

---

---

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

**FORM 20-F**

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

**OR**

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

*For the fiscal year ended March 31, 2012*

**OR**

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

**OR**

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

Date of event requiring this shell company report:

For the transition period from

to

**GLOBAL-TECH ADVANCED INNOVATIONS INC.**

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

**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)

**Attn: John C.K. Sham  
12/F., Kin Teck Industrial Building  
26 Wong Chuk Hang Road  
Aberdeen, Hong Kong  
Tel.: (852) 2814 0601  
Fax: (852) 2873 0591**

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

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

Title of each class:

**Common Shares, par value \$0.04 per share**

Name of each exchange on which registered:

**The NASDAQ Stock Market LLC**

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

**Not Applicable**

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

**Not Applicable**

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

**3,229,314 Common Shares, par value \$0.04 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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

U.S. GAAP ☒

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

Other ☐

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

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

---

---

## TABLE OF CONTENTS

	<u>Page</u>
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	2
<u>A. Directors and senior management</u>	2
<u>B. Advisers</u>	2
<u>C. Auditors</u>	2
<u>Item 2. Offer Statistics and Expected Timetable</u>	2
<u>A. Offer statistics</u>	2
<u>B. Method and expected timetable</u>	2
<u>Item 3. Key Information</u>	3
<u>A. Selected financial data</u>	3
<u>B. Capitalization and indebtedness</u>	4
<u>C. Reasons for the offer and use of proceeds</u>	4
<u>D. Risk factors</u>	4
<u>Item 4. Information on the Company</u>	11
<u>A. History and development of the Company</u>	11
<u>B. Business overview</u>	11
<u>C. Organizational structure</u>	20
<u>D. Property, plant and equipment</u>	22
<u>Item 4A. Unresolved Staff Comments</u>	22
<u>Item 5. Operating and Financial Review and Prospects</u>	23
<u>A. Operating results</u>	23
<u>B. Liquidity and Capital Resources</u>	31
<u>C. Research and development, patents and licenses, etc.</u>	33
<u>D. Trend information</u>	33
<u>E. Off-balance sheet arrangements</u>	33
<u>F. Tabular Disclosure of Contractual Obligations</u>	33
<u>Item 6. Directors, Senior Management and Employees</u>	34
<u>A. Directors and senior management</u>	34
<u>B. Compensation</u>	35
<u>C. Board practices</u>	35
<u>D. Employees</u>	36
<u>E. Share ownership</u>	37
<u>Item 7. Majority Shareholders and Related Party Transactions</u>	40
<u>A. Major shareholders</u>	40
<u>B. Related party transactions</u>	40
<u>C. Interests of experts and counsel</u>	41
<u>Item 8. Financial Information</u>	41
<u>A. Consolidated statements and other financial information</u>	41
<u>B. Significant changes</u>	44
<u>Item 9. The Offer and Listing</u>	44
<u>A. Offer and listing details</u>	44
<u>B. Plan of distribution</u>	45
<u>C. Markets</u>	45
<u>D. Selling shareholders</u>	45
<u>E. Dilution</u>	45
<u>F. Expenses of the issue</u>	45

<u>Item 10. Additional Information</u>	45
<u>A. Share capital</u>	45
<u>B. Memorandum and articles of association</u>	45
<u>C. Material contracts</u>	48
<u>D. Exchange controls</u>	48
<u>E. Taxation</u>	49
<u>F. Dividends and paying agents</u>	53
<u>G. Statement by experts</u>	53
<u>H. Documents on display</u>	53
<u>I. Subsidiary information</u>	53
 <u>Item 11. Quantitative and Qualitative Disclosures about Market Risk</u>	 54
 <u>Item 12. Description of Securities Other than Equity Securities</u>	 54
<u>A. Debt securities</u>	54
<u>B. Warrants and rights</u>	54
 <u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	 54
 <u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	 54
 <u>Item 15. Controls and Procedures</u>	 55
 <u>Item 16. [Reserved]</u>	 56
 <u>Item 16A. Audit Committee Financial Expert</u>	 56
 <u>Item 16B. Code of Ethics</u>	 56
 <u>Item 16C. Principal Accountant Fees and Services</u>	 56
 <u>Item 16F. Change in Registrant's Certifying Accountant</u>	 57
 <u>Item 16G. Corporate Governance</u>	 57
 <u>Item 17. Financial Statements</u>	 59
 <u>Item 18. Financial Statements</u>	 59
 <u>Item 19. Exhibits</u>	 59
 <u>Index to Consolidated Financial Statements</u>	 F-1
<u>Exhibit Index</u>	E-1

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

“Discontinued operation(s)” refers to our home appliance business, which was discontinued in January 2012.

References throughout this annual report to a fiscal year refer to the fiscal year ended on March 31 of that year. “Fiscal 2012,” for example, refers to the fiscal year ended March 31, 2012.

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

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

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

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

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

## **PART I**

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

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

Not applicable.

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

Not applicable.

### Item 3. Key Information

#### 1A. Selected financial data.

The selected consolidated statement of operations data for the fiscal years ended March 31, 2010, 2011 and 2012 and the selected consolidated balance sheets data as of March 31, 2011 and March 31, 2012 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, 2008 and 2009 and the selected consolidated balance sheets data as of March 31, 2008, 2009 and 2010 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.

Please see Item 4.A—“Information on the Company—Recent Developments—Discontinued Operations” on page 11 of this annual report for a detailed discussion of the discontinued operation of the Company’s home appliances business.

	Fiscal Year Ended March 31,				
	2008 <sup>(2)</sup>	2009 <sup>(2)</sup>	2010 <sup>(2)</sup>	2011 <sup>(2)</sup>	2012 <sup>(2)</sup>
	(In thousands, except for per share data)				
Statement of operations data:					
Net sales	\$ 40,172	\$ 36,582	\$ 48,040	\$ 57,469	\$ 69,653
Cost of goods sold	(36,183)	(35,098)	(39,722)	(50,403)	(59,009)
Gross profit	3,989	1,484	8,318	7,066	10,644
Selling, general and administrative expenses	(8,042)	(7,588)	(8,353)	(11,318)	(10,612)
Other operating income (loss), net	(143)	1,674	179	1,137	28
Operating profit (loss)	(4,196)	(4,430)	144	(3,115)	60
Interest income, net	1,727	535	277	537	96
Other income (expense), net	(2,018)	(532)	310	370	1,116
Loss on dissolution of a subsidiary	—	(1,029)	—	—	—
Gain on disposal of subsidiaries	—	158	—	—	—
Share of losses of jointly-controlled entities	(346)	—	—	—	—
Income (loss) from continuing operations before income taxes	(4,833)	(5,298)	731	(2,208)	1,272
Income tax expense	(1,597)	(421)	(389)	(204)	(1,229)
Income (loss) from continuing operations	(6,430)	(5,719)	342	(2,412)	43
Income (loss) from discontinued operations, net of taxes	2,003	(122)	3,124	(1,776)	1,374
Net income (loss) before non-controlling interests	(4,427)	(5,841)	3,466	(4,188)	1,417
Non-controlling interests	—	—	—	175	(6)
Net income (loss)	<u>\$ (4,427)</u>	<u>\$ (5,841)</u>	<u>\$ 3,466</u>	<u>\$ (4,013)</u>	<u>\$ 1,411</u>
Basic and diluted earnings per share:					
Income (loss) from continuing operations	\$ (2.10)	\$ (1.87)	\$ 0.11	\$ (0.74)	\$ 0.01
Income (loss) from discontinued operations	0.65	(0.04)	1.03	(0.58)	0.45
Basic and diluted net income (loss) per share of common stock	<u>\$ (1.45)</u>	<u>\$ (1.91)</u>	<u>\$ 1.14</u>	<u>\$ (1.32)</u>	<u>\$ 0.46</u>
Basic and diluted weighted average number of shares of common stock <sup>(1)</sup>					
	<u>3,057</u>	<u>3,051</u>	<u>3,038</u>	<u>3,039</u>	<u>3,039</u>

<sup>(1)</sup> The Company executed a 4-for-1 reverse stock split of its common stock effective as of December 10, 2008. All numbers have been adjusted to reflect this reverse stock split on a retroactive basis.

<sup>(2)</sup> Comparative figures have been reclassified to conform with current year’s presentation.

			At March 31,		
	2008	2009	2010	2011	2012
	(In thousands)				
Balance sheet data:					
Working capital <sup>(1)</sup>	\$ 43,995	\$ 46,362	\$ 51,870	\$ 45,170	\$ 54,000
Total assets	108,725	103,914	111,087	119,936	109,040
Net assets <sup>(2)</sup>	78,243	74,201	77,736	76,512	80,259
Total debt <sup>(3)</sup>	1,600	—	—	12,585	4,000
Shareholders' equity	78,243	74,201	77,736	76,337	80,091

<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 and non-controlling interests.

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

#### **B. Capitalization and indebtedness.**

Not applicable.

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

Not applicable.

#### **D. Risk factors**

**The continuing global economic and financial crisis.** The global economic and financial market crisis that began in 2008 continues to cause, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy and reduced consumer spending, all of which has had and will continue to have a negative effect on our business, results of operations and financial condition. Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers and end users. Recent economic conditions have reduced the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, and may reduce their ability to pay for our products and services after purchase. Similarly, our suppliers may not be able to supply us with needed components on a timely basis, may increase prices or go out of business, which could result in our inability to meet customer demand, fulfill our contractual obligations or affect our gross margins. We cannot predict the timing or duration of these negative market conditions or the timing or strength of any economic recovery. If the economy or markets in which we operate remain weak or deteriorate further, our business, financial condition and results of operations will be materially and adversely impacted.

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

**Credit terms in the PRC.** Some of the Company's major customers in the PRC are granted credit terms of up to 210 days; however, receivables for some of the Company's customers may extend beyond the stated credit terms. An increase in receivables that extend beyond stated credit terms could have a material adverse effect on our profitability and results of operations.

**Dependence on major customers.** In fiscal 2012, over 97.1% of our sales of home appliances were to one customer, the Electrolux Group. In January 2012, the Company completed its exit from the home appliances business, at which time production of all floor care products was discontinued. Consequently, the Company does not expect its relationship with Electrolux to continue beyond fiscal 2012. For a more detailed discussion of the Company's exit from the home appliances business, see Item 4.A—"Information on the Company—Recent Developments—Discontinued Operations" on page 11 of this annual report.

Our five largest Electronic Components and EMS customers represent 82.6% and 100.0% of net sales of their respective segments, and 64.5% and 20.7% of consolidated net sales in fiscal 2012, respectively. We have no contractual arrangements with these customers and only sell to them based on purchase orders received. We expect that a limited number of customers will continue to represent a substantial portion of our sales for the foreseeable future. The loss of any of our major customers or a decrease or delay in orders or anticipated spending by such customers could materially reduce our revenues and profitability. Our largest customers could also engage in business combinations, which could increase their size, reduce their demand for our products as they recognize synergies or rationalize assets and increase or decrease the portion of our total sales concentration to any single customer.



**Penalties for workforce reductions.** In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, this new law requires an employer to conclude an "open-ended employment contract" with any employee who either has worked for the employer for 10 years or more or has had two consecutive fixed-term contracts. An "open-ended employment contract" is in effect a lifetime, permanent contract, which is terminable only in specified circumstances, such as a material breach of the employer's rules and regulations, or for a serious dereliction of duty. Under the new law, downsizing by 20% or more of an individual entity may occur only under specified circumstances, such as a restructuring undertaken pursuant to China's Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations. Also, in the event of a lay off of more than 20 employees at one time, the entity is required to communicate with its labor union and report to the District Labor Bureau. As discussed elsewhere in this annual report, we discontinued our home appliance business in January 2012 and all employees formerly assigned to the home appliance segment were released. The reduction in the Company's workforce was achieved in full compliance with the Labor Contract Law and we do not anticipate the assessment of any penalties a result of our exit from the home appliance business.

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

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

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

In fiscal 2012, in connection with our exit from the home appliance business, previous accruals for the home appliance segment were reversed to offset severance and other costs relating to the elimination of employees previously assigned to the home appliance 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 and labor organizations have begun to initiate industrial action to raise wages. We continually adjust salaries and fringe benefits in order to attract and retain an adequate labor force. This trend of labor shortages is expected to continue and will likely result in further increases in wages as companies seek to retain their existing work forces. In the coming year, we expect that both a potential shortage of labor and increasing costs will impact our manufacturing operations, which could adversely affect gross margins.

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

**Foreign sales, operations and assets.** Substantially all of our products are currently manufactured in China and over 98% of the net book value of our total long-lived assets is located there. We sell products to companies based principally in China, Europe and North America. Consequently, our international operations and sales may be subject to the following risks, among others:

- political and economic risks, including political instability, currency controls and exchange rate fluctuations;
- changes in import/export regulations;

- changes in the rate of inflation;
- changes in tariff and freight rates; and
- changes in tax rates.

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

**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, China was admitted to the World Trade Organization ("WTO"), and is now entitled to the full trading rights afforded a WTO member country. There can be no assurance, however, that China will continue to pursue and implement favorable economic reform policies, that such policies will be successful if pursued or that such policies will not be significantly altered from time to time without prior notice.

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

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

**PRC taxation on deemed income.** The PRC tax authorities could determine that any inter-company payable account in accordance with the PRC GAAP could be deemed income if such inter-company payables cannot be settled and therefore subject to taxation. In accordance with FIN 48, we evaluated our position and determined that such inter-company payables will be settled, and particularly, since prior year tax assessment have been confirmed with the PRC tax authorities, deeming such inter-company payables as income is not likely. However, if the PRC tax authorities deem our inter-company payables of our PRC subsidiaries as income, it would have a material impact on our financial position and results of operations.

**PRC taxation on worldwide income.** We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our worldwide income. The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Also, on April 22, 2009, the State Administration of Tax ("SAT") issued a Tax Circular, *Guoshuifa [2009] No. 82, Notice on the Recognition of Overseas Incorporated Domestically Controlled Enterprises as PRC Resident Enterprises Based on the Place of Effective Management Criteria*, or Circular 82, with retrospective effect from 1 January 2008. According to Circular 82, any

enterprise established under the law of a country or region other than the PRC but whose main investor is a PRC enterprise or Group shall be recognized as a resident enterprise for PRC tax purposes if all the following criteria are met: (i) the senior executives responsible for its daily production or business operations and the place where such responsibilities are carried out are mainly located in China; (ii) decisions about its finances (such as borrowing, lending, financing and managing financial risk) and human resources (such as staff recruitment, termination, and remuneration policies) are made or approved by organizations or individuals located in China; (iii) its major properties, accounting books and records, company seal, board minutes and resolutions, shareholders' meeting minutes, etc. are kept in China; and (iv) 50% or more of its voting directors or its senior executives habitually reside in China. The principle of "substance over form" applies when determining the place of effective management. Although Circular 82 was issued to regulate the PRC tax resident judgment of companies established overseas and controlled by PRC companies, which is not applicable in our case, the criteria in Circular 82 should be used as a reference to the SAT's view on this issue. We believe the risk of being recognized as a PRC resident enterprise under the EIT Law is very low. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our results of operations.

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

**Passive foreign investment company.** Based on our financial statements, relevant market data and the projected composition of our income and valuation of our assets, we do not believe that we were a passive foreign investment company, or PFIC, for fiscal 2012, and we do not expect to be a PFIC in fiscal 2013 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a passive foreign investment company, such characterization could result in adverse U.S. tax consequences to our investors if they are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements.

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

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

In addition, non-corporate U.S. investors will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2013, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets (which include cash) by (determined on a quarterly average) value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%. The calculation of the value of our assets will be based, in part, on the then prevailing market value of our common shares, which is subject to change. We cannot assure that we will not be a PFIC for 2013 or any future taxable year. See "Item 10. Additional Information—E. Taxation—Material United States Federal Income Tax Consequences."

**Security of bank accounts in the PRC.** The Company has a number of bank accounts in the PRC to satisfy lines of credit, exchange regulations and banking facilities and to support its operations. None of these accounts are insured by the government. In the event of a credit crisis in the PRC, our accounts would be vulnerable to loss, which would have a material adverse effect on our financial condition.

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

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

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

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

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

excess of the insurance coverage, could have a material adverse effect on our business, results of operations and financial condition. In addition, product liability claims, regardless of their merit or eventual outcome, may have a material adverse effect on our business reputation.

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

***Risks of manufacturing in China; property damage.*** All of our products are manufactured at our factory complex located in Dongguan, China. In addition to the political and economic risks of operations in China, firefighting and disaster relief assistance in China is not as sophisticated as in certain Western countries. We currently maintain property damage insurance in the aggregate of approximately \$105.5 million which covers our inventory, furniture, equipment, machinery and buildings and also maintain business interruption insurance in the aggregate of approximately \$20.3 million for losses relating to our factory. Material damage to, or the loss of, our facilities due to fire, severe weather, flood, force majeure or other act of God or cause, even if insured against, would have a material adverse effect on our business, results of operations and financial condition.

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

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

***Concentration of ownership.*** Wing Shing Holdings Company Limited, a British Virgin Islands company (“Wing Shing Holdings”), directors and family members of directors of the Company beneficially own approximately 67.3% of our outstanding common shares (issued net of treasury shares). The share ownership of Wing Shing Holdings is held 44.0% by the estate of Kwong Ho Sham who prior to his passing, served as the Chairman of the Company’s Board of Directors, and 56.0% by our Chief Executive Officer, John Sham, who, currently serves as a director. Voting control of Wing Shing Holdings is effectively held by John Sham. As a result, Wing Shing Holdings and its shareholders and their family members are in a position to control our activities and policies, including possessing the voting power to elect our board of directors and approve all matters requiring shareholder approval and the ability to generally direct our affairs. In June 2011, Kwong Ho Sham established a trust that would own his portion of Wing Shing Holdings’ shares in the Company. Upon his passing, 303,070 shares currently owned by Wing Shing Holdings would go into this trust and 385,727 shares owned by Wing Shing Holdings would be transferred to John C.K. Sham. As of July 24, 2012, the transfers had not been officially executed but are expected to occur during fiscal 2013. John C.K. Sham, as a trustee of his father’s charitable trust, declines beneficial ownership of any of the trust’s shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Recent Developments**

##### ***Discontinued Operations***

In recent years, profit margins in the home appliance business had been rapidly decreasing, due at least in part, to the rising cost of raw materials and labor in the PRC together with the unwillingness or inability on the part of customers to offset these costs through price increases or reimbursements. Customer pricing demands no longer reflected actual production costs and as a result, margins in recent years had approached unacceptable levels, with the Company's home appliances segment suffering significant operating losses in fiscal 2011.

In response to the foregoing, on June 3, 2011, our Board of Directors approved plans to exit the home appliances business in fiscal 2012. The Company ceased production of its floor care products on January 15, 2012, at which time Electrolux, our sole remaining customer in the home appliances segment, successfully transitioned production to alternate vendors.

By exiting the home appliances business, the Company is now free to devote its full focus and efforts on its other business segments, specifically the electronic components and EMS segments, as well as certain of our other newer businesses, such as our medical instrument business, which we believe have greater potential for growth. Aside from one-time costs, we are hopeful that by exiting the home appliances business, the Company will generate significant cash savings and improved earnings. The Company intends to lease the facilities that previously housed our home appliances business, which, if successful, could generate additional income while creating little or no additional costs.

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

Historically, the Company's primary business was the export of a wide range of small electrical appliances to North American and European markets. However, the Company's continuing efforts to diversify its business has resulted in nearly all of its revenues from continuing operations for fiscal 2012 being derived from the Chinese domestic telecommunications market. Accordingly, it is anticipated that the majority of the Company's future business is likely to be focused on opportunities in the PRC.

During fiscal 2012, the Company operated in four business segments: (i) home appliances; (ii) electronic components; (iii) electronic manufacturing services ("EMS"); and (iv) others. (See Item 4.A—"Information on the Company—Recent Developments—Discontinued Operations" for a full discussion regarding the Company's exit from the home appliances business in fiscal 2012.)

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

## Home Appliances

Please see Item 4.A—“Information on the Company—Recent Developments—Discontinued Operations” for a full discussion regarding the Company’s exit from the home appliances business in fiscal 2012.

At its inception, the focus of our home appliance business was personal beauty products, and over time, gravitated towards the manufacture of small kitchen electronics and floor care products, the latter category ultimately becoming the sole focus. In connection with our production of small kitchen electronics and floor care products, we partnered with many of the leading brands in the United States and Europe, as market conditions in their home markets required them to procure finished products from the Far East to remain competitive. However, we were ultimately unable to remain competitive in the small kitchen electronics category as competitors offered increasingly less expensive products and mass market retailers drove down retail prices. As a result, in fiscal years 2011 and 2012, production consisted solely of vacuum cleaners, which required sophisticated and complex manufacturing equipment and processes, which provided us with a slight competitive advantage.

## Strategy

Our initial business strategy for fiscal 2012 was to remain a reliable manufacturer for major brand marketers in North America and Europe and to concentrate exclusively on production of those products that required complex manufacturing equipment. However, significant cost increases, both in raw materials and labor, left our customers with no choice other than to accept price increases or seek alternative vendors for the manufacturing of their products as production at then current pricing levels was no longer practical.

Following our boards’ decision to exit the home appliance business, a cooperative transition program was established with our customers that provided pricing relief for us and allowed our customers to organize the transition of their tooling to other vendors while at the same time building their inventories of finished goods. During the transition period, our efforts were focused on continuing to manufacture quality products in an efficient manner.

We expect to lease some or all of the facilities previously utilized for the home appliance business. Discussions are ongoing with potential lessees wishing to utilize the facilities for warehousing. Real estate, especially space as large and contiguous as ours, is at a premium in Dongguan, the city in which our facilities are located. However, increasing labor costs, tax rates and fees in Guangdong Province and the recent economic slowdown in China has begun to limit the number of potential lessees and may result in delays in finalizing a leasing arrangement.

## Products

During fiscal 2012, we primarily manufactured floor care products along with a few small electrical household appliances, based on product specifications provided by customers. We produced approximately 2.1 million appliance units in fiscal 2012, compared to 1.7 million units in fiscal 2011.

The following table reflects our net sales for each product category in fiscal 2012, 2011 and 2010:

	Fiscal Years Ended March 31,		
	2012	2011	2010
	(In thousands)		
<b>Product category:</b>			
Floor care products	\$51,056	\$40,013	\$51,923
Kitchen appliances	756	1,081	559
Others <sup>(1)</sup>	2,074	2,392	1,408
Total	<u>\$53,886</u>	<u>\$43,486</u>	<u>\$53,890</u>

<sup>(1)</sup> Includes electric motors for floor care, travel products, environmental care products and accessories for each of our product categories as well as tooling income for procurement, design and manufacturing of tooling and molds.



**Floor care products.** We began manufacturing floor care products in fiscal 2000. Our floor care products included hand-held steam vacuum cleaners, upright vacuum cleaners and extractors. Floor care products represented 94.8%, 92.0% and 96.3% of our net sales in our home appliance business in fiscal 2012, 2011 and 2010, respectively. As a contract manufacturer, our sales in this category were principally driven by our product quality, testing systems, sophisticated electric motor production, and our existing tooling and injection molding machinery for large plastic parts.

**Kitchen appliances.** We began manufacturing kitchen appliances in fiscal 1992. 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. However, by fiscal 2002, we were unable to maintain adequate operating margins as these products became heavily commoditized. Accordingly, we ceased our marketing efforts for these products in fiscal 2002 and production was dramatically reduced. Kitchen appliances represented 1.4%, 2.5% and 1.0% of our net sales in our home appliance business in fiscal 2012, 2011 and 2010, respectively.

## **Product Design and Development**

During fiscal 2012, our design and development efforts were limited to supporting our existing customers' programs. As a result of the business becoming increasingly commoditized, and given the Company's decision to exit the home appliance business late in fiscal 2012, no investments were made during fiscal 2012 to support any further independent design or product development efforts, except for some limited design work on products we hoped to market in the PRC.

Our expenditures for design and development of home appliance products were approximately \$0.3 million in fiscal 2010, \$0.2 million in fiscal 2011 and \$0.1 million in fiscal 2012.

## **Manufacturing**

Our principal production facility for the home appliances business was located in the township of Dongguan, Guangdong Province, China, within a self-contained 207,300 square meter vertically-integrated manufacturing complex. Until recently, vertical integration in the home appliance business enabled us to manufacture high-quality products cost effectively. It also allowed us to emphasize quality control and provide the flexibility in the manufacturing process necessary to better service our customers' needs. We 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, enabled us to efficiently produce many of our components and assemble these components to create our finished products. We manufactured most of our motors and other components, including thermostats, plastic parts, metal and die-casting parts, switches and circuit boards. We also had a multi-faceted coatings line and pad printing capability. We sub-contracted the production of certain components when they could be purchased from other suppliers at lower prices, when we did not have the specialized machinery to produce the component, or when we could allocate our production capacity more efficiently to alternative tasks. However, we did not generally depend on other manufacturers to provide key parts or accessories.

Generally, our production schedule was based on purchase orders and forecasts received from our customers once tooling was completed, typically covering a period of three to six months. The first 45 days of orders to be shipped pursuant to the forecasts were generally firm. Later shipments often varied from initial forecasts, depending on the needs of the customer. There were no binding agreements for forecasted orders and thus forecasted orders could be canceled at any time without penalty to the customer or recourse to us.

Our physical space was less than fully utilized. Excluding dormitories, cafeterias and recreation areas, roads and portions of land reserved for future expansion, the completed production area dedicated to home appliances was approximately 88,490 square meters.

We shipped our home appliance 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 passed to the customer when the truck was unloaded and the container was accepted by the carrier located in the ports of Hong Kong or China. Transportation of components and finished products between Dongguan, China and port was by truck. Component parts purchased from areas outside Guangdong Province were generally shipped by sea.

## Major Customers

Sales to Electrolux commenced in 2004, but as discussed elsewhere in this annual report, the Company has completed its exit from the home appliances business and Electrolux has transitioned its production needs to alternate vendors. Please see Item 4.A—“Information on the Company—Recent Developments—Discontinued Operations” for a full discussion regarding the Company’s exit from the home appliances business.

## Discontinued Operations

As a result of the successful completion of our exit strategy from the home appliances business in fiscal 2012, the home appliances segment has been accounted for as a discontinued operation for reporting purposes in this annual report.

## Electronic Components

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

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

In late fiscal 2005, we established a new entity, Global Optics Limited, to produce and market complementary metal oxide semiconductor (CMOS) camera modules (“CCM’s”) to cell phone manufacturers in China and to develop other products incorporating optical systems. In fiscal 2012 our net sales of CCM’s and other electronic products were \$54.4 million, which represents a 27.7% increase over fiscal 2011 net sales of \$42.6 million.

We believe the opportunity to sell CCM’s and other electronic components to cellular phone and tablet computer 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 the operation of a top quality clean room in our manufacturing facility in the PRC for low-cost assembly and concurrently concentrate on software development, customer integration design and product enhancements, particularly higher pixel count cameras and improved optics. We also are developing products that incorporate CCM’s for non-telecommunication applications, our primary focus being on document photo scanners, security products and medical instruments.

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

## Strategy

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

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

*Innovative product development.* Each CCM application requires its own software and integration programs. We submit multiple samples to our customers to test and evaluate. This process ensures application effectiveness and superior optical performance, particularly focusing, is achieved. We also concentrate on developing higher pixel count and clearer resolution CCM’s as customer demands for such features continue to rise. Recently, we have begun designing a range of security devices and photo scanners incorporating CCM’s that we market primarily in the PRC.

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

*Expansion of manufacturing capabilities.* We have invested in all of the equipment necessary to assemble modules in a Class 1000 clean room. We have added precision mounting equipment and a full range of testing apparatus to support and maintain high quality production. We continually expanded our facility from inception through fiscal 2008 as demand for CCM's continued to grow, and now have sufficient capacity to support steady growth in this business with limited additional investment. Our current CMOS technology is CSP, or chip scale packaging, that supplies us with an integrated sensor and lens. As we expand this business beyond its current capacity, we will investigate COB, or chip on board technology, which, while requiring additional capital investment, would reduce our costs and expand our capabilities.

## **Products**

We started manufacturing CCM's early in fiscal 2006 primarily utilizing 0.3 megapixel CMOS sensors. Sales in fiscal 2012, 2011 and 2010 were \$54.4 million, \$42.6 million and \$38.9 million respectively. As pricing for VGA cell phone cameras continued to decline at a rate exceeding 20% per annum, we developed higher pixel count camera modules and introduced 1.3 and 2.0 megapixel versions in fiscal 2009 and 3.0 and 5.0 megapixel versions in fiscal 2010. The original VGA camera has developed into a low margin commodity, which adversely impacts unit revenues and overall profitability. However, we will continue to provide our customers with these products as well as continue developing higher pixel units in 2013 and work on developing other features such as automatic focusing. Our aim in fiscal 2012 was to reduce the share of 0.3 megapixel units to less than 50% of our unit volume, which we achieved. In the future, as more of our customers market 3G cell phones, we will concentrate our resources on selling more of our higher pixel units which generate more acceptable margins.

## **Product Design and Development**

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

Our expenditures for design and development of electronic components were \$0.4 million, \$0.4 million and \$0.1 million in fiscal 2010, 2011 and 2012, respectively.

## **Manufacturing**

Three of the buildings in our manufacturing complex in Dongguan have been converted into a high-tech facility for our electronic component and telecommunication manufacturing service business operated as Dongguan Lite Array Company Limited ("DGLAD"). Class 1000 clean rooms of over 1,680 square meters have been constructed out of a total of 8,000 square meter production and office space for the electronic component business. Since our CCM manufacturing capacity was constrained throughout fiscal 2008, we expanded our DGLAD clean rooms four times in fiscal 2008 and added surface mount, assembly and testing equipment. Subsequently as the business matured and we produced fewer of the commodity modules, we were able to improve our mix and profitability without further investment in equipment. We now have in place the capacity to produce up to 3 million CCM's a month, but operated at approximately 60% of capacity in 2012. We expect to be operating at close to capacity at certain peak demand periods in fiscal 2013.

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

## **Quality Control**

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

## **Suppliers**

We obtain lenses, connectors and other components from a numbers of different vendors in Taiwan, Korea and the PRC and are not reliant on any one vendor. However, we have developed a close relationship with one vendor and purchase a majority of our

CMOS sensors from them. We have preapproved and certified alternative vendors who could satisfy all of our demand if necessary at minimal additional cost.

### **Major customers**

Sales to our largest CCM customer Shenzhen ZTE Mobile Tech Co., Ltd. amounted to \$24.2 million or 34.8% of consolidated net sales in fiscal 2012, of which \$20.2 million or 29.0% were revenues from CCM's. Lenovo Mobile Communication Technology Company Limited was our largest CCM customer in fiscal 2011 and its sales accounted for \$12.7 million or 22.0% of consolidated net sales in fiscal 2011.

Our top five customers represented 64.5% of our consolidated net sales in fiscal 2012 and 82.6% of segment net sales. Two of these customers are customers of both our EMS and electronic component segments.

### **Marketing**

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

While price and production capacity are still the main criteria in securing sales, our software and integration capabilities are becoming much more significant to our telecom customers and this should help diminish the commodity nature of this business going forward. Additionally, as a result of technical advances in our development programs, we are now able to market our products to top tier consumer electronic brands in China as well as governmental and financial agencies. We are hopeful that we will receive the endorsement of the Chinese government for our document scanning products in fiscal 2013, which could lead to a significant increase in sales. Additionally, we have developed relationships with certain companies involved in the real estate market and hope to begin incorporating our security devices in their future development projects.

### **Competition**

Competition in the electronic components market is intense. However, since the market for cellular phone cameras continues to expand in China and its export markets, we believe that demand will continue to meet or exceed our capacity; provided, however, that margins may not remain at current levels without productivity improvements. As we become a more significant supplier to certain large PRC cell phone manufacturers, expand our software and integration capabilities and continue expanding our capacity, we are realizing small competitive advantages which we hope will improve our margins.

Competition is also intense in the security devices market. We hope to take advantage of our relationships with certain real estate companies to gain a competitive edge in this market.

While competition is strong in the scanner market, especially given the number of products already on the market, we believe our software incorporates a number of superior features. We also believe that the Chinese government will specify a number of requirements in their procurement specifications that many other competing products will be unable to meet, which could lead to increase sales to the governmental agencies.

### **Intellectual Property Rights**

We currently hold 42 patents, primarily registered in the PRC. We rely primarily upon a combination of trademark, copyright, know-how, trade secrets and contractual restrictions to protect our intellectual property rights. There can be no assurance that steps taken by us to protect these proprietary rights will be adequate to prevent misappropriation of the technology or the independent development of similar technology by others.

### **Electronic Manufacturing Services ("EMS")**

At present our EMS business consists of two primary services: (i) surface mount technology ("SMT") for printed circuit board assembly; and (ii) cell phone assembly, which usually incorporates our CCM's and printed circuit board and packaging. We invested in SMT machines and assembly equipment along with clean rooms and areas in late 2008 and revenues in fiscal 2009 were \$1.8 million. The first full year of EMS business in fiscal 2010 saw expansion of the business to \$9.0 million in revenues and a further expansion of capacity was implemented in 2011. Revenues in fiscal 2012 and 2011 were \$14.4 million and \$14.7 million, respectively. All of our customers for EMS are in the PRC and we charge them for our services in Renminbi.

### **Strategy**

Our strategy for EMS is to build on our electronic components business by offering manufacturing services to both existing telecommunication customers as well as new customers looking to outsource the manufacturing or assembly of some of their products.

Our long-term strategy is to establish close relationships with our telecommunication customers and potentially establish partnerships and/or joint ventures.

EMS requires significant investment, both in machinery and testing equipment as well as working capital. Large telecommunication customers in the PRC expect up to 180-day credit terms and most vendors typically only grant 15 to 30 day terms. Given that we are effectively debt free, we hope to use our resources to maintain necessary capital expenditures and support working capital.

To date all of our EMS customers have been based in the PRC. However, we plan to add customers in both Korea and Taiwan in the near future. Overseas customers are increasingly looking to reduce their costs in order to access the Chinese market and view our existing systems and capabilities as ideal to complement their efforts.

### **Manufacturing**

Our EMS business currently occupies 27,000 square meters of production space in two of our buildings in our Dongguan, PRC facility.

We have one clean room containing ten SMT machines, three of which we acquired in 2011. We also have a total of thirty-three assembly and packing lines.

For fiscal 2013 we will have the capacity to produce over fifteen million circuit boards and assemble over fifteen million cell phones. Our capital investment to date is US\$11.5 million of which we spent US\$0.3 million in 2012. As we produce more 3G circuit boards, we will need to add more specialized SMT machines and lease more sophisticated testing equipment.

Labor is the most significant cost in EMS and thus rising wages in Dongguan pose a threat to profitability. Additionally, lease rates for software/language testing equipment continue to increase.

We ship the assembled finished products to our customers' transportation facilities in the PRC for distribution to their customers. It is our responsibility (and cost) to deliver products according to their shipping schedule requirements.

### **Quality Control**

Our quality control procedures are extensive since each cell phone's features have to be tested and also any undocumented loss of customer-supplied product is charged to us. Therefore we inspect every item and have established procedures to handle rejected components and product. Any rejects are inspected and verified by our customers' QC staff at our facility.

Our experience and processes in quality control gained through our other businesses is being applied effectively in our EMS operation.

### **Major Customers**

Revenues from our largest EMS customer Shenzhen TINNO Mobile Technology Co., Ltd. amounted to \$13.0 million or 18.7% of consolidated net sales in fiscal 2012, of which \$10.3 million or 14.8% were revenues from EMS, and \$13.7 million or 23.8% of consolidated net sales in fiscal 2011, of which \$8.3 million or 14.4% were contributed from the EMS segment.

Revenues from our top five EMS customers represented 20.7% and 25.2% of our consolidated net sales, 100% and 98.4% of segment sales in fiscal 2012 and 2011, respectively.

### **Marketing**

Our marketing efforts were initially directed towards existing telecommunication customers for electronic components in the PRC. As their businesses, particularly exports to the third world, continued to grow, they sought subcontract partners that would also be able to defray some of their working capital investment.

Our willingness to invest in the necessary equipment and the quality and reliability of our production team satisfied our potential customers that subcontracting was a cost efficient way for them to continue to grow their business. As our relationship with a number of key PRC telecommunication brands has flourished, we expect an increase in their outsourcing activities, particularly final assembly and packing. We have concentrated our efforts recently on potential customers for SMT of 3G printed circuit boards which are more complex and priced 30% more than non 3G boards and overseas telecom companies who want to participate in the Chinese market.

### **Competition**

The EMS business, while capital intensive, is extremely competitive as it does not require complex proprietary technology. In order to compete effectively we need to emphasize our quality and reliability rather than trying to match competitors' prices. Major telecommunication companies primarily require timeliness, quality and reliability, and will place a higher emphasis on these factors rather than focusing exclusively on price.

## **Others**

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

Dongguan Microview Limited was incorporated in China to provide an operating entity to house our medical instrument business, which has moved from the development stages into an operational business. This business requires a manufacturing environment certified by Chinese FDA authorities and all medical products are subject to numerous approval processes. Our initial product, a disposable cannula incorporating a CMOS camera along with an integrated workstation, recently received Chinese FDA approval. We have three additional medical instruments currently undergoing field trials as part of the Chinese FDA certification process.

Late in fiscal 2012 we established a second subsidiary, Joke Media Limited, with the intent to install media displays for developing and distributing advertising and entertainment content for use in shopping centers, restaurants and hotels. We expect to install a trial system sometime during fiscal 2013. Our investment in this business was immaterial for fiscal 2012.

## **Strategy**

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

Our strategy for our media business is to mirror existing display/advertising concepts, but utilize a centralized messaging centre to provide media data to the displays, thus avoiding costly manual data changeovers. The future direction for this business will be evaluated following the installation of a trial system during fiscal 2013.

## **Product Design and Development**

The principle development work in “others” over the last two years has been devoted to medical instruments and some solar devices. Development expenses for others were approximately \$169,000, \$137,000 and \$160,000 in fiscal 2010, 2011 and 2012, respectively.

## **Foreign Issuer Considerations**

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

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

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

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

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

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

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

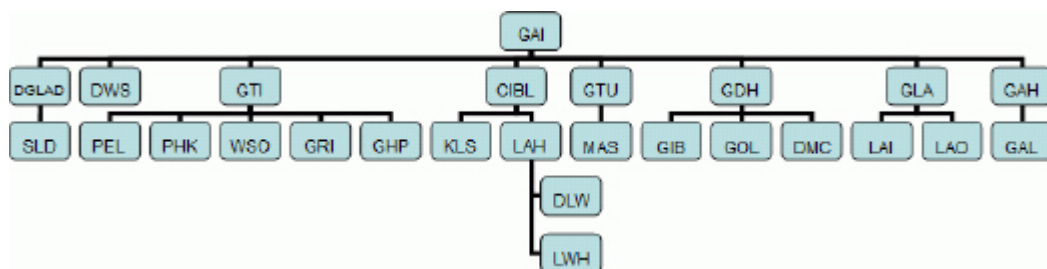
**Chinese environmental law.** Environmental protection in China is regulated in accordance with the Environmental Protection Law of the People's Republic of China, which became effective on December 26, 1989. The law sets national standards for environmental quality and monitoring, as well as the utilization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

**Conditions in Hong Kong.** Hong Kong, the jurisdiction of incorporation of seven of our subsidiaries and the location of our headquarters, was restored to China on July 1, 1997. We conduct marketing, administration and other activities in Hong Kong. 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.

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

### C. Organizational structure.

The following chart sets forth the significant subsidiaries owned, directly or indirectly, by the Company as of June 30, 2012.



Name	Abbreviation	Principal Activities	Place of Incorporation	Percentage of Equity Interest Held
Global Appliances Holdings Limited	GAH	Investment Holding	British Virgin Islands	100.0
Global Display Holdings Limited	GDH	Investment Holding	British Virgin Islands	100.0
Kwong Lee Shun Trading Company Limited	KLS	Leasing of a property and the rendering of administration and management services	Hong Kong	100.0
Global Rich Innovation Limited	GRI	Inactive	Hong Kong	100.0
Wing Shing Overseas Limited	WSO	Inactive	British Virgin Islands	100.0
GT Investments (BVI) Limited	GTI	Investment Holding	British Virgin Islands	100.0
Consortium Investment (BVI) Limited	CIBL	Investment Holding	British Virgin Islands	100.0
Global Optics Limited	GOL	Trading of raw materials and electronic and optical components	Hong Kong	100.0
Dongguan Wing Shing Electrical Products Factory Company Limited	DWS	Manufacturing of household appliance products	China	100.0
Dongguan Lite Array Company Limited	DGLAD	Developing, manufacturing and marketing of electronic and optical components and provision of cellular phone assembly services	China	100.0
Dongguan Microview Medical Technology Company Limited	DMC	Manufacturing and distribution of medical instruments	China	100.0
Joke Media Limited	SLD	Media services	China	100.0
Global Auto Limited	GAL	Inactive	Hong Kong	70.0
Lite Array Holding Limited	LAH	Investment Holding	British Virgin Islands	30.0
Litewell Technology (HK) Limited	LWH	Design and trading of OLED production equipment and corresponding materials	Hong Kong	30.0
Dongguan Litewell (OLED) Technology Limited	DLW	Research & Development	China	30.0
Global Household Products Limited	GHP	Trading of household appliance products	Hong Kong	100.0
Pentalpha Medical Limited	PEL	Inactive	Hong Kong	100.0
Pentalpha Hong Kong Limited	PHK	Inactive	Hong Kong	100.0
Global-Tech USA, Inc.	GTU	Provision of consultation services	United States	100.0
Global Digital Imaging Limited	GIB	Dissolved	British Virgin Islands	100.0
MasterWerke Limited	MAS	Dissolved	United States	100.0
Global Lite Array (BVI) Limited	GLA	Investment Holding	British Virgin Islands	76.75
Lite Array OLED (BVI) Company Limited	LAO	Dissolved	British Virgin Islands	76.75
Lite Array, Inc.	LAI	Inactive	United States	76.75



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

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

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

Global Lite Array (BVI) Limited is the 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.

Dongguan Microview Medical Technology Company Limited was incorporated in China on June 18, 2009.

Lite Array OLED (BVI) Company Limited was dissolved on March 23, 2012.

Joke Media Limited was incorporated on March 31, 2012.

MasterWerke Limited and Global Digital Imaging Limited were dissolved on May 2 and May 8, 2012 respectively.

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

##### **China**

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

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

In the event that we wish to rent a portion of our facilities, we may be required to accelerate land use payments.

The manufacturing complex includes 40 buildings, of which 12 buildings are dormitories with accommodation for up to 4,500 employees and cafeterias and recreational areas. The remaining buildings house manufacturing, quality control, warehousing, product development and administrative functions. We have obtained a portion of the property ownership certificates for buildings (29 out of total of 40 properties) and have freely transferable land use rights for a period of 50 years for the land upon which our buildings and facilities are located. Excluding dormitories, cafeterias and recreation areas, roads and a portion of land reserved for future expansion, our completed production area is approximately 174,000 square meters. As a result of our exit from the home appliance business in fiscal 2012, ten buildings consisting of 88,250 square meters and four dormitories are no longer utilized in our normal operations. We intend to offer these facilities for lease in fiscal 2013.

We maintain an office in Shenzhen, which serves a sales office for the electronic components and media businesses as well as an accounting department for our PRC subsidiaries. The lease agreement commenced May 16, 2008 and will expire on May 15, 2014 and covers a total area of 672 square meters leased at a monthly rent of approximately US\$13,000.

##### **Hong Kong**

In April 2006, we entered into three renewal lease agreements with Wing Shing Products Company Limited, a company owned in part by our Chief Executive Officer, John Sham, and his family, with a total area of 25,690 square feet of space leased for our executive offices, administrative group and warehouse at a rate of approximately \$167,400 per annum. On January 31, 2012, we entered in an amended lease agreement with Wing Shing Products Company Limited to lease a reduced amount of office and storage space of 11,010 square feet at an annual rent of approximately \$70,786.

We believe that our administrative office space in Hong Kong and China will be adequate for the operation of our business for the foreseeable future. We believe that with further utilization of our manufacturing facility in Dongguan, we have sufficient manufacturing capacity for at least the next several years. We anticipate that any further expansion of our Electronic Component or EMS businesses could increase utilization at the Dongguan facility and eventually require us to renovate one of the buildings formerly used in the operation of our home appliance business.

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

Not applicable.

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

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

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

#### A. Operating Results.

##### Fiscal Year Ended March 31, 2012 Compared with Fiscal Year Ended March 31, 2011

During fiscal 2012, we operated in four segments: Home Appliances, Electronic Components, EMS and Others. These segments were operated and managed as separate strategic business units that offered different products. These segments were each managed separately because they manufacture and distribute products with different production processes.

##### Home Appliances segment

	Fiscal Years Ended March 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(82.4)	(93.5)	(83.8)
Gross profit	17.6	6.5	16.2
Selling, general and administrative expenses	(12.8)	(10.4)	(10.7)
Operating income (loss) from discontinued operations	<u>4.8%</u>	<u>(3.9)%</u>	<u>5.5%</u>

The results of the Home Appliances segment were included in income (loss) from discontinued operations on the face of the consolidated statements of operations (see Note 19 of Notes to Consolidated Financial Statements for a detailed breakdown).

**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. Net sales consist of gross amounts invoiced less discounts. Revenues from product sales are recognized at the time of shipment when title and risk of loss 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.

Net sales in fiscal 2012 were \$53.9 million, an increase of 23.9% from \$43.5 million in fiscal 2011. Sales to our largest customer in fiscal 2012, Electrolux, increased \$10.3 million to \$52.3 million. Sales of kitchen appliances in fiscal 2012 decreased \$0.3 million from the prior year to \$0.8 million but we had not actively been pursuing business for these products for some time. As disclosed elsewhere in this annual report, the Company completed its exit from the home appliance business in January 2012. As a result, no sales are expected in this segment in fiscal 2013 and beyond.

**Gross profit.** Gross profit consists of net sales less costs of goods sold, which includes the costs of raw materials, production materials, labor, transportation, depreciation and factory overhead. Gross profit in fiscal 2012 was \$9.5 million or 17.6% of net sales, as compared to a gross profit of \$2.8 million or 6.5% of net sales in fiscal 2011. Gross profit increased primarily due to pricing adjustments agreed upon with Electrolux, our largest customer in fiscal 2012, during the transition period preceding our exit from the home appliance business.

In fiscal 2012, our material cost as a percentage of net sales was 70.0% as compared to 72.7% in fiscal 2011 reflecting a slight decrease in commodity costs and the effect of some pricing relief.

Direct labor as a percentage of sales was 6.4% and 6.6% in fiscal 2012 and 2011 respectively. Despite a significant increase in wage rates, the efficiency and resulting productivity of the organized exit program was sufficient to offset this. Overhead in fiscal 2012 was \$3.2 million, \$3.0 million lower than in the prior year. This was primarily due to a write-back of provision for severance program for the home appliance personnel of \$1.6 million. Overhead in fiscal 2012 included depreciation of \$1.4 million and utilities of \$1.4 million compared to \$1.6 million and \$1.6 million respectively in fiscal 2011. The reduction was due to production being only for nine and a half months in fiscal 2012 as opposed to the full year in fiscal 2011.

**Selling, general and administrative expenses.** The primary components of our selling, general and administrative (“SG&A”) expenses are related to transportation of finished goods and salaries for our marketing and technical personnel. SG&A expenses in fiscal 2012 were \$6.9 million or 12.8% of our net sales, as compared to \$4.5 million or 10.4% of net sales in fiscal 2011. Shipping, handling or other costs that are incurred for the sales 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 fiscal years ended March 31, 2012 and 2011, shipping costs charged to selling expenses were approximately \$0.7 million.

Included in SG&A expenses in fiscal 2012 were severance payments of approximately \$2.4 million under a government approved and supervised program for all of the home appliance personnel. Excluding these payments, SG&A was unchanged in fiscal 2012 compared to fiscal 2011.

**Operating income (loss) from discontinued operations, net.** In fiscal 2012, we generated an operating income from discontinued operations of \$2.6 million, as compared to an operating loss from discontinued operations of \$1.7 million in fiscal 2011.

**Other income (expense), net.** Losses on foreign exchange were immaterial in 2012 and 2011, other expense of \$1.2 million, primarily due to a US\$1,230,727 impairment charge for machinery that was used in the home appliance operation, was incurred in fiscal 2012, compared to an income of \$59,000 in fiscal 2011.

**Provision for income taxes.** A \$25,000 provision for PRC income taxes on the profits of Dongguan Wing Shing, the manufacturing company for home appliances was accrued in 2012.

**Income (loss) from discontinued operations.** In fiscal 2012, we generated an income from discontinued operations of approximately \$1.4 million compared to a loss from discontinued operations of \$1.8 million in fiscal 2011.

The facilities previously occupied by the home appliance business are being offered for rent. The annual depreciation and maintenance charges for the space to be rented are estimated to be \$1.2 and \$1.4 million, respectively. Annual rental, if the facilities are successfully leased is expected to be \$1.7 million annually and the lessees would be required to reimburse the Company for the majority of maintenance costs. As of the filing date, none of the available space has been rented although discussions with potential lessors are ongoing.

### **Electronic Components segment**

	Fiscal Years Ended March 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(87.9)	(88.8)	(87.5)
Gross profit	12.1	11.2	12.5
Selling, general and administrative expenses	(7.5)	(7.1)	(6.9)
Operating income (loss)	<u>4.6%</u>	<u>4.1%</u>	<u>5.6%</u>

**Net sales.** Our net sales include sales of electronic components (primarily CCM’s) and raw materials for customer prototypes. Net sales consist of gross amounts invoiced less discounts and VAT, if applicable. Sales are typically denominated in US\$, except for customers based in the PRC, which are denominated in RMB. Our material costs are also typically denominated in dollars but all our other costs are in local currency.

The CCM business, which constitutes the bulk of our net sales of electronic components, was established in mid-fiscal 2006, and expanded rapidly until the worldwide economic slowdown in the fall of 2008. Recently, the business has seen gradual improvement as the Chinese telecommunication market has resumed growth. Net sales in fiscal 2012 increased 27.7% to \$54.4 million from net sales of \$42.6 million in fiscal 2011.

Unit sales in 2012 increased 10.24%, but with a significantly improved mix of higher pixel count modules, average unit pricing increased over 20.0%, sales of 3.0 and 5.0 megapixel units increased over 400% and many of our telecom customers are switching to higher quality cameras for their mobile phones and PDA’s, particularly their 3G products.

We anticipate that unit volume will increase modestly in fiscal 2013 when compared to fiscal 2012 as we de-emphasize marketing commodity units. We believe that the sale of higher pixel count units in fiscal 2013 and beyond should increase revenues despite the continuing trend of falling prices as technology improves.

In addition we expect incremental sales for our security and scanning devices incorporating CCMs in 2013. These products have had a successful initial introduction in China, but further expansion remains unclear, as a market history must be developed and further work is necessary to establish a reliable distribution network.

**Gross profit.** Gross profit in fiscal 2012 was \$6.6 million or 12.1% of net sales compared to \$4.8 million or 11.2% of net sales in fiscal 2011. The CCM and other electronic components businesses are increasingly competitive with the proprietary technology being maintained by the sensor and lens suppliers, thus margins reflect a commodity type business. Margins in 2012 were helped by the sale of a greater percentage of higher pixel units as well as higher production absorption of fixed overhead offset by increasing labor costs. Margins in 2011 were impacted by falling prices offset to some extent by production efficiencies. Direct labor and overhead in fiscal 2012 were 3.5% and 5.4% of net sales, respectively, compared to 3.9% and 6.6%, respectively, in fiscal 2011. Labor costs in US dollars increased substantially in 2011 due to wage inflation, the implementation of new labor laws and strength of the RMB. CCM production requires skilled labor, which remains in high demand in Guangdong province. It continues to be necessary to offer increasingly higher wages and benefits to remain competitive, and we expect our labor costs to increase at least 10% in local currency in 2013. Because the labor content for each CCM is the same regardless of pixel size, the trend toward higher pixel modules reduces the percentage labor cost. Overhead excluding depreciation was \$2.6 million in 2012, an increase of approximately \$62,000 from 2011 primarily due to the impact of the new social security law on labor benefits and the increase in electricity costs due to higher oil prices. Material cost in fiscal 2012 was 78.2% of net sales, a slight decrease from 78.3% in the prior year. Since inception, material cost has consistently remained around 80.0% of net sales. Volume growth and an improving mix remains critical to improving profitability.

**Selling, general and administrative expenses.** SG&A expenses in fiscal 2012 were \$4.0 million or 7.5% of net sales compared to \$3.0 million or 7.1% of net sales in fiscal 2011. The primary components of SG&A are personnel costs, occupancy costs for our PRC staff where the entire CCM operation is located, and development and prototyping expense. Our personnel costs rose primarily due to the impact of currency appreciation and continuing wage inflation. We spent \$0.1 million on development programs in fiscal 2012 and do not expect it to increase significantly in fiscal 2013.

**Operating income, net.** Operating income in fiscal 2012 was approximately \$2.5 million or 4.6% of net sales compared to an operating income of approximately \$1.8 million or 4.1% in fiscal 2011.

**Other income (expenses), net.** Other income (expense), net in fiscal 2012 was a gain of approximately of \$0.5 million, which consisted primarily of government grants, compared to a loss of \$80,000 in fiscal 2011.

**Segment income (loss).** Segment profit in fiscal 2012 was \$2.9 million compared to a segment profit of \$1.4 million in fiscal 2011.

### EMS segment

EMS consists of two allied functions: SMT automated processing for printed circuited board assembly and final assembly and testing of cell phones. Both functions serve telecommunication customers in the PRC. While assembly is a low margin business, offering this service to our telecom customers helps secure their business for our more profitable CCM and SMT business.

This business became a separate segment in fiscal 2010.

	Fiscal Years Ended March 31,		
	2012	2011	2010
Net revenues	100.0%	100.0%	100.0%
Operating costs	(73.6)	(82.8)	(59.5)
Gross profit (loss)	26.4	17.2	40.5
Selling, general and administrative expenses	(24.8)	(21.4)	(19.3)
Operating income (loss)	1.6%	(4.2)%	21.2%

**Net revenues.** Our net revenues include fees for SMT processing and assembly of mobile phones. Revenues in fiscal 2012 were \$14.4 million compared to \$14.7 million in fiscal 2011.

At the revenue levels achieved in 2012, we were still operating at less than optimal production. Delays in securing key new customers, due primarily to general slowing of export markets, continued to impact the business. Expansion of this business will continue to depend on our ability to attract new customers, particularly from outside the PRC.

As discussed elsewhere in this annual report, we have made significant capital investments in the expansion of the EMS business in order to establish an efficient level of production capacity. Ultimately, we plan to have the capacity for up to \$25 million in annual sales, which should require no further investment in capital.

**Gross profit (loss).** Gross profit in fiscal 2012 was \$3.8 million or 26.4% of revenues compared to a gross profit of \$2.5 million or 17.2% in fiscal 2011. Direct labor was \$4.2 million and overhead excluding depreciation was \$5.8 million or 28.8% and 40.0%, respectively, of net sales compared to \$4.6 million and \$6.6 million in fiscal 2011 which were 31.2% and 45.0% of net sales, respectively. The labor turnover and productivity issues that plagued us in prior years were addressed in fiscal 2012, with fair progress being made. This was due in part to a general slowdown in the low technology export business in Guangdong, which eased wage pressures and freed up labor. The principal elements of overhead are supervisory labor of \$1.9 million, electricity for the SMT machines and cleanroom, software testing charges for mobile phone assembly and social security taxes for labor. Depreciation in fiscal 2012 was approximately \$0.9 million compared to \$0.8 million in fiscal 2011.

**Selling, general & administrative expenses.** SG&A expenses in fiscal 2012 were \$3.6 million or 24.8% of sales and were \$3.2 million or 21.4% in fiscal 2011. The primary components of SG&A are personal and travel and entertainment costs for the sales and marketing group. The compensation programs for our sales staff are currently being amended to focus on adding new customers and achieving price increases. Included in SG&A in fiscal 2012 were development costs of \$0.3 million compared to \$0.3 million in 2011.

**Operating income (loss), net.** Operating income in fiscal 2012 was approximately \$0.2 million or 1.6% of net sales compared to an operating loss of approximately \$0.6 million or 4.2% of net sales in fiscal 2011.

**Other expenses, net.** Other expenses, net in fiscal 2012 and 2011 were approximately \$8,200 and \$71,000, respectively.

**Segment income (loss).** Segment income in fiscal 2012 was approximately \$0.2 million compared to segment loss of approximately \$0.7 million in fiscal 2011.

#### **Others segment**

Net sales of other products in fiscal 2012 were approximately \$0.8 million, and were primarily from sales of disposable medical devices. Net sales of other products in fiscal 2011 were approximately \$0.1 million, which were primarily from sales of home security and medical devices.

We generated a gross profit of approximately of \$0.27 million in fiscal 2012, primarily from the sale of medical instruments, compared to approximately an \$0.17 million gross loss in fiscal 2011.

The operating loss in fiscal 2012 was approximately \$670,000, compared to approximately \$1.0 million in fiscal 2011 and the segment loss in fiscal 2012 was \$640,000, compared to \$1.0 million in fiscal 2011. In both years the primary cause for of losses was our initial development and distribution programs for medical products.

#### **Corporate**

**Selling, general and administrative expenses.** Non-allocable corporate expenses were \$2.0 million in fiscal 2012 compared to \$4.3 million in fiscal 2011. Expenses in fiscal 2012 included non-cash stock compensation expense of approximately \$34,000 compared to \$500,000 in the prior year. Corporate expenses in fiscal 2012 reflected a decrease of \$2.3 million mainly due to a decrease of stock compensation expenses, legal and professional fees, donations and corporate salaries. The primary components of corporate expenses are audit fees, legal and professional fees (approximately \$0.7 million in fiscal 2012 as compared to approximately \$0.9 million in fiscal 2011) and the cost of senior management and administrative staff of \$0.9 million compared to \$1.7 million in fiscal 2011.

**Other operating income (expenses), net.** Other operating income of approximately \$29,000 in fiscal 2012 arose mainly from proceeds from the settlement of a lawsuit. Other operating income in fiscal 2011 of \$1.1 million represents the result of a reversal of an accrual for loss contingencies related to pending litigation.

**Interest income, net and other income (expenses).** Interest income, net included approximately \$177,000 accrual for potential interest related to potential tax adjustments in fiscal 2012, compared with \$308,000 resulting from a reversal of potential interest related to potential tax adjustments in fiscal 2011. Interest income from bank deposits and other short-term investments in fiscal 2012 and fiscal 2011 were approximately \$0.4 million and \$0.5 million, respectively. In fiscal 2012, we had an average invested fund balance, which includes cash and cash equivalents, time deposits, restricted cash and available-for-sale investments, of approximately \$46.3 million, with an average rate of return of 0.8% as compared to an average invested balance of approximately \$40.2 million, with an average rate of return of 1.2% in fiscal 2011. In fiscal 2012, the major components of other income (expenses), net, in corporate included foreign exchange gains of approximately \$167,000 and loss on the disposal of fixed assets of \$86,000 and reversal of an accrual for potential litigation of US\$500,000. In fiscal 2011, the major components of other income (expenses), net, in corporate included foreign exchange losses of approximately \$615,000, loss on disposal of fixed assets of \$4,000 and other sundry income of \$1.1 million. (See Note 17—Other income (expenses), net of Notes to Consolidated Financial Statements for a detailed breakdown of the components of Other income (expenses), net).

**Income tax.** Our financial statements include a provision for income tax of approximately \$1.3 million in fiscal 2012 primarily for CIT profit tax in the PRC and of \$110,000 in fiscal 2011.

We are not subject to taxation in the British Virgin Islands, however we are subject to income tax in each jurisdiction where our subsidiaries do business. Certain of our income is earned in China, where the standard tax rate is 25.0%, and in Hong Kong, where the corporate tax rate is 16.5% for both fiscal 2012 and 2011, 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 subsidiaries in China were entitled to a tax concession period ("Tax Holiday"), whereby they were exempted from corporate income tax for their first two profit-making years and were entitled to a 50% tax reduction for the succeeding three years. Effective January 1, 2004, Dongguan Wing Shing had been subject to the full tax rate of 27.0%. This Chinese subsidiary was our manufacturing facility for home appliances and also covered all of the common charges and a significant portion of our manufacturing overhead. This subsidiary made sales of finished goods to our other subsidiaries and transfer pricing had to be within acceptable norms. In fiscal 2004, we established a new subsidiary in China, Dongguan Lite Array, which was also entitled to a Tax Holiday. Dongguan Lite Array started its first profitable year under the Tax Holiday for the calendar year ended December 31, 2007. During the 5<sup>th</sup> Session of the 10<sup>th</sup> National People's Congress of the PRC, which was concluded on March 16, 2007, a unified enterprise income tax law, or EIT, was approved and became effective on January 1, 2008. The EIT Law introduced a wide range of changes which included the unification of income tax rates for domestic-invested and foreign-invested enterprises at 25%. Subsequently, Dongguan Lite Array qualified as a High and New Technology Enterprise ("HNTE") which entitles it to pay a preferential tax rate of 15% so long as it remains classified as an HNTE. Taxes in China are based upon the financial statements of our two PRC subsidiaries based upon their preparation in accordance with PRC GAAP. Certain inter-company transactions could be interpreted by the local authorities as taxable transactions. In accordance with the provisions of FIN 48, such transactions have been assessed and reflected in the computation of income taxes payable. To the extent that we have income effectively connected with the conduct of a U.S. trade or business in any fiscal year, we would be subject to U.S. taxes at an effective rate up to 55%. We do not believe that our current method of operations subjects us to U.S. taxes. We also established a subsidiary in Macau, China where we conducted sales, marketing, administration and other activities but it was dissolved effective July 2008. 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 "HKIRD" has challenged the tax position taken by the Company and we may be subject to additional profits tax in Hong Kong. One of the Company's wholly-owned subsidiaries is currently under examination by the HKIRD. The final outcome of this tax audit is not determinable at this time.

**Net income (loss).** Net income for the group for fiscal 2012 was \$1.4 million, or \$0.46 per share, as compared to a net loss of \$4.0 million, or \$1.32 per share for fiscal 2011.

## A. Operating Results.

### Fiscal Year Ended March 31, 2011 Compared with Fiscal Year Ended March 31, 2010

During fiscal 2011, we operated in four segments: Home Appliances, Electronic Components, EMS (new in fiscal 2010) and Others. These segments were operated and managed as separate strategic business units that offer different products. These segments were each managed separately because they manufacture and distribute products with different production processes.

#### Home Appliances segment

	Fiscal Years Ended March 31,		
	2011	2010	2009
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(93.5)	(83.8)	(91.3)
Gross profit	6.5	16.2	8.7
Selling, general and administrative expenses	(10.4)	(10.7)	(9.1)
Operating income (loss)	(3.9)%	5.5%	(0.4)%

**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. Net sales consist of gross amounts invoiced less discounts. Revenues from product sales are recognized at the time of shipment when title and risk of loss 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.

Net sales in fiscal 2011 were \$43.5 million, down 19.3% from \$53.9 million in fiscal 2010. Sales to our largest customer in fiscal 2011, Electrolux, decreased \$10.9 million to \$42.0 million. Sales of kitchen appliances in fiscal 2011 increased \$0.5 million from the prior year to \$1.1 million despite not having actively pursued business for these products for some time.

The decline in sales to Electrolux in fiscal 2011 was primarily due to a special thanksgiving promotion at a major retailer that occurred in 2010 but was not repeated in 2011.

**Gross profit.** Gross profit consists of net sales less costs of goods sold, which includes the costs of raw materials, production materials, labor, transportation, depreciation and factory overheads. Gross profit in fiscal 2011 was \$2.8 million or 6.5% of net sales, as compared to a gross profit of \$8.7 million or 16.2% of net sales in fiscal 2010. Gross profit declined due to i) significant increases in labor, energy and commodity costs not being offset by adequate price increases and ii) overhead being absorbed over lower volume.

In fiscal 2011, our material cost as a percentage of net sales was 72.7% as compared to 66.8% in fiscal 2010 reflecting severe inflation in commodity costs, particularly copper and resins derived from petrochemicals only offset by price increases capped at 50% of our bill of material cost increases.

Direct labor and overhead expenses as a percentage of sales were 6.6% and 14.2% respectively in fiscal 2011. Direct labor and overhead as a percentage of sales were 5.1% and 11.9% respectively in fiscal 2010. Included in overhead of \$6.1 million in fiscal 2011 was depreciation of \$1.6 million and utility costs of \$1.6 million. Overhead in fiscal 2010 was \$6.4 million including \$2.1 million in depreciation charges and utilities of \$1.8 million.

**Selling, general and administrative expenses.** The primary components of our selling, general and administrative ("SG&A") expenses are related to transportation of finished goods and salaries for our marketing and technical personnel. SG&A expenses in fiscal 2011 were \$4.5 million or 10.4% of our net sales, as compared to \$5.7 million or 10.7% of net sales in fiscal 2010. Shipping, handling or other costs that are incurred for the sales 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, 2011 and 2010, shipping costs charged to selling expenses were approximately \$0.7 million and \$0.9 million, respectively.

We continued taking steps to reduce our non-variable SG&A expenses by controlling headcount and eliminating all development efforts. General and administrative costs in 2011 were \$3.6 million.

**Operating income (loss), net.** In fiscal 2011, we incurred an operating loss of \$1.7 million, as compared to an operating income of \$3.0 million in fiscal 2010.

**Other income (expense), net.** Losses on exchange were immaterial in 2011 and 2010. Sundry income of approximately \$59,000, primarily from the sale of scrap, was generated in fiscal 2011, compared to \$161,000 in fiscal 2010.

**Segment income (loss).** In fiscal 2011, we incurred a segment loss of approximately \$1.8 million compared to a segment income of \$3.1 million in fiscal 2010.

#### Electronic Components segment

	Fiscal Years Ended March 31,		
	2011	2010	2009
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(88.8)	(87.5)	(94.3)
Gross profit	11.2	12.5	5.7
Selling, general and administrative expenses	(7.1)	(6.9)	(7.5)
Operating income (loss)	4.1%	5.6%	(1.8)%

**Net sales.** Our net sales include sales of electronic components (primarily CCM's) and raw materials for customer prototypes. Net sales consist of gross amounts invoiced less discounts and VAT, if applicable. Sales are typically denominated in US\$ and RMB for those customers based in the PRC. Our material costs are also typically denominated in dollars but all our other costs are in local currency.

Net sales in fiscal 2011 increased 9.5% to \$42.6 million from net sales of \$38.9 million in fiscal 2010. Unit sales increased 14.0% and despite the increase in sales of higher pixel count CCMs the increase did not compensate fully for the continuing decline in



market prices. The video graphics array (“VGA”) units that have become commodity items were 48.2% of unit sales in 2011 versus 68.2% in 2010. More importantly 2.1% of unit sales in 2011 were new products (5.0 megapixel CCM’s) and 2.0, 3.0 and 5.0 megapixel accounted for 50% of sales versus 26% in the prior year.

**Gross profit.** Gross profit in fiscal 2011 was \$4.8 million or 11.2% of net sales compared to \$4.9 million or 12.5% of net sales in fiscal 2010. Margins in 2011 were helped by higher margins on the higher pixel units and better inventory management matching price reductions with cost reductions as well as 11% higher production absorbing fixed overhead offset by increasing labor costs. Margins in 2010 were also impacted by falling prices occurring before component costs decreased. Direct labor and overhead in fiscal 2011 were 3.9% and 6.6% respectively of net sales compared to 3.1% and 5.7%, respectively, in fiscal 2010. Labor costs in US dollars increased substantially in 2011 due to wage inflation, the implementation of new labor laws and strength of the RMB. Overhead excluding depreciation of \$0.3 million in 2011 was \$2.6 million and increased approximately \$0.5 million from 2010 primarily due to the impact of the new social security law on labor benefits and the increase in electricity costs due to higher oil prices. Material cost in fiscal 2011 was 78.3% of net sales, a slight improvement from 78.8% in the prior year.

**Selling, general and administrative expenses.** SG&A expenses in fiscal 2011 were \$3.0 million or 7.1% of net sales compared to \$2.7 million or 6.9% of net sales in fiscal 2010. The primary components of SG&A are personnel costs, occupancy costs for our PRC staff where the entire CCM operation is located, and development and prototyping expense. Our personnel costs rose primarily due to the impact of currency appreciation. We spent \$0.4 million on development programs in fiscal 2011.

**Operating income, net.** Operating income in fiscal 2011 was approximately \$1.8 million or 4.1% of net sales compared to an operating income of approximately \$2.2 million or 5.6% in fiscal 2010.

**Other income (expenses), net.** Other income (expense), net in fiscal 2011 was a loss of approximately of \$80,000 compared to income of \$744,000 in fiscal 2010.

**Segment income (loss).** Segment profit in fiscal 2011 was \$1.4 million compared to a segment profit of \$2.9 million in fiscal 2010.

#### EMS segment

EMS consists of two allied functions: SMT automated processing for printed circuited board assembly and final assembly and testing of cell phones. Both functions serve telecommunication customers in the PRC.

This business became a separate segment in fiscal 2010. EMS results in fiscal 2009, the first year of operation, were included in the others segment in fiscal 2009 since the results were not material. We have separated the results for fiscal 2009 from the others segment for purposes of comparison.

	Fiscal Years Ended March 31,		
	2011	2010	2009
Net revenues	100.0%	100.0%	100.0%
Operating costs	(82.8)	(59.5)	(117.3)
Gross profit (loss)	17.2	40.5	(17.3)
Selling, general and administrative expenses	(21.4)	(19.3)	(68.7)
Operating income (loss)	(4.2)%	21.2%	(86.0)%

**Net revenues.** Our net revenues include fees for SMT processing and assembly of mobile phones. Revenues in fiscal 2011 were \$14.7 million compared to \$9.0 million in fiscal 2010 although the assembly of mobile phones did not start, until the fourth quarter of 2010 and the SMT facility expansion was, under construction for most of the first half of that year.

At the revenue levels achieved in 2011, we were operating at less than 75% of optimal production. Delays in securing key new customers due primarily to export market uncertainties impacted the business significantly.

**Gross profit (loss).** Gross profit in fiscal 2011 was \$2.5 million or 17.2% of revenues compared to a gross profit of \$3.6 million in fiscal 2010. Direct labor was \$4.6 million and overhead excluding depreciation was \$6.6 million or 31.2% and 45.0%, respectively, of net sales in fiscal 2011 compared to \$2.1 million and \$3.0 million in fiscal 2010 which were 22.8% and 32.8% of net sales, respectively. Labor inflation in China impacted this segment far more than our other business particularly since we were unable to get any price concessions from our customers. Labor turnover was unacceptably high and productivity and efficiency far poorer than planned. In our factory overhead the electricity cost to run the SMT machine and clean rooms doubled and the staff benefits including mandatory social insurance benefits for all of the PRC based staff also contributed to the doubling of factory overhead. Depreciation in fiscal 2011 was approximately \$0.8 million compared to \$0.5 million in fiscal 2010.

**Selling, general & administrative expenses.** SG&A expenses in fiscal 2011 were \$3.2 million or 21.4% of sales and were \$1.7 million or 19.3% in fiscal 2010. The primary components of SG&A are personal and travel and entertainment costs for the sales and marketing group. The compensation programs for our sales staff are currently being amended to focus on adding new customers and achieving price increases. Included in SG&A in fiscal 2011 were development costs of \$0.3 million compared to \$0.7 million in 2010.

**Operating income (loss), net.** Operating loss in fiscal 2011 was approximately \$0.6 million or 4.2% of net sales compared to an income of approximately \$1.9 million or 21.1% of net sales in fiscal 2010.

**Other income, net.** Other income, net in fiscal 2011 and 2010 were approximately \$71,000 and \$6,000, respectively.

**Segment income (loss).** Segment loss in fiscal 2011 was approximately \$0.7 million compared to segment profit of approximately \$1.9 million in fiscal 2010.

#### **Others segment**

Net sales of other products in fiscal 2011 were approximately \$0.1 million, which were primarily from sales of home security devices and medical devices. Net sales of other products in fiscal 2010, which were also primarily sales of home security devices, were approximately \$0.2 million.

We incurred a gross loss of approximately of \$0.17 million in fiscal 2011, which reflected our start up costs for medical, compared to approximately \$0.19 million gross loss in fiscal 2010.

The operating loss in fiscal 2011 was approximately \$1.0 million, compared to approximately \$1.0 million in fiscal 2010 and the segment loss in fiscal 2011 was \$1.0 million, compared to \$1.0 million in fiscal 2010. In both years the primary cause for the loss was our initial development and distribution programs for medical products.

#### **Corporate**

**Selling, general and administrative expenses.** Non-allocable corporate expenses were \$4.3 million in fiscal 2011 compared to \$3.1 million in fiscal 2010. Expenses in fiscal 2011 included non-cash stock compensation expense of approximately \$500,000 compared to \$14,000 in the prior year. Corporate expenses in fiscal 2011 reflected an increase of \$1.2 million mainly due to an increase of stock compensation expenses, donations and corporate salaries. The primary components of corporate expenses are audit fees, legal and professional fees (approximately \$0.9 million in fiscal 2011 as compared to approximately \$0.8 million in fiscal 2010) and the cost of senior management and administrative staff of \$1.7 million compared to \$1.4 million in fiscal 2010. Corporate expenses in fiscal 2011 increased primarily due to the realignment of senior management among the various operating segments.

**Other operating income (expenses), net.** Other operating income of approximately \$1.1 million in fiscal 2011 occurred mainly as a result of a reversal of an accrual for loss contingencies related to pending litigation. Other operating income in fiscal 2010 of \$180,000 represents proceeds from a settlement of a lawsuit offset by additional accruals for loss contingencies.

**Interest income, net and other income (expenses).** Interest income of approximately \$308,000 and \$64,000 resulted in fiscal 2011 and fiscal 2010 respectively from a reversal of potential interest related to potential tax adjustments. Interest income from bank deposits and other short-terms investments in fiscal 2011 and fiscal 2010 was approximately \$0.5 million and \$0.3 million respectively. In fiscal 2011, we had an average invested fund balance, which includes cash and cash equivalents, time deposits, restricted cash and available-for-sale investments, of approximately \$40.2 million, with an average rate of return of 1.2% as compared to an average invested balance of approximately \$40.6 million, with an average rate of return of 0.7% in fiscal 2010. In fiscal 2011, the major components of other income (expenses), net in corporate included foreign exchange losses of approximately \$615,000, loss from the disposal of fixed assets of \$4,000 and other sundry income of \$1.1 million. In fiscal 2010, the major components of other income (expenses), net in corporate included foreign exchange losses of approximately \$130,000, loss from disposal of fixed assets of \$292,000 and other sundry income of \$2,000. (See Note 17—Other income (expenses), net of Notes to Consolidated Financial Statements for a detailed breakdown of the components of Other income (expenses), net).

**Income tax.** Our financial statements include a provision for income tax of approximately \$110,000 in fiscal 2011 primarily for CIT profit tax in the PRC and of \$0.4 million in fiscal 2010. The significant provision in fiscal 2010, which resulted in an operating loss, was due to an evaluation of uncertain tax positions relating to transfer pricing in accordance with FIN 48 at certain of our subsidiaries, which were subsequently reversed when the corresponding subsidiary was dissolved in fiscal 2011.

**Net income (loss).** Net loss for the group for fiscal 2011 was \$4.0 million, or \$1.32 per share, as compared to a net income of \$3.5 million, or \$1.14 per share for fiscal 2010.

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

Our primary source of financing historically has been cash generated from operating activities. During fiscal 2012, our net cash provided by operating activities was approximately \$17.3 million as compared to approximately \$10.0 million net cash used in operating activities in fiscal 2011. This reflects a net income of \$1.4 million in fiscal 2012 compared to a net loss of \$4.2 million in fiscal 2011, but also our receivables in fiscal 2012 decreased \$5.3 million, our inventory decreased \$5.5 million and our other operating assets and liabilities decreased \$4.9 million compared to a rise in receivables, inventories and other operating assets and liabilities in fiscal 2011 of \$12.4 million, \$1.4 million and \$3.0 million, respectively. The increase in working capital in fiscal 2012 of \$8.8 million was due primarily to our \$8.6 million repayment of short-term debt and an increase in our cash due to operating income from discontinued operations.

Working capital as of March 31, 2012 was \$54.0 million compared to \$45.2 million as of March 31, 2011. Cash and cash equivalents, time deposits, restricted cash and short-term investments increased \$6.1 million, inventories decreased \$5.5 million and accounts and bills receivable decreased \$5.3 million from the prior year. We used the cash inflow to repay short-term bank loans in PRC. Our borrowing capacity however is limited to the amount of cash we have on deposit so we have not effectively been extended credit and we are not likely to be extended credit in the PRC in the future. All of our cash and related short-term deposits and short-term investments are in very short-term safe securities.

Accounts and bills receivable were \$30.3 million at the end of fiscal 2012, compared to \$35.6 million at the end of fiscal 2011. Receivables at March 31, 2012 represented 89 days of sales from continued and discontinued operations compared to 129 days of sales from continued and discontinued operations at March 31, 2011, primarily due to the payment of all receivables received from Electrolux after we completed production for them in January 2012. Accounts and bills receivable for electronic components and EMS businesses represented 180 days and 87 days, respectively, of sales in fiscal 2012. Our large CCM customers in China are granted credit terms and as is customary in the PRC, the bills they issue typically mature after 90 days, therefore we expect our domestic receivables to continue increasing in fiscal 2013 as sales in the PRC increase.

Our aggregate capital expenditures including payments for land use rights during fiscal 2012 and 2011 were \$0.8 million and \$4.7 million, respectively. Capital expenditures in fiscal 2012 primarily included expansion of existing clean room space and purchase of equipment and machinery, most of which was devoted to our EMS programs. Our capital commitments as of March 31, 2012 and 2011 were approximately \$169,682 and \$86,782, respectively.

Our revolving credit facilities are with Standard Chartered Bank and Industrial Bank with an aggregate facilities limit of approximately \$0.3 million and \$4.0 million, respectively, as of March 31, 2012. The banking facilities provided by Standard Chartered 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 but as of March 31, 2012, banking facilities of US\$4.0 million were utilized. (See Note 15—Bills Payable, short-term bank loans and Banking Facilities of Notes to Consolidated Financial Statements.)

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

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

***Inflation.*** For the last five years inflation in Hong Kong has ranged from (1.6%) to 6.5% (approximately 5.3% during 2011 and 5.1% for the first four months of 2012). Currently inflation in Hong Kong has little effect on our operations as much of our costs are fixed and no wage increases have been given to senior management or executives.

While the appreciation of the Renminbi has had the biggest impact on the Company's competitiveness, we also have been impacted by wage and utility inflation in China, particularly in fiscal 2011. While inflation has abated recently due to the slowdown in manufacturing, it is still officially computed at approximately 5% per annum.

***Currency and exchange rates.*** The functional currency of the Company is the U.S. dollar. The functional currencies of our subsidiaries in locations outside the U.S. are either the respective local currencies or the U.S. dollar. A significant portion of our sales are denominated in U.S. dollars but our sales in Chinese Renminbi have increased significantly with the growth of our domestic telecom business. 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 of purchases are made using the Hong Kong dollar, which is pegged to the U.S. dollar. In prior years, we have not been significantly affected by exchange rate

fluctuations and therefore have not needed to hedge our positions. However, in the event that the Renminbi continues to appreciate appreciating versus the U.S. dollar we may need to reconsider whether hedging our positions is appropriate. See Note 3(q) of Notes to Consolidated Financial Statements.

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

- **Valuation of long-lived assets.** The Company evaluates long-lived assets, such as property, plant and equipment or an other asset group, for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will have impact on the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable in accordance with FASB ASC 360 "Property, Plant and Equipment". When these events occur, the Company evaluates the impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the excess of the carrying amount of the assets over their recoverable amount. During the fiscal years ended March 31, 2012, 2011 and 2010, impairment losses of \$1,230,727, nil and \$4,786, respectively related to property, plant and equipment were recognized in the consolidated statements of operations.
- **Warranty cost.** The Company estimates the warranty cost for defective products based on various factors including the likelihood of defects, an evaluation of our quality controls over the manufacturing processes, technical analysis, industry information on comparable companies and our history. Based on the above criteria, the Company has accrued for warranty costs of \$729,528, \$296,410 and \$180,151 as of March 31, 2012, 2011 and 2010, respectively. The basis and the amount of the warranty accrual are reviewed and adjusted to reflect actual experience.
- **Deferred tax valuation allowance.** The Company accounts for income taxes in accordance with FASB ASC 740 "Income Taxes", using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. For financial reporting purposes, the Company established valuation allowances by tax jurisdiction for deferred tax assets which management believes it is more likely than not that the deferred tax assets will not be realized in the foreseeable future. As of March 31, 2012 and 2011, the Company had tax losses carried forward of \$20,843,486 and \$23,656,479 respectively, which included tax losses of \$2,196,670 and \$4,562,595 respectively that are available indefinitely for offsetting future taxable income of the companies in which these losses arose. Tax losses of \$18,646,816 and \$19,093,884 as at March 31, 2012 and 2011, respectively, may be carried back for 2 years or carried forward for 20 years from the year the tax losses arose. Since tax returns have to be filed for each subsidiary in the jurisdiction in which it operates, management has to assess whether transfer pricing or expense allocations could be challenged by the authorities based on the technical merits of the tax positions taken and probable outcome of a tax assessment. Based on an evaluation of these uncertain tax positions, we have to estimate the potential income tax expense and any related penalties and interest. This has resulted in significant income tax expense being accrued in previous loss years since not all subsidiaries are in a loss position for tax purposes and there is no off setting allowed between subsidiaries in the PRC and Hong Kong.
- **Inventory reserves.** Inventories are stated at the lower of cost or market value. Cost, calculated on the weighted average basis, comprises direct materials and, where applicable, direct labor and an appropriate proportion of production overheads. For the fiscal years ended March 31, 2012 and 2011, write-downs of inventories to fair market value of \$932,848 and \$405,313, respectively, were recognized in the consolidated statements of operations.
- **Allowance for doubtful accounts.** The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Whenever it is clear that the amounts are deemed to be uncollectible, receivables are written off against the allowance for doubtful accounts.
- **Contingencies.** The Company accounts for various uncertain events, or contingencies in accordance with FASB ASC 450 "Contingencies". Under 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 any accrual for a contingency. For example, legal proceedings are inherently uncertain, and in order to determine the amount of any reserves required, the Company assesses the likelihood of any adverse judgment or outcomes in any litigation, as well as potential ranges of probable losses. However, the actual results may differ from such estimates and the difference may be material.

- Uncertain tax provision. As of March 31, 2012, the Company recognized US\$5,701,782 of liabilities for unrecognized tax benefits and, in addition, US\$1,667,602 of related interest and penalties. The unrecognized tax benefits relate mainly to potential transfer pricing arrangements reflected in the Hong Kong and PRC income tax returns of certain subsidiaries of the Company. The final outcome of these tax uncertainties is dependent upon various matters including tax examinations, legal proceedings, certain authority proceedings, changes in regulatory tax laws and interpretations of those tax laws, or expiration of statutes of limitation. However, based on the number of jurisdictions, the uncertainties associated with litigation, and the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, which could include formal legal proceedings, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties. As of March 31, 2012, the Company classified US\$5,701,782 of its liabilities for unrecognized tax benefits and US\$1,667,602 of interest and penalties as current liabilities.

#### ***Recent issues in accounting standards***

- In May 2011, the FASB issued ASU No. 2011-04 to provide additional guidance related to fair value measurements and disclosures. The guidance, which is incorporated into FASB ASC 820-10, generally provides clarifications to existing fair value measurement and disclosure requirements and also creates or modifies other fair value measurement and disclosure requirements. We will adopt this guidance, as required, for the period ending March 31, 2012 and do not expect the guidance to have a material impact on our financial position or results of operations.
- In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”, which improves the comparability, consistency and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, although early adoption is permitted. The Company has not opted to early adopt this pronouncement for the year ended March 31, 2012. In December 2011, the FASB issued ASU 2011-12 “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05”, which indefinitely defers certain aspects of ASU No. 2011-05 related to the presentation of reclassification adjustments. The adoption of ASU No. 2011-05 and ASU No. 2011-12 are not expected to have material impact on the Company’s financial position, results of operations and cash flows.

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

We spent approximately \$0.7 million, \$1.1 million and \$1.6 million, respectively, on product design and development in each of the fiscal years 2012, 2011 and 2010. These expenses were primarily attributable to salaries and wages for technical staff and prototyping and cost of samples. For a more complete description of our research and development, patents and licenses, etc., see “Item 4.B—Business Overview.”

#### ***D. Trend information.***

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

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

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

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

The following is a schedule reflecting our aggregate financial commitments as of March 31, 2012:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
Capital Commitments <sup>(1)</sup>	169,682	169,682	—	—	—
Operating Lease Commitments <sup>(2)</sup>	11,234,133	511,654	890,767	694,820	9,136,892
<b>Total Contractual Obligations</b>	<b>11,403,815</b>	<b>681,336</b>	<b>890,767</b>	<b>694,820</b>	<b>9,136,892</b>

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

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

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

### A. Directors and senior management.

Our directors and senior management at March 31, 2012 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
John C.K. Sham <sup>(1)</sup>	49	Chairman, Chief Executive Officer, Acting Chief Financial Officer and Director
Brian Yuen <sup>(1)(2)</sup>	56	Chief Executive Officer, Global-Tech USA, Inc. and Director
Patrick Po-On Hui <sup>(2)(3)</sup>	54	Director
Ken Ying-Keung Wong <sup>(3)</sup>	63	Director
Barry J. Buttifant <sup>(3)</sup>	67	Director
Ryan L. Long	33	Vice President and General Counsel, Lite Array Inc.

<sup>(1)</sup> Member of the finance committee.

<sup>(2)</sup> Member of the compensation committee.

<sup>(3)</sup> Member of the audit committee.

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

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

**Patrick Po-On Hui** has served as a director of Global-Tech since March 2000. Mr. Hui is a practising attorney who since June 2010 became a consultant at Messrs. Iu, Lai & Li. From June 1988 to 2008, he was a consultant to, and then appointed as a partner of Robin Bridge & John Liu in 2008, a law firm based in Hong Kong. Mr. Hui was an Associate Partner of the law firm of Johnson Stokes & Master from March 1996 to May 1998 and an Assistant Solicitor of that firm from September 1989 to February 1996.

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

**Barry J. Buttifant** has served as a director of Global-Tech since November 2003. Mr. Buttifant is currently an executive director of Hsin Chong Construction Group (“HCCG”). Prior to joining HCCG, Mr. Buttifant was the Chief Executive Officer of the IDT International Limited. In October 2009, Mr. Buttifant was a director—corporate finance of Mission Hills Group (“MHG”) and prior to this appointment, he was the consultant to the Group since December 2008. Prior to joining MHG, Mr. Buttifant served as a principal of KLC Kennic Lui & Company (“KLC”), a professional accounting firm, and managing director of KLC Transactions Limited. Prior to joining KLC, Mr. Buttifant was the executive director—finance of MHG from February 2008 till November 2008. From December 2004 to December 2007, Mr. Buttifant was the managing director of Hsin Chong International Holdings Limited, a controlling shareholder of HCCG (which was acquired by MHG in November 2007) and Synergis Holdings Ltd (“Synergis”) (which was acquired by HCCG in September 2008). Mr. Buttifant was also an alternate director to both public companies. Mr. Buttifant was an operating partner of Baring Private Equity Asia Limited. He was also the managing director of Wo Kee Hong (Holdings) Limited (“WKH”) from 2001 to 2002 and was the Advisor to the board of directors of WKH from November 2002 to April 2004. Prior to joining WKH, he was the managing director of IDT International Limited for over eight years and had worked for Polly Peck Group and Sime Darby Hong Kong Limited for more than 11 years in the capacity of finance director and managing director. He has over 35 years of experience in corporate and financial management. Mr. Buttifant is an independent non-executive director of Giordano International Limited and Daiwa Associates Holdings Limited; a non-executive director of Synergis, all of which are publicly listed companies in Hong Kong. Mr. Buttifant also serves as a non-executive director of China Nepstar Chain Drugstore Limited, a NYSE listed public company. Mr. Buttifant is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Chartered Management Institute, the Hong Kong Management Association and the Hong Kong Institute of Directors.

**Ryan L. Long** joined us in December 2009 as Vice President and General Counsel of our subsidiary, Lite Array, Inc. Prior to joining us, Mr. Long was an Associate with the law firm of Calfee, Halter & Griswold LLP from 2007 to 2009.

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

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

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

The aggregate direct remuneration paid to all directors and senior management as a group (6 persons) during fiscal 2012 was approximately \$1.5 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 five directors serving on the board of the Company, of which three are independent. See Item 6A—"Directors and senior management" for the service time of our directors.

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

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

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

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

**Compensation committee.** Our Board of Directors also has a compensation committee. The compensation committee reviews and determines compensation for officers, directors and consultants, as well as bonuses and other incentive programs for employees. As of March 31, 2012, the compensation committee was comprised of Patrick Po-On Hui and Brian Yuen. Mr. Yuen is not considered to be independent since he is also a member of management of the Company.



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

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

At March 31, 2012, 2011 and 2010, we employed 2,264, 4,216 and 3,420 persons, respectively, on a full-time basis. Of our employees at March 31, 2012, 26 were located in Hong Kong and, 2,238 in China.

As discussed elsewhere in this annual report, the Company completed its exit from the home appliance business in January 2012. In connection with our exit from the home appliance business, our labor force was significantly reduced as a result of the release of a majority of the employees previously assigned to our home appliance business.

A breakdown of persons employed as of March 31, 2012 by main category of activity is as follows:

<u>Category</u>	<u>No.</u>
Manufacturing	1,524
Production management	44
Finance and administration	177
Receiving and warehousing	68
Quality control	176
Production engineering	32
Product design and development	165
Sales and marketing	70
Human resources	8
	<u>2,264</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 2012, we employed a maximum of approximately 4,155 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.

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



## E. Share ownership.

The following table sets forth information regarding the share ownership in Global-Tech as of June 30, 2012 held by the directors and senior management and options granted to them on our common shares:

<u>Name of Owner<sup>(1)</sup></u>	<u>Number of Shares</u>	<u>Percentage#</u>
Wing Shing Holdings Company Limited <sup>(2)</sup>	688,797	22.7%
John C.K. Sham <sup>(3)</sup>	963,624	30.4
Brian Yuen <sup>(4)</sup>	86,803	2.8
Barry J. Buttifant <sup>(5)</sup>	11,250	*
Patrick Po-On Hui <sup>(5)</sup>	3,250	*
Ken Ying-Keung Wong <sup>(5)</sup>	1,250	*
Ryan L. Long <sup>(5)(6)</sup>	10,000	*
All officers and directors as a group (6 persons) <sup>(7)</sup>	1,076,177	33.3

\* Less than 1%

# In accordance with SEC rules, each beneficial owner's holdings have been calculated assuming full exercise of outstanding options covering our common shares, if any, exercisable by such owner within 60 days after June 30, 2012, but no exercise of options covering our common shares held by any other person.

(1) Unless otherwise indicated, the persons named in the table above have sole voting and dispositive power with respect to all common shares beneficially owned by them.

(2) The share ownership of Wing Shing Holdings Company Limited is held 44.0% by the estate of Kwong Ho Sham and 56.0% by John C.K. Sham. Prior to the passing of Kwong Ho Sham, voting control of Wing Shing Holdings Company Limited ("Wing Shing Holdings") was held approximately 34.3% by Kwong Ho Sham and 65.7% by John C.K. Sham. Following Kwong Ho Sham's passing, John C.K. Sham assumed 100% voting control of Wing Shing Holdings. During fiscal 2013, the shares of the Company owned by Wing Shing Holdings will be distributed to its two shareholders. The estate of Kwong Ho Sham will receive 303,070 shares, which will be gifted to a charitable trust, and 385,727 shares of the Company will be distributed to John C.K. Sham. John C.K. Sham currently disclaims any beneficial ownership in any of the common shares of Global-Tech owned by Wing Shing Holdings.

(3) Includes 688,797 shares owned by Wing Shing Holdings and 131,250 common shares issuable to John C.K. Sham within 60 days after June 30, 2012 upon exercise of options granted under our 1997 and 2005 Plans. Excludes 1,200,000 shares owned by the wife, daughter and mother of John C.K. Sham. Mr. John C.K. Sham disclaims any beneficial ownership in such shares.

(4) Includes 73,751 common shares issuable to Brian Yuen within 60 days after June 30, 2012 upon exercise of options granted under our 1997 and 2005 Plans. Excludes 1,975 shares owned by the wife and son of Mr. Yuen. Mr. Yuen disclaims any beneficial ownership in such shares.

(5) Each of Barry J. Buttifant, Patrick Po-On Hui, Ken Ying-Keung Wong and Ryan L. Long own less than 1% of the issued and outstanding common shares as of June 30, 2012.

(6) Includes 10,000 shares issuable to Mr. Long within 60 days after June 30, 2012 upon exercise of options granted under the 2005 Plan.

(7) Includes 688,797 common shares owned by Wing Shing Holdings and 229,501 common shares beneficially owned by or issuable to various officers and directors within 60 days after June 30, 2012 upon exercise of options granted under our 1997 and 2005 Plans.

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

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

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

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

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

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

During fiscal 2010, an aggregate of 18,830 options with exercise prices between \$20.00 and \$25.00 expired including 17,055 options granted to Directors.

No options issued pursuant to the 1997 Plan were exercised or expired during fiscal 2011.

During fiscal 2012, an aggregate of 1,250 options with exercise prices of US\$25.00 and US\$30.56 per share were forfeited upon resignation of the relevant participants and 82,167 options with exercise prices between US\$19.00 and US\$25.00 per share expired, including 65,500 options granted to Directors.

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

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

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

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

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

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

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

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

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

- the terms and conditions of exercise.

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

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

- During fiscal 2010, no options were granted and none were forfeited.
- During fiscal 2011, 20,000 options were granted and none were forfeited.
- During fiscal 2012, no options were granted and none were forfeited.

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

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

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

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

No shares have been granted under the Omnibus Plan during fiscal years 2012, 2011 or 2010.

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

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

As of March 31, 2012, 2011 and 2010, there were an unrecognized share-based compensation cost of \$1,969, \$1,969 and \$3,938, respectively, relating to stock granted to an employee under the 1999 Employee Stock Purchase Plan. The unrecognized compensation cost for stock granted is expected to be recognized over a weighted-average vesting period of two years and five years, respectively. To the extent that the actual forfeiture rate is different from the original estimate, actual share-based compensation relating to these awards may be different from the expectations.

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

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

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

The following table sets forth information regarding the share ownership in Global-Tech as of June 30, 2012 of shareholders that are beneficial owners of 5% or more of our outstanding common shares:

<u>Name of Owner</u>	<u>Number of Shares</u>	<u>Percentage</u>
Shun Chi Hui	600,000	29.6%
Jenny, Meng Chen Tsai	300,000	9.3%
Estee M.Y. Sham	300,000	9.3%
Wing Shing Holdings Company Limited <sup>(1)(2)</sup>	688,797	22.7%

<sup>(1)</sup> The share ownership of Wing Shing Holdings Company Limited was held 44.0% by the estate of Kwong Ho Sham and 56.0% by John C.K. Sham. Voting control of Wing Shing Holdings Company Limited was held approximately 34.3% by estate of Kwong Ho Sham and 65.7% by John C.K. Sham. Kwong Ho Sham passed away on July 11, 2011. Following Kwong Ho Sham's passing, John C.K. Sham assumed 100% voting control of Wing Shing Holdings.

<sup>(2)</sup> In June 2011, Kwong Ho Sham established a trust that would own his portion of Wing Shing Holdings Company Limited ("Wing Shing Holdings") shares in the Company. Upon his passing, 303,070 shares owned by Wing Shing Holdings would go into this trust and 385,727 shares owned by Wing Shing Holdings would be transferred to John C.K. Sham. As of July 24, 2012, the transfer had not been officially executed but is expected to occur during fiscal 2013. John C.K. Sham as a trustee of his father's charitable trust will decline beneficial ownership of any of the trust's shares.

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

As of June 30, 2012, approximately 33.6%, 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:**

- In April, 2008, we entered into renewal lease agreements with Wing Shing Products Company Limited, a company owned by the Sham family, for offices and warehouses with a total area of 25,690 square feet occupied by our executive officers, administrative group and warehouse staff at a rate totaling approximately \$173,000 per annum. On January 31, 2012, we entered an amended lease agreement with Wing Shing Products Company Limited that reduced the total area to 11,010 square feet at a rate totaling approximately \$70,786 per annum.
- 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 was at fair market value for such a property, which was used to accommodate business visitors from overseas. This apartment was sold in July 2011 and no further rent was paid.
- We rent a company car from Wing Shing Products Company Limited, a company owned by the Sham family. Monthly rental for the vehicle is approximately \$4,800, which is the estimated fair value of rental or lease rates in Hong Kong for such vehicles.

#### **Rental income and management fee income:**

- Rental income of nil, nil and \$6,393 was earned from a jointly controlled entity for the fiscal years ended March 31, 2012, 2011 and 2010. The rentals were charged on mutually agreed terms.
- Management fee income of nil, nil
- and \$9,313 was earned for the fiscal years ended March 31, 2012, 2011 and 2010, from a jointly-controlled entity. The management fees were charged with reference to the actual costs incurred.

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

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

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

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

Not applicable.

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

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

Our consolidated financial statements for fiscal 2012, 2011 and 2010 have been prepared in accordance with U.S. GAAP and audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB). A consolidated balance sheet is presented for each of fiscal 2012 and 2011 along with a consolidated statement of operations, statement of cash flows and statement of changes in shareholders' equity which are presented for each of fiscal 2012, 2011 and 2010. See "Item 18—Financial Statements" for detailed financial information.

### **Percentage of Export Sales**

Export sales from China constitute approximately 42.8% of our combined continued and discontinued sales volume. For a breakdown of our export sales by market during the past three fiscal years, see Note 25(b) 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.

### **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 Limited, (now named Pentalpha Medical Limited ("Pentalpha")), 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 Pentalpha for breach of an alleged obligation to indemnify Sunbeam from SEB's patent infringement claims. Global-Tech and Pentalpha 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 Pentalpha. Sunbeam then paid SEB \$2.0 million to settle its claim. Sunbeam's third-party complaint against Global-Tech and Pentalpha remained.

On December 15, 1999, Pentalpha asserted counterclaims against Sunbeam in connection with a product supply agreement. In July 2002, after the case had been transferred to the U.S. 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 Pentalpha for fraud in the inducement of the product supply agreement, but denied the motion with respect to the claims of Pentalpha for breach of contract. In addition, the District Court granted Sunbeam's motion for summary judgment on its claims for indemnity against Pentalpha 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 \$2.0 million Sunbeam previously paid to settle SEB's claims of patent infringement.

The trial on the claims of Sunbeam for indemnity and the claim of Pentalpha 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 \$2.5 million against Pentalpha, and (ii) Pentalpha on its claim for breach of contract and awarded Pentalpha \$6.6 million. The district court granted a final judgment on February 11, 2004 to add prejudgment interest to the Jury's award, and awarded Sunbeam approximately \$3.4 million and Pentalpha \$6.6 million.

After a number of appeals and calculations of pre and post judgment interest, both parties and the Court confirmed the final judgment and Sunbeam agreed to make payment.

Sunbeam wire transferred to the escrow account of Cooper & Dunham, the attorneys for SEB, a total of \$5.7 million. Cooper & Dunham acknowledged receipt of that money and agreed to hold it in an escrow account titled "Cooper & Dunham as escrow agent pursuant to Court order" pursuant to the September 7, 2005 order in the action SEB S.A., v. Montgomery Ward pending in the United States District Court for the Southern District of New York. Sunbeam's payment of the funds into escrow eliminated its obligation to pay post-judgment interest on the amount that it paid into escrow. In fiscal 2009, the Court released approximately \$800,000 from the

escrow account to the Company. On August 9, 2010, the district court in the SEB v. Montgomery Ward case, issued an order authorizing Cooper & Dunham to release the remaining funds held in escrow to SEB to satisfy the amended judgment plus post judgment interest, effectively concluding this matter.

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

On August 28, 1999, SEB commenced an action in the U.S. District Court for the Southern District of New York against the Company, its subsidiary Pentalpha, 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 the Company based upon the sale of a modified deep fryer product. 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.

The Company and Pentalpha moved on December 3, 2002, for summary judgment on liability on the ground that neither engaged in any conduct that infringed the patent because of the extra-territoriality of their acts and for partial summary judgment on the claim of SEB for lost profits.

SEB moved for an order "attaching the judgment" in favor of the Company in the action SEB v. Sunbeam v. Pentalpha Enterprises. The parties resolved the motion by consenting to an order that required the Company, among other things, to give notice to SEB of any attempt to collect the judgment against Sunbeam. On August 19, 2005, the Company notified SEB that it anticipated taking action to enforce the judgment against Sunbeam from the District of Florida. On August 24, 2005, SEB served a renewed motion to attach the entire proceeds of the judgment. The district court attached the entire judgment by order dated September 7, 2005. The Company and Pentalpha filed a motion on September 22, 2005 to reduce the amount of the attachment to no more than US\$500,000. The Court denied the motion and refused to modify the order of attachment.

By decision dated January 9, 2006, the district court denied our motion for summary judgment, meaning that the district court would require a trial to resolve SEB's claims.

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 Pentalpha had 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 \$4.65 million, representing \$3.6 million for its sales to Sunbeam, \$0.54 million for sales to Fingerhut and \$0.51 million for sales to Montgomery Ward.

Both sides made post-trial motions. The Company and Pentalpha moved for judgment as a matter of law on a wide range of issues and for a new trial. SEB moved to enhance damages with the addition of treble damages, prejudgment interest and attorneys' fees. The motions have been fully briefed. The district court heard oral arguments on April 11, 2007, and June 21, 2007. The court also heard testimony from a SEB witness on July 19, 2007 with respect to Pentalpha's motion for judgment as a matter of law on certain issues based upon SEB's failure to produce certain documents during discovery.

In a memorandum opinion and decision dated October 9, 2007, the district court denied all of the post-trial motions of the Company and Pentalpha, except that the court reduced the amount of the jury verdict by \$2 million based upon SEB's receipt of that amount from Sunbeam. The district court also granted SEB's motion for enhanced damages of \$2.65 million, awarded SEB its attorneys' fees of \$0.9 million, and prejudgment interest at the prime interest rate amounting to \$1.8 million.

On October 2, 2008, the district court granted the motion of the Company and Pentalpha to vacate the award of enhanced damages and entered an amended judgment in favor of SEB for \$4.9 million.

The Company and Pentalpha thereafter sought to amend the order of attachment to release amounts beyond those necessary to provide security pending appeal. By order dated November 25, 2008, the district court granted that motion and released all amounts in excess of \$5.16 million and the attorneys for SEB released \$0.8 million of the amount in escrow to Pentalpha.

Both Pentalpha and SEB appealed the decisions of the district court on a number of issues.

The Court of Appeals heard oral argument on October 6, 2009 and rendered a decision on February 5, 2010 affirming the judgment of the district court. Pentalpha petitioned for reargument en banc, which the Federal Circuit denied on March 25, 2010.

After the Mandate of the Court of Appeals, SEB requested the district court modify the order of attachment to allow SEB to satisfy the outstanding judgment from the escrow funds that its counsel is holding from the order of attachment. As of April 30, 2010, the escrow fund held \$5,090,763.

The district court heard oral argument on May 19, 2010 on Pentalpha's Rule 60(b) motion and on SEB's application to modify the order of attachment to allow disbursement of the funds in the escrow account to satisfy its judgment. On August 4, 2010, the district court issued an order authorizing the attorneys for SEB to use the funds in the escrow account to satisfy the judgment, including pre-judgment interest, and pay certain expenses associated with it. If a balance remains, SEB's attorneys have been ordered to pay the balance to Pentalpha, after withholding income tax. In the event a deficit remains, Pentalpha will be required to pay the balance of the judgment.

Pentalpha filed a petition for certiorari in the Supreme Court of the United States on July 23, 2010. The Supreme Court granted the writ of certiorari on October 12, 2010. After the appeal was fully briefed, the Supreme Court heard oral argument on February 23, 2011. On May 31, 2011, the Court affirmed the judgment of the Federal Circuit by an 8-1 vote, effectively ending the matter.

### **Pentalpha v. Cooper & Dunham**

On April 9, 2009, Global-Tech and its subsidiary Pentalpha Enterprises, Ltd., now known as Pentalpha Medical Limited, commenced an action in New York State Supreme Court, New York County against Cooper & Dunham LLP, Wendy E. Miller, Norman H. Zivin, and SEB S.A. ("SEB"). The action alleges that the defendants fraudulently misrepresented to the Court in the action SEB S.A. v. Montgomery Ward & Co., et al., Index No. 99 Civ. 9284 (SCR), S.D.N.Y. (the "Federal Action") that they had no documents regarding markings on SEB's deep fryers other than a one page document they produced. As alleged in the Complaint, the defendants' fraud enabled SEB S.A. to obtain a judgment in the Federal Action that was nearly \$4 million greater than it would have obtained if defendants they had not made the misrepresentations. The Complaint asserts claims against SEB and its attorneys under New York Judiciary Law § 487, as well as common law fraud and related torts.

On May 1, 2009, the defendants filed a notice of removal, removing this action to the Southern District of New York, where it was assigned to District Judge Stephen Robinson, who had presided over the Federal Action. On May 21, 2009, the Company filed a motion to remand the action to state court. On June 29, 2009, defendants filed a motion to dismiss the complaint. On January 6, 2010, the federal court granted the Company's motion to remand, and accordingly denied defendants' motion to dismiss.

On March 29, 2010, defendants filed a motion in state court to dismiss the complaint, and for sanctions against the Company. On June 1, 2010, defendants filed their papers opposing plaintiffs' motion. By order entered on September 3, 2010, the Court dismissed the action. It held that the prior judgment in the action SEB S.A. v. Montgomery Ward & Co. barred the action under the doctrines of res judicata and collateral estoppel. The Court also denied the motion for sanctions against the Company.

By notice filed October 14, 2010, the Company appealed to the Appellate Division of the Supreme Court of the State of New York, First Department. On July 2, 2011, the Company filed its brief on appeal. SEB filed its opposition brief on August 12, 2011. The Company filed its reply brief on August 19, 2011.

By order entered January 5, 2012, the Appellate Division upheld the Courts dismissal of the action. This concluded this matter.

### **Hanks v. Hamilton Beach Brands Inc. and Global Household Products Limited**

On May 19, 2010, Kevin and Tammy Hanks filed an Amended Original Complaint and Jury Demand in the United States District Court for the Eastern District of Texas, Beaumont Division, naming Hamilton Beach Brands, Inc. a defendant and joining Global Household Products Limited as a defendant. The case was a property damages suit arising out of a fire that occurred at Plaintiffs' home on April 25, 2009.

Global Household filed a motion to dismiss asserting that the court lacked personal jurisdiction because Global Household had insufficient minimum contacts with the State of Texas.

Hamilton Beach contested the propriety of Global Household's jurisdictional defense. In so doing, Hamilton Beach served Global Household with jurisdictional discovery, filed numerous discovery motions, and even sought sanctions against Global Household for alleged failures to comply with court orders.

During the course of these discovery disputes, Global Household engaged in discussions with Plaintiffs' counsel to resolve the underlying products liability litigation.

On June 13, 2011, Hamilton Beach filed its Cross-Claim against Global Household.

On June 16, 2011, Global Household and Plaintiffs reached an agreement to settle the underlying litigation. Following the settlement with the Plaintiffs, the only remaining claim before the court was Hamilton Beach's Cross-Claim for indemnity as to its attorneys' fees and costs.

On July 26, 2011 Global Household and Hamilton Beach reached an agreement to settle Hamilton Beach's Cross-Claim for indemnity and attorney's fees. This concluded the matter.

Included in "accrued expenses" in our consolidated balance sheets as of March 31, 2012, 2011 and 2010 were provisions for legal fees of approximately \$6,700, \$217,700 and \$67,600, respectively 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, including withholding tax on dividend income and contribution to statutory reserve. Restrictions on currency conversion may be in effect from time to time but have not had a material effect on us to date.

## B. Significant changes.

Please see Item 4.A—"Information on the Company—Recent Developments—Discontinued Operations" for a full discussion regarding the Company's exit from the home appliances business in fiscal 2012, which was approved by the Company's board of directors on June 3, 2011.

## Item 9. The Offer and Listing.

### A. Offer and listing details.

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

	Pre-split		Adjustment to reflect 4-for-1 reverse stock split	
	High	Low	High	Low
<b>Fiscal 2007:</b>				
Annual	6.65	2.38	26.60	9.52
<b>Fiscal 2008:</b>				
Annual	5.85	2.57	23.40	10.28
<b>Fiscal 2009:</b>				
Annual	—	—	16.08	6.00
<b>Fiscal 2010:</b>				
Annual	—	—	13.37	6.40
<b>Fiscal 2011:</b>				
First Quarter	—	—	12.51	9.52
Second Quarter	—	—	10.00	8.42
Third Quarter	—	—	12.40	8.05
Fourth Quarter	—	—	9.40	6.78
Annual	—	—	12.51	6.78
<b>Fiscal 2012:</b>				
First Quarter	—	—	7.53	4.00
Second Quarter	—	—	4.65	3.03
Third Quarter	—	—	3.91	2.68
Fourth Quarter	—	—	6.90	3.26



	Pre-split		Adjustment to reflect 4-for-1 reverse stock split	
	High	Low	High	Low
Annual	—	—	7.53	2.68
<b>Most Recent Six Months:</b>				
January 2012	—	—	6.90	3.26
February 2012	—	—	6.08	4.04
March 2012	—	—	5.98	4.64
April 2012	—	—	9.94	4.75
May 2012	—	—	6.57	5.53
June 2012	—	—	6.00	5.02

**B. *Plan of distribution.***

Not applicable.

**C. *Markets.***

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

**D. *Selling shareholders.***

Not applicable.

**E. *Dilution.***

Not applicable.

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

Not applicable.

**Item 10. Additional Information.**

**A. *Share capital.***

Not applicable.

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

**Objects and Purposes**

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

**Directors**

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

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

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

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

## **Rights of Shareholders**

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

**Dividend rights.** Subject to the preferential and other dividend rights of any outstanding series of preference shares, holders of our common shares will be entitled to equal dividends per share when, as and if declared by our board of directors. The board may declare interim dividends and recommend a final annual dividend from retained earnings available for cash dividends as determined for statutory purposes at such times and in such amounts as they may determine. 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 30% or more of the outstanding voting shares.

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

## **Limitations on Share Ownership**

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

## **Indemnity and Insurance**

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

## **Certain Anti-Takeover Matters**

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

## **Ownership Information**

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

## **Differences from United States Law**

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

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

### *Board composition*

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

### *Scheduled independent director meeting*

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

#### *Nominating/corporate governance committee*

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

#### *Compensation committee*

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

#### *Audit committee*

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

#### *CEO Certification*

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

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

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

#### *Indemnification*

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

#### *Inspection of books and records*

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

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

Not applicable.

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

##### **General**

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

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

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

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

#### *General*

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

- a dealer in securities or currencies;
- a trader in securities that elects to use a market-to-market method of accounting for its securities holdings;
- a financial institution or a bank;
- an insurance company;
- a tax-exempt organization;
- a person that holds our common shares in a hedging transaction or as part of a straddle or a conversion transaction;
- a person whose functional currency for United States federal income tax purposes is not the U.S. dollar;
- a person liable for alternative minimum tax;
- a person that owns, or is treated as owning, 10% or more, by voting power or value, of our common shares;
- certain former U.S. citizens and residents who have expatriated; or
- a person who receives our shares pursuant to the exercise of employee stock options or otherwise as compensation.

#### *U.S. Holders*

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

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

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

## **Distributions**

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

We believe that we were not a PFIC for U.S. federal income purposes for our fiscal years ended March 31, 2011 or 2012. No assurance can be given, however, that the IRS may not agree and seek to treat us as a PFIC. See “Passive Foreign Investment Company (PFIC)” below. If we are a PFIC with respect to a particular U.S. Holder, dividends received from us will be taxed at regular ordinary income tax rates. Holders of our shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

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

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

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

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

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

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

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

An actual determination of PFIC status is factual in nature and cannot be made until the close of the applicable tax year. Based on the composition of our annual gross income and the nature and book value of our assets and the total market value, or market cap, of our shares at the end of each quarter of our fiscal years ended March 31, 2011 and 2012, we believe that we were not a PFIC for U.S. federal income purposes for our fiscal years ended March 31, 2011 or 2012. No assurance can be given, however, that the IRS may not agree and seek to treat us as a PFIC.

We have not conducted an appraisal of the actual fair market value of our assets to support our conclusion regarding our PFIC status. If we conducted such appraisal, it might not result in a fair market value of our assets being sufficiently greater than the

aggregate value of our market cap to support our conclusion regarding our PFIC status. Even if such appraisal did so support our conclusion as to our PFIC status, such appraisal may not be enough to establish to the satisfaction of the IRS that the fair market value of our assets, which would, or we believe should, not be considered “passive,” was sufficiently greater than the aggregate value of our market cap.

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

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

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

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

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

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

If we were treated as a PFIC, each U.S. Holder would be required to make an annual return on IRS Form 8621, reporting, among other things, distributions received and gain realized with respect to each PFIC in which such holder holds a direct or indirect interest, and may be required to provide other information as specified by the IRS. In this regard, we note, in particular, that under recently enacted legislation U.S. Holders may be subject to further reporting requirements in connection with the annual filing of their

respective U.S. federal income tax returns with respect to shareholdings in foreign corporations, which may include affirming whether or not a foreign corporation in which such U.S. Holder has invested is (or is not) a PFIC irrespective of whether any distributions have been received, the U.S. Holder has disposed of any stock of the foreign corporation, or the foreign corporation has disposed of any stock of its foreign subsidiaries in the relevant taxable year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## **British Virgin Islands Tax Consequences**

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

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated under the International Business Companies Act. In addition, our common shares are not subject to transfer taxes, stamp duties or similar charges. There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands.

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

We are a holding company incorporated in the British Virgin Islands and conduct our business in China solely through our wholly owned subsidiaries. The new EIT Law and its implementation rules, both of which became effective on January 1, 2008, provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10.0%, unless there are applicable treaties that reduce such rate. Under a special arrangement between China and Hong Kong, such dividend withholding tax rate is reduced to 5.0% if a Hong Kong resident enterprise owns over 25% of the PRC company distributing the dividends.

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

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

Not Applicable.

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

Not Applicable.

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

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

Woolworth Building  
233 Broadway  
New York, New York 10279

175 W. Jackson Boulevard  
Suite 900  
Chicago, Illinois 60604

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

### **I. *Subsidiary information.***

Not Applicable.

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

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

We sell a majority of our products in U.S. dollars and Chinese Renminbi and pay for our materials and components in U.S. dollars, Hong Kong dollars and Chinese Renminbi. We pay labor and overhead expenses in Renminbi, Hong Kong dollars and U.S. dollars. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong Government since 1983 at 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 was stable until 2006. On July 21, 2005, the People's Bank of China ("PBOC") decided to abandon its policy of pegging the Renminbi to the U.S. dollar and link the Renminbi to a basket of currencies. The PBOC also strengthened the exchange rate of the Renminbi at that time to 8.11 to the U.S. dollar from 8.28. The Chinese authorities had therefore taken their first step towards a floating currency. As of March 30, 2012, the exchange rate was 6.2943 and as of June 29, 2012 the exchange rate was 6.3249, a 0.5% depreciation since our fiscal year end. Any appreciation costs 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 17.7 % and 21.5% of our combined net sales in fiscal 2012 and 2011, respectively, and 12.3% of our consolidated net sales in fiscal 2012. We believe any future appreciation of the Renminbi would result in an increase in our operating costs in China and could materially impact our financial results. A 1% appreciation in the Renminbi would decrease our operating profit by approximately \$93,176. Our foreign currency exposure in our assets and liabilities was immaterial at March 31, 2012.

**Item 12. Description of Securities Other than Equity Securities.****A. Debt securities.**

Not applicable.

**B. Warrants and rights.**

Not applicable.

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

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

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

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

**Use of Proceeds**

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

acquisition. Most of our fund balance continues to remain in temporary investments, including short-term marketable securities, U.S. dollar denominated interest-bearing savings accounts, a money market funds, and other cash-related instruments.

## **Item 15. Controls and Procedures**

### **(a) Disclosure controls and procedures**

As of March 31, 2012, an evaluation was performed, under the supervision and with the participation of the Company's management including the Company's Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon this evaluation and for the reasons stated below, such officers concluded that the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act (1) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) is accumulated and communicated to the Company's management including the Chief Executive Officer and Acting Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

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

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

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

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

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

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

Management has assessed the effectiveness of its internal control over financial reporting as of March 31, 2012 based on the framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has determined that the Company's internal control over financial reporting is not effective as of March 31, 2012. In making its assessment, management identified a material weakness concerning the Company's internal accounting staff's lack of understanding of complex accounting issues related to U.S. generally accepted accounting principles ("GAAP"), including accounting for income taxes. In response, external consultants were engaged to perform a number of tasks to prepare specific accounting analysis and necessary corrections were made prior to any public announcements or filings with the SEC. Additionally, as part of its ongoing efforts to address the potential weakness described above, the Company will continue retaining external consultants who have sufficient and appropriate technical skills to help the Company identify and resolve accounting and reporting issues.

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

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

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

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

**Item 16. [Reserved]**

Not applicable.

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

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

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

The audit committee is currently comprised of three independent directors, Barry J. Buttifant, Patrick Po-On Hui and Ken Ying-Keung Wong. 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" and is thus designated as the Company's financial expert on the audit committee.

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 6A.—Directors and senior management for his biography.

**Item 16B. Code of Ethics**

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

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

Mazars CPA Limited became our independent auditor in fiscal 2012. BDO Limited was our independent auditor in fiscal 2011 and 2010. Fees payable for the fiscal years ended March 31, 2012 to Mazars and 2011 to BDO is detailed below:

	Fiscal Year Ended March 31, 2012	Fiscal Year Ended March 31, 2011
Audit fees	\$ 215,000	\$ 209,000
Audit-related fees	Nil	Nil
Tax fees	Nil	Nil
All other fees	Nil	Nil
Total fees	<u>\$ 215,000</u>	<u>\$ 209,000</u>

The nature of each category of fee is described below:

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

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

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

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

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

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

### **(a) Resignation of Principal Accountant**

On February 15, 2012, we accepted the resignation of BDO Limited as our independent registered public accounting firm. BDO Limited's resignation was an internal business decision of BDO Limited relating to the reallocation of resources and was in no way related to the affairs of the Company or caused by any action or inaction on the part of the Company.

BDO Limited's report on the Company's consolidated financial statements as of and for the two fiscal years ended March 31, 2011 and 2010 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audits of the Company's consolidated financial statements for each of the two fiscal years ended March 31, 2011 and 2010 and through February 15, 2012, we did not have any disagreements (as defined in Item 16F (a)(1)(iv) of Form 20-F and related instructions) with BDO Limited on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of BDO Limited, would have caused them to make reference thereto in their report on the consolidated financial statements for such years.

During the two fiscal years ended March 31, 2011 and 2010, and through February 15, 2012, there were no "reportable events" (hereinafter defined) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F, except that BDO Limited had identified one material weakness in connection with the audit of the Company's consolidated financial statements for the fiscal year ended March 31, 2010 and one material weakness in connection with the audit of our financial statements for the fiscal year ended March 31, 2011. These material weaknesses are described in our Annual Report on Form 20-F for each of the two fiscal years ended March 31, 2011 and 2010. As used herein, the term "reportable event" means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We concluded that a material weakness in internal control over our financial reporting existed as of March 31, 2011 and 2010 due to the Company's internal accounting staff's lack of understanding of complex accounting issues related to U.S. generally accepted accounting principles, including accounting for income taxes.

We provided a copy of this disclosure to BDO Limited and requested that BDO Limited furnish a letter addressed to the SEC stating whether they agreed with the above statements, and if not, stating the respects in which they do not agree. A copy of the letter from BDO Limited addressed to the SEC, dated July 23, 2012, is filed as Exhibit 99.1.

### **(b) Engagement of New Principal Accountant**

On February 20, 2012, our board of directors approved the appointment of Mazars CPA Limited as our independent registered public accounting firm. During the fiscal year ended March 31, 2012, neither we nor anyone on our behalf consulted Mazars CPA Limited regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements. Also, we have not obtained any written report or oral advice that Mazars CPA Limited concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of "disagreements" as that term is defined in Item 16F(a)(1)(v) of Form 20-F and related instructions to Item 16-F of Form 20-F, or "reportable events" as that term is described in Item 16F(a)(1)(v) of Form 20-F, except that Mazars CPA Limited had identified one material weakness in connection with the audit of the Company's consolidated financial statements for the fiscal year ended March 31, 2012. We concluded that a material weakness in internal control over our financial reporting existed as of March 31, 2012 due to the Company's internal accounting staffs' lack of understanding of complex accounting issues related to U.S. generally accepted accounting principles, including accounting for income taxes.

## **Item 16G. Corporate Governance**

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

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

<u>Rules</u>	<u>Requirements</u>	<u>Company Compliance</u>
		Accordingly, the board does not hold regularly scheduled sessions of the independent directors.
Rule 5605(e)(1) Independent Director Oversight of Nominations of Directors	Director nominees must be selected or recommended for the Board's selection by (a) a majority of independent directors on the board or (b) by a nominating committee comprised solely of independent directors.	Global-Tech is not required to have a nominating committee. However, any director nominees must be selected by a majority of independent directors.
Rule 5405(d) Independent Director Oversight of Executive Officer Compensation	Compensation of the chief executive and other executive officers must be determined or recommended to the board by majority vote of only Independent Directors or a compensation committee comprised solely of Independent Directors. The chief executive officer may not be present during voting or deliberations regarding the determination of compensation of the chief executive officer.	Mr. Brian Yuen, one member of Global-Tech's compensation committee, is not considered independent since he is a member of management of the Company.
Rule 5605(c)(1) Audit Committee Charter	The Company has adopted a formal written Audit Committee Charter specifying the items enumerated in Rule 5605(c)(1), and that the Audit Committee will review and assess the adequacy of the charter on an annual basis.	The Company has a formal charter that is reviewed annually.
Rule 5610 Code of Conduct	Each Company must adopt a code of conduct applicable to all directors, officers and employees, which shall be publicly available.	Global-Tech has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

### **PART III**

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

Not applicable.

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

See pages F-1 through F-52 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: July 24, 2012

GLOBAL-TECH ADVANCED INNOVATIONS INC.

By:                     /s/ John C.K. Sham                      
                    John C.K. Sham  
                    President, Chief Executive Officer and  
                    Acting Chief Financial Officer



Audited Consolidated Financial Statements

GLOBAL-TECH ADVANCED INNOVATIONS INC.

(Incorporated in the British Virgin Islands with limited liability)

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONTENTS

	<u>Pages</u>
<u>Report of Independent Registered Public Accounting Firm (Mazars CPA Limited)</u>	F-3
<u>Report of Independent Registered Public Accounting Firm (BDO Limited)</u>	F-4
Consolidated:	
<u>Balance Sheets as of March 31, 2012 and 2011</u>	F-5
<u>Statements of Operations for each of the three years in the period ended March 31, 2012</u>	F-6
<u>Statements of Changes in Shareholders' Equity for each of the three years in the period ended March 31, 2012</u>	F-7 - F-8
<u>Statements of Cash Flows for each of the three years in the period ended March 31, 2012</u>	F-9 - F-10
<u>Notes to Consolidated Financial Statements</u>	F-11 - F-52

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Global-Tech Advanced Innovations Inc. and its subsidiaries (the "Company") as of March 31, 2012, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2012, and the consolidated results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Mazars CPA Limited

*Certified Public Accountants*  
Hong Kong

July 23, 2012

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Global-Tech Advanced Innovations Inc. (the “Company”) as of March 31, 2011 and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for the years ended March 31, 2011 and 2010. 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. An audit 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at March 31, 2011, and the results of its operations and its cash flows for the years ended March 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Limited

BDO Limited  
Hong Kong, August 31, 2011 except for Note 19,  
which is as of July 23, 2012

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2012 and 2011

	<u>Notes</u>	<u>2012</u> <u>US\$</u>	<u>2011</u> <u>US\$</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	4	39,792,733	19,205,184
Time deposits	5	—	1,534,204
Restricted cash	6	4,546,062	19,460,845
Available-for-sale investments	7	2,006,066	6,692
Accounts and bills receivable, net	8	30,273,062	35,632,294
Inventories	9	5,374,192	10,849,371
Prepaid expenses		149,558	282,391
Deposits and other assets		769,206	1,711,820
Legal claims receivable	22	—	15,681
Amount due from a related party	10	11,798	28,737
Amount due from a jointly-controlled entity	10	—	13,694
Total current assets		82,922,677	88,740,913
Interests in jointly-controlled entities	13	—	—
Property, plant and equipment, net	11	21,933,787	25,013,340
Land use rights, net	12	3,083,128	3,060,555
Deposits paid for purchase of property, plant and equipment		66,617	112,126
Available-for-sale investments	7	1,033,800	3,009,200
Total assets		<u>109,040,009</u>	<u>119,936,134</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short term bank loans	15	4,000,000	12,585,054
Accounts payable		8,163,510	10,352,938
Bills payable	15	—	1,278,754
Customer deposits		860,779	821,288
Accrued salaries, allowances and other employee benefits		3,102,335	5,607,570
Accrual for loss contingencies	22	—	31,458
Other accrued liabilities	14, 23	6,637,851	7,576,062
Income tax payable		6,157,885	5,318,002
Total current liabilities		28,922,360	43,571,126
Deferred tax liabilities	18	27,017	27,549
Total liabilities		<u>28,949,377</u>	<u>43,598,675</u>
Commitments and contingencies	21, 22		
Shareholders' equity:			
Common stock, par value US\$0.04 per share; 12,500,000 shares authorized; 3,229,314 shares issued as of March 31, 2012 and 2011	16	129,173	129,173
Preferred stock, par value US\$0.04 per share; 250,000 shares authorized; no shares issued		—	—
Additional paid-in capital		84,786,226	84,752,105
Accumulated deficit		(9,690,526)	(11,101,203)
Accumulated other comprehensive income		9,697,445	7,395,275
Less: Treasury stock, at cost, 189,587 shares as of March 31, 2012 and 2011		(4,663,321)	(4,663,321)
Total Global-Tech Advanced Innovations Inc. shareholders' equity		80,258,997	76,512,029
Non-controlling interests		(168,365)	(174,570)
Total equity		<u>80,090,632</u>	<u>76,337,459</u>
Total liabilities and shareholders' equity		<u>109,040,009</u>	<u>119,936,134</u>

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

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012, 2011 AND 2010

	<u>Notes</u>	<u>2012</u> <u>US\$</u>	<u>2011</u> <u>US\$</u>	<u>2010</u> <u>US\$</u>
Net sales		69,652,705	57,468,866	48,039,625
Cost of goods sold		(59,008,973)	(50,403,138)	(39,722,076)
Gross profit		10,643,732	7,065,728	8,317,549
Selling, general and administrative expenses		(10,612,458)	(11,317,767)	(8,352,835)
Other operating income, net		28,589	1,137,580	179,565
Operating profit (loss)		59,863	(3,114,459)	144,279
Interest income, net		95,477	536,187	276,782
Other income, net	17	1,116,279	370,274	309,716
Income (Loss) from continuing operations before income taxes		1,271,619	(2,207,998)	730,777
Income tax expense	18	(1,228,625)	(204,122)	(389,135)
Income (Loss) from continuing operations		42,994	(2,412,120)	341,642
Income (Loss) from discontinued operations, net of tax	19	1,374,342	(1,775,879)	3,124,689
Net income (loss)		1,417,336	(4,187,999)	3,466,331
Net income (loss) attributable to non-controlling interests		(6,659)	175,028	—
Net income (loss) attributable to shareholders of Global-Tech Advanced Innovations Inc.		1,410,677	(4,012,971)	3,466,331
Basic and diluted earnings (loss) per share of common stock	20	0.46	(1.32)	1.14
		<u>Number</u>	<u>Number</u>	<u>Number</u>
Basic and diluted weighted average number of shares of common stock	20	3,039,727	3,039,454	3,037,969
		<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Rental expense paid to related parties (included in selling, general and administrative expenses)	10(a)	451,507	713,103	769,540
Rental income earned from a related party (included in other income (expenses), net)	10(b)	—	—	6,393
Management income earned from a related party (included in other income (expenses), net)	10(c)	—	—	9,313

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

## GLOBAL-TECH ADVANCED INNOVATIONS INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FISCAL YEARS ENDED MARCH 31, 2012, 2011 AND 2010

	Number of shares		Amounts							
	Common stock	Treasury stock	Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock	Accumulated other comprehensive income (loss)	Total Global-Tech shareholders' equity	Non-controlling interests	Total equity
	US\$		US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of March 31, 2009	3,227,064	(189,387)	129,083	84,266,412	(10,554,563)	(4,661,185)	5,021,266	74,201,013	—	74,201,013
Net income for the year	—	—	—	—	3,466,331	—	—	3,466,331	—	3,466,331
Other comprehensive income:										
• unrealized gain on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	953	953	—	953
• release of unrealized loss on available-for-sale investments, net of income tax of nil, upon disposal	—	—	—	—	—	—	12,488	12,488	—	12,488
• foreign currency translation adjustments	—	—	—	—	—	—	43,421	43,421	—	43,421
Total net comprehensive income	—	—	—	—	3,466,331	—	56,862	3,523,193	—	3,523,193
Shares repurchased as treasury stock	—	(200)	—	—	—	(2,136)	—	(2,136)	—	(2,136)
Stock compensation expenses	—	—	—	11,646	—	—	—	11,646	—	11,646
Shares issued to an employee	1,500	—	60	1,969	—	—	—	2,029	—	2,029
Balance as of March 31, 2010	3,228,564	(189,587)	129,143	84,280,027	(7,088,232)	(4,663,321)	5,078,128	77,735,745	—	77,735,745
Net loss for the year	—	—	—	—	(4,012,971)	—	—	(4,012,971)	(175,028)	(4,187,999)
Other comprehensive income:										
• unrealized gain on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	11,092	11,092	—	11,092
• release of unrealized loss on available-for-sale investments, net of income tax of nil, upon disposal	—	—	—	—	—	—	1,877	1,877	—	1,877
• foreign currency translation adjustments	—	—	—	—	—	—	2,304,178	2,304,178	458	2,304,636
Total net comprehensive income (loss)	—	—	—	—	(4,012,971)	—	2,317,147	(1,695,824)	(174,570)	(1,870,394)
Stock compensation expenses	—	—	—	470,109	—	—	—	470,109	—	470,109
Shares issued to an employee	750	—	30	1,969	—	—	—	1,999	—	1,999
Balance as of March 31, 2011	3,229,314	(189,587)	129,173	84,752,105	(11,101,203)	(4,663,321)	7,395,275	76,512,029	(174,570)	76,337,459

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE FISCAL YEARS ENDED MARCH 31, 2012, 2011 AND 2010

	Number of shares		Amounts							
	Common stock	Treasury stock	Common stock US\$	Additional paid-in capital US\$	Accumulated deficit US\$	Treasury stock US\$	Accumulated other comprehensive income (loss) US\$	Total Global-Tech shareholders' equity US\$	Non-controlling interests US\$	Total equity US\$
Balance as of March 31, 2011	3,229,314	(189,587)	129,173	84,752,105	(11,101,203)	(4,663,321)	7,395,275	76,512,029	(174,570)	76,337,459
Net income for the year	—	—	—	—	1,410,677	—	—	1,410,677	6,659	1,417,336
Other comprehensive income:										
• unrealized gain on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	24,600	24,600	—	24,600
• unrealized loss on available-for-sale investments, net of income tax of nil	—	—	—	—	—	—	(643)	(643)	—	(643)
• foreign currency translation adjustments	—	—	—	—	—	—	2,278,213	2,278,213	(454)	2,277,759
Total net comprehensive income (loss)	—	—	—	—	1,410,677	—	2,302,170	3,712,847	6,205	3,719,052
Stock compensation expenses	—	—	—	34,121	—	—	—	34,121	—	34,121
Balance as of March 31, 2012	<u>3,229,314</u>	<u>(189,587)</u>	<u>129,173</u>	<u>84,786,226</u>	<u>(9,690,526)</u>	<u>(4,663,321)</u>	<u>9,697,445</u>	<u>80,258,997</u>	<u>(168,365)</u>	<u>80,090,632</u>

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



GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012, 2011 AND 2010

	<u>2012</u> US\$	<u>2011</u> US\$	<u>2010</u> US\$
<b>Cash flows from operating activities:</b>			
Net income (loss)	1,417,336	(4,187,999)	3,466,331
Plus: (Gain) loss from discontinued operations, net of taxes	(1,374,342)	1,775,879	(3,124,689)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization	98,349	93,780	117,550
Depreciation	1,940,518	1,638,360	1,436,609
Loss on disposal of property, plant and equipment	86,015	3,662	292,208
Impairment of property, plant and equipment	—	—	4,786
Allowance for doubtful accounts	—	768	56,336
Stock compensation expense	34,121	470,109	11,706
Shares issued to an employee	—	1,999	1,969
Interest received from available-for-sale investments	(13)	—	—
Deferred tax benefit	(604)	93,907	(93,553)
Foreign exchange	67,828	(390,511)	(292,090)
<b>Changes in operating assets and liabilities:</b>			
Accounts and bills receivable, net	(6,656,556)	(3,974,939)	(8,278,735)
Prepaid expenses	135,753	(74,341)	120,750
Deposits and other assets	(139,251)	22,616	(228,652)
Legal claims receivable	15,730	5,077,737	10,089
Amount due from a jointly-controlled entity	13,694	7,937	47,892
Inventories	(226,182)	(1,040,759)	451,576
Accounts payable	1,573,958	3,003,617	(1,710,966)
Discounted bills	—	(3,354,398)	3,361,966
Accrued salaries, allowances and other employee benefits	184,139	927,917	76,383
Other accrued liabilities	(542,056)	491,005	1,012,085
Accrual for loss contingencies	(19)	(912,192)	10,045
Amount due to a related party	—	—	51,843
Income tax payable	663,564	(458,708)	195,982
Cash used in operating activities – continuing operations	(2,708,018)	(784,554)	(3,002,579)
Cash provided by (used in) operating activities – discontinued operations	16,078,896	(9,237,674)	8,178,541
Net cash provided by (used in) operations	<u>13,370,878</u>	<u>(10,022,228)</u>	<u>5,175,962</u>

continued/...

GLOBAL-TECH ADVANCED INNOVATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE FISCAL YEARS ENDED MARCH 31, 2012, 2011 AND 2010

	2012 US\$	2011 US\$	2010 US\$
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of property, plant and equipment	—	1,458	11,350
Deposits paid for purchase of property, plant and equipment	(3,365)	—	(145,535)
Purchases of property, plant and equipment	(543,188)	(4,446,340)	(1,035,623)
Increase in land use rights	—	—	(72,213)
Decrease (increase) in time deposits	1,567,786	(1,494,953)	4,380,440
Proceeds from disposal of available-for-sale investments	9,000,000	15,986,532	31,962,236
Purchases of available-for-sale investments	(8,999,987)	(3,000,000)	(31,977,976)
Proceeds from maturity of convertible note and related interest receivable	—	—	6,102,487
Cash provided by investing activities – continuing operations	1,021,246	7,046,697	9,225,166
Cash used in investing activities – discontinued operations	(240,763)	(217,028)	(927,679)
Net cash provided by investing activities	780,483	6,829,669	8,297,487
<b>Cash flows from financing activities:</b>			
Receipts (deposits) of restricted cash	15,420,274	(14,503,181)	(19,044)
Proceeds from short-term bank loans	—	21,479,662	—
Settlement of short-term bank loans	(8,930,492)	(9,216,587)	—
Purchases of treasury stock	—	—	(2,136)
Cash provided by (used in) financing activities – continuing operations	6,489,782	(2,240,106)	(21,180)
Cash used in financing activities – discontinued operations	—	—	—
Net cash provided by (used in) financing activities	6,489,782	(2,240,106)	(21,180)
Effect of foreign exchange rate changes on cash	(53,594)	(170,747)	43,445
Net increase (decrease) in cash and cash equivalents	20,587,549	(5,603,412)	13,495,714
Cash and cash equivalents at beginning of fiscal year	19,205,184	24,808,596	11,312,882
Cash and cash equivalents at end of fiscal year	39,792,733	19,205,184	24,808,596
<b>Supplemental disclosure information:</b>			
Cash paid for interest	106,599	270,823	69,665
Cash paid for taxes	569,645	623,151	222,438

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

# GLOBAL-TECH ADVANCED INNOVATIONS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Global-Tech Advanced Innovations Inc. (“Global-Tech”) (formerly known as Global-Tech Appliances Inc.) is primarily an investment holding company, which was incorporated in the British Virgin Islands on May 2, 1991. Global-Tech and its subsidiaries (hereinafter collectively referred to as the “Company”) is primarily a manufacturer of consumer electrical products, including, but not limited to, floor care products and small household appliances, electronic and optical components, and is also involved in the assembly of cellular phones. The Company’s manufacturing operation is located in Dongguan, the People’s Republic of China (the “PRC”). The Company’s products are primarily sold to customers located in the United States of America (the “U.S.A.” or the “U.S.”), Europe and the PRC.

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

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

### 2. SUBSIDIARIES

Details of Global-Tech’s subsidiaries as of March 31, 2012 were as follows:

<u>Name</u>	<u>Place of incorporation/ registration</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
Global Appliances Holdings Limited	British Virgin Islands	100	Investment holding
Global Display Holdings Limited	British Virgin Islands	100	Investment holding
Kwong Lee Shun Trading Company Limited	Hong Kong	100	Leasing of a property and the rendering of administration and management services
Global Rich Innovation Limited	Hong Kong	100	Inactive
Wing Shing Overseas Limited	British Virgin Islands	100	Inactive

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SUBSIDIARIES (continued)

Details of Global-Tech's subsidiaries as of March 31, 2012 were as follows: (continued)

<u>Name</u>	<u>Place of incorporation/ registration</u>	<u>Percentage of equity interest attributable to the Company</u>	<u>Principal activities</u>
GT Investments (BVI) Limited	British Virgin Islands	100	Investment holding
Consortium Investment (BVI) Limited	British Virgin Islands	100	Investment holding
Global Optics Limited	Hong Kong	100	Trading of raw materials and electronic and optical components
Dongguan Wing Shing Electrical Products Factory Company Limited ("DWS")	PRC	100	Manufacturing of household appliance products
Dongguan Lite Array Company Limited ("DGLAD")	PRC	100	Developing, manufacturing and marketing of electronic and optical components and provision of cellular phone assembly services
Dongguan Microview Medical Technology Company Limited	PRC	100	Manufacturing of medical instruments
Joke Media Limited	PRC	100	Media services
Global Auto Limited	Hong Kong	70	Inactive
Global Household Products Limited	Hong Kong	100	Trading of household appliance products
Pentalpha Medical Limited	Hong Kong	100	Inactive
Pentalpha Hong Kong Limited ("Pentalpha")	Hong Kong	100	Inactive
Global-Tech USA, Inc.	State of Delaware, U.S.A.	100	Provision of consultation services
Global Digital Imaging Limited	British Virgin Islands	100	Inactive
MasterWerke Limited	State of Delaware, U.S.A.	100	Inactive
Global Lite Array (BVI) Limited	British Virgin Islands	76.75	Investment holding
Lite Array (OLED) BVI Company Limited	British Virgin Islands	76.75	Inactive
Lite Array, Inc.	State of Delaware, U.S.A.	76.75	Inactive

Lite Array (OLED) BVI Company Limited was dissolved on March 31, 2012.

Joke Media Limited was incorporated on March 31, 2012.

MasterWerke Limited and Global Digital Imaging Limited were dissolved on May 2 and May 8, 2012, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

(b) Basis of consolidation

The consolidated financial statements include the financial statements of Global-Tech and its subsidiaries. The fiscal year end date of Lite Array Holdings Limited ("Lite Array Holdings"), a jointly-controlled entity of the Company, is December 31. There have been no significant transactions in Lite Array Holdings and its subsidiaries, which would materially affect the Company's financial position and results of operations during each of the periods from Lite Array Holdings' fiscal year end date to March 31, 2012, 2011 and 2010, respectively.

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

(c) Discontinued operations

Unless otherwise indicated, information presented in the notes to the consolidated financial statements relates only to Global-Tech's continuing operations. Information related to discontinued operations is included in note 19 and in some instances, where appropriate, is included as separate disclosure within the individual footnotes.

(d) Use of estimates

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

(e) Cash and cash equivalents

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

(f) Restricted cash

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

(g) Investments

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments (continued)

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

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

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

(h) Accounts and bills receivable, net

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

(i) Inventories

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

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

## (j) Property, plant and equipment

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

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

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

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

## (k) Construction in progress

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

## (l) Impairment of long-lived assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition

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

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

Revenue related to CCM shipments to certain telecommunication customers in the PRC is recognized upon notarized acceptance of the product by the customer.

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

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

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

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

(n) Advertising costs

Advertising costs represent costs relating to promotional activities intended to stimulate, directly or indirectly, a customer’s purchase of goods, and are charged to the consolidated statement of operations as incurred and are included in “Selling, general and administrative expenses” (“SG&A”). Advertising expenses were US\$81,098, US\$99,130 and US\$8,443 from continuing operations for the fiscal years ended March 31, 2012, 2011 and 2010, respectively. Whereas, US\$1,754, US\$2,279 and nil were from discontinued operations for the fiscal years ended March 31, 2012, 2011 and 2010, respectively.

(o) Design and development costs

Design and development costs primarily relate to the cost of samples and prototypes and salaries of our engineers. The Company expenses all design and development costs when incurred. Included in the SG&A expenses line item in the consolidated statement of operations were design and development costs of US\$620,768, US\$870,616 and US\$1,267,301 from continuing operations (from discontinued operations 2012: US\$106,190, 2011: US\$216,618 and 2010: US\$295,471) for the fiscal years ended March 31, 2012, 2011 and 2010, respectively.

(p) Shipping and handling costs

In accordance with FASB ASC 605 “Revenue Recognition”, shipping and handling fees billed to customers are included in net sales in the consolidated statement of operations. Any shipping and handling costs incurred by the Company associated with the sale of products are included in SG&A on the face of the consolidated statement of operations. During the fiscal years ended March 31, 2012, 2011 and 2010, shipping and handling costs charged to SG&A were US\$217,368, US\$146,608 and US\$114,162 from continuing operations (from discontinued operations 2012: US\$722,371, 2011: US\$730,807 and 2010: US\$914,620), respectively.

Any inbound freight charges, receiving, inspection, warehousing and internal transfer costs incurred by the Company are expensed as cost of goods sold. During the fiscal years ended March 31, 2012, 2011 and 2010, inbound freight costs charged to cost of goods sold were US\$20,922, US\$32,566 and US\$32,174 from continuing operations (from discontinued operations 2012: US\$70,279, 2011: US\$9,781 and 2010: US\$139,512), respectively. Other related costs are included in manufacturing overheads.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Foreign currencies

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

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

(r) Income taxes

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

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

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

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

(s) Stock compensation expense

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Retirement costs

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

(u) Operating leases

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

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

(v) Earnings (loss) per share

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

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

(w) Treasury stock

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

(x) Comprehensive income (loss)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Accruals and loss contingencies

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

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

(z) Segment reporting

The Company follows FASB ASC 280 "Segment Reporting". During most of fiscal 2012, the Company operated and managed its business in four segments. The Company exited the home appliance business in January 2012 and thus the home appliance segment is presented as a discontinued operation. The accounting policies used in its segment reporting are the same as those used in the reporting of its results in the consolidated financial statements.

(aa) Warranty cost

The Company estimates its warranty provision for defective products based on various factors including the likelihood of defects, an evaluation of its quality controls, technical analysis, industry information on comparable companies and its own experience. Based on the above consideration, the Company has accrued for warranty costs of US\$729,528 for the year ended March 31, 2012 (2011: US\$296,410 and 2010: US\$180,151). The basis and the amount of the warranty accrual are reviewed and adjusted periodically based on actual experience.

(ab) Government grants

Government grants are recognized when received and the stipulated activities are achieved. Such amounts are included in other income in the consolidated statement of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

- (i) In May 2011, the FASB issued ASU No. 2011-04 to provide additional guidance related to fair value measurements and disclosures. The guidance, which is incorporated into FASB ASC 820-10, generally provides clarifications to existing fair value measurement and disclosure requirements and also creates or modifies other fair value measurement and disclosure requirements. We adopted this guidance, as required, for the year ended March 31, 2012 but it did not have a material impact on our financial position or results of operations.
- (ii) In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income", which improves the comparability, consistency and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, early adoption is permitted. The Company has not early adopted this pronouncement for the year ended March 31, 2012. In December 2011, the FASB issued ASU 2011-12 "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05", which indefinitely defers certain aspects of ASU No. 2011-05 related to the presentation of reclassification adjustments. The adoption of ASU No. 2011-05 and ASU No. 2011-12 are not expected to have material impact on the Company's financial position, results of operations and cash flows.

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CASH AND CASH EQUIVALENTS

	March 31, 2012 US\$	March 31, 2011 US\$
Cash on hand and at banks	27,680,158	7,734,976
Money market funds	12,112,575	11,470,208
Total cash and cash equivalents	<u>39,792,733</u>	<u>19,205,184</u>

The cash on hand and at banks in our PRC subsidiaries are denominated in Renminbi (“RMB”), United States dollars (“US\$”) and Hong Kong dollars (“HK\$”) with the total amount equivalent to RMB53,638,273 (equivalent to US\$8,511,175) and RMB27,310,779 (equivalent to US\$4,166,595) as of March 31, 2012 and 2011, respectively. Of these amounts, RMB53,219,866 (equivalent to US\$8,444,783) and RMB 13,612,533 (equivalent to US\$2,076,762) are originally denominated in RMB as of March 31, 2012 and 2011, respectively. RMB is not freely convertible into other currencies; however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business. Other than RMB, the cash on hand and at banks of the Company in Hong Kong and the United States are denominated in HK\$ and US\$.

5. TIME DEPOSITS

As of March 31, 2011, time deposits of RMB10,056,250 (equivalent to US\$1,534,204) were deposited with a creditworthy bank with an original maturity of more than three months when acquired. The time deposits bore interest at 2.25% per annum and matured in June 2011.

6. RESTRICTED CASH

As of March 31, 2012 and 2011, time deposits of RMB28,649,739 (equivalent to US\$4,546,062) and RMB127,560,000 (equivalent to US\$19,460,845) were deposited with and pledged to banks to secure credit facilities granted to the Company, including revolving bank loans and bills payable.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. AVAILABLE-FOR-SALE INVESTMENTS

The following is a summary of available-for-sale debt and equity securities, which are all non-restricted, as of March 31, 2012 and 2011:

	Cost		Net unrealized gains (losses)		Fair values	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Current assets:						
Unlisted investments	2,000,000	—	—	—	2,000,000	—
Listed equity securities	3,138	3,129	2,928	3,563	6,066	6,692
	<u>2,003,138</u>	<u>3,129</u>	<u>2,928</u>	<u>3,563</u>	<u>2,006,066</u>	<u>6,692</u>
Non-current assets:						
Unlisted investments	1,000,000	3,000,000	33,800	9,200	1,033,800	3,009,200
	<u>3,003,138</u>	<u>3,003,129</u>	<u>36,728</u>	<u>12,763</u>	<u>3,039,866</u>	<u>3,015,892</u>

As of March 31, 2012 and 2011, investments totaling US\$2,335 and US\$2,294 were in unrealized loss positions of US\$1,952 and US\$1,913 respectively. During the fiscal years ended March 31, 2012, 2011 and 2010, no significant gain or loss was recognized on the disposal of the Company's available-for-sale debt securities.

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

Unlisted investments which have terms from 1 to 3 years are measured at fair value using a price quoted by a third party, such as broker or bank, at the balance sheet date.

The net unrealized gains (losses) consisted of gross unrealized gains as at the fiscal years ended March 31, 2012, 2011 and 2010 of US\$38,680, US\$14,676 and US\$3,530, respectively, and gross unrealized losses as at the fiscal years ended March 31, 2012, 2011 and 2010 of US\$1,952, US\$1,913 and US\$3,770, respectively.

The proceeds from the disposal of available-for-sale investments for the fiscal years ended March 31, 2012, 2011 and 2010 were US\$9,000,000, US\$15,986,532 and US\$31,962,236, respectively.

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. ACCOUNTS AND BILLS RECEIVABLE, NET

	March 31, 2012 US\$	March 31, 2011 US\$
Accounts receivable	13,318,143	24,669,150
Less: Allowance for doubtful accounts	—	(768)
Accounts receivable, net	13,318,143	24,668,382
Bills receivable	16,954,919	10,963,912
Accounts and bills receivable, net	<u>30,273,062</u>	<u>35,632,294</u>

	Fiscal years ended		
	March 31, 2012 US\$	March 31, 2011 US\$	March 31, 2010 US\$
Allowance for doubtful accounts:			
Balance at beginning of fiscal year	768	115,024	65,308
Additions	—	768	56,336
Amount written-off as uncollectible during the fiscal year	(768)	(115,024)	(6,362)
Exchange realignment	—	—	(258)
Balance at end of fiscal year	<u>—</u>	<u>768</u>	<u>115,024</u>

9. INVENTORIES

	March 31, 2012 US\$	March 31, 2011 US\$
Raw materials	2,716,414	5,697,795
Work in progress	780,588	3,010,686
Finished goods	1,877,190	2,140,890
	<u>5,374,192</u>	<u>10,849,371</u>

For the fiscal years ended March 31, 2012, 2011 and 2010, a write-down of inventories to fair market value of US\$932,848, US\$405,313 and US\$398,474 respectively, was recognized in the consolidated statement of operations, of which US\$548,293, US\$42,004 and US\$104,883 were included in discontinued operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. RELATED PARTY TRANSACTIONS

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

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements for the fiscal years ended March 31, 2012, 2011 and 2010, the Company had the following material transactions with related parties during those years:

- (a) The Company incurred annual real estate rental expenses for the fiscal years ended March 31, 2012, 2011 and 2010 of approximately US\$451,507, US\$713,103 and US\$769,540, respectively, payable to two directors of Global-Tech and certain related companies of which certain of their directors are also directors of Global-Tech. Included in the aforesaid annual real estate rental expenses were amounts of US\$318,743, US\$478,635 and US\$479,808 paid to two directors of Global-Tech during the fiscal years ended March 31, 2012, 2011 and 2010, respectively, which were included in their remuneration for the respective fiscal years as housing allowances.
- (b) Rental income of nil, nil and US\$6,393 was earned for the fiscal years ended March 31, 2012, 2011 and 2010, respectively, from a jointly-controlled entity. The rentals were charged on mutually agreed terms.
- (c) Management fee income of nil, nil and US\$9,313 was earned for the fiscal years ended March 31, 2012, 2011 and 2010, respectively, from a jointly-controlled entity, which was charged with reference to the actual costs incurred.

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The amount due from a related party, of which two of the directors of Global-Tech were shareholders as of March 31, 2012, 2011 and 2010, is unsecured, interest-free and has no fixed terms of repayment.

## 11. PROPERTY, PLANT AND EQUIPMENT, NET

	March 31, 2012 US\$	March 31, 2011 US\$
Leasehold improvements and buildings	28,102,876	27,022,596
Plant and machinery	34,922,469	35,907,231
Moulds	386,482	10,891,768
Transportation equipment	1,581,372	1,520,280
Furniture, fixtures and equipment	5,431,091	5,778,517
Construction in progress	4,760	63,129
	70,429,050	81,183,521
Less: Accumulated depreciation	(48,495,263)	(56,170,181)
Property, plant and equipment, net	<u>21,933,787</u>	<u>25,013,340</u>



11. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

- (a) During the fiscal years ended March 31, 2012, 2011 and 2010, impairment losses relating to property, plant and equipment of US\$1,230,727, nil and US\$4,786, respectively, were recognized in the consolidated statement of operations for certain moulds, plant and machinery, and furniture, fixtures and equipment which are no longer used in the operations of the Company. The impairment loss of US\$1,230,727 was recognized in "Income (Loss) from discontinued operations" during the fiscal year ended March 31, 2012. No impairment loss was recognized for the year ended March 31, 2011. For the fiscal year ended March 31, 2010, an impairment loss of US\$4,786 was included in "Other income (expense), net".
- (b) As of March 31, 2012 and 2011, buildings with aggregate net book values of approximately US\$14,899 and US\$15,783, respectively, were situated in Hong Kong and manufacturing facilities with aggregate net book values of approximately US\$11,105,383 and US\$11,890,017, respectively, were situated in Mainland China. The land where the manufacturing facilities were situated is held under certain land use rights that will expire in 2043. Up to March 31, 2012, the Company has obtained a sizable portion of the property ownership certificates for its buildings (29 out of a total of 40 properties). The application for the remaining property ownership certificates will commence only after the land use right certificates for the relevant pieces of land are obtained.
- (c) The amounts of depreciation charged for the fiscal years ended March 31, 2012, 2011 and 2010 were US\$3,463,480, US\$3,238,356 and US\$3,661,352 respectively. Of which, US\$1,522,962, US\$1,599,996 and US\$2,224,742 were included in "Income (Loss) from discontinued operations".
- (d) The loss on disposal of property, plant and equipment recognized during the fiscal years ended March 31, 2012, 2011 and 2010 amounted to US\$86,015, US\$3,662 and US\$292,208, respectively were recognized in income (loss) from continuing operations. No loss on disposal of property, plant and equipment was recognized during fiscal years ended March 31, 2012, 2011 and 2010 from discontinued operations.

12. LAND USE RIGHTS, NET

Land use rights represent prepayments under operating leases for land use for a predetermined time period. They are charged to the consolidated statement of operations over the lease periods on a straight-line basis. The Company has the rights to use certain pieces of land located in Mainland China and has obtained or is in the process of obtaining the land use rights certificates covering a substantial portion of such lands. On August 26, 2006, the Company entered into a supplementary agreement with the Dongguan local government regarding the use of a piece of land with a total area of 45,208 square meters which the Company had occupied. Pursuant to the supplementary agreement, the Company has vacated a portion of this land (13,698 square meters in aggregate), which was previously used as a recreational area, and has arranged to use the remaining portion of the land (31,510 square meters) until August 6, 2043. However, the Company had to pay monthly fees of RMB59,248 (approximately US\$9,039) to the local government for the period from January 1, 2008 to December 31, 2008 and RMB193,048 (approximately US\$30,632) from January 1, 2009 onwards until August 6, 2043. Up to March 31, 2012, the Company has obtained a sizable portion of its land use rights certificates covering 183,900 square meters out of a total area of 207,300 square meters. The application of certain property ownership certificates as further detailed in note 11 to the consolidated financial statements will commence only after the land use rights certificates for the relevant pieces of land have been obtained. The Company is in the process of obtaining the remaining land use rights and property ownership certificates. However, no definitive timeframe has been provided by the Dongguan local government as to when the certificates will be provided to the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

During the fiscal year ended March 31, 2007, Consortium Investment (BVI) Limited (“CIBL”) effectively disposed of 70% of its equity interest in Lite Array Holdings to Anwell as part of an arrangement to set up a joint venture in Mainland China to exploit the opportunity in the development and manufacturing of OLED equipment. Subsequent to the completion of the disposal, the Company still retains 2,400,000 common stock of Lite Array Holdings, representing a 30% equity interest in Lite Array Holdings through CIBL. The Company accounts for its interest in Lite Array Holdings and its subsidiaries (the “jointly-controlled entities”), in which the Company does not have unilateral control, but joint control, under the equity method.

Particulars of the jointly-controlled entities are as follows:

<u>Name</u>	<u>Place of incorporation/ registration</u>	<u>Percentage of ownership interest attributable to the Company</u>	<u>Principal activities</u>
Lite Array Holdings Limited	British Virgin Islands	30	Investment holding
Dongguan Litewell (OLED) Technology Limited*	PRC	30	Research and development of OLED equipment
Litewell Technology (HK) Limited*	Hong Kong	30	Design and trading of OLED production equipment and trading of OLED products and corresponding materials

\* *Wholly-owned subsidiaries of Lite Array Holdings Limited*

The Company has discontinued the recognition of its share of losses of the jointly-controlled entities because the share of losses of the jointly-controlled entities exceeded the Company’s interests in the jointly-controlled entities. The Company has no further obligation to fund operations.

The following table illustrates the summarized financial information of the Company’s jointly-controlled entities:

**As of or for the years ended December 31\***

	<u>2011</u>	<u>2010</u>
	<u>US\$</u>	<u>US\$</u>
Current assets	331,826	191,136
Non-current assets	1,705,652	2,045,408
Current liabilities	(4,746,605)	(4,462,464)
Revenue	5,219	—
Operating expenses	(869,179)	(1,203,469)
Net loss	<u>(553,065)</u>	<u>(1,154,118)</u>

\* The financial year end date of Lite Array Holdings Limited

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 14. WARRANTY PROVISION

Included in other accrued liabilities are warranty provisions of US\$729,528, US\$296,410 and US\$180,151 as of March 31, 2012, 2011 and 2010, respectively, none of which are from discontinued operations. The Company's warranty activity during the fiscal years ended March 31, 2012, 2011 and 2010 is summarized below:

	Fiscal years ended		
	March 31, 2012	March 31, 2011	March 31, 2010
	US\$	US\$	US\$
Balance at beginning of fiscal year	296,410	180,151	191,459
Additional provision	473,551	192,408	15,250
Reversal of unutilized amounts	(40,433)	(76,149)	(26,558)
Balance at end of fiscal year	<u>729,528</u>	<u>296,410</u>	<u>180,151</u>

## 15. BILLS PAYABLE, SHORT TERM BANK LOANS AND BANKING FACILITIES

Global-Tech has provided a bank with: (i) an unlimited corporate guarantee for general banking facilities granted to certain subsidiaries of the Company; and (ii) an undertaking not to pledge, mortgage or charge any of the assets of the Company in Hong Kong or Mainland China for general banking facilities granted to a subsidiary of the Company without obtaining written consent of the bank for general facilities granted to its Hong Kong subsidiaries. The Company has made deposits to banks as security for credit facilities granted to our PRC subsidiaries, including bank loans and bills payable.

The Company has credit facilities with a number of banks amounting to US\$4,309,111 and US\$18,462,022 as of March 31, 2012 and March 31, 2011 respectively. Of these amounts, HK\$2.4 million (equivalent to US\$309,111) in both years were denominated in Hong Kong dollars. Additionally, the Company had a Renminbi facility of RMB60 million as of March 31, 2011. The facilities denominated in United States dollars and Renminbi are secured by the Company's deposits which are restricted in use.

Banking facilities of US\$4,000,000 and HK\$8,488 (with total equivalent to US\$4,001,093) were utilized as of March 31, 2012, and US\$12,585,054 and RMB8,381,848 (with total equivalent to US\$1,278,754) were utilized as of March 31, 2011.

Banking Facilities of HK\$2,391,512 (equivalent to US\$308,018) remained unutilized as of March 31, 2012, and HK\$2,400,000 (equivalent to US\$308,285) and RMB30,159,179 (equivalent to US\$4,606,645) remained unutilized as of March 31, 2011.

The weighted average interest rate of the bank loans for the years ended March 31, 2012 and 2011 was 1.02% and 1.36% per annum respectively with an average maturity of 87 and 59 days from March 31, 2012 and 2011.

## 16. SHARE CAPITAL

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. OTHER INCOME (EXPENSES), NET

	2012 US\$	2011 US\$	2010 US\$
Foreign exchange gains (losses), net	184,706	(549,771)	(144,313)
Loss on disposal of property, plant and equipment	(86,015)	(3,662)	(292,208)
Impairment of property, plant and equipment	(1,230,727)	—	—
Rental income from a related party	—	—	6,393
Rental income from other third parties	—	9,886	—
Management fee received from a related party	—	—	9,313
Management fee received from other third party	—	18,641	—
Reversal (accrual) for potential tax surcharge	46,086	(80,472)	9,946
Reversal of compensation for potential litigation	500,000	—	—
Government grants	439,471	856,372	687,190
Others	69,978	60,056	178,598
	<u>(76,501)</u>	<u>311,050</u>	<u>454,919</u>

Other income (expenses), net from:

	2012 US\$	2011 US\$	2010 US\$
Continuing operations	1,116,279	370,274	309,716
Discontinued operations	(1,192,780)	(59,224)	145,203
	<u>(76,501)</u>	<u>311,050</u>	<u>454,919</u>

## 18. INCOME TAXES

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

The Company’s operating subsidiaries are subject to various statutory tax rates, according to the respective jurisdictions in which they operate. The Company’s subsidiaries in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on their assessable income arising in Hong Kong during the fiscal years ended March 31, 2012, 2011 and 2010. The Company’s former subsidiary in Macau was exempted from Macau Complementary Tax.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. INCOME TAXES (continued)

Income tax expense consists of:

	<u>2012</u> US\$	<u>2011</u> US\$	<u>2010</u> US\$
<b>Continuing Operations</b>			
Income tax expense (benefit):			
Current	1,229,229	110,215	482,688
Deferred	(604)	93,907	(93,553)
Income tax expense from continuing operations	<u>1,228,625</u>	<u>204,122</u>	<u>389,135</u>
	<u>2012</u> US\$	<u>2011</u> US\$	<u>2010</u> US\$
<b>Discontinued Operations</b>			
Income tax expense:			
Current	25,263	—	—
Income tax expense from discontinued operations	<u>25,263</u>	<u>—</u>	<u>—</u>
Total income tax expense	<u>1,253,888</u>	<u>204,122</u>	<u>389,135</u>

The reconciliation of income tax expense (benefit) computed at the Hong Kong statutory income tax rate to the total income (loss) from continuing operations and discontinued operations before income taxes at the effective income tax rate is as follows:

	<u>2012</u> US\$	<u>2011</u> US\$	<u>2010</u> US\$
Income tax expenses (benefit) at the Hong Kong statutory income tax rate	440,752	(657,339)	636,152
Foreign rate differential	200,857	(69,068)	138,201
Non-taxable other income	(294,827)	(79,153)	(521,405)
Non-tax deductible expenses	1,124,153	554,562	22,140
Under provision of tax in prior periods	206,387	149,531	149,679
Unrecognized (utilized) tax benefits	569,997	(1,110,579)	(97,381)
Changes in valuation allowance	(993,431)	1,416,168	61,749
Total income tax expense at the Company's effective income tax rate	<u>1,253,888</u>	<u>204,122</u>	<u>389,135</u>
Hong Kong statutory income tax rate	16.5%	16.5%	16.5%
Effective income tax rate	<u>46.9%</u>	<u>(5.0)%</u>	<u>10.1%</u>

Deferred tax assets and liabilities as of March 31, 2012 and 2011 comprise the following:

	<u>March 31, 2012</u> US\$	<u>March 31, 2011</u> US\$
<b>Deferred tax assets:</b>		
Impairment of property, plant and equipment	2,097,590	1,894,051
Provision for inventories	126,016	314,139
Provision for warranty	191,653	78,307
Operating losses carried forward	4,611,339	3,771,019
Gross deferred tax assets	7,026,598	6,057,516
Less: Valuation allowance for deferred tax assets	(7,026,598)	(6,057,516)
Net deferred tax assets	<u>—</u>	<u>—</u>
<b>Deferred tax liabilities:</b>		
Other temporary differences	—	—
Tax over book depreciation of property, plant and equipment	(27,017)	(27,549)
Total deferred tax liabilities	<u>(27,017)</u>	<u>(27,549)</u>

## 18. INCOME TAXES (continued)

	Fiscal years ended		
	March 31, 2012	March 31, 2011	March 31, 2010
	US\$	US\$	US\$
Valuation allowance:			
Balance at beginning of fiscal year	6,057,516	4,553,687	4,503,573
Additions	847,763	1,416,168	61,749
Exchange realignment	121,319	87,661	(11,635)
Balance at end of fiscal year	<u>7,026,598</u>	<u>6,057,516</u>	<u>4,553,687</u>

For financial reporting purposes, the Company has established valuation allowances by tax jurisdiction for deferred tax assets, which management believes are more likely than not to be realized in the foreseeable future. As of March 31, 2012 and 2011, the Company had tax losses carried forward of US\$20,843,486 and US\$23,656,479, respectively, which included tax losses of US\$2,196,670 and US\$4,562,595 respectively that are available indefinitely for offsetting against future taxable income of the companies in which these losses arose. Tax losses of US\$18,646,816 and US\$19,093,884 as at March 31, 2012 and 2011, respectively, may be carried back for 2 years or carried forward for 20 years from the year the tax losses arose.

A reconciliation of the movements of unrecognized tax benefits under FASB ASC 740 during the fiscal years ended March 31, 2012 and 2011, exclusive of related interest and penalties, is as follows:

	Fiscal years ended	
	March 31, 2012	March 31, 2011
	US\$	US\$
Balance at beginning of fiscal year	7,437,277	7,301,091
Additions based on tax positions related to the current year	1,946,753	990,115
Reduction for tax positions related to prior year	(415,227)	(970,878)
Exchange realignment	148,640	116,949
Balance at end of fiscal year	<u>9,117,443</u>	<u>7,437,277</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. INCOME TAXES (continued)

As of March 31, 2012 and 2011, the Company's unrecognized tax benefits under FIN 48 of US\$5,701,782 and US\$4,983,146, respectively, are presented in the consolidated balance sheets within income tax payable. The remaining balance of US\$3,415,661 and US\$2,454,131 as of March 31, 2012 and 2011, respectively, are set off against the corresponding tax losses carried forward.

If the unrecognized tax benefits under FIN 48 as of March 31, 2012 were realized in a future period, it would result in a tax benefit of US\$5,701,782 (US\$4,983,146 as of March 31, 2011) and a reduction of the Company's effective tax rate.

For all the years presented and in accordance with FIN 48, the Company classified interest and potential penalties relating to any underpayment of income taxes and uncertain tax positions, if and when required, as interest expense and other expenses, respectively. For the fiscal years ended March 31, 2012 and 2011, the Company accrued and reversed interest and potential penalties of US\$121,032 and US\$227,702, respectively, relating to certain uncertain tax positions in its consolidated statement of operations. As of March 31, 2012 and 2011, the Company had accrued interest and potential penalties relating to uncertain tax positions amounting to US\$1,667,602 and US\$1,537,510, respectively.

One of the Company's wholly-owned subsidiaries is currently under examination by the Hong Kong tax authority. The tax period open for examination by the tax authority includes the fiscal years ended March 31, 2003 through 2011. While it is difficult to predict the timing and settlement of the final outcome of the examination, the Company does not anticipate a significant change in its unrecognized tax benefits within the next 12 months; however, actual developments could differ from those currently expected.

The PRC tax authorities could determine that any inter-company payable account in accordance with PRC GAAP could be deemed income if such inter-company payables can not to be settled and therefore would be subject to taxation. In accordance with FIN 48, we evaluated our position and determined that such inter-company payables will be settled, particularly since prior year tax assessments have been confirmed by the PRC tax authorities and such inter-company payables were not deemed as income.

Except as noted above, based on existing tax regulations in the Company's various operating jurisdictions, tax years 2010-2012 remain open to possible tax examination by relevant tax authorities.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 19. DISCONTINUED OPERATIONS

In recent years, profit margins in the home appliance business have been rapidly decreasing, due at least in part, to the rising cost of raw materials and labor in the PRC together with the unwillingness or inability on the part of customers to offset these costs through price increases or reimbursements. Customer pricing demands no longer reflected actual production costs and as a result, margins in recent years had been approaching unacceptable levels, with the Company's home appliances segment suffering significant operating losses in fiscal 2011.

In response to the foregoing, on June 3, 2011, our Board of Directors approved plans to exit the home appliances business in fiscal 2012. The Company ceased production of its floor care products on January 15, 2012, at which time Electrolux, our sole remaining customer in the home appliances segment, successfully transitioned production to alternate vendors.

In accordance with guidance contained in FASB ASC 205-20 "Discontinued Operations", the results of operations for the Home Appliances operations have been excluded from continuing operations and reported as discontinued operations for the current and prior periods. Previously reported financial statements have been reclassified to conform with the current year presentation.

	<u>2012</u> US\$	<u>2011</u> US\$	<u>2010</u> US\$
Net Sales	53,885,407	43,485,638	53,889,863
Cost of goods sold	<u>(44,386,508)</u>	<u>(40,658,730)</u>	<u>(45,166,793)</u>
Gross profit	9,498,899	2,826,908	8,723,070
Selling, general and administrative expenses	(6,904,111)	(4,511,573)	(5,743,580)
Other operating loss	<u>—</u>	<u>(31,990)</u>	<u>—</u>
Operating profit (loss)	2,594,788	(1,716,655)	2,979,490
Interest expense, net	(2,403)	—	(4)
Other income (expense), net	(1,192,780)	(59,224)	145,203
Income tax expenses	<u>(25,263)</u>	<u>—</u>	<u>—</u>
Income (Loss) from discontinued operations	<u>1,374,342</u>	<u>(1,775,879)</u>	<u>3,124,689</u>

An impairment loss of US\$1,230,727 was recognized in the statements of discontinued operations in fiscal 2012 for machinery and equipment that was used in the operations of the home appliances segment.



GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share of common stock of the Company for the fiscal years ended March 31, 2012, 2011 and 2010 is computed in accordance with FASB ASC 260 "Earnings Per Share" by dividing the net earnings (loss) for each fiscal year attributable to common stockholders by the weighted average number of shares of common stock outstanding during that fiscal year.

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

	<u>2012</u> <u>US\$</u>	<u>2011</u> <u>US\$</u>	<u>2010</u> <u>US\$</u>
Numerator for basic and diluted earnings (loss) per share:			
Income (Loss) from continuing operations	42,994	(2,412,120)	341,642
Income (Loss) from continuing operations attributable to non-controlling interests	(6,659)	175,028	—
Income (Loss) from continuing operations attributable to shareholders of Global-Tech Advanced Innovations Inc.	36,335	(2,237,092)	341,642
Income (Loss) from discontinued operations	1,374,342	(1,775,879)	3,124,689
Profit (Loss) attributable to common stockholders	<u>1,410,677</u>	<u>(4,012,971)</u>	<u>3,466,331</u>
	<u>Number</u>	<u>Number</u>	<u>Number</u>
Denominator for basic and diluted earnings (loss) per share:			
Weighted average number of shares of common stock	<u>3,039,727</u>	<u>3,039,454</u>	<u>3,037,969</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Basic and diluted earnings (loss) per share:			
Earnings (Loss) from continuing operations	0.01	(0.74)	0.11
Earnings (Loss) from discontinued operations	0.45	(0.58)	1.03
Earnings (Loss) attributable to common stockholder	<u>0.46</u>	<u>(1.32)</u>	<u>1.14</u>

287,452, 365,369 and 337,618 stock options of Global-Tech were excluded from the computation of diluted earnings (loss) per share for the fiscal year ended March 31, 2012, 2011 and 2010, because their inclusion would have been anti-dilutive.

21. COMMITMENTS

(a) Capital commitments

As of March 31, 2012 and 2011, the Company had capital commitments contracted but not provided for of US\$169,682 and US\$86,782, respectively, for the purchase of property, plant and equipment.

(b) Operating lease commitments

In addition to the land use rights described in note 12 to the financial statements, the Company has entered into various operating lease arrangements for parking lots, motor vehicles, equipment, land and office premises. The Company recorded rental expenses, excluding the land use rights payments described in note 12 to the financial statements, for the fiscal years ended March 31, 2012, 2011 and 2010 of US\$352,206, US\$445,327 and US\$440,132, respectively, and recorded lease rental income of nil, US\$9,886 and US\$6,393 for the fiscal years ended March 31, 2012, 2011 and 2010, respectively. Future minimum lease payments under non-cancelable operating leases as of March 31, 2012 and 2011 were as follows:

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. COMMITMENTS (continued)

(b) Operating lease commitments (continued)

	March 31, 2012 US\$	March 31, 2011 US\$
Payable:		
Within one year	511,654	629,677
Over one year but not exceeding two years	521,448	491,936
Over two years but not exceeding three years	369,319	501,352
Over three years but not exceeding four years	347,410	355,086
Over four years but not exceeding five years	347,410	334,022
Over five years	<u>9,136,892</u>	<u>9,135,325</u>
	<u>11,234,133</u>	<u>11,447,398</u>

Apart from the above, subsequent to March 31, 2012, the subsidiaries of the Company renewed the tenancy agreements with the related companies and extended the leasing term for one year to March 31, 2013, with future lease payments due of US\$170,204.

22. CONTINGENCIES

- (a) Global-Tech and Pentalpha Medical Limited (formerly known as Pentalpha Enterprises Limited (“Pentalpha Enterprises”)), a subsidiary of Global-Tech, were involved in certain 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 Pentalpha Enterprises for breach of contract began on January 12, 2004. On January 16, 2004, the jury (the “Jury”) returned a verdict in favor of (i) Sunbeam on its claim for indemnity and awarded Sunbeam approximately US\$2.5 million against Pentalpha Enterprises; and (ii) Pentalpha Enterprises on its claim for breach of contract and awarded Pentalpha Enterprises US\$6.6 million. The United States District Court for the Southern District of Florida (the “District Court”) granted a final judgment on February 11, 2004 to add pre-judgment interest to the Jury’s award, and awarded Sunbeam approximately US\$3.4 million and Pentalpha Enterprises US\$6.6 million.

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

After the appeal, the District Court, on its own initiative, entered a second amended judgment on April 16, 2007 and on June 4, 2007 entered a third amended judgment that awarded Pentalpha Enterprises pre-judgment interest from June 30, 2001 until the entry of the second amended judgment on December 12, 2005, at the interest rates required by Florida law and awarded Sunbeam’s pre-judgment interest until December 12, 2005. The post-judgment interest for both parties is calculated at 4.35% per annum from the date the amended judgment was entered on December 12, 2005 until paid. On June 16, 2007, Pentalpha Enterprises filed a notice of appeal to the United States Court of Appeals (“Court of Appeals”) to challenge the portion of the judgment in favor of Sunbeam that extends the pre-judgment interest until December 12, 2005.

Sunbeam posted a bond in the amount of approximately US\$5.2 million, which was attached pursuant to the September 7, 2005 order of the United States District Court for the Southern District of New York (the “Court Order”) in the action SEB S.A., (“SEB”) v. Montgomery Ward, Pentalpha Enterprises and Global-Tech, pending in the district court, as further detailed in note 21(b) below. On July 13, 2007, Sunbeam wire transferred an amount of approximately US\$5.5 million to an escrow account of SEB’s attorney. SEB’s attorney is holding that money in trust in an escrow account pursuant to the Court Order for Pentalpha Enterprises. Sunbeam’s payment of the funds into escrow eliminated its obligation to pay post-judgment interest on the amount that it paid into escrow.

22. CONTINGENCIES (continued)

(a) (continued)

On December 10, 2008, the Court of Appeals reversed the judgment of the District Court and remanded to the District Court the elimination of the award of pre-judgment interest to Sunbeam after February 11, 2004. On or about February 5, 2009, Sunbeam and Pentalpha Enterprises reached an agreement with respect to the satisfaction of the Fourth Amended Final Judgment entered on January 28, 2009. On February 10, 2009, accordingly, Sunbeam wire transferred approximately US\$279,000 to the escrow account of SEB's attorney provided a satisfaction of judgment to Sunbeam. The matter has now concluded.

Accordingly, the Pentalpha Enterprises recognized a gain of approximately US\$8.0 million from its claim against Sunbeam for breach of contract and a loss of approximately US\$3.4 million on the claims of Sunbeam for indemnity in its consolidated statement of operations for the fiscal year 2006. Pentalpha Enterprises recognized pre-judgment interest and gains of US\$279,000 in its consolidated statement of operations for the fiscal year 2009.

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

Both sides have made post-trial motions. Global-Tech and Pentalpha Enterprises have moved for judgment as a matter of law on a wide range of issues, and for a new trial. SEB has moved to enhance damages with the addition of treble damages, pre-judgment interest and attorneys' fees. The motions have been fully briefed. The district court heard oral arguments on April 11, 2007 and June 21, 2007. The district court also heard testimony from a SEB witness on July 19, 2007 with respect to Pentalpha Enterprises' motion for judgment as a matter of certain issues based upon SEB's failure to produce certain documents during the discovery.

In a memorandum decision and order dated October 9, 2007, the district court denied all of Pentalpha Enterprises' post-trial motions, except that the court reduced the amount of the jury verdict by US\$2 million based upon SEB's receipt of that amount from Sunbeam. The district court also granted SEB's motion for enhanced damages of US\$2.65 million, awarded SEB its attorneys' fees of approximately US\$0.9 million, and pre-judgment interest at the prime interest rate. SEB has submitted a claim for approximately US\$1.8 million in pre-judgment interest and a supplemental claim for approximately US\$0.25 million in attorneys' fees and expenses. Pentalpha Enterprises disputed the claim for attorneys' fees on the grounds that they resulted from the misconduct of SEB in concealing documents, but not the calculation of pre-judgment interest.

By motion filed on November 24, 2007, Pentalpha Enterprises moved for reconsideration of the award of enhanced damages and attorneys' fees, including any supplemental attorneys' fees, in the district court's October 9, 2007 opinion based upon a decision of the Court of Appeals in a different case, on August 20, 2007 that imposed additional requirements for a finding of willfulness that the jury did not consider in this case.

On October 2, 2008, the district court granted the motion of Pentalpha Enterprises to vacate the award of enhanced damages and entered into an amended judgment in favor of SEB for enhanced damages of US\$2.65 million and corresponding pre-judgment interests of approximately US\$2.23 million. Pentalpha Enterprises filed a notice of appeal on October 30, 2008. SEB cross-appealed from the denial of an award of enhanced damages. Oral argument is set for October 6, 2009. The outcome of the appeal cannot be determined with certainty.

Pentalpha Enterprises thereafter sought to amend the order of attachment to release amounts beyond those necessary to provide security pending appeal. By an order dated November 25, 2008, the district court granted that motion and released all amounts in excess of US\$5.1 million. SEB moved in the Court of Appeals to stay that order of the district court. The Court of Appeals denied SEB's motion by an order dated March 4, 2009.

22. CONTINGENCIES (continued)

(b) (continued)

On January 18, 2008, Pentalpha Enterprises filed a request with the United States Patent and Trademark Office (“PTO”) to re-examine the SEB patent that is the subject of this action. On July 3, 2009, the PTO issued an office action rejecting all claims of the SEB patent on the grounds that they were obvious. SEB has 60 days from that office action to respond to it. On July 16, 2009, Pentalpha Enterprises filed a motion in the Court of Appeals to stay the appeal pending the re-examination. The Court of Appeals denied the motion for a stay.

Based on the understanding of the Company, on August 12, 2009, the PTO conducted an interview of SEB and on August 14, 2009, the PTO issued a report of the meeting stating that an agreement had been reached that the PTO would provide favorable treatment to the claims of the patent provided that SEB filed a satisfactory memorandum with the PTO. SEB filed that response on September 2, 2009.

After receiving SEB’s response, Pentalpha Enterprises perceived an inconsistency between the arguments that SEB had made concerning the scope of its Patent in this action, to ensure Pentalpha Enterprises’ accused products and in the Patent office to sustain the validity of its Patent. Pentalpha Enterprises therefore moved the district court for an order pursuant to Rule 60(b) of the Federal Rules of Civil Procedure for an order vacating the judgment against Pentalpha Enterprises on that ground. SEB opposed the motion.

The PTO on December 16, 2009 issued an official action stating that the claims of the SEB Patent Pentalpha Enterprises in fact patentable.

The Court of Appeals heard oral argument on the appeal on October 6, 2009 and rendered a decision on February 5, 2010 affirming the judgment of the district court. Pentalpha Enterprises petitioned for reargument en banc, which the Federal Circuit denied on March 25, 2010. Pentalpha Enterprises filed a petition for certiorari in the Supreme Court of the United States on July 23, 2010.

After the Mandate of the Court of Appeals, SEB requested the district court modify the order of attachment to allow SEB to satisfy the outstanding judgment from the escrow funds that its counsel is holding from the order of attachment. As of April 30, 2010, the escrow fund held approximately US\$5.1 million .

The district court heard oral argument on May 19, 2010 on Pentalpha Enterprise’s Rule 60(b) motion and on SEB’s application to modify the order of attachment to allow disbursement of the funds in the escrow account to satisfy its judgment.

On August 4, 2010, the district court issued an order authorizing the attorneys for SEB to use the funds in the escrow account to satisfy the judgement, including pre-judgement interest, and pay certain expenses associated with it. If a balance remained, SEB’s attorneys were ordered to pay the balance to Pentalpha after withholding income tax. In the event a deficit remained, Pentalpha was required to pay the remaining amount of the judgement.

The Supreme Court granted the writ of certiorari on October 12, 2010. After the appeal was fully briefed, the Supreme Court heard oral argument on February 23, 2011. On May 31, 2011, the court affirmed the judgment of Federal Circuit by an 8-1 vote, effectively ending the case.

22. CONTINGENCIES (continued)

- (c) On October 11, 2004, Best Hero Limited (“Best Hero”) issued a writ in the Court of First Instance of the High Court of Hong Kong (the “High Court”) against a subsidiary of the Company for a claim of US\$4,250,400. The claim related 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 television panels for a total purchase price of US\$4,620,000. However, the LCD television panels which were paid for in the initial shipment were determined to be unacceptable to the subsidiary. Accordingly, further delivery of the remaining orders was refused. Best Hero alleged that the subsidiary had repudiated the contract, and therefore Best Hero instituted legal proceedings to claim for damages. 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. No further activity occurred in this case through March 31, 2012.

In accordance with FASB ASC 450 “Contingencies”, the Company believes that with such a lengthy interval between the claim being filed and there being no activity between the two parties, the probability that the Company will incur a loss is remote. Accordingly, the provision for this contingent liability of US\$0.9 million was reversed during the year ended March 31, 2011.

- (d) As of March 31, 2012, the Company has accrued as a current liability US\$5,701,782 for unrecognized tax benefits and US\$1,667,602 of related interest and penalties. The unrecognized tax benefits relate mainly to potential transfer pricing arrangements reflected in the Hong Kong and PRC income tax returns of certain subsidiaries of the Company. The final outcome of these tax uncertainties is dependent upon various matters including tax examinations, legal proceedings, certain authority proceedings, changes in regulatory tax laws and interpretations of those tax laws, or expiration of statutes of limitation. However, based on the number of jurisdictions, the uncertainties associated with litigation, and the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, which could include formal legal proceedings, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties.

## 23. OTHER ACCRUED LIABILITIES

	March 31, 2012 US\$	March 31, 2011 US\$
Accrued expenses	2,587,698	2,829,692
Other tax payable	2,189,302	2,119,312
Land use right payable – operating lease	793,301	782,129
Other payable	1,067,550	1,844,929
	<u>6,637,851</u>	<u>7,576,062</u>

## 24. EMPLOYEE BENEFITS

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

MPF is available to all employees aged 18 to 64 and with at least 60 days of service as an employee of the Company in Hong Kong. Under the MPF scheme, both the Company and each of the qualified employee contribute the lower of 5% of the employees’ basic salary and HK\$1,000 (approximately US\$129), subject to a cap of a monthly basic salary of HK\$20,000 (approximately US\$2,576). Qualified employees are entitled to 100% of the Company’s contributions together with accrued returns irrespective of their length of service with the Company, but the benefits are required by law to be preserved until the retirement age of 65.

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

The costs of these schemes recognized during the fiscal years ended March 31, 2012, 2011 and 2010 were US\$61,107, US\$72,878 and US\$76,321, respectively.

According to the relevant laws and regulations in the PRC, the Company is required to contribute 16.8% of the stipulated employee salary set by the local government of Dongguan to certain retirement benefit schemes to fund the benefits for its employees. No forfeited contributions may be used by the employer to reduce the existing level of contributions. The Company also provides housing, medical care and subsidized meals to all existing factory employees. The aggregate amounts incurred by and provided for the Company for all such benefits were US\$2,547,639 and US\$986,738 during the fiscal years ended March 31, 2011 and 2010, respectively. However, as a result of the payment of severance in accordance with government rules upon the exit from the Home Appliances segment, the Company recognized a net benefit of US\$449,557 during the fiscal year ended March 31, 2012 due to a reversal of social insurance provisions for previous years.

## 25. SEGMENT INFORMATION

The Company operates in four segments: Home Appliances, Electronic Components, Electronic Manufacturing Services (“EMS”) and Others. These segments are operated and managed as separate strategic business units that offer different products/services. The Company’s “Home Appliances” segment historically had been the core business of the Company and primarily involved in the manufacturing of electrical household appliances for branded marketers in North America and Europe. The Company’s “Electronic Components” segment produces complementary metal oxide semiconductor (“CMOS”) camera modules (“CCM’s”) primarily for sale to cellular phone and tablet manufacturers in Mainland China. The Company’s “Electronic Manufacturing Services” consists of surface mount technology (“SMT”) processing of printed circuit boards and assembly services for cellular phone marketers in Mainland China. The Company’s “Others” segment comprises a number of immaterial product lines and development programs that have not materialized to date into full product businesses. None of these units has ever individually met the quantitative thresholds for determining reportable segments. The chief operating decision maker evaluates the results of each segment in assessing performance and allocating resources among the segments.

There were no material intersegment sales or transfers during the fiscal years ended March 31, 2012, 2011 and 2010.

As stated in note 19 – “Discontinued Operations” of Notes to Consolidated Financial Statements, the Home Appliances segment was discontinued effective for January 2012. The results of operations of the Home Appliances segment has been classified as “Income (Loss) from discontinued operations” on the face of the consolidated statement of operations.

## 25. SEGMENT INFORMATION (continued)

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

	Home Appliances# US\$	Electronic Components US\$	EMS US\$	Others US\$	Corporate US\$	Combined US\$
<b>As of or for the fiscal year ended March 31, 2012</b>						
Revenues from external customers	53,885,407	54,431,519	14,439,926	781,260	—	123,538,112
Capital expenditure	240,763	226,277	273,926	73,281	—	814,247
Interest income	—	—	—	—	377,074	377,074
Interest expense	(2,403)	(104,517)	—	321	(177,401)	(284,000)
Depreciation and amortization	1,522,962	594,746	1,268,736	76,809	98,577	3,561,830
Segment profit (loss)	1,374,342*	2,885,762	221,655	(640,020)	(2,431,062)	1,410,677
Total assets	313,033	34,554,319	11,614,176	739,106	61,819,375	109,040,009
<b>As of or for the fiscal year ended March 31, 2011</b>						
Revenues from external customers	43,485,638	42,621,597	14,742,075	105,194	—	100,954,504
Capital expenditure	217,028	807,077	3,598,918	40,345	—	4,663,368
Interest income	—	—	—	—	498,837	498,837
Interest expense	—	(268,219)	(2,604)	—	308,173	37,350
Depreciation and amortization	1,599,996	557,353	971,836	62,690	140,261	3,332,136
Segment profit (loss)	(1,775,879)	1,400,572	(695,296)	(960,777)	(1,981,591)	(4,012,971)
Total assets	22,234,345	23,809,159	15,066,413	703,412	58,122,805	119,936,134
<b>As of or for the fiscal year ended March 31, 2010</b>						
Revenues from external customers	53,889,863	38,886,903	8,990,369	162,353	—	101,929,488
Capital expenditure	778,952	29,461	1,144,038	166,369	—	2,118,820
Interest income	—	—	—	—	282,746	282,746
Interest expense	(4)	(65,356)	(4,305)	—	63,697	(5,968)
Depreciation and amortization	2,224,742	534,343	647,932	164,697	207,188	3,778,902
Segment profit (loss)	3,124,689	2,857,538	1,901,374	(980,131)	(3,437,139)	3,466,331
Total assets	15,140,905	19,806,612	9,754,921	423,530	65,960,858	111,086,826

# As discussed in note 19, the Home Appliances segment was discontinued on January 15, 2012. The results of the operations has been classified as discontinued operations on the face of the statement of operations.

\* An impairment loss of US\$1,230,727 was recognized in the statement of operations for machinery that was used in the operation of the Home Appliances segment.

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. SEGMENT INFORMATION (continued)

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

	<u>2012</u> <u>US\$</u>	<u>2011</u> <u>US\$</u>	<u>2010</u> <u>US\$</u>
Australia	501,665	562,066	555,138
Europe	4,469,428	3,213,506	3,326,495
North America	47,969,847	38,808,728	49,212,523
Asia	70,596,126	58,360,791	48,422,656
Other regions	1,046	9,413	412,676
	<u>123,538,112</u>	<u>100,954,504</u>	<u>101,929,488</u>

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

	<u>2012</u> <u>US\$</u>	<u>2011</u> <u>US\$</u>	<u>2010</u> <u>US\$</u>
Floor care products	51,056,019	40,013,087	51,922,848
Kitchen appliances	755,607	1,081,498	558,674
CCM's	53,094,225	41,592,838	38,910,047
Cellular phone assembly services	14,439,927	14,648,779	8,990,369
Others	4,192,334	3,618,302	1,547,550
	<u>123,538,112</u>	<u>100,954,504</u>	<u>101,929,488</u>

- (d) Long-lived assets\*

	<u>March 31,</u> <u>2012</u> <u>US\$</u>	<u>March 31,</u> <u>2011</u> <u>US\$</u>
Hong Kong	210,800	308,736
Mainland China	24,806,115	27,765,159
	<u>25,016,915</u>	<u>28,073,895</u>

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

- (e) Impairment of property, plant and equipment

The impairment losses of property, plant and equipment for the fiscal years ended March 31, 2012, 2011 and 2010, amounted to US\$1,230,727, nil and US\$4,786, respectively. The impairment loss for the fiscal years ended March 31, 2012 was included in "Income (loss) from discontinued operations".



## 25. SEGMENT INFORMATION (continued)

## (f) Major customers

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

	2012 US\$	2011 US\$	2010 US\$
From continuing operations:			
Shenzhen ZTE Mobile Tech. Co., Ltd. ("ZTE")	24,227,414	8,797,843	4,774,353
Shenzhen Tinno Mobile Technology Co. Ltd. ("Tinno")	13,018,044	13,677,827	7,455,144
Lenovo Mobile Communication Technology Ltd. ("Lenovo")	11,698,569	12,712,077	10,595,989
From discontinued operations:			
Electrolux S.A. and subsidiaries ("Electrolux")	<u>52,339,623</u>	<u>42,006,085</u>	<u>52,870,164</u>

During the fiscal years ended March 31, 2012, 2011 and 2010, 19.61%, 8.71% and 4.68%, respectively of the Company's combined net sales including discontinued operations were made to ZTE, which is an unrelated customer. As of March 31, 2012, 2011 and 2010, 58.85%, 17.74% and 11.54%, respectively of the Company's total accounts and bills receivable were from ZTE. ZTE is a customer of the Company's electronic components segment.

During the fiscal years ended March 31, 2012, 2011 and 2010, 9.5%, 12.6% and 10.4%, respectively of the Company's combined net sales including discontinued operations were made to Lenovo, which is an unrelated customer. As of March 31, 2012, 2011 and 2010, 19.4%, 19.2% and 26.4%, respectively of the Company's total accounts and bills receivable were from Lenovo. Lenovo is a customer of the Company's electronic components segment.

During the fiscal years ended March 31, 2012, 2011 and 2010, 10.5%, 13.61% and 7.3%, respectively of the Company's combined net sales including discontinued operations were made to Tinno, which is an unrelated customer. As of March 31, 2012, 2011 and 2010, 3.4%, 9.6% and 10.0%, respectively of the Company's total accounts and bills receivable were from Tinno. Tinno is a customer of the Company's electronic components and EMS segments.

During the fiscal years ended March 31, 2012, 2011 and 2010, 42.4%, 41.6% and 51.9%, respectively, of the Company's combined net sales including discontinued operations were made to Electrolux, which is an unrelated customer. As of March 31, 2012, 2011 and 2010, nil, 35.7% and 22.8%, respectively, of the Company's total accounts and bills receivable were from Electrolux. Electrolux was the major customer of the Company's home appliances segment.

The Company was a contract manufacturer of floor care products that are marketed by Electrolux under its respective brand names.

## 26. CONCENTRATION OF RISKS

*Concentration of credit risk*

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

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

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

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

26. CONCENTRATION OF RISKS (continued)

*Current vulnerability due to certain concentrations*

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

The Company's operations may be adversely affected by significant political, economic and social uncertainties in Mainland China. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting its political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 27. FINANCIAL INSTRUMENTS

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

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

The following table sets forth the carrying values and estimated fair values of the Company's financial assets and liabilities recognized as of March 31, 2012 and 2011. There were no material unrecognized financial assets and liabilities as of March 31, 2012 and 2011.

	Carrying value		Fair value	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
<b>Current financial assets:</b>				
Cash and cash equivalents	39,792,733	19,205,184	39,792,733	19,205,184
Time deposits	—	1,534,204	—	1,534,204
Restricted cash	4,546,062	19,460,845	4,546,062	19,460,845
Available-for-sale investments	2,006,066	6,692	2,006,066	6,692
Accounts and bills receivable, net	30,273,062	35,632,294	30,273,062	35,632,294
Financial assets included in deposits and other assets	401,815	749,639	401,815	749,639
Amount due from a related party	11,798	28,737	11,798	28,737
Amount due from a jointly-controlled entity	—	13,694	—	13,694
	<u>77,031,536</u>	<u>76,631,289</u>	<u>77,031,536</u>	<u>76,631,289</u>
<b>Non-current financial assets:</b>				
Available-for-sale investments	1,033,800	3,009,200	1,033,800	3,009,200
<b>Total financial assets</b>	<u><b>78,065,336</b></u>	<u><b>79,640,489</b></u>	<u><b>78,065,336</b></u>	<u><b>79,640,489</b></u>
	Carrying value		Fair value	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
<b>Current financial liabilities:</b>				
Short term loans	4,000,000	12,585,054	4,000,000	12,585,054
Accounts payable and bills payable	8,163,510	11,631,692	8,163,510	11,631,692
Accrued salaries, allowances and other employee benefits	3,102,335	5,607,570	3,102,335	5,607,570
Other accrued liabilities	6,637,851	7,576,062	6,637,851	7,576,062
<b>Total financial liabilities</b>	<u><b>21,903,696</b></u>	<u><b>37,400,378</b></u>	<u><b>21,903,696</b></u>	<u><b>37,400,378</b></u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 27. FINANCIAL INSTRUMENTS (continued)

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

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

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

If the counterparties to the above financial assets fail to perform completely under the terms of their contract/arrangement, the maximum loss, based on the gross fair value of the financial instruments, due to this credit risk would be US\$78,065,336 and US\$79,640,489 as at March 31, 2012 and 2011, respectively.

## 28. FAIR VALUE MEASUREMENTS

FASB ASC820 "Fair Value Measurement and Disclosures", the Company adopted in fiscal 2009, clarify that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability, such as inherent risk, transfer restrictions and risk of non-performance. As a basis for considering such assumptions, it establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

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

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

Assets measured at fair value on a recurring basis as of March 31, 2012 and 2011 are summarized below:

	<b>Fair Value Measurements</b>	
	<b>March 31, 2012</b>	<b>March 31, 2011</b>
	<b>Quoted prices in active markets for identical assets</b>	
	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>		
Level 1:		
Available-for-sale investments:		
Listed equity securities	6,066	6,692
Level 2:		
Available-for-sale investments:		
Other investments	3,033,800	3,009,200
Total financial assets measured at fair value	<u>3,039,866</u>	<u>3,015,892</u>

29. STOCK COMPENSATION

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

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

The 1997 Plan is administered by the Board of Directors, or a committee of directors appointed by the Board, who determines the terms of options, including the exercise price, the number of stock subject to the options and the terms and conditions of exercise. No option granted under the 1997 Plan is transferable by the optionee other than by will or the laws of descent and distribution and each vested option is exercisable within the contractual period of the option. With respect to any participant who owns (or is deemed to own) stock possessing more than 10% of the voting rights of Global-Tech's outstanding capital stock, the exercise price of any ISO must not be less than 110% of the fair market value of the stock on the date of grant. The term of each option granted pursuant to the 1997 Plan may be established by the Board of Directors of Global-Tech, or a committee of the Board of Directors of Global-Tech, in its sole discretion; provided, however, that the maximum term of each ISO granted pursuant to both the 1997 Plan is 10 years. With respect to any ISO granted to a participant who owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of Global-Tech's outstanding capital stock, the maximum term is five years. Shares of common stock distributed under the 1997 Plan will be from authorized, but unissued stock or common stock held in the treasury of the Company. Every option granted shall vest and become exercisable in accordance with the terms of the applicable option agreement. Options can be exercised for a period not exceeding 10 years from the date of grant.

During fiscal 2010, an aggregate of 18,830 options with exercise prices between \$20.00 and \$25.00 expired including 17,055 options granted to Directors.

No options issued pursuant to the 1997 Plan were exercised or expired during fiscal 2011.

During fiscal 2012, an aggregate of 1,250 options with exercise prices of US\$25 and US\$30.56 per share were forfeited upon resignation of the relevant participants and 82,167 options with exercise prices between US\$19 and US\$25 per share expired including 65,500 options granted to Directors.

(b) 2005 Stock Option Plan of Global-Tech

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

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

During fiscal 2010, no options were granted and none were forfeited.

During fiscal 2011, 20,000 options were granted and none were forfeited.

During fiscal 2012, no options were granted and none were forfeited.

29. STOCK COMPENSATION (continued)

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

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

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

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

For the fiscal years ended March 31, 2012 and 2011, no share was granted under the 2011 Omnibus Equity Plan.

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

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

The total compensation expense recognized in the SG&A line item in the consolidated statement of operations for the fiscal years ended March 31, 2012, 2011 and 2010 amounted to US\$34,120, US\$470,109 and US\$11,706, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 29. STOCK COMPENSATION (continued)

Changes in outstanding options under both the 1997 Plan and the 2005 Plan during the fiscal years ended March 31, 2012, 2011 and 2010 are as follows:

	2012				
	Number of options	Range of exercise price US\$ (per share)	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
			US\$	(years)	US\$
			(per share)		
Outstanding, at beginning of fiscal year	423,118	8.99-30.56	18.00	4.01	—
Granted	—	—	—		
Expired	(82,167)	19.00-25.00	19.22		
Exercised	—	—	—		
Forfeited	(1,250)	25.00-30.56	29.45		
Outstanding, at end of fiscal year	<u>339,701</u>	8.99-30.56	17.66	3.96	—
Vested and expected to be vested at March 31, 2012	<u>339,701</u>	8.99-30.56	17.66	3.96	—
Exercisable, at end of fiscal year	<u>287,452</u>	8.99-30.56	16.06	4.17	

	2011				
	Number of options	Range of exercise price US\$ (per share)	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
			US\$	(years)	US\$
			(per share)		
Outstanding, at beginning of fiscal year	403,118	13.20-30.56	18.44	4.78	—
Granted	20,000	8.99	8.99		
Expired	—	—	—		
Exercised	—	—	—		
Forfeited	—	—	—		
Outstanding, at end of fiscal year	<u>423,118</u>	8.99-30.56	18.00	4.01	—
Vested and expected to be vested at March 31, 2011	<u>423,118</u>	8.99-30.56	18.00	4.01	—
Exercisable, at end of fiscal year	<u>365,369</u>	8.99-30.56	16.90	3.94	

	2010				
	Number of options	Range of exercise price US\$ (per share)	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
			US\$	(years)	US\$
			(per share)		
Outstanding, at beginning of fiscal year	421,948	13.20-30.56	18.59	5.55	—
Granted	—	—	—		
Expired	(18,830)	20.00-25.00	21.68		
Exercised	—	—	—		
Forfeited	—	—	—		
Outstanding, at end of fiscal year	<u>403,118</u>	13.20-30.56	18.44	4.78	—
Vested and expected to be vested at March 31, 2010	<u>403,118</u>	13.20-30.56	18.44	4.78	—
Exercisable, at end of fiscal year	<u>337,618</u>	13.20-30.40	16.09	4.99	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 29. STOCK COMPENSATION (continued)

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

During the fiscal year ended March 31, 2007, Global-Tech granted an aggregate of 3,750 shares of common stock of Global-Tech to an employee with an effective grant date of November 6, 2006. 750 shares of such common stock will vest and be issued on the first anniversary of the date of the stock grant and 750 shares of such common stock will vest and be issued on the second, third, fourth, and fifth anniversaries of the date of the stock grant, respectively. No stock was issued during fiscal year 2012.

Changes in stock grants during the fiscal years ended March 31, 2012, 2011 and 2010 are as follows:

	<u>2012</u>		<u>2011</u>		<u>2010</u>	
	<u>Stock</u>	<u>Weighted average grant- date fair value US\$</u>	<u>Stock</u>	<u>Weighted average grant- date fair value US\$</u>	<u>Stock</u>	<u>Weighted average grant- date fair value US\$</u>
Non-vested, at beginning of fiscal year	750	10,380	1,500	20,760	2,250	31,140
Granted	—	—	—	—	—	—
Vested	—	—	(750)	10,380	(750)	10,380
Non-vested, at end of fiscal year	<u>750</u>	10,380	<u>750</u>	10,380	<u>1,500</u>	20,760

The total fair value of the 750 shares of common stock vested during the fiscal years ended March 31, 2012, 2011 and 2010 is US\$3,795, US\$5,085 and US\$8,925, respectively.

The expense for employee stock purchase plan recognized in the SG&A line item in the consolidated statement of operations for the fiscal years ended March 31, 2012, 2011 and 2010 amounted to nil, US\$1,969 and US\$1,969 respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 29. STOCK COMPENSATION (continued)

Further details relating to the options granted under the 1997 Plan and the 2005 Plan that are outstanding as of March 31, 2012 are as follows:

Number of options	Options outstanding as of March 31, 2012			Options exercisable as of March 31, 2012	
	Range of exercise price per option	Weighted average remaining contractual life	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
	US\$ (per share)	(years)	US\$ (per share)		US\$ (per share)
20,000	8.99	7.70	8.99	10,000	8.99
250,751	13.20-15.60	4.29	14.87	250,751	14.87
1,450	18.2	0.62	18.20	1,450	18.20
67,500	30.40-30.56	1.70	30.55	25,251	30.54
<u>339,701</u>				<u>287,452</u>	

As of March 31, 2012 and 2011, there was an unrecognized share-based compensation cost of US\$1,969 and US\$1,969, relating to stock granted to an employee under the 1999 Employee Stock Purchase Plan respectively. The unrecognized compensation cost for stocks granted is expected to be recognized over a weighted-average vesting period of two years and five years. To the extent that the actual forfeiture rate is different from the original estimate, actual share-based compensation relating to these awards may be different from the expectations.

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

	2012	2011	2010
Risk-free Interest Rate	—	3.45%	—
Expected Dividend Yield	—	0%	—
Expected Option Life	—	7 years	—
Expected Stock Price Volatility	—	59.00%	—

## GLOBAL-TECH ADVANCED INNOVATIONS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 30. CONDENSED FINANCIAL INFORMATION OF GLOBAL-TECH

Under the relevant PRC laws and regulations, the Company's PRC subsidiaries (the "PRC Subsidiaries") are restricted in their ability to transfer certain of their net assets to Global-Tech in the form of dividend payments, loans, or advances. The amounts restricted include net assets of the PRC Subsidiaries, as determined pursuant to PRC generally accepted accounting principles, totaling RMB359,062,819 (approximately US\$56,975,107) as of March 31, 2012.

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

**Balance sheets**

	March 31, 2012 US\$	March 31, 2011 US\$
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	21,984,305	11,127,701
Available-for-sale investments	2,000,000	—
Prepaid expenses	43,210	40,628
Deposits and other assets	24,723	29,692
Total current assets	24,052,238	11,198,021
Interests in subsidiaries	55,206,077	62,358,045
Other investments	1,033,800	3,009,200
Total assets	80,292,115	76,565,266
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Other accrued liabilities	201,483	227,807
Total liabilities	201,483	227,807
Shareholders' equity:		
Common stock, par value US\$0.04 per share; 12,500,000 shares authorized; 3,229,314 shares issued as of March 31, 2012 and 2011	129,173	129,173
Preferred stock, par value US\$0.04 per share; 250,000 shares authorized; no shares issued	—	—
Additional paid-in capital	84,786,226	84,752,105
Accumulated deficit	(9,690,526)	(11,101,203)
Accumulated other comprehensive income	9,697,445	7,395,275
Less: Treasury stock, at cost, 189,587 shares as of March 31, 2012 and 2011	(4,663,321)	(4,663,321)
Total Global-Tech Advanced Innovations Inc. shareholders' equity	80,258,997	76,512,029
Non-controlling interests	(168,365)	(174,570)
Total equity	80,090,632	76,337,459
Total liabilities and shareholders' equity	80,292,115	76,565,266

GLOBAL-TECH ADVANCED INNOVATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

**Statements of operations**

	Fiscal years ended March 31,		
	2012 US\$	2011 US\$	2010 US\$
Net sales	—	—	—
Cost of goods sold	—	—	—
Gross profit	—	—	—
Selling, general and administrative expenses	(1,158,531)	(1,252,554)	(907,147)
Operating loss	(1,158,531)	(1,252,554)	(907,147)
Interest income, net	35,349	29,831	36,768
Equity in profits (losses) of subsidiaries	1,923,914	(2,155,198)	5,842,060
Other income (expense), net	609,945	(635,050)	(1,505,350)
Net income (loss)	<u>1,410,677</u>	<u>(4,012,971)</u>	<u>3,466,331</u>

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

**Statements of cash flows**

	Fiscal years ended March 31,		
	2012	2011	2010
	US\$	US\$	US\$
<b>Cash flows from operating activities:</b>			
Net income (loss)	1,410,677	(4,012,971)	3,466,331
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock compensation expense	34,121	470,139	—
Shares issued to an employee	—	1,969	13,675
Equity in losses (profits) of subsidiaries	(1,923,914)	2,155,198	(5,842,059)
Interest received from available-for-sale investments	(13)	—	—
<b>Changes in operating assets and liabilities:</b>			
Prepaid expenses	(2,582)	3,465	(6,475)
Deposits and other assets	4,969	(3,769)	5,127
Other accrued liabilities	(26,324)	(7,591)	(9,065)
Net cash used in operating activities	(503,066)	(1,393,560)	(2,372,466)
<b>Cash flows from investing activities:</b>			
Purchases of available-for-sale investments	(8,999,987)	(3,000,000)	(31,977,976)
Proceeds from disposal of available-for-sale investments	9,000,000	15,986,532	31,926,236
Repayment of amounts due from (advances to) subsidiaries, net	13,091,819	(639,128)	(303,809)
Capital injection into subsidiaries	(1,732,162)	(1,858,931)	(53,440)
Net cash provided by (used in) investing activities	11,359,670	10,488,473	(408,989)
<b>Cash flows from financing activities:</b>			
Purchase of treasury stock	—	—	(2,136)
Net cash used in financing activities	—	—	(2,136)
Net increase (decrease) in cash and cash equivalents	10,856,604	9,094,913	(2,783,591)
Cash and cash equivalents at beginning of fiscal year	11,127,701	2,032,788	4,816,379
Cash and cash equivalents at end of fiscal year	21,984,305	11,127,701	2,032,788

## (a) Basis of preparation

For the purposes of the preparation of the parent company only condensed financial information, the Company records its interests in direct and indirect subsidiaries under the equity method of accounting as prescribed in FASB ASC 323

“Investments-Equity Method and Joint Ventures”. Such interests, together with the advances to subsidiaries, are presented as “Interests In subsidiaries” on the balance sheets and share of the subsidiaries’ income and losses is presented as “Equity in (losses) profits of subsidiaries” on the statements of operations.

## (b) Commitments

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

## EXHIBIT INDEX

Exhibit Number	Description of Document
1.1	Memorandum of Association of Global-Tech, as amended (Incorporated herein by reference to Exhibit 1.4 to Global-Tech's annual report on Form 20-F for the fiscal year ended March 31, 2009)
1.2	Articles of Association of Global-Tech, as amended (Incorporated herein by reference to Exhibit 1.2 to Global-Tech's annual report on Form 20-F for the fiscal year ended March 31, 2005)
1.3	Resolution of the Board of Directors authorizing an amendment to the Articles of Association of Global-Tech, as amended (Incorporated herein by reference to Exhibit 1.3 to Global-Tech's annual report on Form 20-F for the fiscal year ended March 31, 2005)
4.1	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.)

## EXHIBIT INDEX

Exhibit Number	Description of Document
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 Hong Kong Bank (Incorporated herein by reference to Exhibit 10.12 to the Registration Statement.)
4.16	Supplemental advice letter dated September 30, 2000 from Hong Kong Bank (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 Shun 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 Hong Kong Bank (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 Hong Kong Bank (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 Hong Kong Bank (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.)

## EXHIBIT INDEX

Exhibit Number	Description of Document
4.27	Credit Facility Agreement dated November 3, 2003 between Pentalpha Hong Kong Ltd. with Hong Kong 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	Credit Facilities Agreement dated January 26, 2006 between Standard Chartered Bank and Pentalpha Hong Kong Ltd. (Incorporated herein by reference to Exhibit 4.35 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.34	Credit Facilities Agreement dated November 18, 2005 between Standard Chartered Bank and Pentalpha Macau Commercial Offshore Limited. (Incorporated herein by reference to Exhibit 4.36 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.35	Credit Facilities Agreement dated January 26, 2006 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.37 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.36	Credit Facilities Agreement dated March 21, 2006 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.38 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.37	Credit Facilities Agreement dated January 26, 2006 between Standard Chartered Bank and Global Rich Innovation Ltd. (Incorporated herein by reference to Exhibit 4.39 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.38	2005 Stock Option Plan of Global-Tech (Incorporated herein by reference to Exhibit 4.40 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.39	Shareholders' Agreement and Share Sale and Purchase Agreement, each dated March 17, 2006, between Anwell Technologies Limited and Consortium Investment (BVI) Limited (Incorporated herein by reference to Exhibit 4.41 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2006.)
4.40	Banking Facility Letter dated November 30, 2006 between Standard Chartered Bank and Kwong Lee Shun Trading Co Ltd. (Incorporated herein by reference to Exhibit 4.42 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2007.)
4.41	Banking Facility Letter dated September 20, 2006 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.43 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2007.)
4.42	Banking Facility Letter dated November 30, 2006 between Standard Chartered Bank and Global Rich Innovation Ltd. (Incorporated herein by reference to Exhibit 4.44 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2007.)

## EXHIBIT INDEX

Exhibit Number	Description of Document
4.43	Banking Facility Letter dated January 13, 2009 between Standard Chartered Bank and Global Optics Limited (Incorporated herein by reference to Exhibit 4.43 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2009)
4.44	Banking Facility Letter dated January 13, 2009 between Standard Chartered Bank and Global Household Products Limited (Incorporated herein by reference to Exhibit 4.44 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2009)
4.45	Banking Facility Letter dated January 13, 2009 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.45 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2009)
4.46	Banking Facility Letter dated February 2, 2010 between Standard Chartered Bank and Global Household Products Limited (Incorporated herein by reference to Exhibit 4.46 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2010)
4.47	Banking Facility Letter dated January 29, 2010 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd. (Incorporated herein by reference to Exhibit 4.47 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2010)
4.48	Banking Facility Letter dated November 26, 2009 between Standard Chartered Bank and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.48 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2010)
4.49	Banking Facility Letter dated March 23, 2009 between China Construction Bank and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.49 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2010)
4.50	Banking Facility Letter dated September 2, 2009 between China Construction Bank and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.50 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2010)
4.51	Global-Tech Advanced Innovations Inc. 2011 Omnibus Equity Plan (Incorporated herein by reference to Exhibit 4.3 to the Registration Statement on Form S-8 filed with the Commission on December 22, 2010)
4.52	Banking Facility Letter dated November 25, 2010 between Standard Chartered Bank and Global Household Products Limited (Incorporated herein by reference to Exhibit 4.52 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.53	Banking Facility Letter dated November 25, 2010 between Standard Chartered Bank and Kwong Lee Shun Trading Co. Ltd (Incorporated herein by reference to Exhibit 4.53 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.54	Foreign Exchange Loan Contract dated May 27, 2010 between China Construction Bank Corporation and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.54 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.55	Security Deposit Pledge Contract dated May 27, 2010 between China Construction Bank Corporation and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.55 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.56	Cooperation Agreement On Oversea Agency Payment Business dated March 25, 2011 between China Construction Bank Corporation and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.56 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.57	Security Deposit Pledge Contract dated March 25, 2011 between China Construction Bank Corporation and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.57 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.58	General Agreement on Import Payment Agent Service dated December 17, 2010 between Industrial and Commercial Bank of China Limited and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.58 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)



## EXHIBIT INDEX

Exhibit Number	Description of Document
4.59	General Import T/T Finance Agreement dated September 15, 2010 between Industrial and Commercial Bank of China Limited and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.59 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.60	Maximum Mortgage Contract dated February 21, 2011 between Industrial and Commercial Bank of China Limited and Dongguan Lite Array Company Limited (Incorporated herein by reference to Exhibit 4.60 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.61	Acceptance Agreement dated February 17, 2011 between China Construction Bank Corporation and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.61 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.62	Acceptance Agreement dated January 21, 2011 between China Construction Bank Corporation and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.62 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.63	Maximum Amount Rights Pledge Contract dated March 27, 2011 between China Construction Bank Corporation and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.63 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.64	Maximum Amount Rights Pledge Contract dated September 2, 2009 between China Construction Bank Corporation and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.64 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.65	Maximum Amount Rights Pledge Contract- Supplement Agreement dated September 2, 2010 between China Construction Bank Corporation and Dongguan Wing Shing Electrical Products Factory Company Limited (Incorporated herein by reference to Exhibit 4.65 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2011)
4.66	Pledge Contract dated December 29, 2011 between Industrial Bank Company Limited and Dongguan Lite Array Company Limited*
4.67	Import Payments Business Agreement dated December 29, 2011 between Industrial Bank Company Limited and Dongguan Lite Array Company Limited*
8.1	List of Subsidiaries*
11.1	Code of Ethics (Incorporated by reference to Exhibit 14.1 to Global-Tech's Annual Report on Form 20-F for the fiscal year ended March 31, 2004)
12.1	Rule 13a-14(a) Certification by Chief Executive Officer*
12.2	Rule 13a-14(a) Certification by Acting Chief Financial Officer*
13.1	Certification by Chief Executive Officer*
13.2	Certification by Acting Chief Financial Officer*
15.1	Consent of Independent Registered Public Accounting Firm (BDO Limited)*
15.2	Consent of Independent Registered Public Accounting Firm (Mazars CPA Limited)*
99.1	Letter from BDO Limited to the Commission Regarding Item 16F*
101	The following financial statements from the Company's Form 20-F for the period ended March 31, 2012, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Changes in Shareholders' Equity; (iv) Consolidated Statements of Cash Flows; (v) Notes to Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Form 20-F shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

\* Filed Herewith

**Pledge Contract**

Serial number: INDUSTRIAL BANK CO., LTD. (Guangdong) (Zhi) Certificate (Dongguan) No. 201112270404-1

Pledgee: INDUSTRIAL BANK CO., LTD.

Address: Industrial Finance Building No.31, South City section, Guan Tai Road, Dongguan

Postal Code: 523950 Tel:

Telephone number: 13602332381 Fax:

Pledger: Dongguan Lite Array Company Limited

Address: Galaxy Ind. Area, Qingxi, Dongguan, Guandong Province, PRC

Postal Code: 523565 Tel:

Telephone number: 87738870 Fax:

Place of signing of contract: Dongguan

The pledger (for brief, using “creditor” in the following) provides the guaranty of pledge for the financing service which is offered by the pledgee to Dongguan Lite Array Company Limited (that is the “debtor”). In order to make clear the responsibilities and abide by the credit, Party A and Party B have reached an agreement through friendly consultation and negotiation to conclude the following contract.

## **Article One Definition and Explanation**

Except otherwise expressly provided,

1. According to the main contract, the “financing” in this contract refers to the pledgee provide a loan, documentary credit, acceptance, discount and other financial service for the “creditor”.
2. All the definitions and explanations of the main contract are applicable to this Contract.

## **Article Two The main contract**

I The basic content of the main contract which is warranted by this contract are:

- i Name of contract Import payments business agreement
- ii Contract number Industrial Bank Guangdong Pay Certificate (Specifically against) No. 201112270404
- iv Financing kind Import payments currency: USD
- iv The amount of finance: Four millions rate of interest: Libor+3.2%
- v The term of the principle debt: From Dec 29<sup>th</sup>, 2011 to June 26<sup>th</sup>, 2012

II If the actual term of the principle debt is inconsistent with the contractual situation; the date on the loan certificate shall prevail.

## **Article Three The hostage**

The pledger pledges the \_\_\_\_\_ (name of the hostage) that is owned by him or her willingly. The detail information of the name, quantity, size, value of the hostage is in the attachment list of the hostage. The legal validity of the pledge as well as from the hostage, the right, the right of subrogation, the things attached, the mixture, the material in process and the fruits.

## **Article Four The scope of the guaranty of pledge**

The scope of the guaranty of pledge under this Contract are under the main contract which are used to guarantee the principal and interests (including penalty interest and compound interest), liquidated damages, damages, and the expenses for the obtainment of pledge. The expenses for obligatory right includes but not limited to the court costs, arbitration fees, property preservation cost, applying for the enforcement cost, Attorney Fees, cost of handling cases, Announcement fee, assessment fee, auction charge, appraisal cost, cost of deal with the hostage, Telecommunication charge and travel expenses.

## **Article Five The term of pledge**

I If the right of pledge and the principle debt are coexisted, when the main debt is paid off, the right of pledge disappears.

II According to the requirement of the registration department, the date of registration is December 29<sup>th</sup>, 2011 to June 26<sup>th</sup>, 2012. If the term of registration expires and the principle debt has not been paid off by the debtor, then: The pledger has the right of pledge by law will not change. The pledge should renew the pledge for registration.

## **Article Six The safekeeping of the hostage**

I The hostages that are under the Contract of the pledgee should be kept by the pledger. The pledger should keep, maintain and preserve the hostage well and has the right to charge the fruits produced by the hostage.

II The pledger is not allowed to deal with the hostage in any way in the following: it should not be sold, rent out, diverted out, transferred it to others, made contract with others, be gifted, mortgaged, re-pledged, deposited, or be made into joint operation in the form of material, buy a share or any other way. The hostage also should not be reported as invalid by reporting the loss or through publicity.

## **Article Seven The insurance of the hostage**

I If there is a requirement of insurance for the hostage, before handing over the hostage to the pledger, the pledgee should insure the hostage according to the required insurance coverage by the pledger and give the insurance policy to the pledger for keeping.

II During the contractual period of this contract, the pledgee should keep the continuance of the insurance and the pledger should be the first beneficiary. If the insurance is interrupted, the pledger has the right to insure or renew the insurance. The pledgee should afford all the expenses needed and take responsibility for all the losses suffered by the interruption of insurance.

III If the insurance compensation is not enough to pay off the secured debt, the pledger has the right to recover.

#### **Article Eight Registration of pledge**

I within / weekday after signing this contract, the pledgee should go together with the pledger to register in the pledge registration department, according to the “Law of Real Right in People’s Republic of China”, the “Security Law in People’s Republic of China”, and other relative laws and regulations.

II If the pledge registration is done, the pledgee should hand in the registration documents to the pledger.

III If the registration term expires, the pledgee has to re-register the pledge.

#### **Article Nine Expenses**

I All the expenses (include but not limited to the registration cost, notarization fee, as well as the insurance, transportation, storage, keeping, evaluation or assessment, maintenance, up keeping, and punishment under this Contract) that related to the hostage under this contract and its terms should be paid or borne by the pledgee. If the pledger had paid for the pledgee and the pledgee should repay immediately.

#### **Article Ten The obtainment of the right of pledge**

I If the debtor does not carry out the forthcoming debts that are agreed on the main contract (including the situation that the pledger recover the debts in advance, because of breaking the promise by the debtor and the pledgee) or any other situations agreed under this contract. The pledgee authorizes the irrecoverable rights to the pledger to deal with the hostage directly by selling at discount, auction, selling and turning into money without any legal procedures such as litigation or arbitration. The money got by disposing should primarily pay the cost of disposing of the hostage and the expenses that should pay back for the pledger, in order to pay off the secured debt.

II If the right of pledge comes earlier than the expiration of paying debts, the pledger has the right to achieve the right of pledge and get the profits to pay off the debts in advance.

III If the pledgee is more than two people, when exercise the pledge right, the pledger has the right to deal with any of the pledgee’s hostage or every pledgee’s hostage.

#### **Article Eleven The statement and promise of pledgee**

I The pledgee should be a legal entity that registered and validly existing, have the qualification of being a guarantor, be capable of assuming debts, take voluntary assumption and fulfill the responsibility of paying off debts.

II When signing this contract, the pledgee should have been approved and authorized legally by the superior departments or board of directors, or any other relative departments.

III The pledgee signing and fulfilling this contract does not violate any document or agreements that are binding on it or its assets, does not violate any security agreements and any other agreements that the pledgee has signed with others, and does not violate any documents, promises, or commitments that binding the pledge.

IV All the documents, materials, report tables and certificates that offered by the pledgee should be precise, true, complete and effective. The pledgee should accept the examination and superstation of the manufacturing and financing situation, and should offer financial report and financial statements and any other materials at any time according to the requirements of the pledger.

V The pledgee should be familiar and agree with all the items or articles of the main contract, and provide security or pledge voluntarily for the debtor, and carry out the obligation of paying off the debts according to the agreement of this contract.

VI If the hostage is jointly owned property, the pledge in this contract should be consented by all the joint owners in written form.

VII Except the pledge established in this contract or the pledge agreed by the pledger in written consent, there is no mortgage, guarantee or any other debt burden on hostage.

VIII The right of this pledge is complete and legal, there is no flaw that is not suited to pledge. If the third side provided any proposal or any objection about the disposal of hostage, all the results and responsibilities should be taken by the pledgee.

IX There is no quality flaw on the hostage that haven't been seen by the pledger. If the pledge can not pay off the debts completely in the value of the hostage because of the existing of hidden quality flaw, all the results and responsibilities should be taken by the pledgee.

X The pledger should not conceal any of the following things that perhaps will effect the acceptance by the pledger, no matter it already happened or about to happen.

1. Any important events of breaching the principle, law or reimbursement that the pledgee or together with main leaders related;
2. The unclosed litigation or arbitration.
3. All kinds of debt taken by the pledgee, or having contingent liabilities, or warranty and security guarantees that offered to the third side.
4. Any events of default that occur to the pledgee under the contract of the pledger or any other pledgers.
5. Any situations that effect the financial position or guarantee capacity of the pledgee.

XI The right of pledge established in this contract does not effected by any changes or the ending of the pledgee, such as close, stop, joint, transfer, withdraw, undertake, discrete, joint capital, joint cooperation, shareholding reform.

XII After performing the liability to guarantee, on the condition of not effecting the paying off the debt, the pledgee has the right to call recovery the debts from the debtor. But then the debtor is facing the recovery by the pledgee and the demand of payment by the pledger, the pledgee agrees that the debtor pay the pledger primarily.

XIV If there is any other guarantee under the main contract, the responsible guarantee shall not be affected by any other guarantees offered by other guarantors and shall not delete or decline because of them. The commitment of the guarantee is not the pledgee or any other guarantors' claims or litigation / arbitration / enforcement.

XV When the principal debtor does not perform its obligations, no matter whether the pledgee under the main contract had other guarantees (including but not limited to the guarantee, mortgage, pledge, guarantee, receipts of guarantee, and any other certificates and other ways of guarantee), the pledgee should be take all the responsibilities under the contract.

#### **Article Eleven Liability for breach of contract**

I Any of the following situations will be the breach of contract:

- i The pledgee does not perform the statements and promise in article eleven of this contract;
- ii The behavior of the pledgee that causes the value of hostage decline;
- iv The pledgee does not perform the agreements of any other provision of this contract.

II If the pledgee break the agreements, the pledger has the right to take the following measures:

- i Require the pledgee redress the breach with a deadline;
- ii Declare that the principle debt expires in advance, disposing the hostage to pay off the debt.
- iv Require the pledgee to pay a breach penalty ten percent:
- iv Require the pledgee to pay for the compensation if the breach penalty is not enough to make up the loss in actual situation.
- v The pledgee should be held responsible for the breach of contract by a legal way.

III Within the pledge period, if the value of hostage is or may be declined caused by the other factors except the pledgee, the pledger has the right to take measures according to the second clause of this article.

#### **Article Thirteen The independence of obligation of guarantor**

I The obligation of the pledgee under this contract is independent, and is not affected by the relationship of neither side with the third one, except otherwise agreed upon by the contract.

II The revision of agreement, the supplement of the main contract by the pledger and debtor, the pledgee takes the warranty obligations under this contract's and its responsibility of security does not change.

III The pledgee guaranteed that the debtor carry out all the obligations under this contract. The breach of any agreements of the main contract (including but not limited to not the debtor fails to employ the financing in term of stipulation of the main contract) does not affect the performance of warranty obligations in this contract by the pledgee.

#### **Article Fourteen Notice**

I. Any notice and a variety of communication links need to be served by mailing address, and fax number or other method of contact recorded in this Agreement to each other.

II. Change of the above contact methods of any party in this Agreement should be immediately notified to the other party.

III. Any notice or communication links, as long as sent by the above address (by the changed address if the address is changed), shall be deemed to be served on the following dates:

- (1) Letter, is the fifth business day after the sending of registered issue;
- (2) Telex, is the time when receiving the confirmation of the other party;
- (3) If a person is sent to deliver specially, then is the date when the recipient signed it.

IV If there is any change about the information provided such as the name of the pledgee, the legal representative, addresses, but with no notice of written consent to the pledger, all the notices or documents will be deemed as received according to the information on the cover of this contract.

#### **Article Fifteen Administration, the application of law and the dispute resolution**

I the conclusion, validity, interpretation, performance and the dispute resolution are all ruled by the law of the People's Republic of China.

II If there is any dispute or controversy in the performance of the contract, it can be solve through negotiation; If negotiation fails, it can be solved in the first of the following methods:

(First) submit a case to the local court;

(Second) apply for arbitration from \_\_\_\_\_ Board of Arbitration (the location is: \_\_\_\_\_), according to the current effective arbitration rules of applying; the decision of the arbitrator shall be final and binding on the both Parties hereto.

(Third) other methods: \_\_\_\_\_

III during the arbitration period, the articles with no debate should be performed as well. The pledgee should not refuse to carry out the obligations under this contract in the name of solving the disputes.

#### **Article Sixteen The validate of contract and other issues**

I This contract shall enter into force from the signing and sealing date by the two Parties.

II According to the regulations and laws, the hostage that needs to be registered under this contract should be registered immediately after the contract is signed.

III During the period of contract, any of the generosity, grace period, privilege, delay of exercising the rights and interests enjoyed by the debtor and guarantor, given by the pledger, shall not damage, affect or limit all the rights and interests enjoyed by the pledger, in accordance with the relevant laws, administrative regulations and this contract. It shall not be regarded as giving up the rights and interests under the contract, and shall not affect the performance of obligations by the pledgee under this contract.

IV the attachments and the supplementary agreements of this contract are the inseparable parts of this contract and of the same legal force as the contract.

V the weekday in this contract shall mean the day on which commercial banks are open for business in China. During the performance of the contract, if the withdraw or repayment day is a non-business day, prolong to the next business day. The term expires when all the debts are paid off under the six contracts, independent contract and this contract. After termination of the contract term, the hostage that kept by the pledger should be returned to the pledgee as well as the related right certificates.

VI This contract is in \_\_\_\_ (number of copies) with both Parties herein, each of the pledger and the pledgee holding one copy, both have the same legal effect.

#### **Article Seventeen    Supplementary Provisions**

When acceptance bill at the maturity in the pledge bank, the pledgee needs show the note and transfer the amount of payment to the corresponding security deposit account. The receipts should be authentic and valid during the period of pledge and collection, and shall not interfere with the pledger's existing of the right of bill.

Seal: **[INDUSTRIAL BANK CO., LTD. Dongguan Branch]**

Seal: **[Dongguan Lite Array Company Limited]**

The pledger (official seal): Yongge	superintendent or authorized agent (official seal): Liu
	2011 Year      12 Month      29 Day
Seal: <b>[INDUSTRIAL BANK CO., LTD. Dongguan Branch]</b>	
The pledgee (official seal): C.K. Sham	legal representative or authorized agent (official seal): John
	2011 Year      12 Month      29 Day
Seal: <b>[Dongguan Lite Array Company Limited]</b>	
Register department (official seal):	people in charge (official seal):
	2011 Year      12 Month      29 Day

## Security Deposit Agreement

(Model text)

Serial number: INDUSTRIAL BANK CO., LTD. (Guangdong) (Zhi) Certificate(Dongguan)

No. 201112270404-2

Party A: INDUSTRIAL BANK CO., LTD. \_\_\_\_\_

Address: \_\_\_\_\_

Postal Code: 523960 Tel:: \_\_\_\_\_

Telephone number: 13602332381 Fax: \_\_\_\_\_

Party B: Dongguan Lite Array Company Limited

Address: Galaxy Ind. Area, Qingxi, Dongguan, Guandong Province, PRC

Postal Code: 523652 Tel:: \_\_\_\_\_

Telephone number: 87738870 Fax: \_\_\_\_\_

Place of signing of contract: Dongguan

Seal: [INDUSTRIAL BANK CO., LTD. Dongguan Branch]

Seal: [Dongguan Lite Array Company Limited]



### **IMPORTANT for signing of the Contract**

In order to protect your legitimate rights, please read the following part carefully before you sign the contract:

I before signing the contract, please check again and make sure the following things:

1. make sure you have the right to sign this contract, or you are authorized to sign if you need the approval of other people;
2. Make sure that you have read and understand the contract completely, and paid attention about the content of taking responsibilities, exempting from liability of INDUSTRIAL BANK CO., LTD., as well as the content in boldface characters.
3. Make sure that you and your company have fully understood the meaning of the provisions and the corresponding legal consequences.

II this is the model text provided by INDUSTRIAL BANK CO., LTD., there are blank spaces in the corresponding provisions. The “Supplementary provision” is added at then end of the contract, for the use of revise, supplement or deletion.

III If you have any questions about this contract, please feel free to contact INDUSTRIAL BANK CO., LTD.

The second party offer security deposit and be the repayment guarantor for Dongguan Lite Array Company Limited ("debtor" for brief in the following) for the financing service (including but not limited to single loan or currency and foreign-currency loans within the credit limits, acceptance, warrant, establishment of L, remittance and mortgage business of imports and exports) that provided by the first party. In order to make clear the responsibilities and abide by the credit, Party A and Party B have reached an agreement through friendly consultation and negotiation to conclude the following contract.

I The "security deposit" under this contract refers to the money that is deposited into the special account of Party A by Party B, which is owned by Party A and used as the security payment (repayment) of the loan. The nature of the security deposit is the pledge of movable property.

II The "security deposit" under this agreement is used to secure the debts, under the main contract, are paid off the at timely: \_\_\_\_\_

i name of the contract: Import payments business agreement

ii serial number of the contract: Industrial Bank Guangdong Pay Certificate (Specifically against) No. 201112270404

iv service type: Import payments

III the security deposit that deposited by Party B should take part in \_\_\_\_% of the amount of financing by Party A under the main contract.

Within one day(s) after signed this agreement, Party B has to deposit the security deposit to the special account that established by Party A: (account number) 395100100200004673

Amount of money: (currency) RMB (write in characters) \_\_\_\_\_  
(currency code) ¥ (write in Arabic numbers) 3,100,000.00

IV the scope of the security deposit is including the principle credits, interests (including penalty interest and compound interest), liquidated damages, damages, and the expenses for obligatory right includes but not limited to the court costs, arbitration fees, property preservation cost, applying for the enforcement cost, attorney fees, cost of handling cases, announcement fee, assessment fee, auction charge, appraisal cost, cost of deal with the hostage, telecommunication charge and travel expenses.

V The term of the deposition for security deposit shall be carried out according to the No. \_\_\_\_ of the following agreements.

i The security deposit should be the current deposit, and it will be kept until the debts are paid off.

ii The security deposit should be the fixed term deposit, the term of deposition is \_\_\_\_ month(s), from year month day to year month day. If the term expires and Party B has not paid off the debts under the main contract, this security deposit will be transferred to current deposit and it will be kept until the debts under the main contract are paid off.

VI During the depository period, charge the interests of security deposit in the following agreements.

i Charge the interests of security deposit in No. 3 term.

1. monthly interest rate \_\_\_\_%

2. yearly interest rate \_\_\_\_%

3. others: \_\_\_\_\_.

ii Charge the interests of security deposit in No. 4 term.

1. Charge interest by month, and the expiry date for interests is 20 each month.

2. Charge interest by season, and the expiry date for interests is 20 in the last month of the season.

3. Charge interest by year, and the expiry date for interests is December 20 each year.

4. One-off charge, which means charging the interests the expiry of the deposit.

iv before paying the debts or before the debts are paid off, the interest of the security that has been calculated should be kept in the security deposit account; If the debts are paid off under the main contract, the interest of the security and the remaining balance can be left in the security deposit account or be transferred to the other accounts according to the requirement of Party B.

## VII Commitments of Party B

i Party B should commit that the security deposit that given to Party A should be legally in the source and authority, or else Party B should take all the legal responsibilities.

ii Party B should agree that the security deposit account is established by the name of Party A, ruled and managed by Party A.

iv Party B irrevocably authorized that Party A has the right to deduct security deposits to pay off the debts under the main contract.

iv Party B commits that it shall not withdraw or deduct any security deposit during the deposit period with any reason, or take other methods affecting the possession and disposition of the security deposit.

v if the debtor bear the payment (repayment) obligations of a loan under the main contract, Party A is entitled to anticipate the money according to the deposit ratio of the payment (repayment) and the corresponding security deposit each time. If the amounts of payments can not meet the security deposit, Party B shall make up immediately, or else Party B is responsible for all the consequences.

vi If the security deposit is the fixed term deposit, on the condition that all the debts as been paid off the under the main contract, full amount withdrawal in advance of the security deposit will be permitted, with the permission of Party A, but the partial amount withdrawal in advance of the security deposit is not permitted.

vii If the value of security deposit declines because of the factors such as the movement of the exchange rate, Party A has right to request Party B to make up the security deposit. Party B shall complement the amount in 1 day(s) since the day of receiving the notice from Party A.

VIII if Party B does not perform the obligations of this agreement, Party A has the right to take one of the following measures, and request Party B:

i redress the breach within a limited time, perform every obligations under this contract:

ii announced that the main debt accelerate the maturity, dispose the security deposit to pay off the principal debt.

iv require Party B to pay the breaching penalty ten percentage of the principle debt.

iv require Party B to make compensation for the actual damage which are not enough to meet the breaching penalty.

v pay the expense of credit realization of Party A.

IX If there is any dispute or controversy in the performance of the contract, it can be solve through negotiation; If negotiation fails, it can be solved in the second of the following methods:

(First) submit a case to the local court;

(Second) apply for arbitration from \_\_\_\_\_ Board of Arbitration (the location is: \_\_\_\_\_ ), according to the current effective arbitration rules of applying; the decision of the arbitrator shall be final and binding on the both Parties hereto.

(Third) other methods: \_\_\_\_\_

During the arbitration period, the articles with no debate should be performed as well. The pledgee should not refuse to carry out any of the obligations under this contract in the name of solving the disputes.

X The Contract shall become effective upon signing and sealing of Party A and Party B, and it will end automatically until the debts are paid off under the main contract.

XI The agreement is produced in duplicate, and each party has one copy, the duplicate copy should be revised and enlarged according to needs.

## XII supplementary Provisions

The security deposit under this agreement will be kept until the day that the debts are being paid off. If the security deposit is received partially, the interests should be calculated according the following rules: the term for keeping the security deposit is more than nine months but not one year, in which the interests in first six months is calculated by the yearly rate 3.3%, and 3.1% yearly rate in the later three months; the left period after nine months, the interests will be calculated by 0.5% current interest rates. If the term for keeping the security deposit is more than three months but less than six months, in which the interests in first three months is calculated by the yearly rate 3.1%, and the interests will be calculated by 0.5% current interest rates in the left period after three months.

Seal: [INDUSTRIAL BANK CO., LTD. Dongguan Branch]

Seal: [Dongguan Lite Array Company Limited]

The party A (official seal):      superintendent or authorized agent (official seal):      Liu Yongge  
2011 Year      12 Month      29 Day  
Seal: **[INDUSTRIAL BANK CO., LTD. Dongguan Branch]**

The party B (official seal): legal representative or authorized agent (official seal): John C.K. Sham

2011 Year 12 Month 29 Day  
Seal: [Dongguan Lite Array Company Limited]

**Import payments business agreement**

Number: Industrial Bank Guangdong \_ Pay\_ Certificate (Specifically against) No. \_201112270404\_

Party A: Industrial Bank Co., Ltd. Dongguan Branch

Mailing Address: Industrial Finance Building No.31, South City section, Guan Tai Road, Dongguan

Postal Code: 523960      Fax:

Tel: 13602332381      Fax:

Party B: Dongguan Lite Array Company Limited (Client's full name)

Mailing address: Galaxy Ind. Area, Qingxi, Dongguan, Guangdong Province, PRC.

Postal Code: 523565      Fax:

Tel: 87738870      Fax:

Agreement Signed at: Dongguan

In view of the Dongguan Lite Array Company Limited (hereinafter referred to as Party B) apply the Industrial Bank Co., Ltd. Dongguan Branch (hereinafter referred to as Party A) for the import payments business agreement services under No. \_\_\_\_ contract. (The payments business is: ☐ 1. import payments under the credit, ☐ 2. imports payments under the collection, ☐ 3. imports payments under the outward remittance payments), to clarify the responsibilities and keep the promise, both parties signed this agreement on month \_\_\_\_\_ day \_\_\_\_ year, both sides agreed as follows:

Article one Import payments business (hereinafter referred to as pay) refers to the financing business of import payments under the credit or. the collection, or the outward remittance payments of Party B, in view of Party B's short-term financing needs, Party A transfers the

trading funds to the Beneficiary, collection client, or payee on behalf of Party B through the correspondent bank, then Party B returns the above funds (including interest and bank charges) to the Party A within an agreed period according to the agreed interest rates.

Article two Pay amount: 4 million (currency) United States dollars

Article three The financing interest rate is  $\text{libor} + 3.2\%$

Article four Financing period: from December 29, 2011 to June 26, 2012.

Article five Financing management: Party A has the right to inspect, supervise the business management, financial activities and inventory and sales of Party B. Party B shall submit financial statements to Party A and facilitate Party A's work of financing management.

Article six Party B ensure to unconditionally pay the amount of payments of principal, interest and related costs in "confirmation of import payments business transactions" issued by Party A on due date for financing in this Agreement. Without the consent of Party A, Party B shall not apply for an early repayment.

Article seven Guarantee

I. The following contract is the guarantee contract of this contract

1. Number 201112270404-1 «Pledge contract » (contract name), the guarantee way is \_\_\_\_ pledge \_\_\_\_, the Guarantor is Dongguan Lite Array Company Limited.

2. Number \_\_\_\_ « \_\_\_\_ » (contract name), the guarantee way is \_\_\_\_ pledge \_\_\_\_, the Guarantor is Dongguan Lite Array Company Limited.

3. Number \_\_/\_\_/\_\_ « \_\_\_\_ » (contract name), the guarantee way is \_\_/\_\_, the Guarantor is \_\_\_\_/\_\_\_\_

II. Between the completion of the sign of guarantee contract under this Agreement and the completion of guarantee procedure, the Party A has the right to withhold the performance of payments and other obligations under this Agreement.

Article eight The rights and obligations of both parties

I. Party A's rights and obligations

1. The right to request Party B's scheduled payments of principal, interest and related costs;
2. The right to require Party's B provision of information relating to the financing;

3. The right to know the production operations and financial condition of Party B;

4 If Party B fails to pay in full repayment on schedule, whatever the reason is, Party A has the following rights:

(1) Deduct the repayment from any account Party B opening in Party A

(2) Overdue balances are subject to penalty interest rate of 30%.

(3) Dispose the mortgaged/pledged, or requires a guarantor to perform compensation obligations.

(4) Take any measures sufficient to maintain the interests of Party A under this Agreement.

(5) Party A is entitled to transfer the financing and security interest under this Agreement to third parties at any time, without obtaining the consent of Party B. After the Party A's transference of the finance and security interest under this Agreement, Party B still assumes all obligations under this Agreement.

(6) Entitled to the rights of laws, regulations and rules or the other provisions in this Agreement.

II Party A's obligations:

1. Pay according to this Agreement;

2. Shall keep confidentiality of Party B's debt, finance, production and management, except for those with additional provisions in laws or regulatory agencies.

II. Party B's rights and obligations

1. Party B's rights:

The right to request Party A to perform the obligation of confidentiality of the information provided in accordance with this agreement.

2. Party B's obligations

(1). Shall truthfully provide documentation Party A required, as well as the balances of all bank accounts and deposit and loan, and cooperate with Party A's work to investigate, review and check.

(2). Accept Party A's supervision of financing funds, the related production management, and financial activities;

(3) Shall fully pay the principal and interest and other associated costs timely under this Agreement;

(4) Shall not transfer the liabilities in whole or in part under this Agreement to a third party without the written consent of Party A;

(5) Shall bear the expenditure of costs relating to this Agreement, including but not limited to the costs incurred in matters of the notary, appraisal, assessment, registration, and expense for realization of creditor's right of Party A.

(6) Shall not reduce the registered capital in any way;

(7) In the occurrence of the following situation, first obtain the written consent of Party A, and then actively implement the safeguard measures of the full and timely payment of the principal and interest and fees under this Agreement as requested by Party A:

1) Apply banks and other third parties for amounts more than / ten thousand RMB or total liabilities over / ten thousand RMB, or provide a third party the amount of loan more than / ten thousand RMB, or provide grantee for the loan of third party more than / ten thousand RMB;



2) for major property changes and adjustment of business way (including but does not limited to the joint venture, and cooperation contract signed with businessman from foreign, Hong Kong, and Macao; revoked, and closed, and discontinued, and transferred; division; consolidation, merger and merged; restructuring, and formed or conversed for joint-stock company; take houses, and machine device, and other fixed assets or trademark, and patent, and proprietary technology, and land right, and other intangible assets to buy into or invest into a company, adopt ways of leasing, and contract, and joint venture, and trusteeship for property and right transaction).

8. In the occurrence of the following situation, Party B shall notify Party A immediately and then actively implement the safeguard measures of the full and timely payment of the principal and interest and fees under this Agreement as requested by Party A:

- (1) Significant financial loss, loss of property or other financial crises;
- (2) Closure, revoked or cancellation of business license, apply for or filed for bankruptcy, dissolution and other circumstances
- (3) A major management and financial crisis of the controlling shareholder or other associated companies, affecting its normal operation;
- (4) The change of Party B's the legal representatives, directors and key senior management personnel, affecting their functioning;
- (5) The change of Party B's shareholders or shares is more than 5%;
- (6) Party B has significant related party transactions with its controlling shareholder or other associated companies, which affects its normal operation;
- (7) Any litigation, arbitration or criminal or administrative penalties, having a significant adverse consequence on its business or property status;
- (8) Other significant matters that might affect its solvency.
- (9) Party B shall ensure that the financial condition such as the current assets and net asset value, asset liability ratio, asset liquidity ratio in the loan period maintain the following range of requirements of Party B:       /
- (10) The collection letter or collection of documents Party A sent or by other manners to Party B or must be signed and handed over the receipt to Party A.

Article nine Violation responsibility : If Party B breaches the contract (that is, breach of any of the obligations in this Agreement), Party A shall have the right to take one or more measures of the following:

- (1) Correct the breach according to the deadline;
- (2) Release the import payments agreements, request Party B for the payments of principal and interest matured or unmatured, and the compensation-related costs;
- (3) If the payment is overdue, request Party B to pay the overdue penalty;
- (4) Require Party B to pay the compounding of unpaid interest;
- (5) Deduct the owed principal and interest from any account of Party B, if the account money and pay money are in different currencies, Party A has the right to convert the account money according to the exchange price quotation on the date to pay the principal and interest;

(6) Require Party B to pay principal and interest in judicial means, and expense for realization of creditor's right of Party A (including but not limited to litigation costs, property preservation fees, fees of application for enforcement, attorney fees, investigators fees, advertising fees, assessment fees, auction fees, etc.) are undertaken by the Party B.

#### Article ten Jurisdiction, applicable law and dispute resolution

I. The formation, validity, interpretation, and performance of this Agreement and the settlement of disputes shall apply People's Republic of China laws.

II. In the course of implementation of this Agreement, any disputes or controversies relating to this Agreement occurs, can be resolved through consultations; if consultation fails, and resolved in the following way 1:

(1) Take judicial proceedings to the people's court where Party A is located.

(2) Apply to the Arbitration Committee     /     (the place of arbitration is:     /    ), in accordance with the application of the current effective arbitration rules of arbitration. The arbitration ruling is final cut, and binding on the parties.

(3) Other ways:     /    

III. In the course of litigation or arbitration, some of the provisions of this Agreement not involved in the dispute shall still be fulfilled. Party B shall not refuse to perform any obligation under this Agreement by the reason of the dispute.

#### Article eleven Notice

I. Any notice and a variety of communication links need to be served by mailing address, and fax number or other method of contact recorded in this Agreement to each other.

II. Change of the above contact methods of any party in this Agreement should be immediately notified to the other party.

III. Any notice or communication links, as long as sent by the above address (by the changed address if the address is changed), shall be deemed to be served on the following dates:

(1) Letter, is the fifth business day after the sending of registered issue;

(2) Telex, is the time when receiving the confirmation of the other party;

(3) If a person is sent to deliver specially, then is the date when the recipient signed it.

#### Article twelve Agreement potency and other matters

1. This agreement is to take effect after the parties signed or stamped.

2. In the force of this Agreement, any tolerance, and grace Party A giving to Party B or guarantor, or delay in exercising the interest or right in this Agreement, does not damage, and effect or limit Party A's interest and rights according to about legal provides and this Agreement, and are not considered as the Party A's giving up of the interest and rights in the Agreement, and not affect the any obligations of Party B in this Agreement.

3. "Import payments application for business" and "confirmation of import payments business transactions" as annexes to the present Agreement, are integral parts of this Agreement, and have the same legal effect as the body of this Agreement.

4. The “business day” in the Agreement means a Bank business day, during the performance of the Agreement, if a withdrawal date, repayment is a non-business day, is extended to the next business day.

5. The principal edition of this Agreement is one type \_\_\_\_ copies, Party A, Party B shall each hold a copy, and with the same legal effect.

Article thirteen    Supplementary Provisions

The party A (official seal):    superintendent or authorized agent (official seal):    Liu Yongge	
2011 Year      12 Month      29 Day	
Seal: <b>[INDUSTRIAL BANK CO., LTD. Dongguan Branch]</b>	
The party B (official seal): legal representative or authorized agent (official seal):    Shen Zhenquan	
2011 Year      12 Month      29 Day	
Seal: <b>[Guangzhen Displayer Products CO., LTD. Dongguan, China]</b>	

**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
Dongguan Wing Shing Electrical Products Factory Company Limited	China	100.0
Dongguan Lite Array Company Limited	China	100.0
Dongguan Microview Medical Technology Company Limited	China	100.0
Global Household Products Limited	Hong Kong	100.0
Global-Tech USA, Inc.	United States	100.0
MasterWerke Limited	United States	100.0
GT Investments (BVI) Limited	British Virgin Islands	100.0
Kwong Lee Shun Trading Company Limited	Hong Kong	100.0
Pentalpha Medical Limited (formerly known as Pentalpha Enterprises Limited)	Hong Kong	100.0
Pentalpha Hong Kong Limited	Hong Kong	100.0
Wing Shing Overseas Limited	British Virgin Islands	100.0
Joke Media Limited	China	100.0
Global Auto Limited	Hong Kong	70.0
Global Optics Limited	Hong Kong	100.0
Consortium 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	British Virgin Islands	76.75
Global Digital Imaging Limited	British Virgin Islands	100.0
Lite Array Holding Limited	British Virgin Islands	30.0
Litewell Technology (HK) Limited	Hong Kong	30.0
Dongguan Litewell (OLED) Technology Limited	China	30.0

\* Dongguan Litewell (OLED) Technology Limited, and Litewell Technology (HK) Limited are wholly-owned subsidiaries of Lite Array Holdings Limited. Whereas, Lite Array Holdings Limited is a jointly-controlled entity of the Company.

**RULE 13a-14(a) CERTIFICATION**

I, John C.K. Sham, President and Chief Executive Officer of Global-Tech Advanced Innovations Inc., certify that:

1. I have reviewed this Annual Report on Form 20-F of Global-Tech Advanced Innovations 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;
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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant'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; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: July 24, 2012

By: /s/ John C.K. Sham  
 John C.K. Sham  
 President, Chief Executive Officer and Acting  
 Chief Financial Officer

**RULE 13a-14(a) CERTIFICATION**

I, John C.K. Sham, Acting Chief Financial Officer of Global-Tech Advanced Innovations Inc., certify that:

1. I have reviewed this Annual Report on Form 20-F of Global-Tech Advanced Innovations 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;
3. Based on my knowledge, the financial statement, 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant'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; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: July 24, 2012

By: /s/ John C.K. Sham  
John C.K. Sham  
President, Chief Executive Officer and Acting  
Chief Financial Officer

## EXHIBIT 13.1

### CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Global-Tech Advanced Innovations Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

(1) The Annual Report on Form 20-F for the period ended March 31, 2012 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 20-F.

Date: July 24, 2012

/s/ John C.K. Sham

John C.K. Sham

President, Chief Executive Officer and Acting Chief  
Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 20-F or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

## EXHIBIT 13.2

### CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Global-Tech Advanced Innovations Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

(1) The Annual Report on Form 20-F for the period ended March 31, 2012 (the "Form 20-F") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 20-F.

Date: July 24, 2012

/s/ John C.K. Sham

John C.K. Sham

President, Chief Executive Officer and Acting Chief  
Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Form 20-F or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No.333-129973) pertaining to the 2005 Stock Option Plan of Global-Tech Advanced Innovations Inc. (The “Company” and formerly known as Global-Tech Appliances Inc.);
- (2) Registration Statement (Form S-8 No.333-9182) pertaining to the Amended and Restated 1997 Stock Option Plan of the Company;
- (3) Registration Statement (Form S-8 No.333-10932) pertaining to the 1999 Employee Stock Purchase Plan of the Company; and
- (4) Registration Statement (Form S-8 No.333-171337) pertaining to the 2011 Omnibus Equity Plan of the Company;

of our report dated August 31, 2011, except for Note 19 which is as of July 23, 2012, relating to the consolidated financial statements of the Company appearing in the Company’s Annual Report on Form 20-F for the year ended March 31, 2012.

/s/ BDO Limited  
Hong Kong  
July 23, 2012

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No.333-129973) pertaining to the 2005 Stock Option Plan of Global-Tech Advanced Innovations Inc. (The “Company” and formerly known as Global-Tech Appliances Inc.);
- (2) Registration Statement (Form S-8 No.333-9182) pertaining to the Amended and Restated 1997 Stock Option Plan of the Company;
- (3) Registration Statement (Form S-8 No.333-10932) pertaining to the 1999 Employee Stock Purchase Plan of the Company; and
- (4) Registration Statement (Form S-8 No.333-171337) pertaining to the 2011 Omnibus Equity Plan of the Company;

of our report dated July 23, 2012, relating to the consolidated financial statements of the Company appearing in the Company’s Annual Report on Form 20-F for the year ended March 31, 2012.

/s/ Mazars CPA Limited  
Hong Kong  
July 23, 2012

Securities and Exchange Commission  
100 F Street N.E.  
Washington, D.C. 20549  
United States of America

July 23, 2012

Dear Sirs,

**RE: GLOBAL-TECH ADVANCED INNOVATIONS INC.**

We have been furnished with a copy of the response to Item 16F of Form 20-F to be dated July 24, 2012 for the event that occurred on February 15, 2012, to be filed by our former client, Global-Tech Advanced Innovations Inc. We agree with the statements made in response to that Item insofar as they relate to our firm.

Yours faithfully,  
/s/BDO Limited