BONSO ELECTRONICS INTERNATIONAL INC
Form 20-F
August 15, 2018
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

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

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended March 31, 2018

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

Commission File Number: 0-17601

BONSO ELECTRONICS INTERNATIONAL INC.
(Exact name of Registrant as specified in its charter)

British Virgin Islands
(Jurisdiction of incorporation or organization)

Unit 1404, 14/F, Cheuk Nang Centre,
9 Hillwood Road, Tsimshatsui
Kowloon, Hong Kong
(Address of principal executive offices)

Albert So, Chief Financial Officer
Tel: (852) 2605-5822 Fax: (852) 2691-1724
Email: albert@bonso.com
Unit 1404, 14/F, Cheuk Nang Centre,
9 Hillwood Road, Tsimshatsui
Kowloon, Hong Kong
(Name, Telephone, email and/or fax number and address of Company Contact Person)

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

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE $.003

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.
Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.
5,543,639 shares of common stock, $0.003 par value, at March 31, 2018 (including 748,017 shares that are held in treasury)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.
Yes [ ] No [X]

If the 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 15D of the Securities Exchange Act of 1934.
Yes [ ] No [X]

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-accelerated filer [X]

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

U.S. GAAP [X] International Financial Reporting Standards as issued by the International Accounting Standards Board [ ] Other [ ]
If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:
Item 17 [ ] Item 18 [ ]

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

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains forward-looking statements. A forward-looking statement is a projection about a future event or result, and whether the statement comes true is subject to many risks and uncertainties. These statements often can be identified by the use of terms such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate,” “approximate” or “continue,” or the negative thereof. The actual results or activities of the Company will likely differ from projected results or activities of the Company as described in this Annual Report, and such differences could be material.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results and performance of the Company to be different from any future results, performance and achievements expressed or implied by these statements. In other words, our performance might be quite different from what the forward-looking statements imply. You should review carefully all information included in this Annual Report.

You should rely only on the forward-looking statements that reflect management's view as of the date of this Annual Report. We undertake no obligation to publicly revise or update these forward-looking statements to reflect subsequent events or circumstances. You should also carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission (the “SEC”). The Private Securities Reform Act of 1995 contains a safe harbor for forward-looking statements on which the Company relies in making such disclosures. In connection with the “safe harbor,” we are hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled “Risk Factors” under Item 3. – “Key Information.”

## FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and publish our financial statements in United States Dollars.

## REFERENCES

In this Annual Report, “China” refers to all parts of the People's Republic of China other than the Special Administrative Region of Hong Kong. The terms “Bonso,” “we,” “our,” “us,” “the Group” and the “Company” refer to Bonso Electronics International Inc. and, where the context so requires or suggests, our direct and indirect subsidiaries. References to “dollars,” “U.S. Dollars” or “US$” are to United States Dollars, “HK$” are to Hong Kong Dollars, “Euros” or “euro” are to the European Monetary Union's Currency and “RMB” are to Chinese Renminbi.

# PART I

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

Not Applicable to Bonso.

## Item 2. Offer Statistics and Expected Timetable

Not Applicable to Bonso.

## Item 3. Key Information

### A. Selected Financial Data

The selected consolidated financial data as of March 31, 2017 and 2018 and for each of the three fiscal years ended March 31, 2016, 2017 and 2018 are derived from the Audited Consolidated Financial Statements and notes which appear elsewhere in this Annual Report.

The Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America and expressed in United States Dollars. The selected consolidated financial data set forth below as of March 31, 2014, 2015 and 2016, and for each of the two fiscal years in the period ended March 31, 2014 and 2015, have been derived from our audited consolidated financial statements that are not included in this Annual Report. The selected consolidated financial data is qualified in their entirety by reference to, and should be read in conjunction with, the Consolidated Financial Statements and related notes included in the F pages of this Annual Report and Item 5. – "Operating and Financial Review and Prospects" included in this Annual Report.

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SELECTED CONSOLIDATED FINANCIAL DATA

Statement of Operations Data
(in 000s US$ except for shares and per share data)

| | Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2014 (1) | 2015 (1) | 2016 (1) | 2017 (1) | 2018 |
| | $ | $ | $ | $ | $ |
| Net revenue | 32,013 | 30,396 | 25,370 | 18,952 | 11,523 |
| Cost of revenue | (29,104) | (23,742) | (17,081) | (11,274) | (6,958) |
| Gross profit | 2,909 | 6,654 | 8,289 | 7,678 | 4,565 |
| Selling, general and administrative expenses | (6,229) | (6,811) | (6,948) | (5,066) | (4,669) |
| Other income, net | 3,615 | 619 | 1,961 | 554 | 342 |
| Income from operations | 295 | 462 | 3,302 | 3,166 | 238 |
| Non-operating (expenses) / income, net | (516) | (389) | (121) | 229 | (234) |
| (Loss) / income before income taxes | (221) | 73 | 3,181 | 3,395 | 4 |
| Income tax credit / (expense) | - | 1,037 | (310) | (600) | - |
| Net (loss) / income | (221) | 1,110 | 2,871 | 2,795 | 4 |
| Net (loss) / earnings per share - basic (2) | $ (0.04) | $0.21 | $0.55 | $0.54 | $0.00 |
| Weighted average shares | 5,246,903 | 5,246,903 | 5,173,431 | 5,143,648 | 4,910,357 |
| Net (loss) / earnings per share - diluted (2) | $ (0.04) | $0.21 | $0.55 | $0.53 | $0.00 |
| Diluted weighted average shares | 5,246,903 | 5,246,903 | 5,173,431 | 5,316,393 | 5,290,904 |

(1) Certain amounts in the statement of operations for the fiscal years ended March 31, 2014, 2015, 2016 and 2017 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2018.

(2) The diluted net (loss) / earnings per share was the same as the basic net (loss) / earnings per share for the fiscal years ended March 31, 2014, 2015 and 2016 as all potential common shares, including the stock options, are anti-dilutive and therefore excluded from the computation of diluted net (loss) / earnings per share.

Balance Sheet Data
(in 000s US$ except for shares and per share data)

| | Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | $ | $ | $ | $ | $ |
| Cash and cash equivalents, and fixed deposits maturing over three months | 1,165 | 3,027 | 3,547 | 3,745 | 8,751 |
| Working capital | (3,769 ) | (4,391 ) | (530 ) | 2,499 | 7,016 |
| Total assets | 32,140 | 25,777 | 23,021 | 20,966 | 24,755 |
| Current liabilities | 18,646 | 13,429 | 8,137 | 5,244 | 4,369 |
| Non-current financial liabilities at fair value | 208 | 112 | - | - | - |
| Total liabilities | 21,518 | 13,922 | 8,443 | 5,371 | 7,666 |
| Common stock | 17 | 17 | 17 | 17 | 17 |
| Stockholders' equity | 10,622 | 11,855 | 14,578 | 15,595 | 17,089 |
| Dividends declared per share | - | - | - | - | - |

Risk Factors

You should carefully consider the following risks, together with all other information included in this Annual Report. The realization of any of the risks described below could have a material adverse effect on our business, results of operations and future prospects.

Political, Legal, Economic and Other Uncertainties of Operations in China and Hong Kong

Recent Action And The Possibility Of Future Action On Trade By U.S. And Foreign Governments Creates Uncertainty In Global Markets, And May Adversely Affect Our Business, Financial Position And Results Of Operations. The U.S. government has indicated its intent to alter its approach to international trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries. In addition, the U.S. government has recently imposed tariffs on certain foreign goods, including some of the Company's products, and has indicated a willingness to impose tariffs on imports of other products. Related to this action, certain foreign governments, including China, have instituted retaliatory tariffs on certain U.S. goods, and have indicated a willingness to impose additional tariffs on U.S. products. It remains unclear what the U.S. government or foreign governments will or will not do with respect to recent or future tariffs or other international trade agreements and policies. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact our supply chain and foreign demand for our products and, thus, to have a material adverse effect on our business and results of operations.

We Could Face Increased Currency Risks If China Does Not Maintain The Stability Of The Hong Kong Dollar Or The Chinese Renminbi. The Hong Kong Dollar and the United States Dollar have been fixed at approximately 7.80 Hong Kong Dollars to 1.00 U.S. Dollar since 1983. The market exchange rate has not deviated materially from the level of HK$7.80 to US$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has stated its intention to maintain the link at that rate. From 1994 until July 2005, the Chinese Renminbi had remained stable against the U.S. Dollar at approximately 8.28 to 1.00 U.S. Dollar. On July 21, 2005, the Chinese currency regime was altered to link the RMB to a "basket of currencies," which includes the U.S. Dollar, Euro, Japanese Yen and Korean Won. Under the rules, the RMB was allowed to move 0.3% on a daily basis against the U.S. Dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3% daily movement against the U.S. Dollar to 0.5%. Following the removal of the U.S. Dollar peg, the RMB appreciated more than 20% against the U.S. Dollar over the following three years. Since July 2008, however, the RMB has traded within a narrow range against the U.S. Dollar. As a consequence, the RMB has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. Dollar. On June 20, 2010, the People's Bank of China ("PBOC") announced that the government of the People's Republic of China ("PRC") would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again, though there have been periods when the U.S. dollar has appreciated against the Renminbi as well. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. As of June 29, 2018, the RMB was valued at 6.6204 per U.S. Dollar. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position and the value of our common shares and any dividends payable to our common shareholders in U.S. Dollars.

The Chinese government in the past has expressed its intention in the Basic Law of the PRC to maintain the stability of the Hong Kong currency after the sovereignty of Hong Kong was transferred to China in July 1997. However, there can be no assurance that the Hong Kong Dollar will remain pegged against the U.S. Dollar. If the current exchange rate mechanism is changed, we will face increased currency risks, which could have a material adverse effect upon the Company.

We Face Significant Risks If The Chinese Government Changes Its Policies, Laws, Regulations Or Tax Structure Or Its Current Interpretations Of Its Laws, Rules And Regulations Relating To Our Operations In China. Our property in Shenzhen and our manufacturing facility in Xinxing are located in China. As a result, our operations and assets are subject to significant political, economic, legal and other uncertainties. Changes in policies by the Chinese government resulting in changes in laws or regulations or the interpretation of laws or regulations, confiscatory taxation, changes in employment restrictions, restrictions on imports and sources of supply, import duties, corruption, currency revaluation or the expropriation of private enterprise could materially and adversely affect us. Over the past several years, the Chinese government has pursued economic reform policies, including the encouragement of private economic activity and greater economic decentralization. If the Chinese government does not continue to pursue its present policies that encourage foreign investment and operations in China, or if these policies are either not successful or are significantly altered, then our business operations in China could be adversely affected. We could even be subject to the risk of nationalization, which could result in the total loss of investment in that country. Following the Chinese government's policy of privatizing many state-owned enterprises, the Chinese government has attempted to augment its revenues through increased tax collection. Continued efforts to increase tax revenues could result in increased taxation expenses being incurred by us. Economic development may be limited as well by the imposition of austerity measures intended to reduce inflation, the inadequate development of infrastructure and the potential unavailability of adequate power and water supplies, transportation and communications. If for any reason we were required to move our manufacturing operations outside of China, our profitability would be substantially impaired, our competitiveness and market position would be materially jeopardized and we might have to discontinue our operations.

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Continuing Economic Weakness May Adversely Affect Our Earnings, Liquidity And Financial Position. The Company's business has been challenging recently as a consequence of adverse worldwide economic conditions. In particular, there has been an erosion of global consumer confidence from concerns over declining asset values, price instability, geopolitical issues, the availability and cost of credit, rising unemployment and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations. These concerns slowed global economic growth and resulted in recessions in many countries, including in the U.S., Europe and certain countries in Asia. The global economic weakness has negatively impacted our operating results since 2008. Overall, the economic outlook is uncertain as a result of concerns about the general global economy and the decreased rate of growth in China and the European Union. Recessionary conditions may return. If negative economic conditions return, a number of material adverse effects on our business could occur and could have a negative impact upon our results of operations. Further, slower overall growth of the Chinese economy may have a material adverse effect upon the Company and its results of operations. Also, the Company's Shenzhen factory is leased out to a third party whose main business is the manufacture of printing and packaging materials to be sold domestically and portions of the Company's Xinxing facility are leased out to third parties whose products also are sold domestically. Negative economic conditions in China would affect the results of operations of these tenants, which may not be able to pay future rent to the Company in full or on time according to the lease agreements.

The Economy Of China Has Been Experiencing Significant Growth, Leading To Some Inflation and Increased Labor Costs. The economy in China has grown significantly over the past 20 years, which has resulted in inflation and an increase in the average cost of labor, especially in the coastal cities. China's consumer price index, the broadest measure of inflation, rose 2.42% in June 2014 from the level in June 2013, 1.40% between June 2014 and June 2015, 1.90% between June 2015 and June 2016, 1.50% between June 2016 and June 2017 and 1.90% between June 2017 and June 2018. China's overall economy and the average wage in the PRC are expected to continue to grow. Continuing inflation and material increases in the cost of labor in China could diminish our competitive advantage. If the government tries to control inflation, it may have an adverse effect on the business climate and growth of private enterprise in the PRC. An economic slowdown may reduce our revenues. If inflation is allowed to proceed unchecked, our costs would likely increase, and there can be no assurance that we would be able to increase our prices to an extent that would offset the increase in our expenses.

Changes To PRC Tax Laws And Heightened Efforts By China's Tax Authorities To Increase Revenues Are Expected To Subject Us To Greater Taxes. Since January 1, 2012, our PRC subsidiaries have been subject to a single PRC enterprise income tax rate of 25%. 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 taxing 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.



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We Face Risks By Operating In China, Because The Chinese Legal System Relating To Foreign Investment And Foreign Operations Such As Bonso's Is Evolving And The Application Of Chinese Laws Is Uncertain. The legal system of China relating to foreign investments is continually evolving, and there can be no certainty as to the application of its laws and regulations in particular instances. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 39 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of that law. Further, various disputes may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination. Continued uncertainty relating to the laws in China and the application of the laws could have a material adverse effect upon us and our operations in China.

Controversies Affecting China's Trade With The United States Could Harm Our Results Of Operations Or Depress Our Stock Price. While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies between the United States and China have arisen that threaten the status quo involving trade between the United States and China. These controversies could materially and adversely affect our business by, among other things, causing our products in the United States to become more expensive, resulting in a reduction in the demand for our products by customers in the United States, which would have a material adverse effect upon us and our results of operations. Further, political or trade friction between the United States and China, whether or not actually affecting our business, could also materially and adversely affect the prevailing market price of our common shares.

If Our Factories Were Destroyed Or Significantly Damaged As A Result of Fire, Flood Or Some Other Natural Disaster, We Would Be Adversely Affected. All of our products are manufactured at our manufacturing facilities located in Xinxing, Guangdong, China. Fire-fighting and disaster relief or assistance in China may not be as developed as in Western countries. We currently maintain property damage insurance aggregating approximately $33 million covering our stock in trade, goods and merchandise, furniture and equipment and buildings. We do not maintain business interruption insurance. Investors are cautioned that material damage to, or the loss of, our factories due to fire, severe weather, flood or other act of God or cause, even if insured, could have a material adverse effect on our financial condition, results of operations, business and prospects.

Our Results Could Be Harmed If We Have To Comply With New Environmental Regulations. Our operations create some environmentally sensitive waste that may increase in the future depending on the nature of our manufacturing operations. The general issue of the disposal of hazardous waste has received increasing attention from China's national and local governments and foreign governments and agencies and has been subject to increasing regulation. Our business and operating results could be materially and adversely affected if we were to increase expenditures to comply with any new environmental regulations affecting our operations.

Enforcement Of The Labor Contract Law, Minimum Wage Increases And Future Changes In The Labor Laws In China May Result In The Continued Increase In Labor Costs. On June 29, 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor union and employee assemblies, employment without a written contract, dismissal of employees, severance and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the Labor Contract Law, an employer is obliged to sign an unlimited-term labor contract with any employee who has worked for the employer for 10 consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, current annual leave requirements mandate that annual leave ranging from 5 to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. In addition, as the interpretation and implementation of these new regulations are still evolving, we cannot assure you that our employment practices do not, or will not, violate the Labor Contract Law and other labor-related regulations. Between the fiscal years ended March 31, 2010 and 2015, we experienced an increase in the cost of labor caused by the increase in the minimum hourly rate. In accordance with the new minimum wage set by the local authorities, we increased the minimum wage for our labor in Shenzhen from RMB 1,100 (or approximately $162) per month to RMB 1,320 (or approximately $206) per month beginning April 1, 2011. The minimum wage was increased to RMB 1,500 (or approximately $238) per month beginning February 1, 2012. The minimum wage in Shenzhen was increased to RMB 1,600 (or approximately $254) per month beginning March 1, 2013, and later to RMB 1,808 (or approximately $293) per month beginning February 1, 2014. We started hiring workers in our Xinxing factory during the fiscal year ended March 31, 2013, and the minimum wage at that time in Xinxing was RMB 1,010 per month (or approximately $160). On May 1, 2015, the minimum wage at Xinxing was increased to RMB 1,210 per month (or approximately $181 per month) and as of July 1, 2018, it was increased to RMB 1,410 (or approximately $213) per month. We believe that increased labor costs in China will have a significant effect on our total production costs and results of operations and that we will not be able to continue to increase our production at our manufacturing facilities without substantially increasing our non-production salaries and related costs. If we are subject to severe penalties or incur significant liabilities in connection with the enforcement of the Labor Contract Law, disputes or investigations, our business and results of operations may be adversely affected. Any future changes in the labor laws in the PRC could result in our having to pay increased labor costs. There can be no assurance that the labor laws will not change, which may have a material adverse effect upon our business and our results of operations.

If We Were To Lose Our Existing Banking Facilities Or Those Facilities Were Substantially Decreased Or Less Favorable Terms Were Imposed Upon Us, The Company Could Be Materially And Adversely Affected. We maintain banking facilities with Hang Seng Bank Limited, which are subject to renewal on an annual basis. We use these banking facilities to fund our working capital requirements. The credit markets in Hong Kong and throughout the world have tightened and experienced extraordinary volatility and uncertainty. We have had discussions with several of our banks and believe that the availability of our banking facilities will continue on terms that are acceptable to us. However, as a result of changes in the capital or other legal requirements applicable to the banks or if our financial position and operations were to deteriorate further, our costs of borrowing could increase or the terms of our banking facilities could be changed so as to impact our liquidity. If we are unable to obtain needed capital on terms acceptable to us, our business, financial condition, results of operations and cash flows could be materially adversely affected.



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Risk Factors Relating to Our Business

We Depend Upon Our Largest Customers For A Significant Portion Of Our Sales Revenue, And We Cannot Be Certain That Sales To These Customers Will Continue. If Sales To These Customers Do Not Continue, Then Our Sales Revenue Will Decline And Our Business Will Be Negatively Impacted. During the fiscal year ended March 31, 2018, three customers accounted for 59% of our revenue. Those same three customers accounted for 35% and 30% during the fiscal years ended March 31, 2017 and 2016, respectively. We do not enter into long-term contracts with our customers but manufacture based upon purchase orders and therefore cannot be certain that sales to these customers will continue. Our largest customer prior to the fiscal year ended March 31, 2018, which accounted for 45% of our revenue during the fiscal year ended March 31, 2017 and 56% during the fiscal year ended March 31, 2016, ceased purchasing from us as of June 2017, causing a significant decrease in revenue. The loss of any of our remaining three largest customers would have a material negative impact on our sales revenue and our business. There can be no assurance that we would be able to compensate for the loss of any of these major customers.

Defects In Our Products Could Impair Our Ability To Sell Our Products Or Could Result In Litigation And Other Significant Costs. Detection of any significant defects in our products may result in, among other things, delay in time-to-market, loss of market acceptance and sales of our products, diversion of development resources, injury to our reputation or increased warranty costs. Because our products are complex, they may contain defects that cannot be detected prior to shipment. These defects could harm our reputation, which could result in significant costs to us and could impair our ability to sell our products. The costs we may incur in correcting any product defects may be substantial and could decrease our profit margins.

Since certain of our products are used in applications that are integral to our customers' businesses, errors, defects or other performance problems could result in financial or other damages to our customers, which would likely result in adverse effects upon our business with these customers. If we were involved in any product liability litigation, even if it were unsuccessful, it would be time-consuming and costly to defend. Further, our product liability insurance may not be adequate to cover claims.

Our Sales Through Retail Merchants Result In Seasonality, Susceptibility To A Downturn In The Retail Economy And Sales Variances Resulting From Retail Promotional Programs. Many of our customers sell to retail merchants. Accordingly, these portions of our customer base are susceptible to downturns in the retail economy. A greater number of our sales of scales products occur between the months of July and October in preparation for the Christmas holiday. Throughout the remainder of the year, our products do not appear to be subject to significant seasonal variation. However, past sales patterns may not be indicative of future performance.

Our Customers Are Dependent On Shipping Companies For Delivery Of Our Products, And Interruptions To Shipping Could Materially And Adversely Affect Our Business And Operating Results. Typically, we sell our products either F.O.B. Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou), and our customers are responsible for the transportation of products from Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou) to their final destinations. Our customers rely on a variety of carriers for product transportation through various world ports. A work stoppage, strike or shutdown of one or more major ports or airports could result in shipping delays materially and adversely affecting our customers, which in turn could have a material adverse effect on our business and operating results. Similarly, an increase in freight surcharges due to rising fuel costs or general price increases could materially and adversely affect our business and operating results.

Customer Order Estimates May Not Be Indicative Of Actual Future Sales. Some of our customers have provided us with forecasts of their requirements for our products over a period of time. We make many management decisions based on these customer estimates, including purchasing materials, hiring personnel and other matters that may increase our production capacity and costs. If a customer reduces its orders from prior estimates after we have increased our production capabilities and costs, this reduction may decrease our net sales and we may not be able to reduce our costs to account for this reduction in customer orders. Many customers do not provide us with forecasts of their requirements for our products. If those customers place significant orders, we may not be able to increase our production quickly enough to fulfill the customers’ orders. The inability to fulfill customer orders could damage our relationships with customers and reduce our net sales.

Pressure By Our Customers To Reduce Prices And Agree To Long-Term Supply Arrangements May Cause Our Net Sales Or Profit Margins To Decline. Our customers are under pressure to reduce prices of their products. Therefore, we expect to experience increasing pressure from our customers to reduce the prices of our products. Continuing pressure to reduce the price of our products could have a material adverse effect upon our business and operating results. Our customers frequently negotiate supply arrangements with us well in advance of placing orders for delivery within a year, thereby requiring us to commit to price reductions before we can determine if we can achieve the assumed cost reductions. We believe we must reduce our manufacturing costs and obtain higher volume orders to offset declining average sales prices. Further, if we are unable to offset declining average sales prices, our gross profit margins will decline, which would have a material adverse effect upon our results of operations.

We Depend Upon Our Key Personnel, And The Loss Of Any Key Personnel, Or Our Failure To Attract And Retain Key Personnel, Could Adversely Affect Our Future Performance, Including Product Development, Strategic Plans, Marketing And Other Objectives. The loss or failure to attract and retain key personnel could significantly impede our performance, including product development, strategic plans, marketing and other objectives. Our success depends to a substantial extent not only on the ability and experience of our senior management, but particularly upon Anthony So, our Chairman of the Board. We do not have key man life insurance on Mr. So. To the extent that the services of Mr. So would be unavailable to us, we would be required to obtain another person to perform the duties Mr. So otherwise would perform. We may be unable to employ another qualified person with the appropriate background and expertise to replace Mr. So on terms suitable to us.

Contractual Arrangements We Have Entered Into Among Us And Our Subsidiaries May Be Subject To Scrutiny By The Respective Tax Authorities, And A Finding That Bonso And Its Subsidiaries Owe Additional Taxes Could Substantially Reduce Our Consolidated Net Income And The Value Of Your Investment. We could face material and adverse tax consequences if the respective tax authorities determine that the contractual arrangements among our subsidiaries and Bonso do not represent an arm’s length price and adjust Bonso’s, or any of its subsidiaries’, income in the form of a transfer pricing adjustment. Bonso did not consider it necessary to make tax provision in this respect. However, there can be no assurance that the assessment performed by the local tax authorities will result in the same position. A transfer pricing adjustment could, among other things, result in a reduction, for tax purposes, of expense deductions recorded by Bonso or any of its subsidiaries, which could in turn increase its tax liabilities. In addition, the tax authorities may impose late payment fees and other penalties on our affiliated entities for underpaid taxes. Our consolidated net income may be materially and adversely affected if our affiliated entities’ tax liabilities increase or if

they are found to be subject to late payment fees or other penalties.

Increased Prices For Raw Materials May Have A Negative Impact Upon Us. The price level of raw materials increased in the fiscal years ended March 31, 2018 and 2017. The price of some of the raw materials fluctuates directly with the price of oil. If oil prices increase in the future, it will likely result in a further increase in the costs of components to us, as well as an increase in our operating expenses, which could have a material adverse effect upon our business and results of operations.

We May Face An Increased Shortage Of Factory Workers. Currently, we have a sufficient number of factory workers at our Xinxing factory and do not expect a significant labor shortage in the next 12 months. However, there can be no assurance that we will not experience an increased need for workers in China in the future or that we will be able to adequately staff our factory in Xinxing in the future. The inability to adequately staff our factories could have a material adverse impact on production, which could lead to delays in shipments or missed sales. In the event that we have delayed or lost sales, we may need to deliver goods by air at our cost to ensure that our products arrive on time, which would likely result in an increase in air freight costs and vendor fines and could result in missed sales, any of which could have a material adverse effect upon our business and our results from operations.

Recent Changes In The PRC's Labor Law Could Penalize Bonso If It Needs To Make Additional 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 as 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 each 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, if we lay off more than 20 employees at one time, we have to communicate with the labor union of our Company and report to the District Labor Bureau. During the fiscal year ended March 31, 2014, we paid severance payments of $1,194,000 for reducing our full workforce in Shenzhen, PRC as we moved our operations to the new factory in Xinxing, and the accumulated provision was approximately $396,000 as of March 31, 2018 (2017: $297,000; 2016: $317,000; 2015: $256,000; 2014: $156,000). This accrued severance payment allowance is reviewed every year. We may incur much higher costs under China's labor laws if we are forced to downsize again, and accordingly, this new labor law may exacerbate the adverse effect of the economic environment on our financial results and financial condition.

We Face Increasing Competition In Our Industry And May Not Be Able To Successfully Compete With Our Competitors. Our business is in an industry that is becoming increasingly competitive, and many of our competitors, both local and international, have substantially greater technical, financial and marketing resources than we have. As a result, we may be unable to compete successfully with these competitors. We compete with scale manufacturers in the Far East, the United States and Europe. We believe that our principal competitors in the scale market are other original equipment manufacturers ("OEMs") and original design manufacturers ("ODMs"), and all companies engaged in the branded, ODM and OEM business. The scale market is highly competitive, and we face pressures on pricing which could result in lower margins. Lower margins may affect our ability to cover our costs, which could have a material negative impact on our operations and our business.

We Are Controlled By Our Management, Whose Interests May Differ From Those Of The Other Shareholders. As of June 30, 2018, Mr. Anthony So, our founder and Chairman, owned approximately 48.4% of our outstanding shares of common stock. Andrew So, our Chief Operating Officer and President, owned approximately 9.6% of our outstanding shares. Albert So, our Chief Financial Officer, owned approximately 5.3% of our outstanding shares. The record ownership of Mr. Anthony So, Mr. Andrew So and Mr. Albert So aggregates 63.3% of the shares entitled to vote. The other directors of the Company own of record 3.4% of the shares entitled to vote. Accordingly, the existing management and directors of the Company can vote in the aggregate 66.7% of the shares entitled to vote. As a result,

the current directors and management of the Company are in a position to elect the Board of Directors and, therefore, to control our business and affairs, including certain significant corporate actions such as acquisitions, the sale or purchase of assets and the issuance and sale of our securities.  The current directors and management may be able to prevent or cause a change in control of the Company.  We also may be prevented from entering into transactions that could be beneficial to us without the current directors' and management's consent.  The interest of our largest shareholders may differ from the interests of other shareholders. There are no agreements, understandings or commitments among the members of the Board to vote their shares in any specific manner or to vote collectively for or against any matter that may come before the shareholders.

We Have Identified Material Weaknesses In Our Internal Control Over Financial Reporting Which Could, If Not Remediated, Result In Material Misstatements In Our Financial Statements. We are responsible for establishing and maintaining adequate internal control over our financial reporting, as required by Rule 13a-15 under the Securities Exchange Act of 1934. As disclosed in Item 15 – "Controls and Procedures," we have identified, in conjunction with our independent auditors, certain material weaknesses in our internal control over financial reporting related to our financial closing process, the lack of trained accounting personnel and the failure to enter certain transactions into the accounting records on a timely basis.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of March 31, 2018, based on criteria set forth by the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have experienced material weaknesses in our internal controls for several years; however, management has been unable to implement effective remediation measures.
As discussed in Item 15, we are developing and intend to implement remediation plans designed to address these material weaknesses; however, the material weaknesses will not be remediated until the necessary controls have been implemented and are determined to be operating effectively. We do not know the specific time frame needed to fully remediate the material weaknesses identified. We cannot assure you that our efforts to fully remediate these internal control weaknesses will be successful or that similar material weaknesses will not recur. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Notwithstanding the identified material weaknesses, management believes the consolidated financial statements included in this Annual Report on Form 20-F fairly present in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Due To Inherent Limitations, There Can Be No Assurance That Our System Of Disclosure And Internal Controls And Procedures Will Be Successful In Preventing All Errors Or Fraud Or In Informing Management Of All Material Information In A Timely Manner. Our disclosure controls and internal controls and procedures may not prevent all errors and all fraud. A control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by circumvention of the internal control procedures. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Management has concluded that the Company's disclosure controls and procedures for the fiscal year ended March 31, 2018, were ineffective.

There Are Inherent Uncertainties Involved In Estimates, Judgments And Assumptions Used In The Preparation Of Financial Statements In Accordance With U.S. GAAP. Any Changes In Estimates, Judgments And Assumptions Could Have A Material Adverse Effect On Our Business, Financial Position And Results Of Operations. The 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 (including intangible 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 operation.

Compliance Costs With The Securities Laws The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), The Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), And Other Regulatory Initiatives Have Increased and May Continue to Increase Our Costs. Changes in corporate governance practices due to the Dodd-Frank Act and the Sarbanes-Oxley Act, changes in the continued listing rules of the NASDAQ Stock Market, new accounting pronouncements and new regulatory legislation, rules or accounting changes have increased our cost of being a U.S. public company and may have an adverse impact on our future financial position and operating results. These regulatory changes and other legislative initiatives have made some activities more time-consuming and have increased financial compliance and administrative costs for public companies, including foreign private issuers like us. In addition, any future changes in regulatory legislation, rules or accounting may cause our legal and accounting costs to further increase. In addition, these new rules and regulations require increasing time commitments and resource commitments from our company, including from senior management. This increased cost could negatively impact our earnings and have a material adverse effect on our financial position and results of operations. Further, the new rules may increase the expenses associated with our director and officer liability insurance.

Our Operating Results And Stock Price Are Subject To Wide Fluctuations. Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect net sales, gross profit and profitability. This could result from any one or a combination of factors, many of which are beyond our control. Results of operations in any period should not be considered indicative of results to be expected in any future period, and fluctuations in operating results may also result in fluctuations in the market price of our common stock.

Our Results Could Be Affected By Changes In Currency Exchange Rates. Changes in currency rates involving the Hong Kong Dollar or Chinese Renminbi could increase our expenses. During the fiscal years ended March 31, 2016 and 2017 our financial results were affected by currency fluctuations, resulting in a total foreign exchange loss of approximately $23,000 and a total foreign exchange gain of approximately $258,000, respectively. During the fiscal year ended March 31, 2018, our financial results were affected by currency fluctuations, resulting in a total foreign exchange loss of approximately $353,000. Generally, our revenues are collected in United States Dollars and Chinese Renminbi. Our costs and expenses are paid in United States Dollars, Hong Kong Dollars and Chinese Renminbi. We face a variety of risks associated with changes among the relative value of these currencies. Appreciation of the Chinese Renminbi against the Hong Kong Dollar and the United States Dollar would increase our expenses when translated into United States Dollars and could materially and adversely affect our margins and results of operations. If the trend of Chinese Renminbi appreciation continues against the Hong Kong Dollar and the United States Dollar, our operating costs will further increase and our financial results will be adversely affected. In addition, a significant devaluation in the Chinese Renminbi or Hong Kong Dollar could have a material adverse effect upon our results of operations. If we determined to pass onto our customers through price increases the effect of increases in the Chinese Renminbi relative to the Hong Kong Dollar and the United States Dollar, it would make our products more expensive in global markets, such as the United States and the European Union. This could result in the loss of customers, who may seek, and be able to obtain, products and services comparable to those we offer in lower-cost regions of the world. If we did not increase our prices to pass on the effect of increases in the Chinese Renminbi relative to the Hong Kong Dollar and the United States Dollar, our margins and profitability would suffer.

Protection And Infringement Of Intellectual Property. We have no patents, licenses, franchises, concessions or royalty agreements that are material to our business. We have obtained a trademark registration in Hong Kong for the marks BONSO and MODUS in connection with certain electronic apparatus. Unauthorized parties may attempt to copy aspects of our products or trademarks or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult. Our means of protecting our proprietary rights may not be adequate. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Our failure to adequately protect our proprietary rights may allow third parties to duplicate our products or develop functionally equivalent or superior technology. In addition, our competitors may independently develop similar technology or design around our proprietary intellectual property.

Further, we may be notified that we are infringing patents, trademarks, copyrights or other intellectual property rights owned by other parties. In the event of an infringement claim, we may be required to spend a significant amount of

money to develop a non-infringing alternative or to obtain licenses. We may not be successful in developing such an alternative or obtaining a license on reasonable terms, if at all. Any litigation, even without merit, could result in substantial costs and diversion of resources and could have a material adverse effect on our business and results of operations.

Cancellations Or Delays In Orders Could Materially And Adversely Affect Our Gross Margins And Operating Income. Sales to our OEM customers are primarily based on purchase orders we receive from time to time rather than firm, long-term purchase commitments. Although it is our general practice to purchase raw materials only upon receiving a purchase order, for certain customers we will occasionally purchase raw materials based on such customers' rolling forecasts. Further, during times of potential component shortages we have purchased, and may continue to purchase, raw materials and component parts in the expectation of receiving purchase orders for products that use these components. In the event actual purchase orders are delayed, are not received or are canceled, we would experience increased inventory levels or possible write-downs of raw material inventory that could materially and adversely affect our business and operating results.

We Generally Have No Written Agreements With Suppliers To Obtain Components, And Our Margins And Operating Results Could Suffer From Increases In Component Prices. We are typically responsible for purchasing components used in manufacturing products for our customers. We generally do not have written agreements with our suppliers of components. This typically results in our bearing the risk of component price increases because we may be unable to procure the required materials at a price level necessary to generate anticipated margins from the orders of our customers. Prices of components may increase in the future for a variety of reasons. Accordingly, additional increases in component prices could materially and adversely affect our gross margins and results of operations.

We May Encounter Difficulties In Obtaining Approval To Redevelop Our Shenzhen Factory Land, Which Could Adversely Affect Our Growth And Business Prospects.

As part of our ongoing business strategy we intend to focus our efforts on redeveloping our Shenzhen factory into a high-end commercial complex containing retail space, office space and some residential space. We anticipate that it will take several years to obtain all necessary governmental approvals for us to redevelop the Shenzhen factory, and we think it is likely that we will obtain the necessary approvals. However, there can be no assurance that we will be able to obtain all requisite permits and approvals from relevant government authorities in relation to the redevelopment of the land, and the development of the commercial complex. Our planned real estate project is subject to significant risks and uncertainties, including without limitation the following:

- we do not currently have strong brand recognition or relationships in the real estate development and management business;
- we may not be able to obtain all necessary government approvals or all requisite permits and approvals from relevant government authorities in relation to the redevelopment of the land, or to successfully redevelop the land in a timely manner;
- we face intense competition from real estate developers that are already in the business for years;
- our experience and expertise gained from our manufacturing business may not be particularly relevant or applicable to a real estate development and management business; and
- we may not be able to generate enough revenues to offset our costs in our real estate development and management business.

We signed an agreement with a property developer in Shenzhen--Shenzhen Fangda Property Development Company Limited (“Fangda”) to cooperate in reconstructing and redeveloping the Shenzhen factory in November 2017, and we signed a supplementary agreement with Fangda in July 2018. Fangda is a wholly owned subsidiary of Fangda Group Co., Ltd. (“Fangda Group”), which is listed on the Shenzhen Stock Exchange. Under the terms of the agreement, Fangda is responsible for applying for necessary government approvals and for financing and handling the redevelopment project, including facilitating the obtaining of necessary governmental approvals. We anticipate completing the approval process in 2019; however, there can be no assurance that we will be successful in obtaining all necessary approvals. If we are not successful in the implementation of our property development project, our growth, business, financial condition and results of operations could be adversely affected.

We May Not Have Adequate Financing, Whether Through Bank Loans Or Other Arrangements, To Fund The Redevelopment Of Our Shenzhen Factory Site, And Capital Resources May Not Be Available On Commercially Reasonable Terms, Or At All.

Although we have entered into an agreement for redevelopment of the Shenzhen factory under which Fangda will bear the costs of redevelopment, there can be no assurance that Fangda will have the funds available to redevelop the Shenzhen factory. If Fangda either does not have sufficient available capital or is unwilling to bear the costs of redevelopment of the Shenzhen factory, we will be required to undertake the redevelopment. Property development is capital intensive, and we do not currently have the necessary capital to fund the redevelopment project. If it were to be necessary, we would finance our property redevelopment from our cash on hand, bank facilities and other sources. We cannot assure you that lenders will grant us sufficient financing in the future to fully fund the redevelopment project or that funding will be available from other sources. Further, the financing policies of the PRC government relating to the property development sector have varied. It is possible that the PRC government may further tighten financing policies on PRC financial institutions for the property development sector. These property-related financing policies may limit our ability and flexibility to use bank borrowings to finance our property redevelopment project.

Fangda or We May Fail To Obtain, Or Experience Material Delays In Obtaining, Requisite Certificates, Licenses, Permits Or Governmental Approvals For Redevelopment Of Our Shenzhen Factory, And As A Result Our Redevelopment Plans, Business, Results Of Operations And Financial Condition May Be Materially And Adversely Affected.

Property development in the PRC is heavily regulated. Property developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. During various stages of our property redevelopment project, we/Fangda will be required to obtain and maintain various certificates, licenses, permits and governmental approvals, including but not limited to qualification certificates, land use rights certificates, construction land planning permits, construction works planning permits, construction works commencement permits, pre-sale permits and completion certificates. Before the government authorities issue any certificate, license or permit, we/Fangda must also meet specific conditions. We cannot assure you that we/Fangda will be able to adapt to new PRC land policies that may come into effect from time to time with respect to the property development industry or that we/Fangda will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain all necessary certificates, licenses or permits for our property development in a timely manner, or at all, in the future. If we/Fangda fail to obtain or encounter significant delays in obtaining the necessary certificates, licenses or permits we will not be able to continue with our redevelopment plans, and our business, results of operations and financial condition may be adversely affected.

Our Income From The Rental and Management Segment Will Drop In August 2019, Upon Expiration Of The Lease Agreement For The Rental Of Our Shenzhen Factory.

We currently derive a majority of our rental income from the rental of our Shenzhen factory facility, which generates approximately $107,000 per month. That lease expires in August 2019, and management does not intend to renew the lease. Assuming appropriate governmental approvals are obtained, of which there can be no assurance, development of the Shenzhen factory site will begin at that time and it will be several years before development is completed and we will have any revenues relating to the redevelopment of the Shenzhen factory property. During that time there will not be rents generated from our Shenzhen factory facility. However, we believe that we will have sufficient cash reserves plus cash flow from the rental of factory space at Xinxing and from manufacturing for our operations to continue and to meet the Company’s liquidity requirements.

Certain Legal Consequences of Foreign Incorporation and Operations

Judgments Against The Company And Management May Be Difficult To Obtain Or Enforce. We are a holding corporation organized as an International Business Company under the laws of the British Virgin Islands ("BVI"), and our principal operating subsidiaries are organized under the laws of Hong Kong and the laws of the PRC. Our principal executive offices are located in Hong Kong and the PRC. Outside the United States, it may be difficult for investors to enforce judgments obtained against us in actions brought in the United States, including actions predicated upon the civil liability provisions of United States federal securities laws. In addition, most of our officers and directors reside outside the United States, and the assets of these persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons or to enforce against the Company or these persons judgments predicated upon the liability provisions of United States federal securities laws. Our Hong Kong counsel and our British Virgin Islands counsel have advised that there is substantial doubt as to the enforceability against us or any of our directors or officers in original actions or in actions for enforcement of judgments of United States courts in claims for liability based on the civil liability provisions of United States federal securities laws.

No treaty exists between Hong Kong or the British Virgin Islands and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of Hong Kong and the British Virgin Islands are generally prepared to accept a foreign judgment as evidence of a debt due. An action may then be commenced in Hong Kong or the British Virgin Islands for recovery of this debt. A Hong Kong or British Virgin Islands court will only accept a foreign judgment as evidence of a debt due if:

- the judgment is for a liquidated amount in a civil matter;
- the judgment is final and conclusive;
- the judgment is not, directly or indirectly, for the payment of foreign taxes, penalties, fines or charges of a like nature (in this regard, a Hong Kong court is unlikely to accept a judgment for an amount obtained by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained by the person in whose favor the judgment was given);
- the judgment was not obtained by actual or constructive fraud or duress;
- the foreign court has taken jurisdiction on grounds that are recognized by the common law rules as to conflict of laws in Hong Kong or the British Virgin Islands;
- the proceedings in which the judgment was obtained were not contrary to natural justice (i.e. the concept of fair adjudication);
- the proceedings in which the judgment was obtained, the judgment itself and the enforcement of the judgment are not contrary to the public policy of Hong Kong or the British Virgin Islands;
- the person against whom the judgment is given is subject to the jurisdiction of a foreign court; and
- the judgment is not on a claim for contribution in respect of damages awarded by a judgment, which fall under Section 7 of the Protection of Trading Interests Ordinance, Chapter 7 of the Laws of Hong Kong.

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

Because We Are Incorporated In The British Virgin Islands, You May Not Have The Same Protections As Shareholders Of U.S. Corporations. We are organized under the laws of the British Virgin Islands. Principles of law relating to matters affecting the validity of corporate procedures, the fiduciary duties of our management, directors and controlling shareholders and the rights of our shareholders differ from, and may not be as protective of shareholders as, those that would apply if we were incorporated in a jurisdiction within the United States. Our directors have the power to take certain actions without shareholder approval, including amending our Memorandum or Articles of Association, which are the terms used in the British Virgin Islands for a corporation's charter and bylaws, respectively, and approving certain fundamental corporate transactions, including reorganizations, certain mergers or consolidations and the sale or transfer of assets. In addition, there is doubt that the courts of the British Virgin Islands would enforce liabilities predicated upon United States federal securities laws.

Future Issuances Of Preference Shares Could Materially And Adversely Affect The Holders Of Our Common Shares Or Delay Or Prevent A Change Of Control. Our Memorandum and Articles of Association provide the ability to issue an aggregate of 10,000,000 shares of preferred stock in four classes. While no preferred shares are currently issued or outstanding, we may issue preferred shares in the future. Future issuance of preferred shares could materially and adversely affect the rights of the holders of our common shares, dilute the common shareholders' holdings or delay or prevent a change of control.

Our Shareholders Do Not Have The Same Protections Or Information Generally Available To Shareholders Of U.S. Corporations Because The Reporting Requirements For Foreign Private Issuers Are More Limited Than Those Applicable To Public Corporations Organized In The United States. We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). We are not subject to certain provisions of the Exchange Act applicable to United States public companies, including: the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K, the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations with respect to a security registered under the Exchange Act and the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any "short-swing" trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer's equity securities within six months or less). Because we are not subject to these rules, our shareholders are not afforded the same protections or information generally available to investors in public companies organized in the United States.

Our Board's Ability To Amend Our Charter Without Shareholder Approval Could Have Anti-Takeover Effects That Could Prevent A Change In Control. As permitted by 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 amendments to increase or reduce our authorized capital stock. Our Board's ability to amend our charter documents without shareholder approval could have the effect of delaying, deterring or preventing a change in control of Bonso, including a tender offer to purchase our common shares at a premium over the current market price.

We Have Not Paid Dividends Since 2007 And May Not Pay Dividends In The Future. We have not paid dividends on our common stock since 2007, and we may not be able to declare dividends, or the Board of Directors may decide not to declare dividends, in the future. We will determine the amounts of any dividends when and if they are declared, in the future at the time of declaration.

Item 4. Information on the Company

History and Development of the Company

Bonso Electronics International Inc. was formed on August 8, 1988 as a limited liability International Business Company under the laws of the British Virgin Islands under the name “Golden Virtue Limited.” On September 14, 1988, we changed our name to Bonso Electronics International Inc. We operate under the BVI Business Companies Act.

For a description of our current operating subsidiaries, see “Organizational Structure,” below.
Our corporate administrative offices are located at Cragmuir Chambers, Road Town, Tortola, British Virgin Islands and corporate administrative matters are conducted through our registered agent, HWR Services Limited, located at P.O. Box 71, Road Town, Tortola, British Virgin Islands. Our principal executive offices are located at Unit 1404, 14/F, Cheuk Nang Centre, 9 Hillwood Road, Tsimshatsui, Kowloon, Hong Kong. Our telephone number is (852) 2605-5822, our facsimile number is (852) 2691-1724, our e-mail address is info@bonso.com and our website is www.bonso.com.

Organizational Structure

We have two wholly-owned Hong Kong subsidiaries, Bonso Electronics Limited (“BEL”) and Bonso Advanced Technology Limited (“BATL”). Both BEL and BATL were organized under the laws of Hong Kong and are responsible for the design, development, manufacture and sale of our products.

BEL has one active Hong Kong subsidiary, Bonso Investment Limited (“BIL”). BIL was organized under the laws of Hong Kong and has been used to acquire and hold our investment properties in Hong Kong and China.

BEL also has one active PRC subsidiary, Bonso Electronics (Shenzhen) Company, Limited (“BESCL”), which is organized under the laws of the PRC and was used to manufacture our products until January 2014. BESCL leased its factory to a third party from August 2013 to August 2019, and is receiving a monthly rental income of approximately RMB709,000 ($107,000) as of July 2018. Effective with the transfer of manufacturing operations to Xinxing, we ceased manufacturing in this subsidiary and its principal business today is leasing our former manufacturing facility to a third party. After the end of this rental agreement, subject to having received the necessary governmental approvals, Fangda will commence reconstruction of the existing Shenzhen factory into a high-rise industrial and commercial complex.

BATL has two active PRC subsidiaries, Bonso Advanced Technology (Xinxing) Company, Limited (“BATXXCL”), which is organized under the laws of the PRC and is used to acquire and hold our new manufacturing facility in Xinxing, Guangdong, China, and Bonso Technology (Shenzhen) Company Limited (“BTL”), in Shenzhen, PRC, to provide product design and distribution services for the Group.

We also have a wholly-owned British Virgin Islands subsidiary, Modus Enterprise International Inc. (“Modus”), which owned 100% of Bonso USA, which has been dormant since 2009 and was formally deregistered during the fiscal year ended March 31, 2017.

Business Overview

Since inception, Bonso Electronics International Inc. has designed, developed, produced and sold electronic sensor-based and wireless products for private label original equipment manufacturers (individually “OEM” or, collectively, “OEMs”), original brand manufacturers (individually “OBM” or, collectively, “OBMs”) and original design manufacturers (individually, “ODM” or, collectively, “ODMs”).

Since 1989, we have manufactured all of our products in China in order to take advantage of the lower overhead costs and competitive labor rates. From 1989 until 2013, all of our production took place in our Shenzhen factory; however, during the fiscal year ended March 31, 2013 we began production in our Xinxing factory. We moved all production processes from our Shenzhen factory to the Xinxing factory during the fiscal year ended March 31, 2014, and we rented out the old Shenzhen factory to a third party as a source of rental income.

We have two factories in China and our business operations are organized based upon the products we offer. Our manufacturing operations are conducted at our factory in Xinxing. We operate in four business segments:

- Scales—manufactured at our factory in Xinxing
- Pet Electronic Products—manufactured at our factory in Xinxing
- Rental and Management—involves the leasing of our factory in Shenzhen, and the leasing of both factory space and equipment at our Xinxing facility
- Others—principally includes the activities of (i) tooling and mould charges for scales and pet electronic products, and (ii) sales of scrap materials.

The following table sets forth the percentage of net sales for each of the product lines mentioned above for the fiscal years ended March 31, 2016, 2017 and 2018:

| | Year ended March 31, | | |
|---|---|---|---|
| Product Line | 2016 | 2017 | 2018 |
| Scales and Others | 88 % | 83 % | 68 % |
| Pet Electronic Products | 6 % | 9 % | 16 % |
| Rental and Management | 6 % | 8 % | 16 % |
| Total | 100 % | 100 % | 100 % |

Our primary business has been the design, development, production and sale of electronic sensor-based and wireless products. Effective with the transfer of manufacturing operations to our factory in Xinxing we leased our factory in Shenzhen to a third party. This lease marked our entry into the "Rental and Management" business, into which we have been expanding and intend to expand further in the future.

The lease with the third party for the Shenzhen Factory terminates in August 2019. We have engaged consultants to assist us in obtaining the necessary governmental approvals to permit us to redevelop the Shenzhen factory into a high-end commercial complex, containing retail space, office space and some residential space. In July 2017, we signed a letter of intent, and in November 2017, we signed the definitive agreement, with a property developer in Shenzhen (Fangda) to cooperate in reconstructing and redeveloping the Shenzhen factory. Fangda is a wholly owned subsidiary of Fangda Group Co., Ltd. ("Fangda Group"), which is listed on the Shenzhen Stock Exchange. In July 2018, we signed a supplementary agreement with Fangda to modify our approach in obtaining government approvals. Under the terms of the agreement, Fangda is responsible for applying for necessary government approvals and for financing and handling the redevelopment project. The agreement provides that both companies will share the redeveloped property after reconstruction/redevelopment is completed with Bonso holding a 45% interest in the total floor area. However, the final sharing ratio is subject to government approval to the total floor area. Fangda is in the process of obtaining necessary governmental approvals. We anticipate completing the approval process in 2019; however, there can be no assurance that we will be successful in obtaining all necessary approvals. If we are successful in obtaining the necessary governmental approvals for the redevelopment, we believe that the rental income derived from leasing the redeveloped property will be a significant contributing factor to our profit in the future.

In addition, since October 2016 we have leased excess space and equipment in our Xinxing facility to third parties in order to supplement our manufacturing revenues, and in June 2018, we completed construction of two additional buildings at our Xinxing facility that are being leased to third parties. See "Property, Plant and Equipment – China."

Our principal capital expenditures on property, plant and equipment over the last three years are set forth below:

| | On March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | 2018 |
| Property, plant & equipment and land use rights | $939,000 | $289,000 | $364,000 |

Our capital expenditures include construction-in-progress, leasehold improvement and the purchase of machinery used in the production of certain of our products.
All of the foregoing capital expenditures were financed principally from internally generated funds, except for three motor vehicles purchased with capital leases.

Business Strategy

Management of the Company believes that is in the best interest of the Company and our shareholders to further expand the Rental and Management segment. Since 2013, the Company has leased its entire Shenzhen facility, consisting of seven buildings for a total of approximately 375,000 square feet, to an unaffiliated third party, and it is also currently leasing an aggregate of approximately 193,000 square feet of its Xinxing facility to unaffiliated third parties. In addition, the Company, through its partner, Fangda, is in the process of applying for the required permits to redevelop the Shenzhen facility into a high-end commercial complex, containing retail space, office space and some residential space, all of which is intended to be leased out. Management believes that the Rental and Management segment will increase and constitute a more significant part of our total revenues in the future.

Scales, Pet Electronic Products and Other Segments

Products. Our sensor-based scale products include bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications. These products accounted for 88% of revenue for the fiscal year ended March 31, 2016, 83% for 2017 and 68% for 2018. We believe that our sensor-based scale products will continue to be a major portion of our scales revenue as we are able to secure orders from our major customers.

During the fiscal year ended March 31, 2013, the Company began to produce certain pet electronic products, including a bark control device. These products accounted for 6% of revenue for the fiscal year ended March 31, 2016, 9% for 2017 and 16% for 2018.

We also receive revenue from certain customers for the development and manufacture of tooling and moulding for scales and pet electronic products although most of the tools and moulds which we produce are used by us for the manufacture of our products. We also generate some sales of scrap materials. These revenues accounted for approximately 1% of net sales for each of the last three fiscal years.

The following table sets forth the percentage of net revenue for each of the product lines mentioned above for the fiscal years ended March 31, 2016, 2017 and 2018:

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| Product Line | 2016 | 2017 | 2018 |
| Scales and Others | 88 % | 83 % | 68 % |
| Pet Electronic Products | 6 % | 9 % | 16 % |
| Total | 94 % | 92 % | 84 % |

Business Strategy – Scales and Pet Electronic Products. With respect to our scales and pet electronic products business, we believe that our future growth depends upon our ability to strengthen our customer base by enhancing and diversifying our products, increasing the number of customers and expanding into additional markets while maintaining or increasing sales of our products to existing customers, and focusing upon the production and sale of higher margin products. Our future growth and our ability to maintain and increase profitability are also dependent upon our ability to control production costs and increase production capacity. Our strategy to achieve these goals is as follows:

Increased Focus upon Manufacturing and Selling Higher Margin Products and the Elimination or Decrease in the Production and Sale of Lower Margin Products. During the fiscal year ended March 31, 2015, in seeking to return to profitability, we analyzed our product mix and concluded that we were most likely to return to profitability if we eliminated the production and sale of lower margin products that require the employment of larger numbers of workers and the commitment of substantial resources to carry or stock raw materials and components inventory. We advised our largest customer for these low margin electronic scale products that without substantial price increases, we would not be in position to continue manufacturing these products in the calendar year beginning January 1, 2015. That customer did not agree to the price increases that we requested, and has shifted this business to alternative suppliers. With the decrease in the production and sale of lower margin products, the Company increased its gross profit from 21.9% for the fiscal year ended March 31, 2015, to 32.7% for the fiscal year ended March 31, 2016, 40.5% for the fiscal year ended March 31, 2017 and 39.6% for the fiscal year ended March 31, 2018.

Product Enhancement and Diversification. We continually seek to improve and enhance our existing products in order to provide a longer product life cycle and to meet increasing customer demands for additional features. Our research and development staff is currently working on a variety of projects to enhance our existing scale products and in the postal scale/meter area. Further, we are developing certain pet electronic products for distribution into the China market. See “Product Research and Development” and “Competition,” below.

Maintaining and Expanding Business Relations with Existing Customers. We promote relationships with our significant customers through regular communication, including visiting certain of our customers in their home countries and providing direct access to our manufacturing and quality control personnel. This access, together with our concern for quality, has resulted in a relatively low level of defective products. Moreover, we believe that our emphasis on timely delivery, good service and low cost has contributed, and will continue to contribute, to good relations with our customers and increased orders. Further, we solicit suggestions from our customers for product enhancement and when feasible, attempt to develop and incorporate the enhancements suggested by our customers into our products.

Controlling Production Costs. In 1989, recognizing that labor cost was a major factor permitting effective competition in the consumer electronic products industry, we relocated all of our manufacturing operations to China to take advantage of the large available pool of lower-cost manufacturing labor. Continuing this approach and recognizing that labor costs are significantly lower in Xinxing than in Shenzhen, we moved all of our manufacturing from Shenzhen to Xinxing, and there was a reduction in our labor costs as a result. In addition, we have continued to shift production and manufacturing of various parts and components to third party suppliers, including plastic injection molded parts and metal parts. In some cases, we have entered into agreements with third parties in which they lease our equipment and part of our manufacturing facility from us, and then manufacture parts and components that we use in assembling our final products. Those third parties provide the workers and supervisors, and the necessary raw materials. We lease our machinery or equipment, a portion of our dormitory and manufacturing facilities for their workers and supervisory staff and our meals or cafeteria services for the third party’s workers and staff. There are other third-party contractors that utilize their own equipment and their own facilities in manufacturing specific components or parts for us.

We are actively seeking to control production costs by such means as redesigning our existing products in order to decrease material and labor costs, controlling the number of our employees, increasing the efficiency of workers by providing regular training and tools and redesigning the flow of our production lines.

Xinxing Manufacturing Facility. In November 2006, Bonso entered into a land purchase agreement to acquire 133,500 square meters of land use right for future expansion in Xinxing, China. In July 2015, the Company entered into an agreement to sell approximately 23,500 square meters of that land use right, leaving the Company with approximately 110,000 square meters. The office building on the Xinxing site was completed in February 2015, and its leasehold renovations were completed in January 2016. All manufacturing operations have been moved from Shenzhen to Xinxing. We intend to carefully monitor our capacity needs and to expand or reduce capacity as necessary in the future. Excess space in this facility is currently being rented out to third parties.

Customers and Marketing. We sell our products primarily in the United States and Europe. Customers for our products are primarily OEMs, OBMs and ODMs which market the products under their own brand names. We market our products to OEMs, OBMs and ODMs through our sales staff at trade shows and via e-mail, our website and facsimile.

Net export sales to customers in the United States and Europe constituting 10% or more of total revenue of the Company consisted of the following for each of the three years ended March 31, 2016, 2017 and 2018.

| Year ended March 31, | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|
| | $ in thousands | % | $ in thousands | % | $ in thousands | % |
| United States of America | 14,062 | 55 | 10,356 | 55 | 4,807 | 42 |
| Germany | 4,568 | 18 | 2,797 | 15 | 3,621 | 31 |
| Netherlands | 1,901 | 8 | 2,299 | 12 | 87 | 1 |
| Total | 20,531 | 81 | 15,452 | 82 | 8,515 | 74 |

We maintain a marketing and sales team of thirteen people. Also, our experienced engineering teams work directly with our customers to develop and tailor our products to meet the customers’ specific needs. We market our products primarily through a combination of direct contact by our experienced in-house technical sales staff and through trade shows and via e-mail, our website and facsimile. Commission payments of approximately $13,000 were paid to the sales team during the fiscal year ended March 31, 2018 (2017: $nil; 2016: $nil).

Our major sensor-based electronic scale products and pet electronic products customers and their percentage of sales revenue for the prior three fiscal years are below:

Percent of Sales – Year ended March 31,

| Customer | 2016 | 2017 | 2018 |
|---|---|---|---|
| Customer A | 15 % | 14 % | 31 % |
| Customer B | 7 % | 8 % | 14 % |
| Customer C | 8 % | 13 % | 14 % |
| Customer D[1] | 56 % | 45 % | 10 % |

[1] This customer is no longer purchasing from us as of June 2017.

Component Parts and Suppliers. We purchase over 1,000 different component parts from more than 100 major suppliers and are not dependent upon any single supplier for key components. We purchase components for our products primarily from suppliers in Japan, Taiwan, Hong Kong and China.

The price of oil and other raw materials has increased resulting in an increase of our component part prices. We have taken steps to reduce our exposure to any inability to obtain components by forecasting with an increased buffer rate and placing orders for components earlier to allow for longer delivery lead times. Because of these actions, we do not expect to experience any difficulty in obtaining needed component parts for our products. The price level of certain raw materials increased in the fiscal year ended March 31, 2017 compared to that in the fiscal year ended March 31, 2016 and increased in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017.

Quality Control. We have received ISO 9001:2015 certification from BSI Assurance UK Limited. The ISO 9001:2015 certification was awarded to our subsidiary, Bonso Advanced Technology (Xinxing) Company Limited. ISO 9001 is one of the ISO 9000 series of quality system standards developed by the International Organization for Standardization, a worldwide federation of national standards bodies. ISO 9001 provides a model for quality assurance (and continuous improvement) in product development, manufacturing, installation and servicing that focuses on meeting customer requirements. We have also received certification on the management system for medical devices of ISO13485:2003, which ensures that we have implemented and maintained a quality system for the design and manufacture of medical devices and allows us to develop and manufacture safe and effective medical devices.

The European Union has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (“RoHS”). RoHS prohibits the use of certain substances, including lead, in certain products. We believe that we are in compliance with RoHS and have a supply of compliant components from suppliers.

The Company provides to certain customers an additional one to two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facility. In addition, certain products sold by the Company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales if they are within the warranty period. All sales are based upon firm orders with fixed terms and conditions, which generally cannot be modified. Historically, we have not experienced material differences between our estimated amounts of quality returns, refunds, rebates and discounts and the actual results. Our contracts do not contain price protection or similar privileges in relation to the sale of goods.

Patents, Licenses, Trademarks, Franchises, Concessions and Royalty Agreements. We have obtained a trademark registration in Hong Kong and China for the marks BONSO and MODUS in connection with certain electronic apparatus.

We rely on a combination of patent, trademark and trade secret laws, employee and third-party non-disclosure agreements and other intellectual property protection methods to protect our proprietary rights. There can be no assurance that third parties will not assert infringement or other claims against us with respect to any existing or future products. We cannot assure you that licenses would be available if any of our technology were successfully challenged by a third party, or if it became desirable to use any third-party technology to enhance the Company's products. Litigation to protect our proprietary information or to determine the validity of any third-party claims could result in a significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation is determined in our favor.

While we have no knowledge that we are infringing upon the proprietary rights of any third party, there can be no assurance that such claims will not be asserted in the future with respect to existing or future products. Any such assertion by a third party could require us to pay royalties, to participate in costly litigation and defend licensees in any such suit pursuant to indemnification agreements or to refrain from selling an alleged infringing product or service.

Product Research and Development. The major responsibility of the product design, research and development personnel is to develop and produce designs to the satisfaction of, and in accordance with, the specifications provided by the OEMs, OBMs and ODMs. We believe our engineering and product development capabilities are important to the future success of our business. As an ODM, we take specifications that are provided to us by the customer and design a product to meet those specifications. Some of our product design, research and development activities are customer funded and are under agreements with specific customers for specific products. To reduce costs, we conduct our research and development at our facilities in China. We principally employ Chinese engineers and technicians at costs that are substantially lower than those that would be required in Hong Kong. At March 31, 2018, we employed 9 individuals in Hong Kong and China for our engineering staff, who are at various times engaged in research and development.

Competition. The manufacture and sale of electronic sensor-based and wireless products is highly competitive. Competition is primarily based upon unit price, product quality, reliability, product features and management's reputation for integrity. Accordingly, reliance is placed on research and development of new products, line extensions and technological quality and other continuous product improvement. There can be no assurance that we will enjoy the same degree of success in these efforts in the future. Research and development expenses aggregated approximately $200,000, $158,000 and $152,000 during the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

Seasonality. Generally, the first calendar quarter of each year is typically the slowest sales period because our manufacturing facilities in China are closed for two weeks for the Chinese New Year holidays to permit employees to travel to their homes in China. In addition, sales during the first calendar quarter of scales products usually dip following the increase in sales during the Christmas season. A greater number of our sales of scales products occur between the months of July and October for shipment in preparation for the Christmas holiday. Throughout the remainder of the year, our products do not appear to be subject to significant seasonal variation. However, past sales patterns may not be indicative of future performance.

Transportation. Typically, we sell products either F.O.B. Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou), which means that our customers are responsible for the transportation of finished products from Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou) to their final destination. Transportation of components and finished products to and from the point of shipment is by truck. To date, we have not been materially affected by any transportation problems. However, transportation difficulties affecting air cargo or shipping, such as an extended closure of ports

that materially disrupts the flow of our customers' products to their destination, mainly the United States and Europe, could materially and adversely affect our sales and margins if, as a result, our customers delay or cancel orders or seek concessions to offset expediting charges they incurred pending resolution of the problems causing the port closures.

Government Regulation. We are subject to comprehensive and changing foreign, federal, provincial, state and local environmental requirements, including those governing discharges into the air and water, the handling and disposal of solid and hazardous waste and the remediation of contamination associated with releases of hazardous substances. We believe that we are in compliance with current environmental requirements. Nevertheless, we use hazardous substances in our operations and, as is the case with manufacturers in general, if a release of hazardous substances occurs on or from our properties we may be held liable and may be required to pay the cost of remediation. The amount of any resulting liability could be material.



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Foreign Operations. Our products are manufactured at our factory located in China. While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies between the United States and China have arisen that threaten the status quo involving trade between the United States and China. The U.S. government has recently imposed tariffs on certain foreign goods, including some of the Company's products, and has indicated a willingness to impose tariffs on imports of other products. Related to this action, certain foreign governments, including China, have instituted retaliatory tariffs on certain U.S. goods, and have indicated a willingness to impose additional tariffs on U.S. products. It remains unclear what the U.S. government or foreign governments will or will not do with respect to recent or future tariffs or other international trade agreements and policies. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact our supply chain and foreign demand for our products and, thus, to have a material adverse effect on our business and results of operations. During the fiscal year ended March 31, 2018, the United States accounted for approximately 42% of net export sales of our manufactured products as opposed to 55% for each of the years ended March 31, 2017 and 2016.

Sovereignty over Hong Kong reverted to China on July 1, 1997. The 1984 Sino-British Joint Declaration, the 1990 Basic Law of Hong Kong, the 1992 United States-Hong Kong Policy Act and other agreements provide some indication of the business climate we believe will continue to exist in Hong Kong. Hong Kong remains a Special Administrative Region ("SAR") of China, with certain autonomies from the Chinese government. Hong Kong is a full member of the World Trade Organization. It has separate customs territory from China, with separate tariff rates and export control procedures. It has a separate intellectual property registration system. The Hong Kong Dollar is legal tender in the SAR, freely convertible and not subject to foreign currency exchange controls by China. The SAR government has sole responsibility for tax policies, though the Chinese government must approve the SAR's budgets. Notwithstanding the provisions of these international agreements, we cannot be assured of the continued stability of political, legal, economic or other conditions in Hong Kong. No treaty exists between Hong Kong and the United States providing for the reciprocal enforcement of foreign judgments. Accordingly, Hong Kong courts might not enforce judgments predicated on the federal securities laws of the United States, whether arising from actions brought in the United States or, if permitted, in Hong Kong.

Adequacy of Facilities. We believe our manufacturing complex will be adequate for our reasonably foreseeable needs.

Rental and Management Segment

Since 2014, when we leased our Shenzhen manufacturing facility to a third party, we have gradually been developing a rental and management segment of our business. We currently lease approximately 568,000 square feet of space to third parties for an aggregate gross monthly income of approximately RMB936,000, or $141,000. During the fiscal year ended March 31, 2018, rental and management income accounted for approximately 16% of our net income. A description of the leases of factory space and equipment that we have entered into is set forth below under "Real Property."

Real Property. A description of our real properties follows:

Hong Kong. We own a residential property in Hong Kong, which is located at Savanna Garden, House No. 27, Tai Po, New Territories, Hong Kong. House No. 27 consists of approximately 2,475 square feet plus a 177 square foot terrace and a 2,308 square foot garden area. The use of House No. 27 is provided as quarters to Mr. Anthony So, the Chairman and Chief Executive Officer of the Company.

China. Our Shenzhen factory in China is located at Shenzhen in the DaYang Synthetical Development District, close to the border between Hong Kong and China. This factory consists of one factory building, which contains approximately 186,000 square feet, two workers' dormitories, containing approximately 103,000 square feet, a canteen and recreation center of approximately 26,000 square feet, an office building, consisting of approximately 26,000 square feet, and two staff quarters for supervisory employees, consisting of approximately 34,000 square feet, for a

total of approximately 375,000 square feet. The Company entered into a rental agreement in June 2013 to rent out the Shenzhen factory to a third party from August 2013 to August 2019. We received a monthly rental income of approximately $99,000 until August 2016, when it increased to approximately $107,000 until August 2019.

We have engaged consultants to assist us in obtaining the necessary governmental approvals to permit us to redevelop the Shenzhen factory into a high-end commercial complex, containing retail space, office space and some residential space. In November 2017, we entered into an agreement with Fangda, a property developer in Shenzhen. Fangda has taken over the process to facilitate and obtain the necessary governmental approvals. We anticipate completing the approval process in 2019; however, there can be no assurance that we will be successful in obtaining all necessary approvals. If we are successful in obtaining the necessary governmental approvals for the redevelopment, we believe that the rental income derived from leasing the redeveloped property will be a significant contributing factor to our profit in the future.

In addition, we own two office units in Beijing, namely Units 12 and 13 on the third floor, Block A of Sunshine Plaza in Beijing, China. Unit 12 consists of 1,102 square feet and Unit 13 consists of 1,860 square feet. One unit is rented to an unaffiliated third party for an aggregate monthly rental of approximately RMB 18,450, or approximately $3,000, while the other unit is rented to another unaffiliated third party for an aggregate monthly rental of approximately RMB 13,500, or approximately $2,000.

Our Xinxing factory is located in Xinxing High-Tech Industrial Estate, Xinxing, Yunfu City, Guangdong, China. This factory land area is approximately 1,185,000 square feet, with six factory buildings consisting of approximately 421,000 square feet, three dormitories consisting of an aggregate of approximately 85,000 square feet, a canteen consisting of 15,000 square feet and an office building consisting of 49,000 square feet.

The Company entered into a rental agreement in July 2013 to rent out approximately 13,000 square feet of the factory building, plus some machines and equipment, to a third party from July 2013 to June 2016. We received a monthly rental income of approximately RMB 43,000, or approximately $7,000, under that rental agreement. The rental agreement was renewed in July 2016 and extended to June 2019 for the machines and equipment only, for which the Company receives a monthly rental income of approximately RMB 26,000, or approximately $4,000.

The Company entered into a rental agreement in January 2015 to rent out approximately 46,000 square feet of the factory building, as well as some machines and equipment, to another third party from January 2015 to December 2020. We receive a monthly rental income of approximately RMB 54,000, or approximately $8,000, under that rental agreement.

The Company entered into a rental agreement in September 2015 to rent out approximately 28,000 square feet of the factory building to another third party from September 2015 to February 2019. We receive a monthly rental income of approximately RMB 26,000, or approximately $4,000, under that rental agreement. In July 2016, the Company entered into another rental agreement to rent out another 28,000 square feet of the factory building to this third party from July 2016 to February 2019. In June 2018, the Company entered into another rental agreement to rent out another 42,000 square feet of the factory building to this third party and its related companies from June 2018 to June 2024. The total floor area rented to this third party and its related companies is approximately 99,000 square feet. We receive a total monthly rental income of approximately RMB 101,000, or approximately $15,000 under that rental agreement.

The Company entered into a rental agreement in October 2016 to rent out approximately 29,000 square feet of the factory building to another third party from October 2016 to September 2018. We receive a monthly rental income of approximately RMB 27,000, or approximately $4,000, under that rental agreement. It has not been determined whether this lease will be renewed and, if so, on what terms.

The Company entered into a rental agreement in January 2017 to rent out approximately 19,000 square feet of the factory building to another third party from January 2017 to December 2022. We receive a monthly rental income of approximately RMB 19,000, or approximately $3,000, under that rental agreement.

The Company entered into a rental agreement in February 2017 to rent out approximately 43,000 square feet of the factory building to another third party from February 2017 to February 2026. We receive a monthly rental income of approximately RMB 46,000, or approximately $7,000, under that rental agreement.

In addition, the Company entered into a rental agreement in June 2018 to rent out approximately 21,000 square feet of the factory building to another third party from June 2018 to June 2024. We receive a monthly rental income of approximately RMB 29,000, or approximately $4,000, under that rental agreement.

The Company entered into a rental agreement in December 2016 to rent out 957 square feet of an apartment unit in Shenzhen to a third party from December 2016 to November 2018. We receive a monthly rental income of approximately RMB 2,800, or approximately $400, under that rental agreement, and we expect to renew this rental agreement with the same rent.

Item 4A. Unresolved Staff Comments

Not Applicable to Bonso.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with Item 3. – "Key Information – Selected Financial Data" and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Overview

During the fiscal year ended March 31, 2018, the Company experienced decreased revenues from our scales and pet electronic products segments and increased revenues from our rental and management segment. Our overall sales or turnover decreased due to the loss of one of our major manufacturing customers as of June 2017.

We derive our revenues principally from the sale of sensor-based scales manufactured in China, which represent 68% of total revenue for the fiscal year ended March 31, 2018. As mentioned in Item 3. – "Key Information – Risk Factors," we are dependent upon a limited number of major customers for a significant portion of our revenues. Our revenues and business operation are subject to fluctuation if there is a loss of orders from any of our largest customers. Further, the pricing of our scale products is becoming increasingly competitive, especially to our customers in the United States and Germany, who contributed approximately 73% of our revenue during the fiscal year ended March 31, 2018.

During the fiscal year ended March 31, 2018, we derived approximately $1,800,000 of rental and management income from leasing our facilities to third parties.

Net revenue, income from operations and net income were approximately $25,370,000, $3,302,000 and $2,871,000, respectively, for the fiscal year ended March 31, 2016, $18,952,000, $3,166,000 and $2,795,000, respectively, for the fiscal year ended March 31, 2017 and $11,523,000, $238,000 and $4,000, respectively, for the fiscal year ended March 31, 2018.

Labor costs per worker are increasing in China. In Xinxing, Guangdong, PRC, the minimum wage was RMB 1,010 (or approximately $164) per month beginning in May 1, 2013, RMB 1,210 (or approximately $181) per month beginning in May 1, 2015, and since July 1, 2018 it has been RMB 1,410 (or approximately $213). We believe that future increases in labor costs in China would have a significant effect on our total production costs and results of operations. Our labor costs represented approximately 13.2% of our total production costs in the fiscal year ended March 31, 2018, compared to 10.6% in the fiscal year ended March 31, 2017 and 12.1% in the fiscal year ended March 31, 2016. Total labor costs decreased from approximately $1,196,000 in the fiscal year ended March 31, 2017 to approximately $919,000 in the fiscal year ended March 31, 2018. The decrease in overall labor costs was the result of a lower production level required due to reduced revenue. There can be no assurance that labor costs will not increase in the future or that any additional increase in labor costs will not have a material adverse effect upon our results of operations.

We have continued to shift production and manufacturing of various parts and components to third party suppliers, including plastic injection molded parts and metal parts. In some cases, we have entered into agreements with third parties in which they lease our equipment from us, and then manufacture parts and components that we use in assembling our final products. Those third parties provide the workers and supervisors, and the necessary raw materials. We lease our machinery or equipment, our dormitory and manufacturing facilities for their workers and supervisory staff, and our meals or cafeteria services for the third party's workers and staff. There are other third-party contractors that utilize their own equipment and their own facilities in manufacturing specific components or parts for us.

We have not experienced significant difficulties in obtaining raw materials for our products, and management does not anticipate any such difficulties in the foreseeable future. Prices of raw materials increased during the fiscal year ended March 31, 2011, but did not vary significantly during the fiscal years ended March 31, 2012, 2013 and 2014. The price of some of the raw materials utilized by the Company fluctuates directly with the price of oil, and the price of raw materials decreased slightly in the fiscal year ended March 31, 2015, compared to that in the fiscal year ended March 31, 2014, decreased in the fiscal year ended March 31, 2016 compared to 2015, increased in the fiscal year ended March 31, 2017 compared to 2016 and increased in the fiscal year ended March 31, 2018 compared to 2017. There can be no assurance that raw material costs will not fluctuate or that any additional increase in raw material costs will not have a material adverse effect upon our results of operations.

In 2014 we analyzed our product mix and concluded that it would be advisable to eliminate the production and sale of lower margin products that require the employment of larger numbers of workers and the commitment of substantial resources to carry or stock raw materials and components inventory. With the decrease in the production and sale of lower margin products, the Company has increased its gross profit from 21.9% for the fiscal year ended March 31, 2015, to 39.6% for the fiscal year ended March 31, 2018.

Operating Results

The following table presents selected statement of operations data expressed in thousands of United States Dollars and as a percentage of revenue for the fiscal years indicated below:

| Statement of Operations Data | Year Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 [(1)] | | 2017 [(1)] | | 2018 | |
| | $'000 | % | $'000 | % | $'000 | % |
| Net revenue - scales | 22,378 | 88.2 | 15,814 | 83.4 | 7,862 | 68.2 |
| Net revenue - pet electronic products | 1,514 | 6.0 | 1,662 | 8.8 | 1,861 | 16.2 |
| Net revenue - rental and management | 1,478 | 5.8 | 1,476 | 7.8 | 1,800 | 15.6 |
| Net revenue - subtotal | 25,370 | 100.0 | 18,952 | 100.0 | 11,523 | 100.0 |
| Cost of revenue - scales | (15,270) | (60.1) | (9,428) | (49.7) | (4,809) | (41.7) |
| Cost of revenue - pet electronic products | (1,032) | (4.1) | (991) | (5.3) | (1,139) | (9.9) |
| Cost of revenue - rental and management | (779) | (3.1) | (855) | (4.5) | (1,010) | (8.8) |
| Cost of revenue - subtotal | (17,081) | (67.3) | (11,274) | (59.5) | (6,958) | (60.4) |
| Gross profit - scales | 7,108 | 28.1 | 6,386 | 33.7 | 3,053 | 26.5 |
| Gross profit - pet electronic products | 482 | 1.9 | 671 | 3.5 | 722 | 6.3 |
| Gross profit - rental and management | 699 | 2.7 | 621 | 3.3 | 790 | 6.8 |
| Gross profit - subtotal | 8,289 | 32.7 | 7,678 | 40.5 | 4,565 | 39.6 |
| Selling, general and administrative expenses | (6,948) | (27.4) | (5,066) | (26.7) | (4,669) | (40.5) |
| Other income, net | 1,961 | 7.7 | 554 | 2.9 | 342 | 3.0 |
| Income from operations | 3,302 | 13.0 | 3,166 | 16.7 | 238 | 2.1 |
| Non-operating (expenses) / income, net | (121) | (0.5) | 229 | 1.2 | (234) | (2.1) |
| Income before income taxes | 3,181 | 12.5 | 3,395 | 17.9 | 4 | 0.0 |
| Income tax expense | (310) | (1.2) | (600) | (3.2) | 0 | 0.0 |
| Net income | 2,871 | 11.3 | 2,795 | 14.7 | 4 | 0.0 |

[(1)] Certain amounts in the statement of operations for the fiscal years ended March 31, 2016 and 2017 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2018.

Net Revenue. Our revenue decreased approximately $7,429,000, or 39.2%, from approximately $18,952,000 for the fiscal year ended March 31, 2017 to approximately $11,523,000 for the fiscal year ended March 31, 2018. The decrease was mainly related to a decrease in sales revenue of approximately $7,952,000 in our scales segment, offsetting increases of approximately $199,000 from the pet electronic products segment and approximately $324,000

from the rental and management segment.

The decrease in sales revenue from scales segment was primarily due to the loss of a major customer who stopped purchasing from the Company as of June 2017.

The revenue increase in the pet electronic products segment was due to increased demand for our products from customers selling into the U.S. and the PRC.

The revenue increase in the rental and management segment was due to an increase in factory floor area being leased out.

Gross Profit. Gross profit as a percentage of revenue decreased to approximately 39.6% during the fiscal year ended March 31, 2018, as compared to approximately 40.5% during the fiscal year ended March 31, 2017. The lower gross margin was primarily the result of an increase in labor costs and manufacturing costs as a percentage of revenue during the fiscal year ended March 31, 2018, as compared to that during the fiscal year ended March 31, 2017.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately $397,000, or 7.8%, from approximately $5,066,000 for the fiscal year ended March 31, 2017 to approximately $4,669,000 for the fiscal year ended March 31, 2018. The decrease was primarily the result of a decrease in selling expenses of approximately $43,000 due to fewer shipments made during the fiscal year ended March 31, 2018, a reduction of repair and maintenance expenses of approximately $66,000, a reduction in charitable donations of approximately $61,000 and a reduction of motor vehicle expenses of $41,000 during the fiscal year ended March 31, 2018, as compared to those during the fiscal year ended March 31, 2017. In addition, there was a loss from forward contracts of approximately $70,000 during the fiscal year ended March 31, 2017, whereas there was no such loss during the fiscal year ended March 31, 2018.

Other Income, Net. Other income, net decreased approximately $212,000 or 38.3% from approximately $554,000 for the fiscal year ended March 31, 2017 to approximately $342,000 for the fiscal year ended March 31, 2018. The decrease was primarily the result of a gain on disposal of intangible assets of approximately $79,000 and a gain from deregistration of subsidiaries of approximately $22,000 during the fiscal year ended March 31, 2017, whereas there were no such gains during the fiscal year ended March 31, 2018.

Income from Operations. As a result of the factors described above, income from operations decreased by 92.5% from a profit of approximately $3,166,000 for the fiscal year ended March 31, 2017 to a profit of approximately $238,000 for the fiscal year ended March 31, 2018.

Non-operating (Expenses) / Income, Net. Non-operating (expenses) / income, net decreased approximately $463,000 or 202.2% from a gain of approximately $229,000 for the fiscal year ended March 31, 2017 to a loss of approximately $234,000 for the fiscal year ended March 31, 2018. The decrease was primarily the result of an increase in foreign exchange loss of approximately $611,000 from a gain of approximately $258,000 during the fiscal year ended March 31, 2017 to a loss of approximately $353,000 during the fiscal year ended March 31, 2018, as a result of the appreciation of the Chinese Renminbi against the United States Dollar during the fiscal year ended March 31, 2018, which offset an increase in interest income of approximately $183,000 resulting from more deposits placed for earning interest income during the fiscal year ended March 31, 2018.

Income Tax Expense. Income tax expense was $nil during the fiscal year ended March 31, 2018, as compared to an income tax expense of $600,000 during the fiscal year ended March 31, 2017. The decrease in income tax expense was the result of reduced income from operations recorded during the fiscal year ended March 31, 2018 and the utilization of tax losses from prior years to offset taxable income.

Net Income. As a result of the factors described above, consolidated net income decreased from approximately $2,795,000 for the fiscal year ended March 31, 2017 to approximately $4,000 for the fiscal year ended March 31, 2018, a decrease in income of approximately $2,791,000, or 99.9%.

Foreign Currency Translation Adjustments, Net of Tax. Foreign currency translation adjustments, net of tax, increased from a loss of approximately $1,410,000 for the fiscal year ended March 31, 2017 to a gain of approximately $2,062,000 for the fiscal year ended March 31, 2018, an increase of approximately $3,472,000, or 246.2%. The increased foreign currency translation gain, net of tax, was primarily the result of the fluctuation of the Chinese Renminbi against the United States Dollar.

Comprehensive Income. As a result of the factors described above, comprehensive income increased from approximately $1,385,000 for the fiscal year ended March 31, 2017 to approximately $2,066,000 for the fiscal year ended March 31, 2018, an increase of approximately $681,000, or 49.2%.

Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016

Net Revenue. Our revenue decreased approximately $6,418,000, or 25.3%, from approximately $25,370,000 for the fiscal year ended March 31, 2016 to approximately $18,952,000 for the fiscal year ended March 31, 2017. The decrease was mainly related to a decrease in sales revenue of approximately $6,564,000 in our scales segment, and a decrease of approximately $2,000 from our rental and management segment, offsetting an increase of approximately

$148,000 from the pet electronic products segment.



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The decrease in sales revenue from our scales segment was primarily due to lower demand for our products, especially from one of our major customers. We had sales of approximately $8,472,000 to this customer during the fiscal year ended March 31, 2017, compared to approximately $14,145,000 during the fiscal year ended March 31, 2016.

The revenue increase in the pet electronic products segment was due to increased demand for those products.

The revenue in the rental and management segment during the fiscal year ended March 31, 2017 was approximately $2,000 less than that during the fiscal year ended March 31, 2016. The decrease was a result of the difference in foreign exchange rate between the Chinese Renminbi and the United States Dollar, as the revenue in rental and management denominated in Chinese Renminbi during the fiscal year ended March 31, 2017 exceeded the revenue denominated in Chinese Renminbi during the fiscal year ended March 31, 2016.

Gross Profit. Gross profit as a percentage of revenue increased to approximately 40.5% during the fiscal year ended March 31, 2017, as compared to approximately 32.7% during the fiscal year ended March 31, 2016. The higher gross margin was primarily the result of an increase in the portion of our product mix which consists of higher gross margin products such as laboratory scales and industrial scales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately $1,882,000, or 27.1%, from approximately $6,948,000 for the fiscal year ended March 31, 2016 to approximately $5,066,000 for the fiscal year ended March 31, 2017. The decrease was primarily the result of a decrease in salaries and related costs of approximately $388,000 due to a reduction in the number of employees resulting from lower sales revenue during the fiscal year ended March 31, 2017, and the result of a one-time compensation expense of approximately $801,000 due to stock options granted during the fiscal year ended March 31, 2016, whereas no such compensation expense was recorded during the fiscal year ended March 31, 2017.

Other Income, Net. Other income, net decreased approximately $1,407,000, or 71.7%, from approximately $1,961,000 for the fiscal year ended March 31, 2016 to approximately $554,000 for the fiscal year ended March 31, 2017. The decrease was the result of a gain on disposal of property, plant and equipment of approximately $718,000 during the fiscal year ended March 31, 2016 from the sale of a residential property in Shenzhen to a third party, and a gain on disposal of intangible assets of approximately $519,000 during the fiscal year ended March 31, 2016 from the sale of a land use right on part of the land at our Xinxing facility, whereas there were no such gains during the fiscal year ended March 31, 2017.

Income from Operations. As a result of the factors described above, income from operations decreased by 4.1% from a profit of approximately $3,302,000 for the fiscal year ended March 31, 2016 to a profit of approximately $3,166,000 for the fiscal year ended March 31, 2017.

Non-operating (Expenses) / Income, Net. Non-operating (expenses) / income, net increased approximately $350,000, or 289.3%, from a loss of approximately $121,000 for the fiscal year ended March 31, 2016 to a gain of approximately $229,000 for the fiscal year ended March 31, 2017. The increase was primarily the result of an increase in foreign exchange gain of approximately $281,000 from a loss of approximately $23,000 during the fiscal year ended March 31, 2016 to a gain of approximately $258,000 during the fiscal year ended March 31, 2017, and a decrease in interest expense of approximately $76,000 because of less utilization of banking facilities during the fiscal year ended March 31, 2017.

Income Tax Expense. Income tax expense was approximately $600,000 during the fiscal year ended March 31, 2017, as compared to an income tax expense of $310,000 during the fiscal year ended March 31, 2016. The increase in income tax expense was the result of increased taxable profits in our subsidiaries in China during the fiscal year ended March 31, 2017.

Net Income. As a result of the factors described above, net income decreased from approximately $2,871,000 for the fiscal year ended March 31, 2016 to approximately $2,795,000 for the fiscal year ended March 31, 2017, a decrease in income of approximately $76,000, or 2.6%.

Foreign Currency Translation Adjustments, Net of Tax. Foreign currency translation adjustments, net of tax, increased from a loss of approximately $850,000 for the fiscal year ended March 31, 2016 to a loss of approximately $1,410,000 for the fiscal year ended March 31, 2017, an increase of approximately $560,000, or 65.9%. The increased foreign currency translation loss, net of tax, was primarily the result of depreciation of assets denominated in Chinese Renminbi after translation to United States Dollars.

Comprehensive Income. As a result of the factors described above, comprehensive income decreased from approximately $2,021,000 for the fiscal year ended March 31, 2016 to approximately $1,385,000 for the fiscal year ended March 31, 2017, a decrease of approximately $636,000 or 31.5%.

Impact of Inflation

Although we believe that the impact of inflation on our business was minimal during the fiscal years ended March 31, 2016 and 2017 due to the lower price of oil, we believe that inflation has affected our business during the fiscal year ended March 31, 2018. The minimum wage in Xinxing, PRC was increased from RMB 1,010 per month (or approximately $160) to RMB 1,210 per month (or approximately $181) as of May 1, 2015, and then to RMB 1,410 per month (or approximately $213) as of July 1, 2018. We believe that inflation will continue to increase our operating costs and the cost of raw materials and that it will have a significant impact upon us in the future. We have generally been able to modify and improve our product designs so that we could either increase the prices of our products or lower the production costs in order to keep pace with inflation. Oil prices have been volatile in recent years. If oil prices increase, it will likely result in an increase in the cost of components to us, as well as an increase in our operating expenses, which will have a material adverse effect upon our business and results of operations. Further, the increase in labor costs and operating costs in the PRC has had a material impact on our profitability.

Taxation

The companies comprising the Group are subject to tax on an entity basis on income arising in, or derived from, Hong Kong and the PRC. The current rate of taxation of the subsidiary operating in Hong Kong is 16.5%. The Group is not subject to income taxes in the British Virgin Islands.

The tax rate for our subsidiary in the PRC has been 25% since 2012. There is no tax payable in Hong Kong on offshore profit or on dividends paid to Bonso Electronics Limited by its subsidiaries or to us by Bonso Electronics Limited. Therefore, our overall effective tax rate may be lower than that of most United States corporations; however, this advantage could be materially and adversely affected by changes in the tax laws of the British Virgin Islands, Hong Kong or China.

Efforts by the Chinese government to increase tax revenues could result in decisions or interpretations of the tax laws by the Chinese tax authorities that are unfavorable to us and which increase our future tax liabilities or deny our expected refunds. Changes in Chinese tax laws or their interpretation or application may subject us to additional Chinese taxation in the future.

No reciprocal tax treaty regarding withholding taxes exists between the United States and the British Virgin Islands. Under current British Virgin Islands law, dividends, interest or royalties paid by us to individuals are not subject to tax as long as the recipient is not a resident of the British Virgin Islands. If we were to pay a dividend, we would not be liable to withhold any tax, but shareholders would receive gross dividends, irrespective of their residential or national status.

Contractual arrangements we have entered into among us and our subsidiaries in different locations may be subject to scrutiny by respective tax authorities, and a finding against the Company and its subsidiaries may result in additional tax liabilities that could substantially reduce our consolidated net income. We could face material and adverse tax consequences if respective tax authorities determine that the contractual arrangements among our subsidiaries and

Bonso do not represent an arm's length price and adjust Bonso's or its subsidiaries' income.  Our consolidated net income may be materially and adversely affected if our affiliated entities' tax liabilities increase.

Dividends, if any, paid to any United States resident or citizen shareholder are treated as dividend income for United States federal income tax purposes.  Such dividends are not eligible for the 70% dividends-received deduction allowed to United States corporations on dividends from a domestic corporation under Section 243 of the United States Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").  Various Internal Revenue Code provisions impose special taxes in certain circumstances on non-United States corporations and their shareholders.  You are urged to consult your tax advisor with regard to such possibilities and your own tax situation.

In addition to United States federal income taxation, shareholders may be subject to state and local taxes upon their receipt of dividends.



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Foreign Currency Exchange Rates

We sell most of our products to international customers. Our principal export markets are North America (mainly the United States), Europe (mainly Germany) and Asia. Other markets are other European countries (such as the United Kingdom), Australia and Africa. Sales to international customers are made directly by us to our customers. We sell all of our products in United States Dollars and Chinese Renminbi and pay for our material components principally in United States Dollars, Hong Kong Dollars and Chinese Renminbi. Most factory expenses incurred are paid in Chinese Renminbi. Because the Hong Kong Dollar is pegged to the United States Dollar, in the past our only material foreign exchange risk arose from potential fluctuations in the Chinese Renminbi and a devaluation in United States Dollars. For the reasons discussed in the paragraphs below, management believes that it may be possible that there will be some fluctuation in the coming year. During the fiscal year ended March 31, 2018, we experienced a foreign currency exchange loss of approximately $353,000.

A summary of our debts from our banking facilities utilized as at March 31, 2017 and 2018 which were subject to foreign currency risk is as follows:

| | March 31, 2017 $ in thousands | March 31, 2018 $ in thousands |
|---|---|---|
| Hong Kong dollars and Chinese Renminbi | 277 | 99 |

The amount above is due within one year.

Fluctuations in the value of the Hong Kong Dollar have not been significant since October 17, 1983, when the Hong Kong government tied the value of the Hong Kong Dollar to that of the United States Dollar. However, there can be no assurance that the value of the Hong Kong Dollar will continue to be tied to that of the United States Dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese Renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund’s Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon. From 1994 until July 2005, the Chinese Renminbi had remained stable against the United States Dollar at approximately 8.28 to 1.00 United States Dollar. On July 21, 2005, the Chinese currency regime was altered to link the RMB to a “basket of currencies,” which includes the United States Dollar, Euro, Japanese Yen and Korean Won. Under the rules, the RMB was allowed to move 0.3% on a daily basis against the United States Dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3% daily movement against the United States Dollar to 0.5%. On June 20, 2010, the People's Bank of China increased the flexibility of the exchange rate and between June 30, 2010 and December 31, 2013, the value of the Renminbi appreciated approximately 12.0% against the United States Dollar, although the value of the Renminbi depreciated approximately 2.5% against the United States Dollar in 2014. In August 2015, the People's Bank of China changed the way it calculates the mid-point price of Renminbi against the United States Dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the Renminbi depreciated approximately 5.8% against the United States Dollar, and from December 31, 2015 through May 20, 2016, the value of the Renminbi further depreciated approximately 1.1% against the United States Dollar. From May 20, 2016 to July 14, 2017, the value of Renminbi further depreciated approximately 3.5% against the United States Dollar, and from July 2017 to July 14, 2018 it has appreciated by approximately 1.2% against the U.S. Dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuations of the Renminbi against the United States Dollar. Accordingly, it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the

Renminbi and the United States Dollar in the future.  As of July 14, 2018, the RMB was valued at 6.6926 per United States Dollar as compared to 6.7765 per United States Dollar as of July 14, 2017.

To manage our exposure to foreign currency and translation risks, we may purchase currency exchange forward contracts, currency options or other derivative instruments, provided such instruments may be obtained at suitable prices.

Liquidity and Capital Resources

We have financed our growth and cash needs to date primarily from internally generated funds and bank debt. We do not use off-balance sheet financing arrangements, such as securitization of receivables or obtaining access to assets through special purpose entities, as sources of liquidity. Our primary uses of cash have been to fund expansions and upgrades of our manufacturing facilities.

Operating activities generated approximately $2,786,000 of net cash for the fiscal year ended March 31, 2018, as compared to approximately $3,145,000 of net cash for the fiscal year ended March 31, 2017. This decrease in the amount of cash generated by operating activities was primarily attributable to the decrease in net income for the fiscal year ended March 31, 2018.

As of March 31, 2018, we had approximately $8,751,000 in cash and cash equivalents, as compared to approximately $3,745,000 in cash and cash equivalents as of March 31, 2017. Working capital at March 31, 2018 was approximately $7,016,000, as compared to approximately $2,499,000 at March 31, 2017. The increase in working capital was the result of the receipt of approximately $3,199,000 from Fangda as a deposit pursuant to the agreement regarding redevelopment of the Shenzhen manufacturing facility. We believe there are no material restrictions (including foreign exchange controls) on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans, advances or product/material purchases. We believe our working capital is sufficient for our present requirements.

As of March 31, 2018, we had approximately $794,000 in net trade receivables, as compared to approximately $1,213,000 as of March 31, 2017. This decrease of approximately $419,000 was primarily attributable to reduced net sales.

As of March 31, 2018, we had approximately $1,012,000 in inventories, as compared to approximately $1,018,000 as of March 31, 2017. This decrease of approximately $6,000 was primarily attributable to the reduction in stock levels required for the manufacturing of our products.

As of March 31, 2018, we had a total of approximately $1,023,000 in notes and accounts payable, as compared to approximately $1,317,000 as of March 31, 2017. The decrease of approximately $294,000 was primarily attributable to lower net sales, less utilization of banking facilities and efforts to provide earlier repayments to suppliers.

As of March 31, 2018, we had in place general banking facilities with one financial institution with amounts available aggregating approximately $5,128,000 (2017: $5,306,000). Such facility includes the ability to obtain overdrafts, letters of credit, short-term notes payable, factoring, short-term loans, long-term loans and financial instruments including forward contracts. As of March 31, 2018, we had utilized approximately $99,000 from this general banking facility. Interest on this indebtedness fluctuates with the prime rate and the Hong Kong Interbank Offer Rate as set by the Hong Kong Bankers Association, and the People's Bank of China's loan benchmark interest rate. The bank credit facility is collateralized by our bank guarantee and an investment property of the Company. Our bank credit facility is due for renewal annually. We anticipate that the banking facilities will be renewed on substantially the same terms and our utilization in the next year will remain at a similar level as that in the current year. During the fiscal years ended March 31, 2017 and 2018, we paid a total of approximately $37,000 and $10,000, respectively, in interest on indebtedness.

Our current ratio increased from 1.48 as of March 31, 2017 to 2.61 as of March 31, 2018. Our quick ratio increased from 1.28 as of March 31, 2017 to 2.37 as of March 31, 2018.

As of March 31, 2018, we expect to spend approximately $358,000 on additional construction, leasehold improvements, new machinery and tooling in our Xinxing manufacturing facility in the next twelve months.

Although we have experienced a decrease in sales as a result of a major customer ceasing to purchase from us as of June 2017, we believe that our cash flows from operations, our current cash balance and funds available under our working capital and credit facilities will be sufficient to meet our working capital needs and planned capital expenditures for at least the next 12 to 24 months. However, a further decrease in the demand for our products or increase in our costs of goods sold or expenses may affect our internally generated funds, and we would further look to our banking facilities, as well as to leasing out of excess space at our Xinxing facility, to meet our working capital demands.

Commitments

The following table sets forth information with respect to our commitments as of March 31, 2018:

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| | Total $ in thousands | Within 1 year $ in thousands | 2 to 3 years $ in thousands | 4 to 5 years $ in thousands | More than 5 years $ in thousands |
| Notes payable and bank overdrafts and loans | 99 | 99 | - | - | - |
| Operating leases | 29 | 29 | - | - | - |
| Capital leases[1] | 63 | 30 | 33 | - | - |
| Construction in Xinxing, and mould | 358 | 358 | - | - | - |
| Income tax liabilities | - | - | - | - | - |
| Total | 549 | 516 | 33 | - | - |

[1] Includes interest payment.

For a discussion of interest rates on our notes payable and bank loans, see Item 11. – "Qualitative and Quantitative Disclosures About Market Risk," below.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and results and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical policies include valuation of inventories, revenue recognition, impairment of long-lived assets, stock-based compensation, allowance for trade receivables and income and deferred income taxes.

Below, we discuss these policies further, as well as the estimates and judgments involved. We believe that our other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period. For a discussion of all our significant accounting policies, see footnote 1 to the Consolidated Financial Statements included elsewhere in this Annual Report.

Valuation of Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined on a first-in, first-out basis. Net realizable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of completion and disposal. The Company continuously reviews slow-moving and obsolete inventory and assesses any inventory obsolescence based on inventory levels, material composition and expected usage as of that date.

Revenue Recognition

No revenue is recognized unless there is persuasive evidence of an arrangement, the price to the buyer is fixed or determinable, delivery has occurred and collectability of the sales price is reasonably assured. Revenue is recognized when title and risk of loss transfers to the customer, which is generally when the product is leaving the port of Hong Kong, Shenzhen or Guangzhou as designated by our customers. Shipping costs billed to our customers are included within revenue. Associated costs are classified in cost of sales.

The Company provides to certain customers an additional one to two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facilities. In addition, certain products sold by the Company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales if they are within the warranty period. All sales are based upon firm orders with fixed terms and conditions, which generally cannot be modified. Historically, we have not experienced material differences between our estimated amounts of quality returns, refunds, rebates and discounts and the actual results.

Rental income is recognized according to the rental agreements. Rental income for non-uniform rent payments is recognized on a straight-line basis throughout the lease term.

Impairment of Long-Lived Assets and Intangible Assets

Long-lived assets held and used by the Company and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the asset. If such assets are considered to be impaired, the impairment loss is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets calculated using a discounted future cash flows analysis.

Stock-based Compensation

The Company follows the guidance of ASC 718, "Accounting for Stock Options and Other Stock-Based Compensation." ASC 718 requires companies to record compensation expense for share-based awards issued to employees and directors in exchange for services provided. The amount of the compensation expense is based on the estimated fair value of the awards on their grant dates and is recognized over the required service periods. Our share-based awards include stock options and restricted stock awards. The estimated fair value underlying our calculation of compensation expense for stock options is based on the Black-Scholes pricing model. Forfeitures of share-based awards are estimated at the time of grant and revised, if necessary, in subsequent periods if our estimates change based on the actual amount of forfeitures we have experienced.

Trade Receivables

Allowance is made against trade receivables to the extent that collection is considered to be doubtful. This allowance is primarily determined from our monthly aging analysis. It also requires judgment regarding the collectability of certain receivables, as certain receivables may be identified as collectible that are subsequently uncollectible and which could result in a subsequent write-off of the related receivable to the statement of operations. Most of the Company's trade receivables are generally unsecured. To determine the necessity of a provision, the Company analyzes the age of the receivables and the customer's ability to pay based on past payment history, financial statements and various information of the customer. Any change in the collectability of accounts receivable that were not previously provided for could significantly change the calculation of such provision and the results of our operations.

Income and Deferred Income Taxes

The Company complies with ASC 740 which prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of ASC 740. The Company's accounting policy is to treat interest and penalties as a component of income taxes.

Amounts in the consolidated financial statements related to income taxes are calculated using the principles of ASC 740 and ASU 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Future tax benefits, such as net operating loss carry forwards, are recognized as deferred tax assets. Recognized deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Trend Information

We continue to be dependent upon a limited number of customers for a significant portion of our revenues, and the loss of any of these customers could have a material adverse effect upon us and our results of operations. As of March 31, 2018, our backlog of manufacturing orders was approximately $1,641,000 as compared to approximately $2,891,000 as of March 31, 2017. We expect that the demand for our products in the fiscal year ending March 31, 2019 will be similar to that in the fiscal year ended March 31, 2018.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Recent Accounting Pronouncements

The new accounting pronouncements in the United States that may be relevant to the Group are as follows:

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The objective of this Update is to remove inconsistencies and weaknesses in revenue requirements, and to simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new standard supersedes virtually all present U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the prior standards, as well as additional disclosures. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", deferring the effective date for one year to interim and annual periods beginning after December 15, 2017. Early adoption is also permitted as of the original effective date (interim and annual periods beginning after December 15, 2016) and retrospective application is required. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of April 1, 2018. The Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after April 1, 2018. For existing contracts that have remaining obligations as of April 1, 2018, any difference between the recognition criteria in these ASUs and the Company's current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Our product revenues are generally recognized upon delivery to the customer, which is when the control transfers to the customer. The majority of the Company's customer contracts, which may be in the form of purchase orders, contracts or purchase agreements, contain performance obligations for delivery of agreed upon products. Delivery of all performance obligations contained within a contract with a customer typically occurs at the same time. The Company has also determined that it will make accounting policy elections to 1) treat shipping and handling activities that occur after the customer obtains control of the goods as fulfillment costs and 2) exclude sales (and similar) taxes from the measurement of the transaction price. We have no open contracts as of March 31, 2018, therefore, there will be no cumulative effect of applying the new standards. We do not expect the adoption of these ASUs to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Subtopic 842)" ("ASU 2016-02"). This Update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which improves financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Forward-looking information will now be used to better inform credit loss estimates. This ASU is effective for interim and annual periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)" ("ASU 2016-15"). This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740)" ("ASU 2016-16"). This Update improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-16 to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)" ("ASU 2016-18"). This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements

In February 2017, the FASB issued ASU 2017-05, "Other Income—Gains and Losses from the De-recognition of Nonfinancial Assets (Subtopic 610-20)" ("ASU 2017-05"). This Update clarifies the Scope of Asset De-recognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the scope of the nonfinancial asset guidance in Subtopic 610-20. This ASU also clarifies that the de-recognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the de-recognition and deconsolidation guidance in Subtopic 810-10. The amendments in this ASU also provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other non-controlled investee. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We do not expect the adoption of ASU 2017-05 to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718) Scope of Modification Accounting" ("ASU 2017-09"). The requirement provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public business entities, this ASU should be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260) (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception" ("ASU 2017-11"). The amendments require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize

the effect of the trigger within equity. For public business entities, this ASU should be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact the adoption of ASU 2017-11 will have on the Company's consolidated financial statements.

In September 2017, the FASB issued ASU 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)" ("ASU 2017-13"): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendments in ASU 2017-13 amend the early adoption date option for certain companies related to the adoption of ASU 2014-09 and ASU 2016-02. The effective date is the same as the effective date and transition requirements for the amendments for ASU 2014-09 and ASU 2016-02.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)" ("ASU 2018-02"). The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. Public business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted. We are currently evaluating the impact of adopting ASU 2018-02 on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements" ("ASU 2018-11"). The ASU provides (1) an optional transition method that entities can use when adopting ASC 842 and (2) a "practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met." The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

We believe there is no additional new accounting guidance adopted, but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

Item 6. Directors, Senior Management and Employees

Directors and Senior Management

Our Board of Directors and executive officers are listed below:

| Name | Age | ***Position with Bonso*** |
|---|---|---|
| Anthony So | 74 | Chairman of the Board, Chief Executive Officer and Director |
| Andrew So | 32 | Deputy Chairman of the Board, President, Chief Operating Officer and Director |
| Albert So | 40 | Director, Chief Financial Officer, Treasurer, Financial Controller and Secretary |
| Kim Wah Chung | 60 | Director, Director of Engineering and Research and Development |
| Woo-Ping Fok | 69 | Director |
| Henry F. Schlueter | 67 | Director and Assistant Secretary |

ANTHONY SO is the founder of Bonso. He has been our Chairman of the Board of Directors since July 1988. He was appointed as the Chief Executive Officer and President on November 16, 2006, and served in those capacities until March 20, 2015 when Andrew So was appointed President. Mr. So received his BSE degree in civil engineering from National Taiwan University in 1967 and a Master degree in Business Administration ("MBA") from the Hong Kong campus of the University of Hull, Hull, England in 1994. Mr. So has been Chairman of the Hong Kong GO Association since 1986 and also served as Chairman of the Alumni Association of National Taiwan University for the 1993-1994 academic years. Mr. So has served as a trustee of the Chinese University of Hong Kong, New Asia College since 1994.

ANDREW SO joined the Company in August 2009 and has been a director since February 25, 2012. Mr. So currently holds the position of Chief Operating Officer and oversees the Company's daily operations, and has also held the positions of Deputy Chairman of the Board and President since March 20, 2015. Mr. So graduated with distinctions in 2008 from the University of Toronto, Canada, with a Bachelor of Commerce degree (BComm). From 2008 to 2009, prior to his employment with the Company, Mr. So worked as a Derivatives Analyst at State Street Trust Company Canada, Toronto, Canada. Mr. So graduated from the MBA Program of Hong Kong University of Science and Technology in the Fall of 2014.

ALBERT SO was appointed as the Chief Financial Officer and Secretary of the Company on March 27, 2009. He was appointed Treasurer and Financial Controller of the Company on March 20, 2015. Mr. So was previously employed as the Financial Controller of the Company in January 2008 and as a management trainee of the Company in November 2004. Mr. So has been a director since March 1, 2013. Prior to his employment as a management trainee of the Company, Mr. So was a student. Mr. So is a Certified Management Accountant and Financial Risk Manager, and received a Master degree in Business Administration from Heriot-Watt University, Edinburgh, United Kingdom, and a Bachelor degree in Mathematics from Simon Fraser University in Burnaby, British Columbia, Canada.

KIM WAH CHUNG has been a director since September 21, 1994. Mr. Chung has been employed by us since 1981 and currently holds the position of Director of Engineering and Research and Development. Mr. Chung is responsible for all research projects and product development. Mr. Chung's entire engineering career has been spent with Bonso, and he has been involved in all of our major product developments. Mr. Chung graduated with honors in 1981 from the Chinese University of Hong Kong with a Bachelor of Science degree in electronics.

WOO-PING FOK was elected to our Board of Directors on September 21, 1994. Mr. Fok has practiced law in Hong Kong since 1991 and is a Consultant with Messrs. C.K. Mok & Co. Mr. Fok's major areas of practice include conveyancing and real property law, corporations and business law, commercial transactions and international trade with a special emphasis in China trade matters. Mr. Fok was admitted to the Canadian Bar as a Barrister & Solicitor in December 1987 and was a partner in the law firm of Woo & Fok, a Canadian law firm with its head office in Edmonton, Alberta, Canada. In 1991, Mr. Fok was qualified to practice as a Solicitor of England & Wales, a Solicitor of Hong Kong and a Barrister & Solicitor of Australian Capital Territory.

HENRY F. SCHLUETER has been a director since October 2001 and has been our Assistant Secretary since October 6, 1988. Since 1992, Mr. Schlueter has been the Managing Director of Schlueter & Associates, P.C., a law firm, practicing in the areas of securities, mergers and acquisitions, finance and corporate law. Mr. Schlueter has served as our United States corporate and securities counsel since 1988. From 1989 to 1991, prior to establishing Schlueter & Associates, P.C., Mr. Schlueter was a partner in the Denver, Colorado office of Kutak Rock (formerly Kutak, Rock & Campbell), and from 1984 to 1989, he was a partner in the Denver office of Nelson & Harding. Mr. Schlueter is a member of the American Institute of Certified Public Accountants, the Colorado and Denver Bar Associations and the Wyoming State Bar. Mr. Schlueter is registered with the Hong Kong Law Society as a Foreign Lawyer.

Anthony So, the Company's Chief Executive Officer and Chairman of the Board of Directors is the father of Andrew So, the Company's President and Chief Operating Officer, and Albert So, the Company's Chief Financial Officer, Treasurer and Secretary.

No arrangement or understanding exists between any such director or officer and any other persons pursuant to which any director or executive officer was elected as a director or executive officer. Our directors are elected annually and serve until their successors take office or until their death, resignation or removal. The executive officers serve at the pleasure of the Board of Directors.

Compensation

The aggregate amount of compensation paid by us and our subsidiaries during the year ended March 31, 2018 to all directors, former directors and officers as a group for services in all capacities was approximately $1,294,000. Total compensation for the benefit of Anthony So was approximately $643,000, for the benefit of Kim Wah Chung was approximately $170,000, for the benefit of Andrew So was approximately $259,000, for the benefit of Albert So was approximately $162,000 and for the benefit of Henry F. Schlueter was an aggregate of approximately $60,000. The approximately $60,000 listed as having been paid for the benefit of Mr. Schlueter was paid to his law firm, Schlueter & Associates, P.C., for legal services rendered. The amount for the year ended March 31, 2018, included unpaid vacation payments of approximately $43,000, $10,000, $10,000 and $10,000 for Mr. Anthony So, Mr. Kim Wah Chung, Mr. Andrew So and Mr. Albert So, respectively.

We did not set aside or accrue any amounts to provide pension, retirement or similar benefits for directors and officers for the fiscal year ended March 31, 2018, other than contributions to our Provident Fund Plan, which aggregated $18,000 for officers and directors.

Employment Agreements

We have employment agreements with Anthony So and Kim Wah Chung. Mr. So's employment agreement provides for a maximum salary of approximately $800,000 per year plus bonus, and Mr. Chung's employment agreement provides for a maximum salary of approximately $200,000 per year plus bonus. The initial term of the employment agreements expired on March 31, 2013 ("Initial Term"); however, the employment agreements have been renewed under a provision in the agreements that provides for automatic renewal for successive one-year periods, unless at least 90 days prior to the expiration of the Initial Term or any renewal term, either party gives written notice to the other party specifically electing to terminate the agreement. One of the properties of the Group in Hong Kong is also provided to Mr. So as part of his compensation. Mr. So's employment agreement contains a provision under which the Company will be obligated to pay Mr. So all compensation for the remainder of his employment agreement and five times his annual salary and bonus compensation if a change of control, as defined in his employment agreement, occurs.

Options of Directors and Senior Management

The following table provides information concerning options owned by the directors and senior management at July 14, 2018.

| Name | Number of Common Shares Subject to Stock Options | Exercise Price Per Share | Expiration Date |
|---|---|---|---|
| Anthony So | 150,000 | $ 1.50 | March 31, 2020 |
| | 150,000 | $ 1.50 | March 31, 2025 |
| Andrew So | 125,000 | $ 1.50 | March 31, 2020 |
| | 125,000 | $ 1.50 | March 31, 2025 |
| Albert So | 60,000 | $ 1.50 | March 31, 2020 |
| | 60,000 | $ 1.50 | March 31, 2025 |
| Kim Wah Chung | 40,000 | $ 1.50 | March 31, 2020 |
| | 40,000 | $ 1.50 | March 31, 2025 |
| Woo-Ping Fok | 25,000 | $ 1.50 | March 31, 2020 |
| | 25,000 | $ 1.50 | March 31, 2025 |
| Henry F. Schlueter | 25,000 | $ 1.50 | March 31, 2020 |
| | 25,000 | $ 1.50 | March 31, 2025 |

Directors

Except as mentioned above, our directors do not receive any additional monetary compensation for serving in their capacities as directors.  All directors are reimbursed for all reasonable expenses incurred in connection with their services as a director.

Employee retirement benefits

(a) With effect from January 1, 1988, BEL, a wholly-owned foreign subsidiary of the Company in Hong Kong, implemented a defined contribution plan (the "Plan") with a major international assurance company to provide life insurance and retirement benefits for its employees. All permanent full-time employees who joined BEL before December 2000, excluding factory workers, are eligible to join the provident fund plan. Eligible employees of the Plan are required to contribute 5% of their monthly salary, while BEL is required to contribute from 5% to 10% based on the eligible employee's salary, depending on the number of years of the eligible employee's service.

The Mandatory Provident Fund (the "MPF") was introduced by the Hong Kong Government and commenced in December 2000. BEL joined the MPF by implementing a plan with a major international assurance company. All permanent Hong Kong full time employees who joined BEL on or after December 2000, excluding factory workers, are eligible to join the MPF. Eligible employees' and the employer's contributions to the MPF are both at 5% of the eligible employee's monthly salary and are subject to a maximum mandatory contribution of HK$1,000 (US$128) monthly. The maximum mandatory contribution was increased to HK$1,250 (US$160) monthly starting from June 1, 2012. The maximum mandatory contribution was increased to HK$1,500 (US$192) per month starting from June 1, 2014.

Pursuant to the relevant PRC regulations, the Group is required to make contributions for each employee, at rates based upon the employee's standard salary base as determined by the local Social Security Bureau, to a defined contribution retirement scheme organized by the local Social Security Bureau in respect of the retirement benefits for the Group's employees in the PRC.

(b) The contributions to each of the above schemes are recognized as employee benefit expense when they are due and are charged to the consolidated statement of income (loss). The Group's total contributions to the above schemes for the years ended March 31, 2016, 2017 and 2018 amounted to approximately $293,000, $267,000 and $255,000, respectively. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

Board Practices

All directors hold office until our next annual meeting of shareholders or until their respective successors are duly elected and qualified or their positions are earlier vacated by resignation or otherwise. All executive officers are appointed by the Board and serve at the pleasure of the Board. There are no director service contracts providing for benefits upon termination of employment or directorship.

NASDAQ Exemptions and Home Country Practices

NASDAQ Marketplace Rule 4350 provides that foreign private issuers may elect to follow certain home country corporate governance practices so long as they provide NASDAQ with a letter from outside counsel in their home country certifying that the issuer 's corporate governance practices are not prohibited by home country law.
On July 19, 2005, we submitted a letter to NASDAQ certifying that certain of Bonso's corporate governance practices are not prohibited by the relevant laws of the British Virgin Islands. We will follow British Virgin Island law in respect to the following requirements:
· A majority of Bonso's Board of Directors will not be independent;
· Bonso will not have a nominating committee;
· Bonso will not have a compensation committee;
· Bonso's independent directors will not meet in executive session; and
· Bonso's audit committee may have only one member.

Audit Committee

Mr. Woo-Ping Fok is the sole member of the Audit Committee and Mr. Schlueter serves as an ad hoc member. Mr. Fok is "independent" as defined in the NASDAQ listing standards, and Mr. Schlueter may not be considered "independent" since his law firm serves as Bonso's United States counsel.
The Audit Committee was established to: (i) review and approve the scope of audit procedures employed by our independent auditors; (ii) review and approve the audit reports rendered by our independent auditors; (iii) approve the audit fee charged by the independent auditors; (iv) report to the Board of Directors with respect to such matters; (v) recommend the selection of independent auditors; and (vi) discharge such other responsibilities as may be delegated to it from time to time by the Board of Directors. Effective as of June 30, 2015, the Board of Directors adopted an amended charter for its Audit Committee.

Employees

At March 31, 2018, we employed a total of 266 persons, as compared to 286 persons at March 31, 2017, 415 persons at March 31, 2016 and 528 persons at March 31, 2015; 8 employees in Hong Kong (8 in 2017, 2016 and 2015) and 258 employees in China (278 in 2017, 407 in 2016 and 520 in 2015). Employees are not covered by collective bargaining agreements. We consider our global labor practices and employee relations to be good.

Share Ownership

The following table shows the number of shares of common stock beneficially owned by our directors and executive officers as of July 14, 2018:

| Name | Shares of Common Stock Owned of Record | Options Held | Total Number of Shares of Common Stock Beneficially Owned | Percent of Beneficial Ownership[1] | |
|---|---|---|---|---|---|
| Anthony So | 2,281,770 [2] | 300,000 [3] | 2,581,770 | 51.5 | % |
| Andrew So | 453,000 | 250,000 [4] | 703,000 | 14.2 | % |
| Albert So | 250,000 | 120,000 [5] | 370,000 | 7.7 | % |
| Kim Wah Chung | 93,700 | 80,000 [6] | 173,700 | 3.6 | % |
| Woo-Ping Fok | 66,507 | 50,000 [7] | 116,507 | 2.5 | % |
| Henry F. Schlueter | 0 | 50,000 [8] | 50,000 | 1.0 | % |
| All Directors and Officers as a group (6 persons) | 3,144,977 | 850,000 | 3,994,977 | 71.8 | % |

[1] The number of shares outstanding is 4,712,300 shares, with 5,543,639 total number of shares issued, of which 831,339 shares are held in treasury. The calculations herein are based on the number of shares outstanding of 4,712,300.

[2] Includes 1,143,421 shares of common stock owned of record by a corporation that is wholly owned by a trust of which Mr. So is the sole beneficiary.

[3] Includes options to purchase 150,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2020 and options to purchase 150,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2025.

[4] Includes options to purchase 125,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2020 and, options to purchase 125,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2025.

[5] Includes options to purchase 60,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2020 and options to purchase 60,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2025.

[6] Includes options to purchase 40,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2020 and options to purchase 40,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2025.

[7] Includes options to purchase 25,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2020 and options to purchase 25,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2025.

[8] Includes options to purchase 25,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2020 and options to purchase 25,000 shares of common stock at an exercise price of $1.50 per share expiring on March 31, 2025.

Stock Option and Bonus Plans

The 1996 Stock Option Plan

In October 1996, our stockholders adopted the 1996 Stock Option Plan (the “Employees’ Plan”), which provided for the grant of options to purchase an aggregate of not more than 400,000 shares of our common stock. In January 2000, our shareholders approved the proposal of the Board of Directors to increase from 400,000 to 900,000 in the aggregate the number of options to purchase common stock under the Employees’ Plan. The purpose of the Employees’ Plan is to make options available to management and employees in order to encourage them to secure or increase on reasonable terms their stock ownership and to encourage them to remain with the Company.

The Employees’ Plan is administered by a committee appointed by the Board of Directors which determines the persons to be granted options under the Employees’ Plan, the number of shares subject to each option, the exercise price of each option and the option period, subject to the requirement that no option may be exercisable more than ten years after the date of grant. The exercise price of an option may be less than the fair market value of the underlying shares of common stock. No options granted under the Employees’ Plan are transferable by the optionee other than by will or the laws of descent and distribution, and each option will be exercisable during the lifetime of the optionee only by such optionee.

The exercise price of an option granted pursuant to the Employees’ Plan may be paid in cash, by the surrender of options, in common stock, in other property, including the optionee’s promissory note, or by a combination of the above, at our discretion.

During the fiscal year ended March 31, 2018, no options were granted under the Employees’ Plan and as of July 14, 2018, there were no options outstanding which were issued under that plan.

The 2004 Stock Option Plan

On March 23, 2004, our stockholders adopted the 2004 Stock Option Plan (the “2004 Plan”), which provided for the grant of up to six hundred thousand (600,000) shares of the Company’s common stock in the form of stock options, subject to certain adjustments as described in the 2004 Plan. At the Annual Meeting of Shareholders held on March 20, 2015, the shareholders approved an amendment to the 2004 Plan to increase the number of shares that could be granted from 600,000 to 850,000.

The purpose of the 2004 Plan is to induce key employees to remain in the employ of the Company and to encourage such employees to secure or increase on reasonable terms their common stock ownership in the Company. The Company believes that the 2004 Plan promotes continuity of management and increased incentive and personal interest in the welfare of the Company.

The 2004 Plan is administered by a committee appointed by the Board of Directors, which consists of at least two but not more than three members of the Board, one of whom shall be a non-employee of the Company. The committee members currently are Anthony So and Woo-Ping Fok. The committee determines the specific terms of the options granted, including the employees to be granted options under the plan, the number of shares subject to each option grant, the exercise price of each option and the option period, subject to the requirement that no option may be exercisable more than 10 years after the date of grant. The exercise price of an option may be less than the fair market value of the underlying shares of common stock. No options granted under the plan will be transferable by the optionee other than by will or the laws of descent and distribution, and each option will be exercisable during the lifetime of the optionee only by the optionee.

The exercise price of an option granted pursuant to the 2004 Plan may be paid in cash, by the surrender of options, in common stock, in other property, including a promissory note from the optionee, or by a combination of the above, at the discretion of the Committee.

As of March 31, 2018, 850,000 options, all with an exercise price of $1.50 per share, had been granted to officers and directors of the Company under the 2004 Plan, all of which remained outstanding as of July 14, 2018.

2004 Stock Bonus Plan

On September 7, 2004, our stockholders adopted the 2004 Stock Bonus Plan (the "Stock Bonus Plan"), which authorizes the issuance of up to five hundred thousand (500,000) shares of the Company's common stock in the form of a stock bonus.

The purpose of the Stock Bonus Plan is to: (i) induce key employees to remain in the employ of the Company or of any subsidiary of the Company; (ii) encourage such employees to secure or increase their stock ownership in the Company; and (iii) reward employees, non-employee directors, advisors and consultants for services rendered, or to be rendered, to or for the benefit of the Company or any of its subsidiaries. The Company believes that the Stock Bonus Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company.

The Stock Bonus Plan is administered by a committee appointed by the Board of Directors which consists of at least two but not more than three members of the Board, one of whom shall be a non-employee of the Company. The Committee members currently are Anthony So and Woo-Ping Fok. The Committee has the authority, in its sole discretion: (i) to determine the parties to receive bonus stock, the times when they shall receive such awards, the number of shares to be issued and the time, terms and conditions of the issuance of any such shares; (ii) to construe and interpret the terms of the Stock Bonus Plan; (iii) to establish, amend and rescind rules and regulations for the administration of the Stock Bonus Plan; and (iv) to make all other determinations necessary or advisable for administering the Stock Bonus Plan.

As of March 31, 2018, no shares had been granted under the Stock Bonus Plan.

Item 7. Major Shareholders and Related Party Transactions

Major shareholders

We are not directly or indirectly owned or controlled by any foreign government or by another corporation. The following table sets forth, as of July 14, 2018, beneficial ownership of our common stock by each person, to the best of our knowledge, known to own beneficially 5% or more of our common stock outstanding as of such date. Except as otherwise indicated, all shares are owned directly and hold equal voting rights.

| Name | Shares of Common Stock Owned | | Options to Purchase Common Stock | Percent of Beneficial Ownership[(1)] | |
|---|---|---|---|---|---|
| Anthony So | 2,281,770 | (2) | 300,000 | 51.5 | % |
| Andrew So | 453,000 | | 250,000 | 14.2 | % |
| Albert So | 250,000 | | 120,000 | 7.7 | % |
| CAS Corporation | 290,654 | (3) | - | 6.2 | % |

(1) The number of shares outstanding is 4,712,300 shares, with 5,543,639 total number of shares issued, of which 831,339 shares are held in treasury. The calculations above are based upon the number of shares outstanding of 4,712,300.

(2) Includes 1,143,421 shares of common stock owned of record by a corporation that is wholly owned by a trust of which Mr. So is the sole beneficiary.

(3) According to the Schedule 13D filed by CAS Corporation on December 11, 2007.

There are no arrangements known to us which may at a subsequent date result in a change in control of the Company.

Related Party Transactions

During the fiscal years ended March 31, 2016, 2017 and 2018, we paid Schlueter & Associates, P.C. an aggregate of approximately $60,000, $62,000 and $60,000, respectively, for legal fees. Mr. Henry F. Schlueter, a director of the Company, is the Managing Director of Schlueter & Associates, P.C.

During the fiscal year ended March 31, 2015, Anthony So, our Chairman and Chief Executive Officer, made an interest-free loan to Bonso Advanced Technology Limited, a subsidiary of Bonso Electronics International Inc., in the principal amount of HK$4,200,000 (approximately US$538,000 as of the date of the loan). The loan is payable in 48 equal monthly installments of HK$87,500 each (approximately US$11,000), which commenced on October 31, 2014. As of March 31, 2018, the Company had repaid approximately $471,000 to Mr. Anthony So, and the balance of the loan due to Mr. Anthony So was approximately $67,000.

During the fiscal year ended March 31, 2015, one of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for three apartment units located in Shenzhen, PRC for office usage. Mr. Anthony So is the sole owner of these three apartment units. The monthly rental payment was approximately $2,000. Starting from August 1, 2016, rental of two of the apartment units was no longer required and the rental agreement was terminated; a new rental agreement for one apartment unit for staff quarters was executed, for a monthly rental payment of approximately $270. The total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2018 was approximately $3,000 (2017: $9,000; 2016: $24,000).

During the fiscal year ended March 31, 2015, one of the subsidiaries in Xinxing, PRC entered into a rental agreement with a director and stockholder, Mr. Andrew So, for an apartment unit located in Xinxing, PRC for staff quarters. Mr. Andrew So is the sole owner of this apartment unit. The monthly rental payment is approximately $450, and the total rental payment paid to Mr. Andrew So during the fiscal year ended March 31, 2018 was approximately $5,000 (2017: $5,000; 2016: $5,000).

During the fiscal year ended March 31, 2016, one of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for one apartment unit located in Shenzhen, PRC for staff quarters. Mr. Anthony So is the sole owner of this apartment unit. Starting from April 1, 2017, rental of this apartment unit was no longer required and the rental agreement was terminated. The monthly rental payment was approximately $330, and the total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2018 was $nil (2017: $4,000; 2016: $2,000) for this unit.

In February 2017, Henry F. Schlueter, a director of the Company, sold 24,000 shares of the Company's common stock to the Company at a purchase price of $2.39 per share, pursuant to the Company's repurchase program. In February 2018, Mr. Schlueter sold an additional 10,000 shares of the Company's common stock to the Company at a purchase price of $3.48 per share. See Item 16E. – "Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

Interests of Experts and Counsel

Not Applicable to Bonso.

Legal Proceedings

Not Applicable to Bonso.

Item 8. Financial Information

Financial Statements

Our Consolidated Financial Statements are set forth under Item 18. – "Financial Statements."

Item 9. The Offer and Listing

Offer and Listing Details

Our common stock is traded only in the United States over-the-counter market. It is quoted on the NASDAQ Capital Market under the trading symbol "BNSO." The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share reported by NASDAQ. The quotations represent prices between dealers and do not include retail markup, markdown or commissions and may not necessarily represent actual transactions.

The following table sets forth the high and low sale prices for each of the last five years:

| Period | High | Low |
|---|---|---|
| April 1, 2013 to March 31, 2014 | $2.94 | $1.33 |
| April 1, 2014 to March 31, 2015 | $2.10 | $1.11 |
| April 1, 2015 to March 31, 2016 | $3.25 | $1.00 |
| April 1, 2016 to March 31, 2017 | $4.25 | $1.23 |
| April 1, 2017 to March 31, 2018 | $4.10 | $1.96 |

The following table sets forth the high and low sale prices during each of the quarters in the two-year period ended June 30, 2018.

| Period | High | Low |
|---|---|---|
| July 1, 2016 to September 30, 2016 | $3.35 | $1.30 |
| October 1, 2016 to December 31, 2016 | $4.25 | $1.32 |
| January 1, 2017 to March 31, 2017 | $3.34 | $2.01 |
| April 1, 2017 to June 30, 2017 | $2.84 | $2.30 |
| July 1, 2017 to September 30, 2017 | $3.02 | $1.96 |
| October 1, 2017 to December 31, 2017 | $3.31 | $2.06 |
| January 1, 2018 to March 31, 2018 | $ 4.10 | $ 2.42 |
| April 1, 2018 to June 30, 2018 | $ 5.04 | $ 2.73 |

The following table sets forth the high and low sale prices during each of the most recent six months.

| Period | High | Low |
|---|---|---|
| January 2018 | $3.68 | $2.42 |
| February 2018 | $4.10 | $3.10 |
| March 2018 | $4.10 | $2.58 |
| April 2018 | $3.48 | $2.78 |
| May 2018 | $3.42 | $2.88 |
| June 2018 | $5.04 | $3.19 |

On July 14, 2018, the closing price of our common stock was $3.60. Of the 5,543,639 shares of common stock issued as of July 14, 2018, 4,712,300 shares were outstanding, 1,873,589 shares were held in the United States by 143 holders of record and 831,339 shares were held by the Company as treasury stock. We have 156 shareholders of record.

Transfer and Warrant Agent

The transfer agent and registrar for the common stock is Computershare, 8742 Lucent Boulevard, Suite 225, Highlands Ranch, Colorado  80129.



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Item 10. Additional Information

Share Capital

Our authorized capital is $170,000, consisting of 23,333,334 shares of common stock, $0.003 par value per share, and 10,000,000 authorized shares of preferred stock, $0.01 par value, divided into 2,500,000 shares each of class A preferred stock, class B preferred