BONSO ELECTRONICS INTERNATIONAL INC
Form 20-F
August 15, 2013

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, 2013

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

Tele: (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.

5,577,639 shares of common stock, $0.003 par value, at March 31, 2013 (including 330,736 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]

2

TABLE OF CONTENTS

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.

4

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, 2012 and 2013 and for each of the three fiscal years ended March 31, 2013 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, 2009, 2010 and 2011, and for each of the two fiscal years in the period ended March 31, 2010, 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

5

Statement of Operations Data

(in 000's US$ except for shares and per share data)

	Year Ended March 31,				
	2009 (1)(2)(3)	2010 (1)(2)	2011 (1)(2)	2012 (1)(2)	2013 (1)(2)
	$	$	$	$	$
Net sales	40,378	28,543	28,387	26,682	30,386
Cost of sales	(34,707)	(23,693)	(24,760)	(22,782)	(25,263)
Gross margin	5,671	4,850	3,627	3,900	5,123
Selling expenses	(649)	(375)	(249)	(267)	(268)
Salaries and related costs	(3,777)	(2,539)	(2,716)	(2,526)	(2,627)
Research and development expenses	(792)	(580)	(334)	(312)	(396)
Administration and general expenses	(4,602)	(2,011)	(1,959)	(2,492)	(2,402)
Gain from liquidation of subsidiary	—	—	—	1,448	—
Loss from operations	(4,149)	(655)	(1,631)	(249)	(570)
Interest income	127	103	6	7	7
Interest expenses	(209)	(69)	(56)	(87)	(68)
Foreign exchange loss	(279)	(522)	(130)	(703)	(261)
Gain on disposal of property	162	—	155	—	—
Gain on disposal of intangible assets	—	—	41	—	—
Other income	707	620	184	132	167
Loss before income taxes and minority interest	(3,641)	(523)	(1,431)	(900)	(725)
Income tax (expense) benefit	(208)	(9)	—	(2)	(29)
Loss from continuing operations	(3,849)	(532)	(1,431)	(902)	(754)
Loss from discontinued operations	(3,735)	(126)	(129)	—	—
Net loss	(7,584)	(658)	(1,560)	(902)	(754)
Loss per share	($0.73)	($0.10)	($0.27)	($0.17)	($0.14)
- Continuing operations	($0.72)	($0.03)	($0.02)	($0.00)	($0.00)
- Discontinued operations	($1.45)	($0.13)	($0.29)	($0.17)	($0.14)

- Total					
Weighted average shares	5,246,903	5,246,903	5,246,903	5,246,903	5,246,903
Diluted weighted average shares	5,246,903	5,246,903	5,246,903	5,246,903	5,246,903

(1) The diluted net loss per share was the same as the basic net loss per share as all potential ordinary shares, including the stock options, are anti-dilutive and therefore excluded from the computation of diluted net loss per share.

(2) The statement of operations presents continuing and discontinued operations in conjunction with the Consolidated Financial Statements.

(3) The statement of operations for fiscal year ended March 31, 2009 was restated in conjunction with the Consolidated Financial Statements.

6

Balance Sheet Data

(in 000's US$ except for shares and per share data)

	March 31,				
	2009 (1)	2010 (1)	2011 (1)	2012 (1)	2013 (1)
	$	$	$	$	$
Cash and cash equivalents	8,044	8,085	5,407	3,014	2,154
Working capital of continuing operations	11,244	10,538	7,933	2,914	292
Total assets of continuing operations	25,620	23,489	21,807	23,168	27,123
Total assets of discontinued operations	3,819	200	5	—	—
Total assets	29,439	23,689	21,812	23,168	27,123
Current liabilities of continuing operations	6,993	6,789	6,285	9,293	13,942
Long-term debts and capital leases	52	—	—	—	—
Deferred income tax assets	—	—	—	—	—
Total liabilities of continuing operations	9,654	9,403	8,899	11,890	16,537
Total liabilities of discontinued operations	5,787	1,098	1,086	—	—
Common stock	17	17	17	17	17
Shareholders' equity	13,998	13,188	11,827	11,278	10,586
Dividends declared per share	—	—	—	—	—

(1) The selected financial data for balance sheets presents continuing and discontinued operations in conjunction with the Consolidated Financial Statements.

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

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 is 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. It is difficult to predict how this new policy may impact the RMB exchange rate. As of July 15, 2013, the RMB was valued at 6.17 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. In addition, the Chinese government continues to receive significant international pressure to further liberalize its currency policy and as a result may further change its currency policy. 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 or that the Chinese Renminbi will not be allowed to fluctuate more than 0.5% on a daily basis. If the current exchange rate mechanism is changed, we shall 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 manufacturing facility and the new manufacturing facility we are developing 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.

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, 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.

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 2.7% in June 2013 from the level in June 2012. 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. Under PRC law before 2008, we were afforded a number of tax concessions by, and tax refunds from, China's tax authorities on a substantial portion of our operations in China by reinvesting all or part of the profits attributable to our PRC manufacturing operations. However, on March 16, 2007, the Chinese government enacted a unified enterprise income tax law, or "EIT," which became effective on January 1, 2008. Prior to the EIT, as a foreign invested enterprise, or "FIE," located in Shenzhen of the PRC, our PRC subsidiaries enjoyed a national income tax rate of 15% and were exempted from the 3% local income tax. The preferential tax treatment to our subsidiaries in the PRC of qualifying for tax refunds as a result of reinvesting their profits earned in previous years in the PRC also expired on January 1, 2008. Under the EIT, apart from those qualified as high-tech enterprises, most domestic enterprises and FIEs will be 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.

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 30 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.

We Could Be Adversely Affected If China Changes Its Economic Policies In The Shenzhen Special Economic Zone Where We Operate. In August 1980, the Chinese government passed "Regulations for The Special Economy Zone of Guangdong Province" and officially designated a portion of Shenzhen as The Shenzhen Special Economy Zone. Foreign enterprises in these areas benefit from greater economic autonomy and special tax incentives than enterprises in other parts of China. Changes in the policies or laws governing The Shenzhen Special Economy Zone could have a material adverse effect on us. Moreover, economic reforms and growth in China have been more successful in certain provinces than others, and the continuation or increase of these disparities could affect the political or social stability of China, which could have a material adverse effect on us and our operations near Shenzhen.

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 may arise 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 Shenzhen, China, and 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, new 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, 2009 and 2013, 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 labor 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 was increased to RMB 1,600 (or approximately $254) per month beginning March 1, 2013. 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. This increase in minimum wage will increase our labor costs by 6.7%, or approximately $267,000, annually. 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. We started hiring workers to work in our Xinxing factory during the fiscal year ended March 31, 2013. The minimum wage at Xinxing was RMB 1,010 (or approximately $160) beginning May 1, 2013. 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 a banking facility with Hang Seng Bank Limited, which is subject to renewal on an annual basis. We use this banking facility to fund our working capital requirements. In recent months, 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 facility will continue on terms that are acceptable to us. However, as a result of changes in the capital or other legal requirements applicable to Hang Seng Bank Limited or if our financial position and operations were to deteriorate further, our costs of borrowing could increase or the terms of our banking facility 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.

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 Will Decline And Our Business Will Be Negatively Impacted. We have relied upon three customers for a significant portion of our sales. During the fiscal years ended March 31, 2011, 2012 and 2013, these three customers accounted for approximately 74%, 81% and 83% of sales, respectively. During the fiscal year ended March 31, 2013, 52% of our sales were to a single customer (66% during the fiscal year ended March 31, 2012). 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. The loss of any of our largest customers would likely have a material negative impact on our sales revenue and our business.

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.

12

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 other customers sell to retail merchants. Accordingly, these portions of our customer base are susceptible to a further downturn in the retail economy. A greater number of our sales of scales products occur between the months of July and October in preparation of 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 or Yantian (Shenzhen), and our customers are responsible for the transportation of products from Hong Kong or Yantian (Shenzhen) 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.

Certain Subsidiaries Of The Company Received On-going Enquiries From The Local Tax Authorities During The Year. If The Subsidiaries Were Finally Held Liable For Such Additional Taxation, Our Consolidated Net Income And The Value Of Your Investment Could Be Substantially Reduced. During the fiscal years ended March 31, 2011, 2012 and 2013, certain of our subsidiaries were, and continue to be, subject to enquiries from the local tax authorities. Upon the adoption of ASC 740 (formerly FIN 48), “Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109,” or FIN 48, the Company recorded a provision of approximately $2,164,000 in relation to uncertain tax positions as of April 1, 2007. The assessment is subject to final determination by the local tax authorities and may be different from what we have recorded as a provision. As such, there can be no assurance that the inquiry will not result in the imposition of additional income tax expense on the Group, which could have a material adverse effect upon the Group and its results of operations. According to the requirement from the local tax authorities, the Company has purchased tax reserve certificates for approximately $1,710,000 for the fiscal years in review, for the potential payment to the tax authority.

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 remained stable in the fiscal year ended March 31, 2013, compared to that in the fiscal year ended March 31, 2012. However, we experienced increased costs of component parts due to the increase in the price of oil used in the production of components such as plastic resin, steel and other raw materials during fiscal year ended March 31, 2012. If oil prices continue to increase in the future, it will likely result in an increase in the costs of components to us, as well as an increase in our operating expenses, which may have a material adverse effect upon our business and results of operations.

We May Face An Increased Shortage Of Factory Workers. During the fiscal years ended March 31, 2011, 2012 and 2013, we reduced our full workforce in Shenzhen, PRC as we prepare to transit our operations to a new factory in Xinxing. See "Employees" below. There can be no assurance that we will not experience an increased need for workers in China in the future or that we can adequately staff our factories, including our new factory in Xinxing. 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, 2013, we recognized a write-back for severance payment of $98,000 in anticipation of reducing our full workforce in Shenzhen, PRC as we transit our operations to a new factory in Xinxing, and the accumulated provision was $743,000 as of March 31, 2013. (2012: $841,000). 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 are other original equipment manufacturer ("OEM") and original design manufacturer ("ODM") manufacturers, and all companies engaged in the branded, ODM and OEM business. The scale market is highly competitive, and we face pressures on pricing and lower margins, as evidenced by the decline in margins that we have experienced with our scale products. 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, 2013, Mr. Anthony So, our founder and Chairman, beneficially owns approximately 40.9% of the issued shares of our common stock. Due to his stock ownership, Mr. So may be 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. Mr. So 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 Mr. So's consent. The interest of our largest shareholder may differ from the interests of other shareholders.

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.

Compliance Costs With The Securities Laws And Regulations Pursuant To The Sarbanes-Oxley Act of 2002 Will Increase Our Costs. The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure, accounting and compliance practices. In response to the requirements of that act, the Securities and Exchange Commission and NASDAQ have promulgated new rules on a variety of subjects. Compliance with these rules, as well as with the Sarbanes-Oxley Act of 2002, including, but not limited to, compliance with Section 404 that requires management to assess the effectiveness of its internal control over financial reporting, has increased our legal, financial and accounting costs, and we expect the cost of compliance with these new rules to be permanent. 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, 2011, 2012 and 2013, our financial results were affected by currency fluctuations, resulting in a total foreign exchange loss of approximately $130,000, $703,000 and $261,000, respectively. Generally, our revenues are collected in United States Dollars. 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 affect 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 cancelled, 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.

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 law.

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 in 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.

19

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.

Effective as of May 1, 2001 we acquired 100% of the equity of Korona Haushaltswaren GmbH & Co. KG, a limited liability partnership registered in Germany (“Korona”). Korona markets consumer scale products throughout Europe to retail merchandisers and distributors. These products feature contemporary designs using the latest materials and attractive packaging. Effective March 31, 2009, we sold assets of Korona to Beurer GmbH, including inventories, accounts receivable, toolings and intellectual property rights. Korona completed its liquidation in February 2012.

Effective as of August 1, 2002, we acquired 51% of the equity of Gram Precision Scales Inc. (“Gram Precision”). Gram Precision was primarily engaged in the distribution and marketing of pocket scales in the United States, Canada and Europe. Effective November 1, 2008, we sold our 51% of the equity of Gram Precision to Mohan Thadani, the founder of Gram Precision.

In April 2007, we formed a new wholly-owned subsidiary, Bonso USA, Inc., a Nevada corporation (“Bonso USA”), to focus on the sales of industrial scales in the U.S. market. Bonso USA is dormant and no business activities are being conducted.

Our corporate administrative matters are conducted through our registered agent, HWR Services Limited, 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.

20

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

	2011	2012	2013
Property plant & equipment and land use rights	$1,397,000	$3,415,000	$2,214,000

Our capital expenditures include construction-in-progress and the purchase of machinery used in the production of certain of our products.

In November, 2006, Bonso entered into a land purchase agreement with Xincheng Hi-Tech Industrial Estate to acquire the land use right of a piece of land consisting of 133,500 square meters for future expansion of the Company's operations in Xinxing. This new piece of land is more than triple the size of the land upon which the Company's facilities are located in Shenzhen, China. The land transfer was completed in 2009. The first phase of construction of the new manufacturing facility was completed in calendar year 2012.

All of the foregoing capital expenditures were financed principally from internally generated funds.

Business Overview

Bonso Electronics International Inc. designs, develops, produces and sells electronic sensor-based and wireless products for private label original equipment manufacturers (individually "OEM" or, collectively, "OEM's"), original brand manufacturers (individually "OBM" or, collectively, "OBM's") and original design manufacturers (individually "ODM" or, collectively, "ODM's").

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. Our factory is currently located in Shenzhen, China, about 50 miles from Hong Kong. The convenient location permits us to easily manage manufacturing operations from Hong Kong and facilitates transportation of our products out of China through the ports of Hong Kong and Yantian (Shenzhen). The first phase of construction of our new manufacturing facility in Xinxing was completed in calendar year 2012, and we began production in Xinxing factory during the fiscal year ended March 31, 2013. We will move all production processes from our Shenzhen factory to Xinxing factory during the fiscal year ended March 31, 2014, after which we will rent out the Shenzhen factory to a third party as a source of rental income.

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 91% of revenue for the fiscal year ended March 31, 2011, 95% for 2012 and 90% for 2013. We believe that our bathroom and industrial scales will continue to be a major portion of our scales revenue as we are able to secure orders from our major customers.

We no longer produces wireless telecommunications products. Previously, our products included two-way radios and cordless telephones that were used in consumer and commercial applications. These products accounted for 7% of revenue for the fiscal year ended March 31, 2011, 0% for 2012 and 0% for 2013. Our decision to stop manufacturing these telecommunications products was based upon the decline in our profit margins associated with these products.

The Company has begun to produce certain electrical pet care products, including a bark control device. These products accounted for 8% of revenue for the fiscal year ended March 31, 2013 (2012: 3%).

We also receive revenue from certain customers for the development and manufacture of tooling and molding for scales, telecommunication and pet electronics products. Generally, these tools and moulds are used by us for the manufacture of products. We also generate some sales of scrap materials. These revenues accounted for approximately 2% of net sales for the fiscal years ended March 31, 2011, 2% for 2012 and 2% for 2013.

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, 2011, 2012, and 2013:

	Year ended March 31,		
Product Line	2011	2012	2013
Scales	91 %	95 %	90 %
Telecommunication Products	7 %	0 %	0 %
Electronic Pet Products	0 %	3 %	8 %
Others	2 %	2 %	2 %
Total	100%	100%	100%

Business Strategy

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. Our future growth and our ability to become profitable are also dependent upon our ability to control production costs and increase production capacity. Our strategy to achieve these goals is as follows:

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 are 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 electrical pet care products. See “Products, Research and Development/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, plan 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. We located our manufacturing facilities within 50 miles of Hong Kong in order to facilitate transportation of our products to markets outside of China while benefiting from the advantages associated with manufacturing in China and in the Shenzhen Special Economy Zone. As noted below under "Increasing Production Capacity" we are moving our production from Shenzhen to Xinxing, and we expect to realize a reduction in our labor costs as a result.

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.

Increasing Production Capacity. 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. The construction of the new manufacturing facility began during the fiscal year ended March 31, 2010 and the first phase was completed in calendar year 2012. We intend to carefully monitor our capacity needs and to expand capacity as necessary.

Customers and Marketing

We sell our products primarily in the United States and Europe. Customers for our products are primarily OEM's, OBM's and ODM's which market the products under their own brand names. We continue to market our products to OEM's, OBM's and ODM's at trade shows and via e-mail, our website and facsimile.

Net export sales to customers by geographic area constituting 10% or more of total sales of the Company, consisted of the following for each of the three years ended March 31, 2011, 2012 and 2013.

	Year ended March 31:					
	2011		2012		2013	
	$ in thousands	%	$ in thousands	%	$ in thousands	%
United States of America	18,893	67	19,940	75	23,804	78
Germany	5,557	20	4,985	18	5,121	17
Total	24,450		24,925		28,925	

We maintain a marketing and sales team of eight 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 our sales representatives and through the use of direct mail catalogues and product literature. During the fiscal years ended March 31, 2011, 2012 and 2013, we recorded total commission payments of approximately \$3,000, \$4,000 and \$1,000, respectively. In addition, our marketing teams contact existing and potential customers by telephone, mail and facsimile and in person.

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

Percent of Sales – Year ended March 31:

Electronics Sensor Customers	2011	2012	2013
Sunbeam Products, Inc.	60%	66%	52%
Fitbit, Inc.	0 %	1 %	18%
Kern + Sohn GMBH	14%	14%	13%

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, South Korea, Hong Kong and China.

The price of oil and other raw materials increased during the fiscal years ended March 31, 2011 and 2012 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 and allowing 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 raw materials remained stable in the fiscal year ended March 31, 2013, compared to that in the fiscal year ended March 31, 2012.

Quality Control

We have received ISO 9001:2000 certification from Det Norske Veritas Certification B.V., the Netherlands. The ISO 9001:2000 certification was awarded to our subsidiary, Bonso Electronics Limited and to Bonso Electronics Limited's subsidiary Bonso Electronics (Shenzhen) Company Limited. We have also received certification according to the Environmental Management Standards of ISO 14001:2004, the Occupational Health and Safety Management Standard of OHSAS 18001 and management system for medical devices of ISO13485:2003.

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.

By integrating the Occupational Health and Safety Management Standard of OHSAS 18001 into our quality and environmental systems, we have created a total Integrated Management System (IMS) - Quality, Environment and Health and Safety by combining ISO9001, ISO 14001 and OHSAS 18001 into one Quality/Environment/Health and Safety registration.

24

ISO 13485 certification 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 should we chose to do so in the future.

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. In all contracts, there is no price protection or similar privilege in relation to the sale of goods.

Patents, Licenses, Trademarks, Franchises, Concessions and Royalty Agreements