLOGIES LTD.** )  
in the presence of:- )

SIGNED by )

/s/ John Sham )  
for and on behalf of )  
**CONSORTIUM INVESTMENT (BVI) LIMITED** )  
in the presence of:- )

Handwritten signatures of Fan Kai Leung and John Sham.



**SCHEDULE 1**  
**DUTIES AND POWERS OF EXECUTIVE COMMITTEE**  
**(Clause 7)**

**Duties and Powers of the Executive Committee**

1. To manage the day-to-day operations of the Company including implementing all the Company's operating, management, financial and personnel policies as formulated by the Board from time to time.
2. To formulate and implement policies to ensure the Company's financial integrity and discipline as well as introduce performance-based incentives.
3. To carry out all other duties as shall be stipulated by the Board from time to time.
4. To set the strategy and development plans of the Company.

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**Appendix 1**

TERM LOAN NOTE

\$15,000,000

Date: \_\_\_\_\_, 2006

FOR VALUE RECEIVED, DONNGGUAN LITEWELL (OLED) TECHNOLOGY CO., LTD. a corporation formed in the People's Republic of China ("Borrower"), promises to pay to the order of ANWELL TECHNOLOGIES LIMITED ("Payee"), or its assigns, on or before December 31, 20\_ **[insert year of repayment]** in lawful money of the United States of America and in immediately available funds, the sum of Fifteen Million (\$15,000,000) Dollars or, if less, the aggregate outstanding amount of all loans ("Loans") made by Payee to Borrower pursuant to Clause 11.1 of the "Shareholders' Agreement" (as hereinafter defined), as evidenced by the schedule hereto annexed. Borrower further promises to pay interest at such address in like money, from the date each Loan is made on the outstanding principal amount owing hereunder from time to time, at a rate per annum equal to the "Interest Rate" (as defined in the Shareholders' Agreement). Interest shall be calculated on the basis of the actual number of days in such period divided by 365 (or, if any portion of that period falls in a leap year, the sum of (a) the actual number of days in that portion of the period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the period falling in a non-leap year divided by 365). Interest accrued hereunder shall be payable at the end of each calendar quarterly with respect to each Loan.

This Note is the "Anwell Note" referred to in that certain Shareholders' Agreement dated January 21, 2006 entered into Payee and Consortium Investment (BVI) Limited (the "Shareholders' Agreement") and is subject to the terms and conditions set forth therein, which terms and conditions are incorporated herein by reference. All terms used herein which are defined in the Shareholders' Agreement shall have the meanings given therein, except as otherwise defined herein.

Borrower may not prepay any Loan, in whole or in part, at any time except as provided for in the Shareholders' Agreement.

Presentment for payment, notice of dishonor, protest, and notice of protest are hereby waived.

This Note may be modified or canceled, only as permitted by the Shareholders' Agreement.

This Note shall be governed by, and construed in accordance with, the laws of Hong Kong. Borrower and Payee irrevocably submit to the exclusive jurisdiction of the courts of Hong Kong, and all suits or actions relating to this Note shall be brought only in such courts.

DONGGUAN LITEWELL (OLED)  
TECHNOLOGY CO., LTD

By: \_\_\_\_\_  
Name:  
Title:



Date of Loan	Amount of Loan





Issue of Convertible Notes with an aggregate principal value of up to US\$5,600,000 to be collectively called the Convertible Notes.

Issued pursuant to the Share Sale and Purchase Agreement (the "Agreement") dated 17 March 2006 between Anwell Technologies Limited and Consortium Investment (BVI) Limited in accordance with the Company's Articles of Association and the resolution of the Company in board meeting passed on 27 February 2006. This Convertible Note is subject to the terms of the Agreement, which are incorporated herein by reference.

**US\$5,600,000.00**

**Hong Kong  
Date: 3 April 2006**

For value received, ANWELL TECHNOLOGIES LIMITED, a Singapore corporation ("Anwell"), promises to pay to the order of CONSORTIUM INVESTMENT (BVI) LIMITED ("Holder"), or its assigns, in lawful money of the United States of America and in immediately available funds, the sum of Five Million Six Hundred Thousand Dollars (\$5,600,000), such amount to be paid in full three years from the date hereof (the "Payment Date"). Anwell further promises to pay to Holder in like money, interest accrued on the unpaid principal amount hereof from the date hereof to the Payment Date at a rate of three percent (3%) per annum equal. Interest shall be calculated on the basis of the actual number of days in such period divided by 365 (or, if any portion of that period falls in a leap year, the sum of (a) the actual number of days in that portion of the period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the period falling in a non-leap year divided by 365). Interest will be due and payable on the Payment Date. If any portion of the Principal Amount is not paid by Anwell when due then interest on the unpaid amount shall accrue at 8% per annum until such portion, and interest thereon, is paid by Anwell.

Attached hereto as Schedule 1 is additional terms of this Convertible Note, and such terms are incorporated herein by reference.

Anwell may not prepay this Convertible Note, in whole or in part, at any time without Holder's prior written consent.

Presentment for payment, notice of dishonor, protest, and notice of protest are hereby waived.

Anwell agrees to promptly pay all costs, including all attorneys' fees incurred by Holder, in collecting or enforcing payment of this Convertible Note in accordance with its terms.

This Convertible Note may be modified or canceled only by the written agreement of Anwell and Holder. Failure of Holder to assert any right herein shall not be deemed to be a waiver thereof.

This Convertible Note shall be governed by, and construed in accordance with, the laws of Hong Kong. Anwell and Holder irrevocably submit to the exclusive jurisdiction of the courts of Hong Kong, and all suits or actions relating to this Convertible Note shall be brought only in such courts.

**ANWELL TECHNOLOGIES LIMITED**

By: /s/ Fan Kai Leung  
Fan Kai Leung



**Anwell Technologies Limited** (Company Registration Number: 200308707W)

Registered address: 18 Cross Street, #08-03 Marsh 6 McLennan Centre, Singapore 048423

Business address: Units 10-15, 9/F Metro Loft, 38 Kwai Hai Street, Kwai Chung, New Territories, Hong Kong Tel: (852) 2499 9178 Fax: (852) 2499 9170



CONVERTIBLE BONDS CERTIFICATE

THIS IS TO CERTIFY that the under-mentioned person/company is the registered holder of Convertible Notes of a principal value of US\$5,600,000.00. The Convertible Notes herein comprised is issued with the benefit of and subject to the provisions contained in the Agreement dated 17 March 2006 between Anwell Technologies Limited and Consortium Investment (BVI) Limited.

Certificate No.: CB001

Registered holder of the Convertible Notes: Consortium Investment (BVI) Limited

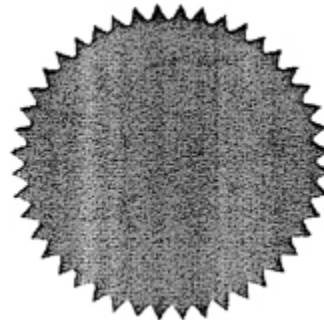
Date: 3 April 2006

The Common Seal of

Anwell Technology Limited )


was hereunto affixed in the )

presence of:- )



/s/ Fan Kai Leung \_\_\_\_\_ Director  
Fan Kai Leung

/s/ Wu Wai Kin \_\_\_\_\_ Director  
Wu Wai Kin

 **Anwell Technologies Limited** (Company Registration Number: 2003087078)  
Registered address: 1B Cross Street, #08-03 Marsh 6 McLennan Centre, Singapore 048423  
Business address: Units 10-15, 9/F Metro Loft, 3B Kwai Hai Street, Kwai Chung, New Territories, Hong Kong Tel: (852) 2499 9178 Fax: (852) 2499 9170

## SCHEDULE 1—TERMS AND CONDITIONS OF THE CONVERTIBLE NOTE

### 1. DEFINITIONS

1.1 In these terms and conditions, except where the context otherwise requires:-

“**Conversion**” has the meaning set out in Condition 6;

“**Convertible Note**” means a convertible note of a principal amount of US\$5,600,000 issued by Anwell in the form of Appendix 4 of the Agreement.

“**Holder(s) of the Convertible Note(s)**” “**holder(s)**” or the “**Investor(s)**” means Consortium Investment (BVI) Limited (“CIBL”) or its permitted assigns;

“**Issue Date**” shall fall on the Completion Date on which the Convertible Note is issued;

“**Issue Price**” means in relation to the Convertible Note the amount equivalent to 100% of the principal amount of such Convertible Note payable on the Payment Date.

“**Maturity Date**” means the date which is three years from the Completion Date;

“**Ordinary Share**” means an ordinary shares of par value S\$0.01 each in the capital of Anwell which is tradable on the SGX-ST (and if on the conversion of the Convertible Note the common stock of Anwell is being traded on another exchange, then such ordinary shares shall be tradable on such exchange).

“**Payment Date**” means the date which is three years from the Completion Date;

“**Principal Amount**”, in relation to the Convertible Note, means the aggregate sum of US\$5,600,000;

“**Redemption**” means repayment and “**repayment**” includes redemption and the words “redeem”, “redeemable” and “redeemed” and “repay”, “repayable” and “repaid” shall be construed accordingly; and

1.2 any reference to “conversion” shall mean the conversion of the Convertible Notes to Ordinary Shares.

1.3 all capitalised terms defined in the Agreement and not defined herein shall have the same definition and meaning wherever used herein.

### 2. TITLE AND TRANSFER

2.1 Subject to the terms and conditions of this Agreement, CIBL shall be obliged to subscribe for and Anwell shall be obliged to issue to CIBL, the Convertible Note at the Issue Price on the Completion Date of this Agreement (with CIBL paying the Issue Price solely and entirely through the transfer to Anwell of the Sale Shares).

2.2 Title to the Convertible Note shall be evidenced by registration in the register of Noteholders which Anwell shall keep. Anwell may (except as otherwise required by law, or in respect of any permitted transfers of which Anwell shall have received written notice) deem and treat the person in whose name a Convertible Note is registered as the absolute owner thereof (whether or not such Convertible Note shall be overdue and notwithstanding any notice of ownership, trust or any interest therein or writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and Anwell shall not be liable for so treating the person as the absolute owner.

2.3 A Convertible Note may be transferred in whole but not in part by CIBL only to any parent, affiliate or subsidiary of CIBL or as provided for in 2.4 below.

2.4 The Holder (in this Condition referred to as the “Transferor”) shall, subject as provided

A handwritten signature in black ink, appearing to be 'A. J.', is located in the bottom right corner of the page.

hereinafter, be entitled at any time and from time to time to transfer the Convertible Note(s) registered in its name (to be referred to hereinafter as the “**Transferred Note(s)**”) to any third party (the “**Intended Transferee**”) and Anwell hereby irrevocably consents to such transfer by the Holder PROVIDED THAT the Intended Transferee (if not already bound by the provisions of the Agreement) shall execute a deed of ratification and accession under which the Intended Transferee shall agree to be bound by and shall be entitled to the benefit of the Convertible Note as if an original party thereto in place of the Transferor to the extent of the Convertible Note(s) transferred to the intended Transferee.


- 2.5 A Convertible Note may be transferred by depositing the Certificate issued in respect of that Convertible Note, with the transfer form duly completed and signed, at the principal place of business (or other office notified to Noteholders) of Anwell which shall be in Singapore (the “**Designated Office**”).
- 2.6 Upon receipt of the Certificate, with the transfer form duly completed and signed, Anwell shall forthwith make a notation on the register of Noteholders to the effect that the Convertible Note is registered in the name of the transferee specified in such transfer form.
- 2.7 Each new Certificate to be issued upon a transfer of Convertible Notes will (following execution in manual or facsimile form by a duly authorised officer of Anwell and authentication on behalf of Anwell), be sent by courier (if the address of the transferee is in Singapore) or by express mail (if the transferee’s address is outside Singapore) at the risk of the holder entitled to the Convertible Notes to the address specified in the transfer form, within five Business Days of receipt by Anwell of the duly completed transfer form.
- 2.8 Registration of a transfer of Convertible Notes will be effected without charge by or on behalf of Anwell, but upon payment (or the giving of such indemnity as Anwell may reasonably inquire) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.
- 2.9 No Holder may require the transfer of a Convertible Note to be registered (i) during the period of 15 Business days ending on the due date for any payment of principal or interest on the Convertible Notes, or (ii) after the Certificate in respect of such Convertible Note has been deposited for conversion pursuant to Condition 5.

### 3. STATUS

- 3.1 The Convertible Notes constitute the direct, unsecured and unconditional obligations of Anwell ranking senior to all Anwell’s other present and future (save that it may be subordinated to finance borrowings from financial institutions of Anwell) indebtedness (other than indebtedness preferred by mandatory provisions of law).
- 3.2 The Ordinary Shares allotted pursuant to the Conversion shall carry the right to receive all dividends and other distributions declared after the date of the Conversion.
- 3.3 The Ordinary Shares shall rank pari passu in all respects with all other existing ordinary shares in the Purchaser.

### 4. INTEREST

- 4.1 The Convertible Notes shall bear interest from the respective dates on which they are issued and registered in accordance with the terms of the Agreement the rate of 3% per annum, payable on the Payment Date; provided that if any portion of the Principal Amount is not paid by Anwell when due then interest on the unpaid amount shall accrue at 8% per annum until such portion, and interest thereon, is paid by Anwell.
- 4.2 Each Convertible Note shall cease to bear interest (i) on conversion into Ordinary Shares of Anwell or (ii) from the due date for redemption hereof (provided that Anwell timely effects such redemption). In respect of a conversion of Convertible Notes referred to in (i) all interest accrued on such Convertible Note shall be converted into Ordinary Shares of Anwell.

A handwritten signature in black ink, appearing to be 'A. J. for', located in the bottom right corner of the page.

4.3 Interest shall be calculated on the basis of the actual number of days in such period divided by 365 (or, if any portion of that period falls in a leap year, the sum of (a) the actual number of days in that portion of the period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the period falling in a non-leap year divided by 365).

## 5. PAYMENT

5.1 Payment in respect of principal and interest will be made to the registered Convertible Noteholder on the Payment Date by wire transfer in Singapore dollars, to a bank account designated by the Convertible Noteholder. The Convertible Noteholder shall surrender all certificates in respect of the Convertible Note to the Company within 30 days of the payment of the principal at maturity.

5.2 The interest payable on the Convertible Notes will be paid to the Convertible Noteholder who is shown on the register of the Convertible Noteholders at the close of business on the \_\_\_<sup>th</sup> day before the due date of for the payment of interest.

5.3 If the due date for payment of any amount of principal or interest in respect of any Convertible Note is not on a bank business day, then the holder thereof shall not be entitled to payment of the amount due until the next following bank business day (with further interest thereon in respect of such additional days).

5.4 The Convertible Note, and all amounts due in respect thereof, will, at CIBL's option, immediately become due and payable (or convertible by CIBL per Article 6 below) should Anwell breach any of the terms of the Convertible Note, the Shareholders' Agreement or the Agreement and fail to cure such breach within ten (10) days of its receipt of written notice of such breach.

## 6. CONVERSION

6.1 In the event that during 6 months prior to the Payment Date the shares of Anwell traded on the SGX-ST (or, if such shares are trading on other exchanges, such of the exchanges which CIBL may select) is at all times not less than S\$0.38 per share the Convertible Note and all accrued and unpaid interest thereon will automatically be converted into duly authorised, validly issued, fully paid and unencumbered Ordinary Shares on the Payment Date. For the avoidance of any doubt, the parties hereby agree that for the purposes of this agreement, the exchange between the US dollar to Singapore dollar shall be fixed at 1.6188.

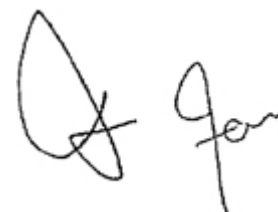
6.2 Prior to the Payment Date Anwell will, at the option of CIBL and upon receipt from CIBL of the Conversion Notice attached hereto as Annex A, convert the Convertible Note in full for the Principal Amount and all interest accrued thereon at any time and from time to time on or after the occurrence of any of the following events (and Anwell will give CIBL not less than twenty days prior written notice of the occurrence of such events, and Anwell will promptly give CIBL such information relating thereto as CIBL may reasonably request). In the event of such conversion the Payment Date and the Maturity Date will be the date of such conversion:

(i) greater than a majority of the issued and outstanding stock of Anwell is sold to a third party, or Anwell merges with or into another entity other than a then affiliate or subsidiary; or

(ii) a take over offer is made for Anwell.

6.2 Fractions of Ordinary Shares will not be issued on conversion and a cash payment will be made in respect of such fractional shares.

6.3 The price at which each Ordinary Share shall be issued upon conversion (the "Conversion Price") shall be S\$0.38 per Ordinary Share, as adjusted for any stock splits or combinations. The number of new ordinary Shares arising from the conversion of the Convertible Note will be equal to the Principal Amount and all interest accrued thereon, divided by 0.38 (as adjusted for any stock splits or combinations).

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6.4 The delivery of Ordinary Shares upon the exercise of any right of conversion of any Convertible Note under this Clause shall be effected by crediting the securities account designated by the holder of the Convertible Note.

## 7. REDEMPTION

7.1 In the event where there are Convertible Notes which have not been converted on the Payment Date (or any other date to which the parties may agree to in writing), CIBL shall have the right but not the obligation to tender the same for redemption and with accrued Interest on the terms in the Agreement.

7.2 Manner of Redemption: Pursuant to Condition 7.1 above, the Convertible Notes shall be redeemable in the following manner:-

7.2.1 redemption shall take place within 7 days from the date of the written request by the Convertible Notes holder by serving the Redemption Notice as set out in Annex B hereto Anwell (with Interest to accrue through the date of redemption);

7.2.2 at the time and place so agreed by the parties, the holders of Convertible Note shall be bound to surrender to Anwell the certificate(s) for their respective Convertible Notes to be redeemed and Anwell shall pay to the respective holder the Principal Amount and any interest payable pursuant to Condition 4.

## 8. CERTIFICATE

8.1 Unless otherwise requested by CIBL, CIBL shall be entitled to receive one certificate for the Convertible Note held by it. The certificate for the Convertible Note shall be executed by (i) two directors or (ii) one Director and one Secretary of Anwell. The certificate for the Convertible Note shall be in the form or substantially in the form shown in Appendix 4 to the Agreement.

8.2 If the certificate is worn out, mutilated, defaced, destroyed, lost or stolen, it shall be replaced by Anwell at the holder's request and at the cost of the holder upon provision of evidence satisfactory to Anwell that such certificate (if such was the case) was destroyed, stolen or lost, together with an indemnity or other security if required by Anwell. If the certificate is mutilated or defaced, it must be surrendered before a replacement will be issued.

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**FORM OF CONVERTIBLE NOTE**

Anwell Technologies Limited

Issue of Convertible Notes with an aggregate principal value of up to US\$5,600,000 to be collectively called the Convertible Notes.

Issued pursuant to the Share Sale and Purchase Agreement (the "Agreement") dated \_\_\_\_\_ between Anwell Technologies Limited and Consortium Investment (BVI) Limited in accordance with the Company's Articles of Association and the resolution of the Company in general meeting passed on \_\_\_\_\_. This Convertible Note is subject to the terms of the Agreement, which are incorporated herein by reference.

*CONVERTIBLE BONDS CERTIFICATE*

THIS IS TO CERTIFY that the under-mentioned person/company is the registered holder of Convertible Notes of a principal value of S\$ \_\_\_\_\_. The Convertible Notes herein comprised is issued with the benefit of and subject to the provisions contained in the Agreement dated \_\_\_\_\_ between Anwell Technologies Limited and □.

Certificate No.: CB001

Registered holder of the Convertible Notes: [•]

Date:

The Common Seal of \_\_\_\_\_ )  
was hereunto affixed in the presence of:- )

\_\_\_\_\_ Director

\_\_\_\_\_ Director/Secretary



**ANNEX A – CONVERSION NOTICE**

Date:

Dear Sirs

**RE: CONVERSION NOTICE**

1. I/We refer to the Convertible Note dated \_\_\_\_\_ issued by Anwell Technologies Limited (“Anwell”) to Consortium Investment (BVI) Limited.
2. I/We being the registered holder of the Convertible Note represented by the attached certificate(s) hereby exercise my/our conversion rights in respect of, \_\_\_\_\_ of such Convertible Note in accordance with the TERMS AND CONDITIONS OF THE CONVERTIBLE NOTE as set out in **SCHEDULE 1** thereof.
3. I/We accept \_\_\_\_\_ fully paid publicly traded ordinary shares of \_\_\_\_\_ each in the capital of Anwell to be issued pursuant hereto in accordance with the Memorandum and Articles of Association of Anwell. We desire all of such ordinary shares to be registered in our name and hereby authorise the entry of my/our name in the register of members of Anwell in respect thereof and the dispatch of a certificate therefor by registered post to \_\_\_\_\_ at \_\_\_\_\_.

Yours faithfully

\_\_\_\_\_  
Name of Holder

A handwritten signature in black ink, appearing to be 'A. For'.

**ANNEX B – REDEMPTION NOTICE**

Date:

Dear Sirs

**RE: REDEMPTION NOTICE**

1. I/We refer to the Convertible Note dated \_\_\_\_\_ issued by Anwell Technologies Limited to Consortium Investment (BVI) Limited.
2. I/We hereby note that \_\_\_\_\_ amount of Convertible Notes have not been converted on the "Payment Date" (as defined therein).
3. I/We being the registered holder of the Convertible Note represented by the attached certificate(s) hereby exercise our redemption rights in respect of \_\_\_\_\_ Convertible Note pursuant to Condition 7.1 in accordance with the TERMS AND CONDITIONS OF THE CONVERTIBLE NOTE as set out in **SCHEDULE 1** thereof.

Yours faithfully

\_\_\_\_\_  
Anwell

A handwritten signature in black ink, consisting of a large, stylized initial 'A' followed by the letters 'for' in a cursive script.

**Exhibit 8.1**

The following table sets forth the significant subsidiaries owned, directly or indirectly, by us.

<u>Name</u>	<u>Place of incorporation</u>	<u>Percentage of equity interest held</u>
<b>SUBSIDIARIES:</b>		
Global Appliances Holdings Limited	British Virgin Islands	100.0%
Global Display Holdings Limited	British Virgin Islands	100.0
Lite Array Holdings Limited	British Virgin Islands	100.0
Dongguan Wing Shing Electrical Products Factory Company Limited	China	100.0
Dongguan Lite Array Company Limited	China	100.0
Dongguan Litewell (OLED) Technology Co., Ltd.	China	100.0
Global Digital Imaging Limited (Formerly known as Global Display Limited)	Hong Kong	100.0
Global-Tech USA, Inc.	United States	100.0
MasterWerke Limited	United States	100.0
GT Investment (BVI) Limited	British Virgin Islands	100.0
Kwong Lee Shun Trading Company Limited	Hong Kong	100.0
Pentalpha Enterprises Limited	Hong Kong	100.0
Pentalpha Hong Kong Limited	Hong Kong	100.0
Pentalpha Macau Commercial Offshore Limited	Macau	100.0
Wing Shing Overseas Limited	British Virgin Islands	100.0
Wing Shing Products (BVI) Company Limited	British Virgin Islands	100.0
Global Auto Limited (Formerly known as Lite Array (OLED) H.K. Limited)	Hong Kong	100.0
Global Optics Limited	Hong Kong	100.0
Winway Technology Development Limited	Hong Kong	83.33
Consotium Investment (BVI) Limited	British Virgin Islands	100.0
Global Rich Innovation Limited	Hong Kong	100.0
Lite Array, Inc	United States	76.75
Global Lite Array (BVI) Limited	British Virgin Islands	76.75
Lite Array OLED (BVI) Company Limited (Formerly Known as Lite Array (BVI) Company Limited)	British Virgin Islands	76.75

**RULE 13a-14(a) CERTIFICATION**

I, John C.K. Sham, certify that:

1. I have reviewed this annual report on Form 20-F of Global-Tech Appliances Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report.

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 33-8545];

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this annual report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: September 29, 2006

By:                     /s/ John C.K. Sham                      
John C.K. Sham  
President and Chief Executive Officer

**RULE 13a-14(a) CERTIFICATION**

I, Kin Shek Leung, certify that:

1. I have reviewed this annual report on Form 20-F of Global-Tech Appliances Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report.
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 33-8545];
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this annual report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: September 29, 2006

By:                     /s/ Kin Shek Leung                      
Kin Shek Leung  
Acting Chief Financial Officer

**Exhibit 13.1**

**CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Global-Tech Appliance Inc. (the "Company") on Form 20-F for the period ending March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John C.K. Sham, President and Chief Executive Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ John C.K. Sham

\_\_\_\_\_  
John C.K. Sham  
President and Chief Executive Officer  
Date: September 29, 2006



**Exhibit 13.2**

CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Global-Tech Appliance Inc. (the "Company") on Form 20-F for the period ending March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kin Shek Leung, Acting Chief Financial Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Kin Shek Leung

\_\_\_\_\_  
Kin Shek Leung  
Acting Chief Financial Officer  
Date: September 29, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-9182) pertaining to the Amended and Restated 1997 Stock Option Plan of Global-Tech Appliances, Inc. (the "Company") of our report dated August 4, 2006, with respect to the consolidated financial statements of the Company included in the Form 20-F for the year ended March 31, 2006.

/s/ Ernst & Young  
Hong Kong

September 27, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-129973) pertaining to the 2005 Stock Option Plan of Global-Tech Appliances, Inc. (the "Company") of our report dated August 4, 2006, with respect to the consolidated financial statements of the Company included in the Form 20-F for the year ended March 31, 2006.

/s/ Ernst & Young  
Hong Kong

September 27, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-10932) pertaining to the 1999 Employee Stock Purchase Plan of Global-Tech Appliances, Inc. (the "Company") of our report dated August 4, 2006, with respect to the consolidated financial statements of the Company included in the Form 20-F for the year ended March 31, 2006.

/s/ Ernst & Young  
Hong Kong

September 27, 2006