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BONSO ELECTRONICS INTERNATIONAL INC
Form 20-F
September 29, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 TRANSITION 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 1106 - 1110
11/F, Star House
3 Salisbury Road
Tsimshatsui
Kowloon, Hong Kong

(Address of principal executive offices)

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, 2006

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

Yes No

If the report is an annual or transition report, indicated 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

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated filer

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 Item 18

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

Yes No

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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 Memorandum, 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," 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" or "\$" are to United States Dollars, "HK\$" are to Hong Kong Dollars, "Euros" or "(euro)" are to the European Monetary Union's Currency, "GPB" are to British Pounds, "RMB" are to Chinese Renminbi and "CDN" are to Canadian Dollars.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

The selected consolidated financial data as of March 31, 2005 and 2006 and for each of the three fiscal years ended March 31, 2006 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, 2002, 2003 and 2004, and for each of the two fiscal years in the period ended March 31, 2003 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 and Item 5 - "Operating and Financial Review and Prospects" included in this Annual Report. The consolidated financial data for the fiscal years ending March 31, 2003, 2004, 2005 and 2006 reflects the acquisition of a 51% interest in Gram Precision Scales, Inc. ("Gram Precision"), which was effective as of August 1, 2002. Data for the fiscal year ending March 31, 2002 does not include information relating to Gram Precision.

SELECTED CONSOLIDATED FINANCIAL DATA

Income Statement Data
(in 000's USD except per shares and per share data)

| | Year Ended March 31, | | | |
|----------------------------|----------------------|----------|----------|----------|
| | 2002 (1) (2) | 2003 (2) | 2004 (2) | 2005 (2) |
| Net Sales | \$53,413 | \$46,400 | \$74,964 | \$69,602 |
| Cost of sales | (40,192) | (35,528) | (57,481) | (53,138) |
| Gross\margin | 13,221 | 10,872 | 17,483 | 16,464 |
| Selling expenses | (2,476) | (2,467) | (3,122) | (2,595) |
| Salaries and related costs | (3,880) | (4,563) | (5,150) | (5,216) |
| Research and development | (427) | (393) | (740) | (710) |

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| | | | | |
|---|-----------|------------|-----------|-----------|
| expenses | | | | |
| Administration and general expenses | (3,411) | (3,957) | (5,439) | (4,079) |
| Amortization of brand name | (203) | (200) | (200) | (200) |
| Impairment of goodwill | - | - | - | - |
| Income (loss) from operations | 2,824 | (708) | 2,832 | 3,664 |
| Interest income | 167 | 85 | 57 | 81 |
| Interest expense | (645) | (533) | (500) | (417) |
| Foreign exchange gain/(loss) | (40) | (96) | 15 | (98) |
| Other income | 71 | 99 | 225 | 372 |
| Consultancy fee | (381) | (381) | - | - |
| Income/(loss) before income taxes and minority interest | 1,996 | (1,534) | 2,629 | 3,602 |
| Income tax benefit/(expense) | (190) | (37) | (402) | (266) |
| Net income/(loss) before minority interest | \$1,806 | (1,571) | 2,227 | 3,336 |
| Minority interest | - | (72) | 41 | 14 |
| Net income/(loss) | \$1,806 | (\$1,643) | 2,268 | 3,350 |
| Earning (loss) per share | | | | |
| - Basic | \$0.3232 | (\$0.2936) | \$0.3979 | \$0.5932 |
| - Diluted | \$0.3194 | (\$0.2936) | \$0.3743 | \$0.5533 |
| Weighted average shares | 5,586,920 | 5,599,238 | 5,702,015 | 5,646,676 |
| Diluted weighted average shares | 5,652,852 | 5,599,238 | 6,060,264 | 6,054,303 |

(1) Does not include financial results of the acquisition of Gram Precision Scales that was effective as of August 1, 2002.

(2) Certain comparative figures have been reclassified to conform with the current year's presentation.

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Balance Sheet Data

(in 000's USD except per shares and per share data)

| | March 31, | | | | |
|----------------------------------|-----------|----------|----------|----------|----------|
| | 2002 (1) | 2003 | 2004 | 2005 | 2006 |
| Cash and cash equivalents | \$1,878 | \$3,633 | \$10,815 | \$9,708 | \$8,115 |
| Working capital | \$9,599 | \$9,777 | \$12,901 | \$15,345 | \$16,115 |
| Total assets | \$44,451 | \$48,911 | \$53,598 | \$52,463 | \$49,115 |
| Current Liabilities | \$13,488 | \$18,424 | \$20,190 | \$18,319 | \$15,115 |
| Long-term debt and capital lease | \$317 | \$606 | \$1,158 | \$168 | \$0 |
| Deferred income tax assets | \$112 | \$167 | \$67 | \$99 | \$83 |
| Common Stock | \$16 | \$17 | \$17 | \$17 | \$17 |
| Shareholders' Equity | \$29,200 | \$28,379 | \$30,750 | \$33,932 | \$33,115 |
| Dividends declared per share | \$0.10 | -- | \$0.05 | \$0.10 | \$0.10 |

(1) Does not include financial results of the acquisition of Gram Precision Scales that was effective as of August 1, 2002.

Exchange Rate Information

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The Hong Kong Dollar and the United States Dollar have been fixed at approximately 7.80 Hong Kong Dollars to 1.00 U.S. Dollars since 1983. The Chinese government expressed its intention in the Basic Law to maintain the stability of the Hong Kong currency after the sovereignty of Hong Kong (the "Basic Law") was transferred to China.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on September 15, 2006 were U.S. \$1.00 = CDN \$ 1.1192, U.S. \$1.00 = RMB 7.9429, U.S. \$1.00 = HK 7.7825, U.S. \$1.00 = Euro 1.2648, U.S. \$1 = 1.8783 GBP, respectively. The following table sets forth the high and low noon buying rates between Canadian Dollars and U.S. Dollars, Chinese Renminbi and U.S. Dollars, Hong Kong Dollars and U.S. Dollars, Euros and U.S. Dollars and British Pounds and U.S. Dollars for each month during the six month period ended August 31, 2006.

NOON BUYING RATE

| | CDN\$ Per U.S. \$1 | | RMB Per U.S. \$1 | | HK\$ PER U.S. \$1 | | U.S. \$1 PER EURO | |
|-------------|--------------------|--------|------------------|--------|-------------------|--------|-------------------|--------|
| | High | Low | High | Low | High | Low | High | Low |
| March 2006 | 1.2425 | 1.2017 | 8.2765 | 8.2765 | 7.7998 | 7.7987 | 1.3465 | 1.2877 |
| April 2006 | 1.2568 | 1.2146 | 8.2765 | 8.2765 | 7.7995 | 7.7946 | 1.3093 | 1.2819 |
| May 2006 | 1.2703 | 1.2373 | 8.2765 | 8.2765 | 7.7995 | 7.7767 | 1.2936 | 1.2349 |
| June 2006 | 1.2578 | 1.2256 | 8.2765 | 8.2765 | 7.7692 | 7.7842 | 1.2320 | 1.2035 |
| July 2006 | 1.1415 | 1.1112 | 8.0018 | 7.7690 | 7.7775 | 7.7670 | 1.2822 | 1.2500 |
| August 2006 | 1.1312 | 1.1056 | 8.0000 | 7.9533 | 7.7796 | 7.7723 | 1.2914 | 1.2735 |

The following table sets forth the average noon buying rates between Canadian Dollars and U.S. Dollars, between Chinese Renminbi and U.S. Dollars, between Hong Kong Dollars and U.S. Dollars, between Euros and U.S. Dollars and between British Pounds and U.S. Dollars for each of the calendar years, 2002, 2003, 2004, 2005 and 2006 based on daily noon buying rates for cable transfer in New York City certified for customs purposes by the Federal Reserve Bank of New York.

AVERAGE NOON BUYING RATE

| | CDN\$ Per U.S. \$1 | RMB PER U.S. \$1 | HK\$ PER U.S. \$1 | U.S. \$1 PER EURO | US \$1 PER |
|------|--------------------|------------------|-------------------|-------------------|------------|
| 2002 | 1.5704 | 8.2770 | 7.7997 | 0.9454 | 1.5025 |
| 2003 | 1.4013 | 8.2772 | 7.7876 | 1.1315 | 1.6341 |
| 2004 | 1.3017 | 8.2768 | 7.7891 | 1.2438 | 1.8330 |
| 2005 | 1.1689 | 8.0699 | 7.8000 | 1.2096 | 1.7346 |

On July 21, 2005, the Peoples Bank of China announced it would revalue the RMB by 2.1%, linking the RMB to a "basket of currencies" of China's main trading partners, rather than directly at 8.28 RMB to the dollar as it has for a decade. However, the announcement did not define the composition of the basket. Under the new rules, the RMB will be allowed to move 0.3 percent on a daily basis against the dollar. This change in policy has resulted in an approximately 3.7% appreciation of the RMB against the U.S. dollar between July 21, 2005 and August 21, 2006. As of September 15, 2006, the RMB was valued at 7.9465 per US Dollar.

Risk Factors

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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 Chinese Renminbi had remained stable against the U.S. Dollar at approximately 8.28 to 1.00 U.S. Dollar for several years and not until July 21, 2005 that the Chinese currency regime was altered linking the RMB to a "basket of currencies." However, the announcement did not define the composition of the basket. Under the new rules, the RMB will be allowed to move 0.3 percent on a daily basis against the dollar. This change in policy has resulted in an approximately 3.7% appreciation of the RMB against the U.S. dollar between July 21, 2005 and August 21, 2006. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable to our common shareholders in U.S. dollars. As of September 15, 2006, the RMB was valued at 7.9465 per US Dollar. In addition, China's 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 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 the

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Chinese Renminbi will not be allowed to fluctuate more than 0.3% on a daily basis. If the current exchange rate mechanism is changed, we 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, Tax Structure, Or Its Current Interpretations Of Its Laws, Rules And Regulations Relating To Our Operations In China. Our manufacturing facility is 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

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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.

Contractual arrangements we have entered into among our us and our subsidiary in China may be subject to scrutiny by China tax authorities and a finding against Bonso and its subsidiary in China may result in additional tax liabilities that could substantially reduce our consolidated net income and the value of our investment. Under Chinese laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the Chinese tax authorities determine that the contractual arrangements among our wholly owned subsidiary in China and Bonso do not represent an arm's length price and adjust Bonso or its China subsidiary's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, increase its tax liabilities for Chinese tax purposes. Our consolidated net income may be materially and adversely affected if our affiliated entities' tax liabilities increase.

We Face Risks By Operating In China, Because The Chinese Legal System Relating To Foreign Investment And Foreign Operations Like 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

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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 20 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. Continued uncertainty relating to the laws in China could have a material adverse effect upon it 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 Guang Dong 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 Special Economic Zones 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 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

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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 Sole Factory Were Destroyed Or Significantly Damaged As A Result of Fire Or Some Other Natural Disaster, We Would Be Adversely Affected. All of our products are currently manufactured at our manufacturing facility located in Shenzhen, 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 \$25,271,000 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 factory 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.

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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 the Chinese 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.

Future Changes in the Labor Laws in China may result in the Continued Increase in Labor Costs. During the fiscal year ended March 31, 2006, we experienced an increase in the cost of labor caused by the increase in the minimum hourly rate. Any future changes in the labor laws in the PRC could result in us 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.

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. Traditionally, we have relied upon 3-4 customers for a significant portion of our sales during the fiscal year. During the year ended March 31, 2004, with one customer accounting for 25% of our sales and six customers accounted for approximately 65% of our sales, during the fiscal year ended March 31, 2005, the same three customers accounted for approximately 45% of our sales and during the fiscal year ended March 31, 2006, three customers accounted for approximately 48% of our sales. 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

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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 effect upon our business with these customers. If we were involved in any product liability litigation, even if it were unsuccessful, would be time consuming and costly to defend. Further, our product liability insurance may not be adequate to cover claims.

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Our Sales Through Retail Merchants Result In Seasonality And Susceptibility To A Downturn In The Retail Economy And Sales Variances Resulting From Retail Promotional Programs. A significant amount of our net sales is the result of Korona's sales of bathroom and kitchen scales to retail merchants in Europe. In addition, many of our other customers sell to retail merchants. Accordingly, these portions of our customer base are susceptible to a downturn in the retail economy. A greater number of our sales of scales and telecommunications products occur between the months of April and September for shipment in the summer 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. A significant portion of our sales in Europe are attributable to the promotional programs of our retail industry customers. These promotional programs result in significant orders by customers who do not carry our products on a regular basis. Promotional programs often involve special pricing terms or require us to spend funds to have our products promoted. We cannot assure you that promotional purchases by our retail industry customers will be repeated regularly, or at all. Further, our promotional sales could cause our quarterly results to vary significantly. The reduction in promotional purchases would likely have a material adverse effect upon our results of operations.

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

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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

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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 Secretary, Chief Financial Officer, Treasurer and 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.

Increased Prices for Raw Materials May have a negative impact upon us. During the fiscal year ended March 31, 2006, the costs of component parts increased due to the increase in the price of oil used in the production of components such as plastic resin, steel and other raw materials. If oil prices continue to increase, 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, 2006 and March 31, 2005, we experienced labor shortages for factory workers. Due to increases in demand for workers in China, we cannot assure you that we can adequately staff the factory. The ability to adequately staff our factory could have a material 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 to ensure that our products arrive on time, which would likely result in an increase in air freight costs, 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.

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, and as a result, we may be unable to compete

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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 and telecommunications market are other; OEM and original design manufacturer "ODM" manufacturers, and all companies engaged in

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the branded, ODM and OEM business. Both the scale and the telecommunications markets are highly competitive and we face pressures on pricing and lower margins as evidenced by the decline in margins that we have experienced with our telecommunications 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 Interest May Differ From Those Of The Other Shareholders. At the present time, Mr. Anthony So, our founder and Chairman, beneficially owns approximately 36.41% of the outstanding shares of common stock, including shares underlying his outstanding options, or 29.16% without including his outstanding options. 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. 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.

Compliance costs with recently enacted changes in 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 the NASDAQ have promulgated new rules on a variety of subjects. Compliance with these new rules as well as the Sarbanes-Oxley Act of 2002 has increased our legal, financial and accounting costs, and we expect the cost of compliance with these new rules to continue to increase and 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 Canadian Dollar, Hong Kong dollar, Chinese Renminbi, British Pounds or the Euro could increase our expenses.

During the fiscal years ended March 31, 2006 and 2005, our financial results were affected by currency fluctuations, resulting in a total foreign exchange loss of \$183,887 and \$98,051, respectively. Generally, our revenues are collected in United States Dollars, Euros and Canadian Dollars. Our costs and expenses are paid in United States Dollars, Canadian Dollars, Hong Kong Dollars, British Pound, Euros and Chinese Renminbi. We face a variety of risks associated with changes among the relative value of these currencies. An appreciation of

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the Canadian Dollar, Chinese Renminbi, Hong Kong Dollar, British Pound, or the Euro against the U.S. Dollar would increase our expenses when translated into U.S. Dollars and could materially and adversely affect our margins and results of operations. In addition, a significant devaluation in the Canadian Dollar, Chinese Renminbi, Hong Kong Dollar, British Pound or Euro could have a material adverse effect upon our results of operations if it destabilizes the economy of Canada, China, Hong Kong, Great Britain or the European Union.

Protection And Infringement Of Intellectual Property. Except for one patent held by Gram Precision, the trademark for KORONA and fifteen trademarks currently held by Gram Precision, 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 and China 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. Further, prices of components have increased recently based upon the increase in oil prices and

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what management believes to be a high worldwide demand for components used in the manufacturing of our products. Accordingly, additional increases in component prices could materially and adversely affect our gross margins and results from 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 and our principal operating subsidiary is organized under the laws of Hong Kong and the laws of the Peoples' Republic of China. Our principal executive offices are located in Hong Kong and the Peoples' Republic of China, Korona is located in Germany and Gram Precision is located in Canada. 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 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 of 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 federal securities laws.

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 an amendment of our Memorandum or Articles of Association and 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 shareholders approved the amendment to 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 currently no preferred shares are 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 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 Exchange Act. We are not subject to certain provisions of the Exchange Act applicable to United

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States public companies including: the rules under the Exchange Act requiring the filing with the Securities and Exchange Commission (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 law of the British Virgin Islands, our Memorandum and Articles of Association, which are the terms used in the British Virgin Islands for a corporation's charter and bylaws, 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 then current market price.

We May Not Pay Dividends In The Future. Although we have declared dividends during the fiscal years ended March 31, 2001 and 2002 and on April 2, 2003 and July 13, 2004 and July 12, 2005 and August 22, 2006. 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 currently operate under the International Business Companies Ordinance, 1984, of the British Virgin Islands. On January 1, 2007, we will automatically be registered and operate under the BVI Business Companies Act.

As part of our ongoing expansion of the sensor-based product business, effective as of August 1, 2002, we acquired 51% of the equity of Gram Precision. Gram Precision is primarily engaged in the distribution and marketing of pocket scales in the United States, Canada, and Europe.

Effective as of May 1, 2001 we acquired 100% of the equity of 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.

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 1106 - 1110, 11/F, Star House, 3 Salisbury 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.

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Our principal capital expenditures and divestitures over the last three years were:

| | 2004 ---- | 2005 ---- | 2006 ---- |
|----------------------------|--------------|--------------|--------------|
| Property Plant & Equipment | \$3,089,656 | \$684,398 | \$1,340,134 |

Our capital expenditures include 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.

On August 13, 2006, Bonso entered into a letter of intent to acquire approximately 100,000 square meters of land for future expansion. Under the terms of the letter of intent the cost of the land is approximately \$760,000

This new piece of land is more than triple the size of the land upon which the Company's existing facilities are located in Shenzhen, China. It is expected that the land transfer will be completed in 2007 and the first phase of construction of the new manufacturing facilities will be completed in 2009. The projected capital expenditure for the first phase of investment is approximately \$8,000,000. Our plans for capital improvements are subject to change from time to time.

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 "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. Our factory is 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 port of Hong Kong and Yantian (Shenzhen).

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Products

Our sensor-based scale products are comprised of bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications. These products accounted for 61% of revenue for the fiscal year ended March 31, 2004, 68% for 2005 and 67% for 2006. We believe that our industrial scales will continue to be a larger portion of our scales revenue.

Our wireless telecommunications products are primarily comprised of two-way radios and cordless telephones that are used in consumer and commercial applications. These products accounted for 37% of revenue for the fiscal year ended March 31, 2004, 30% for 2005 and 32% for 2006.

We also receive revenue from certain customers for the development and manufacture of tooling and molding for scales and telecommunication products.

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Generally, these tools and moulds are used by us for the manufacture of products. We also generate some sales of spare parts for repair work by our customers and from repair work performed by us for our customers. These revenues accounted for approximately 2% of net sales for the fiscal years ended March 31, 2004 and 2005, and 1% for 2006.

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, 2004, 2005, and 2006.

| Product Line | Year ended March 31, | | |
|-----------------------------|----------------------|------|------|
| | 2004 | 2005 | 2006 |
| Scales | 61% | 68% | 67% |
| Telecommunications Products | 37% | 30% | 32% |
| Others | 2% | 2% | 1% |
| Total | 100% | 100% | 100% |

Business Strategy

We believe that our continued 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 continued growth and profitability is 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 for the telecommunications industry and in the postal scale/meter area. See "Products, Research and Development / Competition" below.

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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.

Market And Product Expansion. We have significantly expanded our marketing efforts in the United States, Canada and Europe. We have primarily done this through the acquisitions of Gram Precision and Korona, and through efforts to introduce the Korona brand name and products into the United States. Further, we have taken significant steps to expand the products that we sell and to position ourselves as both ODMs and OEMs for other companies that require a manufacturing partner with our capabilities. We intend to increase our marketing and sales efforts with both existing and potential customers.

Controlling Production Costs. In 1989, recognizing that labor cost is a

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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.

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. We have significantly expanded our production capacity by leasing additional factory and dormitory buildings immediately adjacent to our factory in China. We have the opportunity to increase our capacity through the construction and/or leasing of additional factory and dormitory space near our factory in China. Further, on August 13, 2006, Bonso entered into a letter of intent to acquire approximately 100,000 square meters of land for future expansion. This new piece of land is more than triple the size of the land upon which the Company's existing facilities are located in Shenzhen, China. 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 OEMs, OBMs and ODMs, 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, via e-mail and facsimile. Gram Precision engages in the distribution and marketing of pocket and industrial scales in the United

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States, Canada, and Europe. Korona engages in the distribution and marketing of electronic and mechanical body and kitchen scales directly to the retail and catalogue markets in Europe.

Net export sales to customers by geographic area consisted of the following for each of the three years ended March 31, 2004, 2005 and 2006.

Certain comparative figures have been reclassified to conform with the current year's presentation.

| | Year ended March 31, | | | | | |
|-----------------------------|----------------------|-----|--------------|-----|--------------|-----|
| | 2004 | | 2005 | | 2006 | |
| | \$ | % | \$ | % | \$ | % |
| Canada | \$3,768,000 | 5% | \$2,686,951 | 4% | \$1,637,447 | 3% |
| United States of America | \$41,302,191 | 55% | \$38,638,906 | 55% | \$37,352,618 | 58% |
| Germany | \$17,429,011 | 23% | \$15,025,103 | 22% | \$13,302,506 | 21% |
| United Kingdom | \$3,879,272 | 5% | \$2,769,900 | 4% | \$2,262,160 | 3% |

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| | | | | | | |
|--------------------|--------------|------|--------------|------|--------------|------|
| Other EC Countries | \$ 6,483,109 | 9% | \$7,948,970 | 11% | \$7,997,740 | 12% |
| Asia and Others | \$ 2,102,502 | 3% | \$2,532,362 | 4% | \$1,990,492 | 3% |
| Total | \$74,964,085 | 100% | \$69,602,192 | 100% | \$64,542,963 | 100% |

We maintain a marketing and sales team of eleven people in China, a marketing team of two people in Canada for Gram Precision and a sales team of six people at Korona in Germany (including two sales representative and four persons who are directly employed by Korona). Also, our experienced engineering teams work directly with our customers to develop and tailor our products to meet the customer's 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. Korona sells its products primarily through direct contact by sales teams with customers. External sales agents may be hired to conduct sales and we may pay commissions to the agents in connection with the sales. During the fiscal years ended March 31, 2004, 2005 and 2006 we recorded a total commission payment of \$445,376, \$440,743 and \$379,162, respectively. In addition, our marketing teams contact existing and potential customers by telephone, mail, facsimile, and in person.

A list of our major electronics sensor customers for each of the prior three fiscal years follows:

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Percent of Sales - Year ended March 31,

| Electronics Sensor Customers ----- | 2004 ---- | 2005 ---- | 2006 ---- |
|---|--------------|--------------|--------------|
| Sunbeam Products, Inc. | 14% | 17% | 16% |
| Salter Housewares Ltd. | 6% | 3% | 4% |
| Media Markt und Saturn Verwaltungs GmbH | 5% | 6% | 5% |
| Pitney Bowes, Inc. | 2% | 6% | 7% |

A list of our major telecommunications customers for each of the prior three fiscal years follows:

Percent of Sales - Year ended March 31,

| Telecommunications Customer ----- | 2004 ---- | 2005 ---- | 2006 ---- |
|--------------------------------------|--------------|--------------|--------------|
| TTI Tech Co., Ltd. | 25% | 11% | 16% |
| Global Link Corporation Ltd. | 11% | 17% | 16% |

Sales of our products to OEMs and ODM's accounted for approximately 70% of our total net sales in the year ended March 31, 2004, 67% for the year ended

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March 31, 2005 and 70% for the year ended March 31, 2006. Korona contributed \$15,459,585 of our net sales or 21% of net sales for the year ended March 31, 2004, \$16,959,313 of our total net sales or 24% of total net sales for the year ended March 31, 2005 and \$13,672,447 or 21% of total net sales for the year ended March 31, 2006. Gram Precision contributed \$6,340,999 of our net sales or 8% of net sales for the year ended March 31, 2004, \$5,961,367 of our total net sales or 9% of total net sales for the year ended March 31, 2005 and \$5,571,132 or 9% of total net sales for the year ended March 31, 2006.

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.

During the fiscal years ended March 31, 2005 and March 31, 2006, the costs of component parts increased due to the increase in the price of oil used in the production of components such as plastic resin, steel and other raw materials. Further, we believe that costs of component parts have also increased due to an increase in worldwide demand for electronic components such as those used in the production of our products. 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.

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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. Further, we have received TL 9000 certification for our telecommunications products. We also received certification according to the Environmental Management Standards of ISO 14001:2004 and the Occupational Health and Safety Management Standard of OHSAS 18001.

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. The TL 9000 standard was developed by the Quality Excellence for Suppliers of Telecommunications (QuEST) Leadership Forum. The TL 9000 certification process was developed exclusively to address the quality of products and services provided by suppliers to the telecommunications industry.

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.

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, sold after July 1, 2006. We believe that we can manufacture compliant products, and believe that we can be assured a supply of compliant components

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from suppliers.

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. Also, we have acquired the trademark registration rights to the KORONA mark for 16 European countries and in the United States. Gram Precision has one patent for a digital scale and fifteen trademarks.

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 was 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

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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/Competition

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. We have successfully lowered the costs for our research and development team by moving most research and development activities to our facility in China. We principally employ Chinese engineers and technicians at costs that are substantially lower than that would be required in Hong Kong. At March 31, 2006, we employed 84 individuals in Hong Kong and China for our engineering staffs, which are at various times engaged in research and development. The major responsibility of the product design and research and development personnel is to develop and produce designs of scales products to the satisfaction of and in accordance with the specifications provided by the ODMs and OEMs. We anticipate hiring additional research and development personnel to meet the increased demand for scales products.

The manufacturing 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

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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 \$739,730 during the fiscal year ended March 31, 2004, \$710,355 during the fiscal year ended March 31, 2005 and \$847,401 during the fiscal year ended March 31, 2006.

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 both scales and telecommunications products usually dip following the increase in sales during the Christmas season. A greater number of our sales of scales and telecommunications products occur between the months of April and September for shipment in the summer in preparation of the Christmas holiday. Throughout the

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remainder of the year, our products do not appear to be subject to significant seasonal variation. The summer months are generally the lowest sales point of the calendar year for Gram Precision and Korona. Sales of telecommunication products are generally higher in the summer months off-setting Gram Precision's and Korona's decline in sales. However, past sales patterns may not be indicative of future performance.

Employee incentive compensation is conditioned on the employee's return to work following the Chinese New Year and is paid to employees following the reopening of the factory after the holidays. We believe that this method has resulted in lower employee turnover than might otherwise have occurred.

Transportation

Typically, we sell products either F.O.B. Hong Kong or Yantian (Shenzhen), which means that our customers are responsible for the transportation of finished products from Hong Kong or Yantian (Shenzhen) 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 into the United States, 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, state and local environmental requirements, including those governing discharges to 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.

Foreign Operations

A significant amount of our products are manufactured at our factory

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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 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.

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

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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.

Organizational Structure.

We have one wholly-owned Hong Kong subsidiary - Bonso Electronics Limited ("BEL"). BEL was organized under the laws of Hong Kong and is 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 property investments in Hong Kong and China.

BEL also has one active PRC subsidiary - Bonso Electronics (Shenzhen) Company Limited, which is organized under the laws of the PRC, and is used to manufacture all of our products.

We also have another wholly-owned British Virgin Islands subsidiary - Modus Enterprise International Inc., which owns 100% of Korona and 51% of Gram Precision. Korona is engaged in marketing, distributing and retailing of consumer bathroom and kitchen scale products throughout Europe. Gram Precision is primarily engaged in the distribution and marketing of pocket and industrial scales in the United States, Canada and Europe.

Property, Plant and Equipment.

British Virgin Islands

Our offices are located at Cragmuir Chambers, Road Town, Tortola, British Virgin Islands. Only corporate administrative matters are conducted at such offices, through our registered agent, HWR Services Limited.

Hong Kong

We own approximately 5,000 square feet of office space located at Unit 1106 - 1110, 11/F, Star House, 3 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong as our principal executive office.

We own approximately 4,593 square feet on the 8th floor of the Universal Industrial Centre, 23-25 Shan Mei Street, Fo Tan, Shatin, New Territories, Hong Kong. This facility now is used exclusively as warehouse space.

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 to Mr. Anthony So as part of his compensation. See Item 6 - "Directors, Senior Management and Employees."

China

Our existing 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 five factory buildings, which contain approximately 333,000 square feet, four workers' dormitories, containing approximately 181,000 square feet, a canteen and recreation center of approximately 25,500 square feet, an office building, consisting of approximately 25,500 square feet, and two staff quarters for our supervisory employees, consisting of approximately 35,000 square feet, for a total of approximately 600,000 square feet. All of the facilities noted above are wholly-owned, except three factory buildings and two workers' dormitories with approximately 200,000 square feet. We pay a monthly management fee of \$2,175 pursuant to a Contract on the Management of Land with Shenzhen Baoan Fuan Industrial Company for our own premises.

We also own three residential properties described as follows:

- o Lijingge Court, Unit F, 15th Floor, Hai Li Building, Shenzhen, China, consisting of approximately 1,000 square feet.
- o Lakeview Mansion, B-20C, Hujinju Building No. 63, Xinan Road, Boacheng Baoan Shenzhen, China, consisting of approximately 1,591 square feet.
- o Lakeview Mansion, B-11B, Hujinju Building No. 63, Xinan Road, Boacheng Baoan Shenzhen, China, consisting of approximately 1,335 square feet.

The property for the Lakeview Mansion, B-11B is rented to an unaffiliated third party for RMB3,800 per month (approximately \$473). The Lakeview Mansion property B-20C is utilized by directors when they require accommodations in China. The Hai Li Building is vacant.

We also own two office units in Beijing, namely Units 12 and 13 on the 3rd 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. Both Units are rented to unaffiliated third parties for an aggregate monthly rental of RMB16,215, or approximately \$2,018.

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On August 13, 2006, Bonso entered into a letter of intent to acquire approximately 100,000 square meters of land for future expansion. Under the terms of the letter of intent the cost of the land is approximately \$760,000.

This new piece of land is more than triple the size of the land upon which the Company's existing facilities are located in Shenzhen, China. It is expected that the land transfer will be completed in 2007 and the first phase of construction of the new manufacturing facilities will be completed in 2009. The projected capital expenditure for the first phase of investment is approximately \$8,000,000.

Germany

Korona leases approximately 885 square meters of office space located at Auf den Huttenberg 1-3, 35428 Langgons-Niederkleen, Germany. This facility is used as Korona's principal executive offices and the monthly rent for this facility is (euro) 6,427.12.

Poland

Korona leases approximately 86 square meters of office space located at ul. Podmiejska 18, 01-498 Warszawa. The facility is used as office space and the monthly rent for this facility is (euro) 533.

United States

Vector Distribution Systems Inc., a subsidiary of Gram Precision, leases approximately 7,000 square feet of office and warehouse space located at 5075 West Diablo Drive, Suite 206, Las Vegas, NV 89118-6071. This facility is used as warehouse and the monthly rent for this facility is approximately \$7,611.

Canada

Gram Precision, through an affiliated entity, owns approximately 5,028 square feet of office space located at 31-5155 Spectrum Way, Mississauga, Ontario, L4W 5A1, Canada. This facility is used as Gram Precision's principal executive offices and the monthly payment to the affiliated entity for this facility is CDN 4,250 including Goods & Services Tax. Gram Precision sold this facility effective April 1, 2005 and moved to a new facility located at 2855 Argentia Road, Unit 1, Mississauga, Ontario, L5N8G6, with approximately 10,800 square feet of office space. The monthly rent for this facility is CDN 11,123 including Goods & Services Tax.

Adequacy of Facilities

We believe the manufacturing complex will be adequate for our reasonably foreseeable needs.

Item 5. Operating and Financial Review and Prospects

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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 attached elsewhere in this Annual Report.

Overview

We derive our revenues principally from the sale of sensor-based and

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wireless products manufactured in China, which represent 67% and 32% of total sales for fiscal year ended March 31, 2006, respectively. As mentioned in Item 3 - "Key Information - Risk factors relating to our business," we are dependent upon a limited number of major customers for a significant portion of our revenues. Our revenues and business operation will be subject to fluctuation if there is loss of orders from any of our largest customers. Further, the pricing of our scales and telecommunication products are becoming increasingly competitive, especially to our customers in the United States and Germany, who contributed over 79% of our revenue during the year ended March 31, 2006.

In the fiscal year ended March 31, 2004, net sales was \$74,964,000 and net income was approximately \$2,269,000, in the fiscal year ended March 31, 2005, net sales decreased to approximately \$69,602,000 and net income increased to approximately \$3,350,000. During the fiscal year ended March 31, 2006 net sales decreased to approximately \$64,543,000 and net income decreased to approximately \$484,000.

Although labor costs are increasing in China, our labor costs continue to represent a relatively small percentage of our total production costs. We believe that increased labor costs in China will not have a significant effect on our total production costs or results of operations, and that we will be able to continue to increase our production at our manufacturing facility without substantially increasing our non-production salaries and related costs. However, there can be no assurance that labor costs will not increase or that any increase in labor costs will not have a material adverse effect upon our results of operations.

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.

Operating Results

The following table sets forth selected income data as a percentage of net sales for the periods indicated.

| | Fiscal Year Ended | | |
|-------------------------------------|-------------------|--------|--------|
| Income Statement Data | 2004 | 2005 | 2006 |
| Net Sales | | | |
| Cost of Sales | (76.7) | (76.3) | (79.2) |
| Gross Margin | 23.3 | 23.7 | 20.8 |
| Selling Expenses | (4.1) | (3.7) | (3.3) |
| Salaries and related costs | (6.8) | (7.5) | (8.8) |
| Research and Development expenses | (1.0) | (1.0) | (1.3) |
| Administration and general expenses | (7.3) | (5.9) | (5.3) |
| Amortization of brand name | (0.3) | (0.3) | (0.3) |
| Impairment of Goodwill | - | - | (0.4) |
| Income (Loss) from Operations | | | |
| Interest income | 0.1 | 0.1 | 0.3 |
| Interest Expense | (0.7) | (0.6) | (0.8) |

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| | | | |
|---|-------|-------|-------|
| Foreign Exchange gain/(Loss) | 0.0 | (0.1) | (0.3) |
| Other income | 0.3 | 0.5 | 0.3 |
| Income before income taxes and minority interest | 3.5 | 5.2 | 1.0 |
| Income Tax Expense | (0.5) | (0.4) | (0.2) |
| Minority Interest | 0.0 | 0.0 | 0.0 |
| Net income | 3.0 | 4.8 | 0.8 |

Fiscal year ended March 31, 2006 compared to fiscal year ended March 31, 2005

Net Sales. Our sales decreased approximately \$5,059,000 or 7.27% from approximately \$69,602,000 for the year ended March 31, 2005, to approximately \$64,543,000 for the year ended March 31, 2006. The decrease in sales was primarily the result of decreased of scales products caused by the decreased orders from our major scale customers. Sales of our scales and others business decreased from approximately \$48,946,000 for the year ended March 31, 2005, to approximately \$43,792,000 for the year ended March 31, 2006, and sales for telecommunications products increased 0.45% from approximately \$20,656,000 for the year ended March 31, 2005, to approximately \$20,751,000 for the year ended March 31, 2006.

Gross Margin. Gross margin as a percentage of revenue declined to approximately 20.8% during the year ended March 31, 2006 as compared to approximately 23.7% during the year ended March 31, 2005. This decline was primarily the result of our cost increase in the area of materials and labor and the increased pressure on the sales prices from our customers for both our telecommunication products and scales products.

Selling Expenses. Selling expenses decreased by approximately \$485,000 or 18.67% from approximately \$2,595,000 for the period ended March 31, 2005 to approximately \$2,111,000 for the period ended March 31, 2006. This decrease was primarily the result of decreased commissions paid as a result of our decreased sales. As a percentage of revenue, selling expenses decreased to 3.27% during the year ended March 31, 2006 as compared to 3.73% during the year ended March 31, 2005.

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Salaries And Related Costs. Salaries and related costs increased by approximately \$465,000 or 8.91% from approximately \$5,216,000 for the year ended March 31, 2005 to approximately \$5,681,000 for the year ended March 31, 2006. This increase is due to both the increase in the number of staff and the increase in salaries to our employees.

Research And Development. Research and development expenses increased approximately \$137,000 or 19.30% from approximately \$710,000 for the year ended March 31, 2005 to approximately \$847,000 for the year ended March 31, 2006. The increase in research and development was primarily due to increased research and development activities, such as hiring of additional staff, certification, etc. for both the telecommunications products and new scale models. Research and Development as a percentage of revenue increased to 1.31% during the year ended March 31, 2006 as compared to 1.02% during the year ended March 31, 2005.

Administration And General Expenses. Administration and general expenses decreased by approximately \$659,000 or 16.13% from approximately \$4,079,000 for the year ended March 31, 2005 to approximately \$3,420,000 for the year ended March 31, 2006. This decrease was primarily due to reduced legal & professional fee and no consultancy fee during the year ended March 31, 2006.

Amortization Of Brand Name. During the years ended March 31, 2005 and 2006,

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we amortized \$200,000 relating to the brand names acquired upon the acquisition of Korona. Brand names are amortized using the straight-line method over the related estimated useful life of 15 years.

Impairment of Goodwill. Based on the assessment for the year ended March 31, 2006, the Group made a provision for impairment of goodwill of approximately \$258,000 for one of the subsidiaries, Korona Hauschaltswaren GmbH & Co.KG, due to the continued weak performance of the scales business

Income From Operations. As a result of the above changes, income from operations decreased by 75.13% from approximately \$3,663,000 for the year ended March 31, 2005 to approximately \$911,000 for the year ended March 31, 2006.

Interest Income. Interest income increased by \$121,000 or 60% from approximately \$81,000 for the year ended March 31, 2005 to \$202,000 for the year ended March 31, 2006. The increase were primarily the result of depositing our cash into higher yield accounts and the increase in interest rates.

Interest Expense. Interest expense increased approximately \$88,000 or 20.86% from approximately \$417,000 for the year ended March 31, 2005 to approximately \$504,000 for the year ended March 31, 2006. This increase was primarily due to the increase in interest rates on funds borrowed during the year ended March 31, 2006.

Foreign Exchange Losses/Gains. Foreign exchange loss increased from a loss of approximately \$98,000 for the year ended March 31, 2005 to a loss of approximately \$184,000 for the year ended March 31, 2006. The increase was primarily attributable to the increased strength of the Canadian Dollar and

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especially the value of the Chinese Renminbi against the U.S. Dollar. On top of that, the RMB will no longer be linked to the US currency but rather to a basket of currencies with a 0.3% margin of fluctuation. This change in policy has resulted in an approximately 3.7% appreciation of the RMB against the U.S. dollar between July 21, 2005 and August 21, 2006.

Other Income. Other income decreased approximately \$182,000 or 48.92% from approximately \$372,000 for the year ended March 31, 2005, to approximately \$190,000 for the year ended March 31, 2006. The decrease was primarily due to a decrease in the disposal of fixed assets and decreased rental income from 2 of the properties in PRC

Income Tax Expense. Income tax expense decreased approximately \$135,000 or 50.6% from approximately \$266,000 during the year ended March 31, 2005 to \$131,000 during the year ended March 31, 2006, representing approximately 0.4% and approximately 0.2% of net sales respectively. The decrease was primarily the result of decrease profit in the current year.

Net Income. As a result of the above changes, net income decreased from approximately \$3,350,000 for the period ended March 31, 2005 to \$484,000 for the period ended March 31, 2006, a decrease of approximately \$2,866,000, or 85.55%.

Fiscal year ended March 31, 2005 compared to fiscal year ended March 31, 2004

Net Sales. Our net sales decreased \$5,361,893, or 7.2% from \$74,964,085 for the fiscal year ended March 31, 2004, to \$69,602,192 for the fiscal year ended March 31, 2005. The decrease in net sales was primarily the result of decreased demand for our telecommunications products. Sales for telecommunications products were down \$6,793,831 or 24.7% from \$27,450,322 during the fiscal year ended March 31, 2004, to \$20,656,491 for the fiscal year ended March 31, 2005.

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The sales decreased from our telecommunications segment as a result of decrease demand from one of our major existing telecommunications customer, TTI Tech Co., Ltd. The sales to this customer dropped from \$18,664,970 during the fiscal year ended March 31, 2004 to \$7,309,546 during the fiscal year ended March 31, 2005, a total of \$11,355,424. Sales of our scales business increased \$1,045,535 or 2.3% from \$46,211,039 during the fiscal year ended March 31, 2004, to \$47,256,574 during the fiscal year ended March 31, 2005, and the increased sales from our scales business was primarily the result of increase sales to existing customers. See "Customers and Marketing".

Costs of Good Sold. Costs of goods sold decreased \$4,342,693 or 7.6 % from \$57,481,103 for the fiscal year ended March 31, 2004, to \$53,138,410 for the fiscal year ended March 31, 2005. The decreased costs of good sold were primarily the result of decreased sales and the ability to offset some of the increased material and labor cost by initiating design and manufacturing process changes.

Gross Margin. Gross margin increased slightly from 23.3% for the fiscal year ended March 31, 2004, to 23.7% for the fiscal year ended March 31, 2005 as a result of the decrease in costs of goods sold.

Selling Expenses. Selling expenses decreased \$526,678 or 16.9% from \$3,121,900 during the fiscal year ended March 31, 2004 to \$2,595,222 during the fiscal year ended March 31, 2005. The decrease in selling expenses were

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primarily the result of decreased sales experienced during the year ended March 31, 2005 when compared to the same period in the prior year and the consolidation of shipments in containers to save local freight costs arising from the transportation from the Company's manufacturing facility in the PRC to the HK/PRC port.

Salaries And Related Costs. Salaries and related costs increased by \$65,453 or 1.3% from \$5,150,345 for the fiscal year ended March 31, 2004 compared to \$5,215,798 for the fiscal year ended March 31, 2005. The increase in salaries and related costs was primarily the result of an increase in the number of employees in the production department during the fiscal year ended March 31, 2005.

Research And Development Expenses. Research and development expenses decreased \$29,375 or 4.0% from \$739,730 during the fiscal year ended March 31, 2004, to \$710,355 during the fiscal year ended March 31, 2005. The decrease in research and development expenses was primarily the result of decreased research and development activities for our telecommunications products. Engineering salaries composed the largest part of Research and Development expenses and amounted to \$559,855.

Administration And General Expenses. Administration and general expenses decreased by \$1,359,794 or 25% from \$5,438,995 during the fiscal year ended March 31, 2004 to \$4,079,201 during the fiscal year ended March 31, 2005. This decrease was primarily the result of higher legal and professional fees as a result of the arbitration of Augusta in fiscal year ended March 31, 2004, which was resolved in fiscal year ended March 31, 2005.

Amortization Of Brand Name. During the fiscal years ended March 31, 2004 and 2005 we amortized \$200,000 relating to the brand name acquired upon the acquisition of Korona. The brand name is amortized using the straight line method over the related estimated useful life of 15 years.

Income From Operations. As a result of the above changes, income from

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operations increased by \$831,194 or 29.4% from \$2,832,012 during the fiscal year ended March 31, 2004 to \$3,663,206 during the fiscal year ended March 31, 2005.

Interest Income. Interest income increased by \$23,786 or 41.6% from \$57,169 during the fiscal year ended March 31, 2004, to \$80,955 during the fiscal year ended March 31, 2005. The increase was primarily the result of depositing our cash into higher yield accounts.

Interest Expense. Interest expense decreased by \$82,738 or 16.6% from \$499,512 during the fiscal year ended March 31, 2004 to \$416,774 during the fiscal year ended March 31, 2005. This decrease in interest expenses were primarily the result of the decrease in the amount borrowed from lenders and lower interest rates on the amounts borrowed.

Foreign Exchange Gain/Loss. Foreign currency exchange rates produced a loss of \$98,051 during the fiscal year ended March 31, 2005, as compared to a gain of \$15,081 during the fiscal year ended March 31, 2004. The foreign currency loss was primarily attributable to the devaluation of the United States dollar compared to other foreign currencies, especially the Euro and the Canadian dollar.

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Other Income. Other income increased \$147,841 or 65.9% from \$224,292 during the fiscal year ended March 31, 2004 to \$372,133 during the fiscal year ended March 31, 2005. The increase was primarily the result of rental income during the year.

Income Tax Expense. Income tax expense decreased \$135,445 or 33.8% from \$401,504 during the fiscal year ended March 31, 2004 as compared to \$266,059 during the fiscal year ended March 31, 2005, representing 0.5% and 0.4% of net sales respectively. The decrease was primarily the result of the decrease in amount paid and payable in taxes as a result of the decrease in our income of the subsidiaries in Germany and Canada during the fiscal year ended March 31 2005.

Net Income. As a result of the above changes, net income during the fiscal year ended March 31, 2005 was \$3,349,612, compared to \$2,268,610 during the fiscal year ended March 31, 2004, an increase of \$1,081,002 or approximately 47.7%.

Impact of Inflation

We believe that inflation has not had a material affect on our business during the fiscal year ended March 31, 2006. During the fiscal years ended March 31, 2002 to March 31, 2006, Hong Kong experienced a period of deflation and Germany sustained a low inflation rate. 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 cost in order to keep pace with inflation. Although our costs of components used in the manufacture of our products have been relatively stable, we believe that any possible significant increase in material costs would affect the entire electronics industry. Thus, it would not have a negative material impact on our competitive position in the industry.

Taxation

Under current British Virgin Islands law, we are not subject to tax on our income. The basic corporate tax rate for Foreign Investment Enterprises in China is currently 33% (30% state tax and 3% local tax). However, because we are located in Shenzhen and are involved in production operations, we paid state tax at a special reduced state tax rate of 7.5% for the period from April 1, 2005 to

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December 31, 2005. The state tax rate applicable from January 1, 2006 to March 31, 2006 is 10%. In addition, the local tax authorities in the regions in which our subsidiaries operate in Shenzhen are not currently assessing any local tax.

Most of our subsidiaries' profits accrue in Hong Kong, Canada and Germany where the corporate tax rates are currently 17.5%, 36% and 28%, respectively. However, as Korona is a partnership, it is only subject to a local statutory tax rate in Germany of 14.17%. 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, Germany, Canada, Hong Kong or China.

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Efforts by the Chinese central government to strictly enforce tax laws and to fulfill its commitments upon entry into the World Trade Organization, by unifying the income tax laws applicable to domestic companies and foreign investment enterprises respectively, could result in decisions affecting and/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 us 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.

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 (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.

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 pay for our material components principally in United States Dollars and Hong Kong Dollars. A very small portion of the components used are paid for in Japanese Yen. 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 previously arose from potential fluctuations in the Chinese Renminbi and the devaluation in United States Dollars; management believes that it may be possible that there will be some fluctuation in the coming year.

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Gram Precision principally pays for its products in United States Dollars and Canadian dollars and sells its products in Canadian, United States Dollars, and United Kingdom Pound Sterling. Korona primarily pays for its products in United States Dollars and Euros and sells its products in Euros. During the fiscal year ended March 31, 2006, we experienced a foreign currency loss of \$183,887. We don't currently engage in hedging transactions; however we may undertake hedging activities in the future.

A summary of our debts from our banking facilities utilized as at March 31, 2006 which was subjected to foreign currency risk is as below:

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| Currencies: ----- | March 31, 2006 ----- |
|-----------------------|-------------------------|
| Euro | \$2,936,467 |
| Hong Kong Dollars | \$2,261,593 |
| United States Dollars | \$1,041,883 |
| Canadian Dollars | \$526,780 ----- |
| Total | \$6,766,723 |

All the balances above are 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. On July 21, 2005, the Peoples Bank of China announced it would revalue the RMB by 2.1%, linking the RMB to a "basket of currencies" of China's main trading partners, rather than directly at 8.28 RMB to the dollar as it has for a decade. However, the announcement did not define the composition of the basket. Under the new rules, the RMB will be allowed to move 0.3 percent on a daily basis against the dollar. As of September 15, 2006, the RMB was valued at 7.9465 per US Dollar. There can be no assurance that these currencies will remain stable or will fluctuate to our benefit.

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. Management intends to take corrective action in an effort to attempt to minimize any negative impact foreign currency fluctuations may have upon us. However, to date we have not done so. If we are unsuccessful in hedging against currency fluctuations, it may have a material adverse effect on us.

Liquidity and Capital Resources

We have financed our growth and cash needs to date primarily from

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internally generated funds and bank debt. We do not use off-balance sheet financing arrangements, such as securitization of receivables or obtaining

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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, to make strategic acquisitions and to fund increases in inventory and accounts receivable resulting from increased sales.

Operating activities provided \$2,997,567 of net cash for the fiscal year ended March 31, 2006 compared to \$1,935,677 of net cash for the fiscal year ended March 31, 2005. This increase in the amount of cash provided by operating activities was primarily attributed to an increase in cash provided by the receipt of trade receivables offset by an increase in inventory.

As of March 31, 2006, we had \$8,582,257 in cash and cash equivalents as compared to \$9,707,588 as of March 31, 2005. Working capital at March 31, 2006, was \$16,847,370 compared to \$15,345,432 at March 31, 2005. There are no other material unused sources of liquid assets. 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, 2006, we had \$6,740,229 in trade receivable as compared to \$10,585,968 as of March 31, 2005. The decrease of \$3,845,739 from March 31, 2005 was caused by faster repayment from customers following the change of payment terms for selected customers from 60 days open account to 30 days open account.

As of March 31, 2006, we had \$15,035,216 in inventories as compared to \$11,402,239 as of March 31, 2005. The increase of \$3,632,977 was primarily attributable to the increase of work in progress and finished goods to meet shipment demands in April 2006.

As of March 31, 2006, we had a total of \$9,598,886 in notes payable and accounts payable as compared to \$10,683,304 as of March 31, 2005. The decrease of \$1,084,418 was primarily attributable to timely payment to our vendors.

As of March 31, 2006 we had in place general banking facilities with 9 financial institutions with amounts available aggregating \$36,018,301. Such facilities include the ability to obtain overdrafts, letters of credit, short-term notes payable, short-term loans and long-term loans. As of March 31, 2006, we had utilized \$6,766,723 from these general banking facilities. Interest on this indebtedness fluctuates with the prime rate and HIBOR as set by the Hong Kong Bankers Association; the EONIA as set by the Germany Bankers Association and the Prime rate as set by the Canada Bankers Association. The bank credit facilities are collateralized by certain of our bank deposits, and bank guarantees. Our bank credit facilities are 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. Excluding the current portion of long-term debt and capital lease obligations, the amounts of total short-term bank borrowings outstanding as of March 31, 2006 and 2005 were \$2,936,467 and \$4,742,685, respectively. During the fiscal years ended March 31, 2006 and 2005, we paid a total of \$494,310 and \$416,774, respectively, in interest on indebtedness.

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Our current ratio (current assets divided by current liabilities) increased

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from 1.84 as of March 31, 2005 to 2.08 as of March 31, 2006. Our quick ratio (cash and cash equivalents, restricted cash deposits and receivables divided by current liabilities) decreased from 1.22 as of March 31, 2005 to 1.12 as of March 31, 2006.

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 the next 12 months. However, a decrease in the demand for our products may affect our internally generated funds, and we would further look to our banking facilities to meet our working capital demands.

Commitments

The following table sets forth information with respect to our commitments as of March 31, 2006.

| | Total | Payments due by Period | | | |
|--------------------------------------|---------------------|------------------------|---------------------|---------------------|-------------------|
| | | Within 1 year | Within 1 to 3 years | Within 3 to 5 years | More than 5 years |
| Letters of credit | \$ 3,310,673 | \$ 3,310,673 | \$ 0 | \$ 0 | \$ 0 |
| Short-term loans | \$ 2,936,467 | \$ 2,936,467 | \$ 0 | \$ 0 | \$ 0 |
| Long-term loans | \$ 48,329 | \$ 48,329 | \$ 0 | \$ 0 | \$ 0 |
| Operating Leases | \$ 3,902,878 | \$ 1,032,270 | \$ 1,758,307 | \$ 1,112,301 | \$ 0 |
| Capital Leases | \$ 166,802 | \$ 166,802 | \$ 0 | \$ 0 | \$ 0 |
| Acquisitions of Plant & Machineries | \$ 33,085 | \$ 33,085 | \$ 0 | \$ 0 | \$ 0 |
| Interest on loans and capital leases | \$ 119,905 | \$ 119,905 | \$ 0 | \$ 0 | \$ 0 |
| Total | \$10,518,139 | \$ 7,647,531 | \$ 1,758,307 | \$ 1,112,301 | \$ 0 |

Interest on loans and capital leases is estimated based on the interest rate of HIBOR+ 1.5% to +1.8%

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 inventories, impairment, brand name, trade receivables, and deferred income taxes.

Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other key accounting policies, such as revenue recognition. We believe that these 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. See discussion of all our significant accounting policies in footnote 1 to the Consolidated Financial Statements included elsewhere in this Annual Report.

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. Inventories are reduced by the write-off of obsolete and slow moving parts, which are determined based on management's assessment of their current status.

This provision requires judgment regarding the marketability of certain inventories as certain inventories may be identified as in good condition that are subsequently obsolete and which could result in a subsequent write-off of the related inventories to the statement of operations. Any change in the marketability of inventories that were not previously provided for could significantly change the calculation of reserves and the results of our operations.

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 collectibility 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 shipped to the customer from our facility. Shipping costs billed to our customers are included within revenue. Associated costs are classified in cost of goods sold.

The Company provides to certain customers an additional 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 at the time of sale and estimated based on past history. 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 privileges in relation to the sale of goods.

The Company's revenue recognition policies do not differ among its significant product lines (i.e. sensor based versus wireless products) and among various marketing venues use by the Company (i.e. distributors and direct sales force), and do not vary in different parts of the world.

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Long-lived assets held and used by the Company and intangible assets, excluding goodwill, 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. For the year ended March 31, 2006, the Company made a provision for impairment of approximately \$69,077, on investment properties due to the decline in market value.

Goodwill is subject to an annual impairment review. The evaluation of goodwill for impairment involves two steps: (1) the identification of potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill and (2) the measurement of the amount of goodwill loss by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill and recognizing a loss by the excess of the latter over the former. The Company measures fair value based upon internal models. Based on the assessment for the year ended March 31, 2006, the Company made a provision for impairment of goodwill of approximately \$258,141 for Korona due to the continued weak performance of the scales business.

Brand Name

Brand name acquired as part of the purchase of a business is capitalized based on the estimated fair value as at the date of acquisition and amortized using the straight-line method over the related estimated useful life of 15 years.

Expected useful lives are reviewed at each balance sheet date and, where these differ significantly from previous estimates, amortization periods are changed accordingly. Where an indication of impairment exists, such as the downturn of economic inflow from the brand name, changes in business plan and so on, the carrying amounts of brand name is assessed and written down to their recoverable amounts. The measurement of the fair value of brand name is subject to management's assumptions regarding future estimated cash flows, discount rates, etc. Changes in these assumptions could significantly affect the recording of an impairment charge related to this asset.

Trade Receivables

Provision is made against trade receivables to the extent that collection is considered to be doubtful. This provision is primarily determined from our monthly aging analysis. It also requires judgment regarding the collectibility 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. Any change in the collectibility of accounts receivable that were not previously provided for could significantly change the calculation of such provision and the results of our operations.

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Deferred Income Taxes

Amounts in the consolidated financial statements related to income taxes are calculated using the principles of SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in

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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 tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. As part of this process we are required to estimate our income taxes and tax bases of assets and liabilities in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. We must then assess the likelihood of the recoverability of future tax benefits, such as net operating loss carry forwards, based on estimated future taxable income and recognize such benefits to the extent that realization is more likely than not to occur. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. Any change in the recoverability of the deferred tax assets could significantly affect the results of our operations or cash flows.

Research and Development, Patents and Licenses, etc.

We believe that our engineering and product development capabilities are important to the future success of our business. We have successfully lowered the costs of our research and development team by moving most research and development activities to our facility in China and principally employing Chinese engineers and technicians at costs that are substantially lower than that would be required in Hong Kong.

Trend Information

Although we are optimistic about our future in the manufacture and sale of telecommunications and scale products, we are dependent upon a limited number of customers, and the loss of any of these customers could have a material adverse effect upon us. At March 31, 2006, our backlog of manufacturing orders was \$10,145,015 compared to \$14,580,461 at March 31, 2005. We believe that in the fiscal year ended March 31, 2007, the trend of sales from telecommunications products and scales will be similar to the year ended March 31, 2006.

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.

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Recent Accounting Pronouncements

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

In May 2005, the FASB issued SFAS No.154, "Accounting Changes and Error Corrections," a replacement of APB Opinion No.20, "Accounting Changes" and SFAS No.3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). SFAS 154 changes the requirements of the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for

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accounting changes made in fiscal years beginning after December 15, 2005; however, the statement does not change the transitional provisions of any existing accounting pronouncements. The Company does not believe the adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

In March 2005, the SEC issued SAB No.107 "Share Based Payment" which offers guidance on SFAS No.123(R). SAB No.107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No.123(R) while enhancing the information that investors receive. SAB No.107 creates a framework that is premised on two overarching themes: (i) considerable judgement will be required by preparers to successfully implement SFAS No.123(R), specifically when valuing employee stock options; and (ii) reasonable individuals, acting in good faith, may reach different conclusions on the fair value of employee stock options. Key topics covered by SAB No.107 include valuation models, expected volatility and expected term. The Company will adopt SAB No.107 concurrently with the adoption of SFAS No.123(R) with effect from April 1, 2006. The Company does not expect the adoption of this SAB to have a material impact on its consolidated financial position or results of operations.

In October 2005, the FASB issued FSP FAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No.123(R)." The FSP provides an exception to the application of the concept of "mutual understanding" in the determination of whether a grant date has occurred. The exception permits companies to measure compensation cost for equity awards to employees on the Board approval date if certain conditions are met, provided that the communication to the employee occurs within a "relatively short period of time" from the approval date. The Group will adopt the provisions of this FSP concurrently with the adoption of SFAS No.123(R) with effect from April 1, 2006. The Company does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In November 2005, the FASB issued FSP FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Award" which provides an elective shortcut approach when a company transitions to SFAS 123(R). The alternative method significantly simplifies the calculation of the beginning pool. The FSP provides guidance for the presentation of excess tax benefits in the statement of cash flows for companies that elect to adopt the

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simplified alternative method of calculating the pool. The guidance in the FSP is effective on November 10, 2005. The FSP allows up to one year from initial adoption of SFAS 123(R) on April 1, 2006 to evaluate the available transition alternatives. The Company does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operation.

In November 2005, the FASB issued FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlements upon the Occurrence of a Contingent Event" which provides that an option or similar instrument that is classified as equity, but subsequently becomes a liability because the contingent cash settlement event is probable of occurring, shall be accounted for similar to a modification from an equity to liability award. The Company does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In July 2006, the FASB released FIN 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109 ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision

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whether to file or not to file a return in a particular jurisdiction). Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is effective for annual periods beginning after December 15, 2006. The Company is in the process of assessing the impact of the recent accounting pronouncement.

In September 2006, the FASB issued FAS 157, Fair Value Measurements. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is in the process of assessing the impact of the recent accounting pronouncement.

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 | 63 | Chairman of the Board, Secretary, Treasurer, Chief Financial Officer, and Director |
| George O'Leary | 68 | Chief Executive Officer, President, and Director |
| Kim Wah Chung | 48 | Director of Engineering and Research and Development and Director |
| Cathy Kit Teng Pang | 44 | Director of Finance and Director |
| Woo-Ping Fok | 57 | Director |
| J. Stewart Jackson, IV | 70 | Director |
| Henry F. Schlueter | 55 | Director and Assistant Secretary |

ANTHONY SO is the founder of Bonso. He has been our Chairman of the Board of Directors, Chief Financial Officer and Treasurer since inception and our Secretary since July 1991. Mr. So received his BSE degree in civil engineering from National Taiwan University in 1967 and a master's 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.

GEORGE O'LEARY is our Chief Executive Officer and President and has served in this capacity since January 2005. He has been a director since January 1997. From November 1994 to 2005, Mr. O'Leary served as the President of Pacific Rim Products, Newport Beach, California, a trading company that provides offshore sourcing alternatives to U.S. based electronics companies. For eight years prior to 1994, Mr. O'Leary was President, CEO and a director of Micro General Corporation, Santa Ana, California, a manufacturer and distributor of mechanical and electronic scale products. For eight years prior to that, Mr. O'Leary was

Vice President and General Manager of Lanier Business Products, Atlanta, Georgia, a manufacturer and distributor of office products. Mr. O'Leary has a Bachelor of Science degree in Electrical Engineering from Northeastern University, Boston, Massachusetts.

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.

CATHY KIT TENG PANG has been a director of Bonso since January 1, 1998. Ms. Pang was first employed by us as Financial Controller in December 1996 and was promoted to Director of Finance on April 1, 1998. Ms. Pang was employed as an auditor in an international audit firm from 1987 to 1991, at which time she joined a Hong Kong listed company as Assistant Financial Controller. From 1994 until she joined us in 1996, she was employed as Deputy Chief Accountant in a management and property development company in Hong Kong and China. Ms. Pang has a Bachelor of Business Administration degree from York University in Toronto, Canada. She is a member of the American Institute of Certified Public Accountants and of the Hong Kong Society of Accountants.

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 partner with Wong & Fok. Mr. Fok's major areas of practice include conveyancing or 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.

J. STEWART JACKSON IV has been a director since January 10, 2000. From 1962 until its merger with Republic Industries in 1996, Mr. Jackson served in various management capacities, including president, of Denver Burglar Alarm Co., Inc., a business founded by his family. In addition, in the mid-1960's, Mr. Jackson founded Denver Burglar Alarm Products, a separate company which invented, patented, manufactured, distributed and installed contained ionization smoke detectors and which was later sold to a conglomerate manufacturer. After the merger of Denver Burglar Alarm Co., Inc., Mr. Jackson founded Jackson Burglar Alarm Co., Inc. Mr. Jackson served as Chief Executive Officer of Jackson Burglar Alarm Co. from February 1998 to October 2005. Mr. Jackson has served as the Chief Executive Officer of J S J Corporation. Mr. Jackson served on the advisory board of directors for Underwriter's Laboratories for burglar and fire alarm systems for 25 years and has been an officer in the Central Station Protection Association, which, along with the National Burglar Alarm Association, was formed by his family in the late 1940's. Mr. Jackson graduated from the University of Colorado in 1962 with a degree in Business Management and Engineering.

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

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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.

There are no family relationships between any of our directors and executive officers.

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.

Provident Fund Plan

With effect from January 1, 1988, Bonso Electronics Limited ("BEL"), our wholly-owned foreign subsidiary, started a Provident Fund 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 Plan.

Members of the Plan are required to contribute 5% of their monthly salary. The contribution by BEL is as follows:

| Years of Service ----- | % of salary as BEL's contribution ----- |
|---------------------------|--|
| Less than 5 years | 5.0% |
| 5 to 10 years | 7.5% |
| More than 10 years | 10.0% |

The Mandatory Provident Fund (the "MPF") was introduced by the Hong Kong Government commencing in December 2000. BEL joined the MPF with a major international assurance company. All permanent full time employees who joined BEL in or after December 2000, excluding factory workers, are eligible to join the MPF. Members' and employers' contributions to the MPF are both at 5% of the members' monthly salaries and are subject to a maximum contribution of HK \$1,000 monthly.

At normal retirement age, death or ill health, the member shall be entitled to receive from the Plan a lump sum equal to the total of the member's and BEL's contributions plus the return on their investment. On resignation prior to normal retirement age, a member shall be entitled to receive from the Plan a lump sum equal to the member's contributions plus a percentage of the employer's balance determined in accordance with a predetermined set scale.

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BEL's total contributions to the Plan and the MPF for the years ended March 31, 2004, 2005 and 2006 amounted to \$77,402, \$83,277 and \$95,339, respectively.

Board Practices

All directors hold office until our next annual meeting of shareholders or

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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 its 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 the 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:

- o A majority of Bonso's board of directors will not independent;
- o Bonso will not have a nominating committee;
- o Bonso will not have a compensation committee;
- o Bonso's independent directors will not meet in executive session; and
- o Bonso's audit committee will have only one member.

Audit Committee

Mr. Woo Ping Fok is the sole member of the Audit Committee. Mr. Fok is "independent" as defined in the NASDAQ listing standards.

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 and to discharge such other responsibilities as may be delegated to it from time to time by the Board of Directors. Effective as of August 17, 2000, the Board of Directors adopted a formal charter for its Audit Committee, which was amended effective June 30, 2005.

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Employees

At March 31, 2006, we employed a total of 3,460 persons, compared with 3,050 persons at March 31, 2005 and 2,899 persons at March 31, 2004; 45 employees in Hong Kong (42 in 2005 and 39 in 2004), 3,380 employees in China (2,973 in 2005 and 2,820 in 2004), 20 employees in Germany, (22 in 2005 and 2004), 2 employees in Poland (2 in 2005 and 2004), no employee in the United Kingdom (0 in 2005 and 2 in 2004), 4 employees in the United States (2 in 2005 and 4 in 2004) and 9 in Canada (9 in 2005 and 10 in 2004). 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 September 8, 2006:

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| Name | Shares of Common Stock Owned of Record | Options and Warrants Held | Total Number of Shares of Common Stock Beneficially Owned | Perce of Benef Owner |
|--|---|--------------------------------|---|-------------------------------|
| Anthony So | 1,626,195 (1) | 636,500 (2) | 2,262,695 | 36.4 |
| Kim Wah Chung | 93,700 | 115,000 (3) (4) (5) | 208,700 | 3.6 |
| Cathy Kit Teng Pang | 35,438 | 115,000 (3) (4) (5) | 150,438 | 2.6 |
| Henry F. Schlueter | 34,000 | 40,000 (6) (11) (12) (13) | 74,000 | 1.3 |
| Woo-Ping Fok | 64,407 | 50,000 (8) (10) (11) (12) (13) | 114,407 | 2.0 |
| George O'Leary | 0 | 40,000 (8) (10) (11) (12) | 40,000 | 0.7 |
| J. Stewart Jackson IV | 462,575 (9) | 60,000 (7) (10) (11) (12) (13) | 522,575 | 9.2 |
| All Directors and Officers as a group (7 persons) | 2,316,315 | 1,056,500 | 3,372,815 | 56.0 |

(1) 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.

(2) Includes options to purchase 158,000 shares of common stock at an exercise price of \$8.00 per share expiring January 6, 2010, options to purchase 128,000 shares of common stock at an exercise price of \$3.65 per share expiring on April 9, 2011, options to purchase 128,000 shares of common stock at an exercise price of \$2.50 per share expiring on March 6, 2012, and options to purchase 222,500 shares of common stock at an exercise price of \$1.61 per share expiring on March 31, 2013.

(3) Includes options to purchase 20,000 shares of common stock at an exercise price of \$8.00 per share expiring January 6, 2010.

(4) Includes options to purchase 20,000 shares of common stock at an exercise price of \$3.65 per share expiring on April 9, 2011, and options to purchase 20,000 shares of common stock at an exercise price of \$2.50 per share expiring on March 6, 2012.

(5) Includes options to purchase 55,000 shares of common stock at an exercise price of \$1.61 per share expiring on March 31, 2013.

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(6) Includes options to purchase 10,000 shares of common stock at an exercise price of \$8.00 per share expiring January 6, 2010.

(7) Includes options to purchase 10,000 shares of common stock at an exercise price of \$2.55 expiring on October 15, 2011 and 10,000 shares of common stock at an exercise price of \$1.61 per share expiring on March 31, 2013.

(8) Includes options to purchase 10,000 shares of common stock at an exercise price of \$8.125 per share expiring January 12, 2010.

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- (9) Includes 461,975 shares held by Mr. Jackson and 600 shares held by Mr. Jackson's wife.
- (10) Includes options to purchase 10,000 shares of common stock at an exercise price of \$7.875 per share expiring on January 9, 2011.
- (11) Includes options to purchase 10,000 shares of common stock at an exercise price of \$6.12 expiring on March 25, 2014.
- (12) Includes options to purchase 10,000 shares of common stock at an exercise price of \$6.20 per share expiring on September 12, 2014.
- (13) Includes options to purchase 10,000 shares of common stock at an exercise price of \$4.50 per share expiring on December 4, 2015.

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 provides 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 fair market value of the underlying shares of common stock. No options granted under the Employee 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.

The 1996 Non-Employee Directors' Stock Option Plan

In October 1996, our stockholders adopted the 1996 Non-Employee Directors' Stock Option Plan (the "Non-Employee Directors' Plan") which provides for the grant of options to purchase an aggregate of not more than 100,000 shares of common stock. In January 2000, our shareholders approved the proposal of the Board of Directors to increase from 100,000 to 600,000 in the aggregate the number of options to purchase common stock under the Non-Employee Directors' Plan. The purpose of the Non-Employee Directors' Plan is to promote the

long-term success of the Company by creating a long-term mutuality of interests between the non-employee directors and the stockholders, to provide an

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additional inducement for such directors to remain with us and to provide a means through which we may attract able persons to serve as directors. The Non-Employee Directors' Plan is administered by a committee (the "Committee") appointed by the Board of Directors.

Under the Non-Employee Directors' Plan, on the third business day following each Annual Meeting of the stockholders, each director who is not then an employee of the Company or any of its subsidiaries is automatically granted a stock option to purchase 10,000 shares of common stock. The exercise price of all options granted under the Non-Employee Directors' Plan is equal to the fair market value of the underlying shares on the date of grant, based on guidelines set forth in the Non-Employee Directors' Plan. The exercise price 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 the discretion of the Company. The term of each option granted pursuant to the Non-Employee Directors' Plan is ten years from the date of grant; however, no such option may be exercised during the first six months of its term. The term of an option granted pursuant to the Non-Employee Directors' Plan may be reduced in the event that the optionee ceases to be a director. No option granted pursuant to the Non-Employee Directors' Plan is transferable otherwise than by will or the laws of descent and distribution.

During the fiscal year ended March 31, 2006, 30,000 options were granted under the 1996 Non-Employee Directors' Plan.

The 2004 Stock Option Plan

On March 23, 2004, our stockholders adopted the 2004 Stock Option Plan (the "2004 Plan") which provides 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.

The purpose of the 2004 Plan is to secure 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 Corporation. 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 who shall be a non-employee of the Company. The committee members currently are Anthony So, Woo Ping Fok and George O'Leary. 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 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.

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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.

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

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thousand (500,000) shares of the Corporation's Common Stock in the form of stock a stock bonus.

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

The Stock Bonus Plan shall be 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 who shall be a non-employee of the Corporation. The initial Committee members are Anthony So, Woo Ping Fok and George O'Leary. 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 September 15, 2006, no shares have 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 September 8, 2006, beneficial ownership of our common stock by each person known by us 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.

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| Name | Amount Owned | | Percent of |
|-------------------------|---------------|-----------------------|--------------------|
| ----- | Shares of | Options/Warrants to | Class (1) |
| | Common Stock | Purchase Common Stock | Beneficially Owned |
| | ----- | ----- | ----- |
| Anthony So | 1,626,195 (2) | 636,500 (3) | 36.41% |
| John Stewart Jackson IV | 462,575 | 60,000 (3) | 9.27% |
| W. Douglas Moreland | 501,400 | 0 | 8.99% |
| Royce & Associates LLC | 297,000 | 0 | 5.32% |

 (1) Based on beneficial ownership of both shares of common stock and of options to purchase common stock that is immediately exercisable.

(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.

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(3) See "Share Ownership" for additional information.

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

Of the 5,577,639 shares of common stock outstanding as of July 31, 2006, 3,713,550 were held in the United States by 209 holders of record. We have 216 shareholders of record and estimate that we have approximately 1,420 shareholders holding their stock in street name (who have not objected to their names being disclosed to us).

Related Party Transactions

During the fiscal year ended March 31, 2006 we paid Schlueter & Associates, P.C. an aggregate of \$23,519 for legal fees and expenses. Mr. Henry F. Schlueter, a director, is the Managing Director of Schlueter & Associates, P.C.

Interests of Experts and Counsel

Not Applicable.

Legal Proceedings

Not Applicable.

Item 8. Financial Information Financial Statements

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

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Item 9. The Offer and Listing

Listing Details

Our common stock is traded only in the United States over-the-counter market. It is quoted on the Nasdaq Global Market ("NASDAQ") 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, 2001 to March 31, 2002 | \$7.625 | \$2.38 |
| April 1, 2002 to March 31, 2003 | \$3.45 | \$1.41 |
| April 1, 2003 to March 31, 2004 | \$9.71 | \$1.70 |
| April 1, 2004 to March 31, 2005 | \$9.09 | \$3.90 |
| April 1, 2005 to March 31, 2006 | \$7.00 | \$3.40 |

The following table sets forth the high and low sale prices during each of the quarters in the two-year period ended June 30, 2006.

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| Period ----- | High ---- | Low --- |
|--------------------------------------|--------------|------------|
| April 1, 2004 to June 30, 2004 | \$8.28 | \$5.02 |
| July 1, 2004 to September 30, 2004 | \$9.09 | \$5.11 |
| October 1, 2004 to December 31, 2004 | \$5.63 | \$4.28 |
| January 1, 2005 to March 31, 2005 | \$6.20 | \$3.90 |
| April 1, 2005 to June 30, 2005 | \$5.48 | \$3.40 |
| July 1, 2005 to September 30, 2005 | \$7.00 | \$4.80 |
| October 1, 2005 to December 31, 2005 | \$5.35 | \$3.75 |
| January 1, 2006 to March 31, 2006 | \$5.93 | \$4.04 |
| March 31, 2006 to June 30, 2006 | \$5.28 | \$4.02 |

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

| Period ----- | High ---- | Low --- |
|-----------------|--------------|------------|
| March 2006 | \$5.44 | \$4.04 |
| April 2006 | \$5.28 | \$4.33 |
| May 2006 | \$4.97 | \$4.20 |
| June 2006 | \$4.68 | \$4.02 |
| July 2006 | \$4.25 | \$3.45 |
| August 2006 | \$3.75 | \$3.01 |

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On September 18, 2006, the closing price of our common stock was \$3.50.

Transfer and Warrant Agent

The transfer agent and registrar for the common stock and the warrant agent for the warrants is U.S. Stock Transfer Corporation, 1745 Gardena Avenue #200, Glendale, California 91204.

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 stock, class C preferred stock and class D preferred stock. Information with respect to the number of shares of common stock outstanding at the beginning and at the end of the last three fiscal years is presented in the Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended March 31, 2004, 2005 and 2006 included herein in Item 18.

At September 8, 2006, there were 5,577,639 shares of our common stock outstanding, all of which were fully paid. In addition, we had outstanding 1,104,500 options to purchase common stock as follows:

| Number of Options ----- | Exercise Price per Share ----- | Expiration Date ---- |
|-------------------------------|--------------------------------------|----------------------------|
| 228,000 | \$8.00 | January 6, 2010 |
| 20,000 | \$8.125 | January 12, 2010 |
| 30,000 | \$7.875 | January 9, 2011 |
| 196,000 | \$3.65 | April 9, 2011 |
| 10,000 | \$2.55 | October 15, 2011 |

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| | | |
|---------|--------|--------------------|
| 168,000 | \$2.50 | March 6, 2012 |
| 342,500 | \$1.61 | March 31, 2013 |
| 40,000 | \$6.12 | March 25, 2014 |
| 40,000 | \$6.20 | September 12, 2014 |
| 30,000 | \$4.50 | December 4, 2015 |

At September 15, 2006 there were no shares of our preferred stock outstanding.

Memorandum and Articles of Association

We are registered in the British Virgin Islands and have been assigned company number 9032 in the register of companies. Our registered agent is HWR Services Limited and is at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands. The object or purpose of the Company is to engage in any act or activity that is not prohibited under British Virgin Islands law as set

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forth in Paragraph 4 of our Memorandum of Association. As an International Business Company, we are prohibited from doing business with persons resident in the British Virgin Islands, owning real estate in the British Virgin Islands or acting as a bank or insurance company. We do not believe that these restrictions materially affect our operations.

Paragraph 57(c) of our Amended Articles of Association (the "Articles") provides that a director may be counted as one of a quorum in respect of any contract or arrangement in which the director is materially interested; however, if the agreement or transaction cannot be approved by a resolution of directors without counting the vote or consent of any interested director, the agreement or transaction may only be validated by approval or ratification by a resolution of the members. Paragraph 53 of the Articles allows the directors to vote compensation to themselves in respect of services rendered to the Company. Paragraph 66 of the Articles provides that the directors may by resolution exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of ours or of any third party. Such borrowing powers can be altered by an amendment to the Articles. There is no provision in the Articles for the mandatory retirement of directors. Directors are not required to own shares of the Company in order to serve as directors.

Our authorized share capital is \$170,000 divided into 23,333,334 shares of common stock, \$0.003 par value, and 10,000,000 authorized shares of preferred stock, \$0.01 par value. Holders of our common stock are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors. Holders of our common stock do not have cumulative voting rights in the election of directors. All of our common shares are equal to each other with respect to liquidation and dividend rights. Holders of our common shares are entitled to receive dividends if and when declared by our board of directors out of funds legally available under British Virgin Islands law. In the event of our liquidation, all assets available for distribution to the holders of our common shares are distributable among them according to their respective holdings. Holders of our common stock have no preemptive rights to purchase any additional un-issued common shares. No shares of our preferred stock have been issued, however the board of directors has the ability to determine the rights, preferences and restrictions to the preferred stock at their discretion.

Paragraph 7 of the Memorandum of Association provides that without prejudice to any special rights previously conferred on the holders of any

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existing shares, any share may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the directors may from time to time determine.

Paragraph 10 of the Memorandum of Association provides that if at any time the authorized share capital is divided into different classes or series of shares, the rights attached to any class or series may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of any other class or series of shares which may be affected by such variation.

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Paragraph 105 of the Articles of Association provides that our Memorandum and Articles of Association may be amended by a resolution of members or a resolution of directors. Thus, our board of directors without shareholder approval may amend our Memorandum and Articles of Association. This includes amendments to increase or reduce our authorized capital stock. Our ability to amend our Memorandum and Articles of Association without shareholder approval could have the effect of delaying, deterring or preventing a change in control of the Company, including a tender offer to purchase our common shares at a premium over the then current market price.

Provisions in respect of the holding of general meetings and extraordinary general meetings are set out in Paragraphs 68 through 77 of the Articles and under the International Business Companies Act. The directors may convene meetings of the members at such times and in such manner and places as the directors consider necessary or desirable, and they shall convene such a meeting upon the written request of members holding more than 30% of the votes of our outstanding voting shares.

British Virgin Islands law and our Memorandum and Articles of Association impose no limitations on the right of nonresident or foreign owners to hold or vote our securities. There are no provisions in the Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

A copy of our Memorandum and Articles of Association, as amended, has been filed as an exhibit to the Registration Statement on Form F-2 (SEC File No. 333-32524).

Material Contracts

The following summarizes each material contract, other than contracts entered into in the ordinary course of business, to which Bonso or any subsidiary of Bonso is a party, for the two years immediately preceding the filing of this report:

We signed a Banking Facility Letter dated July 11, 2005 between Bonso and KBC Bank Hong Kong Branch for a HK \$40,000,000 discount of export invoice, negotiation of export letter of credit discrepancies, packing loan, export bills and standby letter of credit.

We signed a Banking Facility Letter, dated June 8, 2005 between Bonso and Standard Chartered Bank for a working capital facility for a HK \$55,000,000 current account overdraft and discrepant credit bills negotiated and a HK \$22,000,000 standby letter of credit.

We signed a Banking Facility Letter, dated May 24, 2005 between Bonso and the Hong Kong and Shanghai Banking Corporation Limited for a HK \$37,000,000 overdraft facility, import/export facility, trust receipt facility and a D/A

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bill facility.

We signed a Banking Facility Letter, dated February 2, 2006 between Bonso and Hang Seng Bank Limited for a HK \$48,000,000 letter of credit, trust receipt facility, export D/P bills, export trade loan and overdraft facility.

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We signed a Banking Facility Letter, dated August 19, 2005 between Bonso and the Natexis Banques Populaires Hong Kong Branch for a U.S. \$2,500,000 discount of export invoice, negotiation of export letter of credit discrepancies, packing loan and export bills.

Exchange Controls

There are no exchange control restrictions on payments of dividends on our common stock or on the conduct of our operations either in Hong Kong, where our principal executive offices are located, or the British Virgin Islands, where we are incorporated. Other jurisdictions in which we conduct operations may have various exchange controls. Taxation and repatriation of profits regarding our China operations are regulated by Chinese laws and regulations. To date, these controls have not had and are not expected to have a material impact on our financial results. There are no material British Virgin Islands laws that impose foreign exchange controls on us or that affect the payment of dividends, interest or other payments to holders of our securities who are not residents of the British Virgin Islands. British Virgin Islands law and our Memorandum and Articles of Association impose no limitations on the right of nonresident or foreign owners to hold or vote our securities.

Taxation

Under current British Virgin Islands law, we are not subject to tax on our income. Most of our subsidiaries' profits accrue in Hong Kong, Canada and Germany where the corporate tax rates are currently 17.5%, 36% and 28%, respectively. However, as Korona is a partnership, it is only subject to 14.17% of the local statutory rate in Germany. 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, Germany, Hong Kong or China.

No reciprocal tax treaty regarding withholding 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, if any, irrespective of their residential or national status.

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 (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.

A foreign corporation will be treated as a passive foreign investment

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company ("PFIC") for United States federal income tax purposes if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, 75% or more of its gross income consists of certain types of

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passive income or 50% or more of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. We presently believe that we are not a PFIC and do not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. If we were to be classified as a PFIC in any taxable year, (i) U.S. Holders would generally be required to treat any gain on sales of our shares held by them as ordinary income and to pay an interest charge on the value of the deferral of their United States federal income tax attributable to such gain and (ii) distributions paid by us to our U.S. Holders could also be subject to an interest charge. In addition, we would not provide information to our U.S. Holders that would enable them to make a "qualified electing fund" election under which, generally, in lieu of the foregoing treatment, our earnings would be currently included in their United States federal income.

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

Documents on Display

You may read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the Securities and Exchange Commission (the "Commission") at the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also obtain copies of our Commission filings by going to the Commission's website at <http://www.sec.gov>.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this Annual Report on Form 20-F.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a certain level of interest rate risk and foreign currency exchange risk.

Interest Rate Risk

Our interest rate risk primarily arises from our long-term debt and our general banking facilities. At March 31, 2006 our total long-term debt was \$0, and we had utilized \$6,766,723 of our total banking facilities of \$36,018,301. Based on the maturity profile and composition of our long-term debt and general banking facilities, including the fact that our banking facilities are at variable interest rates, we estimate that changes in interest rates will not have a material impact on our operating results or cash flows. We intend to manage our interest rate risk through appropriate borrowing strategies. We have not entered into interest rate swap or risk management agreements; however, it is possible that we may do so in the future.

A summary of our debts as at March 31, 2006 which were subjected to variable interest rates is as below:

| | March 31, 2006 ---- | Interest rate ---- |
|------------------|---------------------------|---|
| Notes payable | \$3,310,673 | HIBOR + 1.5% |
| Short-term loans | \$2,936,467 | Prime rate minus 0.5% or EONIA +1.15% to 1.95% HIBOR + 1.5% |

HIBOR: Hong Kong Interbank Offered Rate

Prime rate: The prime rate as determined by the Hong Kong Bankers Association

EONIA : Euro OverNight Index Average.

All the balances above are due within one year.

For further information concerning our banking facilities the interest rates payable, and repayment terms please see Note 7 to our Consolidated Financial Statements.

Foreign Currency Exchange Rates

For a discussion of our Foreign Currency Exchange Risk, See Item 5. Operating and Financial Review and Prospects "Foreign Currency Exchange Rates."

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

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

None.

Item 15. Controls and Procedures

Based on an evaluation carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-15(d) and 15d-15(e), were, as of the end of the period covered by this report, to the

best of their knowledge, effective. There has been no change in our internal control over financial reporting during the year ended March 31, 2006 that has

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materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our officers also concluded that disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to management to allow timely decisions regarding required disclosure.

During the period covered by this annual report and during the last fiscal quarter, no change has occurred in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

We are aware of the importance of maintaining controls and procedures and are continuing to work towards improving our controls and procedures. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, ("Section 404"), we will be required to include an internal control report of management with our annual report on Form 20-F, beginning with the fiscal year ending March 31, 2008.

In connection with this required Section 404 evaluation, we are planning to perform the system and process evaluation and testing required (and any necessary remediation) in an effort to comply with such requirements by the effective date for compliance. Our efforts to implement standardized internal control procedures and develop the internal tests necessary to verify the proper application of the internal control procedures and their effectiveness will be a key area of focus for our board of directors, our audit committee and our senior management. This evaluation is expected to underlie the internal control report of management and auditor attestation requirements of Section 404.

Item 16. Reserved

Item 16A. Audit Committee Financial Expert

Bonso does not have an independent member of the audit committee that is deemed to be a financial expert.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer. We intend to disclose any changes in or waivers from our code of ethics by filing a Form 6-K. Stockholders may request a free copy in print form from our Director of Finance at:

Bonso Electronics International, Inc.
Unit 1106 - 1110
11/F, Star House
3 Salisbury Road
Tsimshatsui
Kowloon, Hong Kong

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Item 16C. Principal Accountant Fees and Services.

Audit Committee's pre-approval policies and procedure

The Audit Committee must pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services does not impair the auditor's independence. Before the Company or

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any of its subsidiaries engages the independent auditor to render a service, the engagement must be either:

- (1) specifically approved by the Audit Committee; or
- (2) entered into pursuant to this Pre-Approval Policy.

The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee may periodically revise the list of pre-approved services.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee may not delegate to management the Audit Committee's responsibilities to pre-approve services performed by the independent auditor.

The Audit Committee must specifically pre-approve the terms of the annual audit services engagement. The Audit Committee shall approve, if necessary, any changes in terms resulting from changes in audit scope, Company structure or other matters. In addition to the annual audit services engagement approved by the Audit Committee, the Audit Committee may grant pre-approval for other audit services, which are those services that only the independent auditor reasonably can provide.

The Audit Committee may grant pre-approval to those permissible non-audit services classified as other services that it believes would not impair the independence of the auditor, including those that are routine and recurring services.

The Audit Committee may consider the amount or range of estimated fees as a factor in determining whether a proposed service would impair the auditor's independence. Where the Audit Committee has approved an estimated fee for a service, the pre-approval applies to all services described in the approval. However, in the event the invoice in respect of any such service is materially in excess of the estimated amount or range, the Audit Committee must approve such excess amount prior to payment of the invoice. The Audit Committee expects that any requests to pay invoices in excess of the estimated amounts will include an explanation as to the reason for the overage. The Company's independent auditor will be informed of this policy.

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The Company's management shall inform the Audit Committee of each service performed by the independent auditor pursuant to this Pre-Approval Policy. Requests or applications to provide services that require separate approval by the Audit Committee shall be submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's and the Public Company Accounting Oversight Board's rules on auditor independence.

The audit fee indicated below was pre-approved by the Audit Committee before the auditor commenced their work.

Audit Fees

The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for the audit of the Corporation's annual consolidated financial statements for the fiscal year ended March 31, 2006 were \$236,538 and

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for the fiscal year ended March 31, 2005 were \$220,000.

Audit Related Fees

There were no fees billed by PricewaterhouseCoopers for professional services rendered for assurance and related services provided by PricewaterhouseCoopers that were reasonably related to the performance of the audit and are not reported above under "Audit Fees" for the fiscal year ended March 31, 2006 and for the fiscal year ended March 31, 2005.

Tax Fees

The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for tax compliance for the fiscal year ended March 31, 2006 were \$6,000 and for the fiscal year ended March 31, 2005 were \$6,000.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Pursuant to NASDAQ Marketplace Rule 4350(a), a foreign private issuer may follow its home country practice in lieu of Rule 4350, which sets forth the qualitative Listing Requirements for NASDAQ listed companies. Rule 4350 requires, among other things, that a listed company have at least three members on its audit committee. The Company currently has an audit committee consisting of one director who is deemed to be "independent" as defined in NASDAQ Marketplace Rule 4200. The Company has obtained a written statement from independent counsel in the British Virgin Islands certifying that the Company's corporate governance practices relating to the single member audit committee is not prohibited by British Virgin Island law. See "NASDAQ Exemptions and Home Country Practices."

Item 16E. Purchasers of Equity Securities by the Issuer and Affiliated Purchasers.

In August 2001, the Company's Board of Directors authorized a program for the Company to repurchase up to \$500,000 of its common stock. This repurchase program does not obligate the Company to acquire any specific number of shares

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or acquire shares over any specified period of time. The Company did not repurchase any shares during the fiscal year ended March 31, 2006. However, the Company may from time to time repurchase shares of its Common Stock under this program.

PART III

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

The following Financial Statements are filed as part of this Annual Report:

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| | ---- |
| Report of Independent Registered Public Accounting Firm | F-1 |
| Index to Consolidated Financial Statements | F-2 |
| Consolidated Balance Sheets as of March 31, 2005 and 2006 | F-4 |
| Consolidated Statements of Income (Loss) and Comprehensive | F-5 |

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| | |
|--|------------------|
| Income (Loss) for the years ended March 31, 2004, 2005 and 2006 | |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended March 31, 2004, 2005 and 2006 | F-6 |
| Consolidated Statements of Cash Flows for the years ended March 31, 2004, 2005 and 2006 | F-7 |
| Notes to Consolidated Financial Statements | F-8 through F-34 |

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Item 19. Exhibits.

- 4.1 Banking Facility Letter dated July 11, 2005 between Bonso and KBC Bank Hong Kong Branch.
- 4.3 Banking Facility Letter, dated June 8, 2005 between Bonso and Standard Chartered Bank (1)
- 4.4 Banking Facility Letter, dated August 19, 2005 between Bonso and Natexis Banques Populaires Hong Kong Branch (1)
- 4.5 Banking Facility Letter, dated May 24, 2005 between Bonso and the Hong Kong and Shanghai Banking Corporation Limited (1)
- 4.6 Banking Facility Letter, dated February 2, 2006 between Bonso and Hang Seng Bank Limited (1)
- 11.1 Code of Ethics For Chief Executive Officer and Chief Financial Officer (2)
- 12.1 Certification of Officer Pursuant to Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Officer Pursuant to Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.3 Certification Pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-
- (1) These documents previously filed as Exhibits to our Annual Report for the fiscal year ended March 31, 2004 on Form 20-F and is hereby incorporated by reference.
 - (2) Filed as an Exhibit on Form 20-F filed with the Commission on August 13, 2004.

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SIGNATURE

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

BONSO ELECTRONICS INTERNATIONAL INC.

Dated September 29, 2006

/s/ Anthony So

Anthony So, Chairman of the Board,
Secretary, Treasurer, Chief Financial
Officer, and Director

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Consolidated Financial Statements

Bonso Electronics International Inc.
(Incorporated in the British Virgin Islands)

March 31, 2006

Bonso Electronics International Inc.
Index to Consolidated Financial Statements

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|--|-------------|
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| Report of Independent Registered Public Accounting Firm..... | F-1 |
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| Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the years ended March 31, 2004, 2005 and 2006..... | F-3 |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended March 31, 2004, 2005 and 2006..... | F-4 |
| Consolidated Statements of Cash Flows for the years ended March 31, 2004, 2005 and 2006..... | F-5 and F-6 |
| Notes to Consolidated Financial Statements..... | F-7 to F-28 |

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of
Bonso Electronics International Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of Bonso Electronics International Inc. and its subsidiaries at March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing

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the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Hong Kong,
September 29, 2006

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Bonso Electronics International Inc
Consolidated Balance Sheets
(Expressed in United States Dollars)

| | | March 31 | |
|---|------|--------------|--------------|
| | Note | 2005 | 2006 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 9,707,588 | 8,582,200 |
| Restricted cash deposits | | 4,848 | -- |
| Trade receivables, net | 2 | 10,585,968 | 6,740,200 |
| Inventories | 3 | 11,402,239 | 15,035,200 |
| Tax recoverable | | 486,618 | 183,300 |
| Deferred income tax assets - current | 5 | 52,057 | -- |
| Other receivables, deposits and prepayments | | 1,425,297 | 1,963,000 |
| | | 33,664,615 | 32,504,100 |
| Deposits | | 97,814 | 188,500 |
| Long term investment | | 500,000 | 500,000 |
| Deferred income tax assets - non current | 5 | 46,849 | 82,500 |
| Goodwill | 10 | 1,100,962 | 842,800 |
| Brand name and other intangible assets, net | 10 | 2,740,530 | 2,526,900 |
| Property, plant and equipment | | | |
| Leasehold land and buildings | | 12,478,098 | 13,787,300 |
| Plant and machinery | | 15,657,016 | 16,286,000 |
| Furniture, fixtures and equipment | | 6,097,481 | 4,341,100 |
| Motor vehicles | | 357,343 | 456,200 |
| | | 34,589,938 | 34,870,700 |
| Less: accumulated depreciation and impairment | | (20,277,952) | (22,036,700) |
| | | 14,311,986 | 12,833,900 |
| Total assets | | 52,462,756 | 49,478,800 |

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Liabilities and shareholders' equity

| | | | |
|---|---|------------|----------|
| Current liabilities | | | |
| Bank overdraft | 7 | 281,085 | 471,2 |
| Notes payable | 7 | 3,744,726 | 3,310,6 |
| Accounts payable | | 6,938,578 | 6,288,2 |
| Accrued charges and deposits | | 1,978,222 | 2,434,9 |
| Short-term loans | 7 | 4,742,685 | 2,936,4 |
| Current portion of long-term debt | 4 | 249,271 | 48,3 |
| Current portion of capital lease obligations | 6 | 384,616 | 166,8 |
| | | ----- | ----- |
| Total current liabilities | | 18,319,183 | 15,656,7 |
| | | ----- | ----- |
| Long-term debt, net of current maturities | 4 | 7,479 | -- |
| Capital lease obligations, net of current maturities | 6 | 160,256 | -- |
| Deferred tax liability | 5 | 43,856 | 19,8 |
| Commitments and contingencies (Notes 6 and 11) | | | |
| Shareholders' equity | | | |
| Preferred stock par value \$0.01 per share | | | |
| - authorized shares - 10,000,000 | | | |
| - issued and outstanding shares: 2005 & 2006-Nil | | -- | -- |
| Common stock par value \$0.003 per share | | | |
| - authorized shares - 23,333,334 | | | |
| - issued and outstanding shares : 2005 & 2006-5,577,639 | | 16,729 | 16,7 |
| Additional paid-in capital | | 21,764,788 | 21,764,7 |
| Retained earnings | | 11,307,642 | 11,234,0 |
| Accumulated other comprehensive income | | 842,823 | 786,7 |
| | | ----- | ----- |
| | | 33,931,982 | 33,802,2 |
| | | ----- | ----- |
| Total liabilities and shareholders' equity | | 52,462,756 | 49,478,8 |
| | | ===== | ===== |

See notes to these consolidated financial statements

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Bonso Electronics International Inc
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in United States Dollars)

| | Note | Year ended March 31, | | |
|-------------------------------------|------|----------------------|------------|-------|
| | | 2004 | 2005 | |
| | | ----- | ----- | ----- |
| | | \$ | \$ | |
| Net sales | 15 | 74,964,085 | 69,602,192 | 64,5 |
| Cost of sales | | 57,481,103 | 53,138,410 | 51,1 |
| | | ----- | ----- | ----- |
| Gross margin | | 17,482,982 | 16,463,782 | 13,4 |
| Selling expenses | | 3,121,900 | 2,595,222 | 2,1 |
| Salaries and related costs | | 5,150,345 | 5,215,798 | 5,6 |
| Research and development expenses | | 739,730 | 710,355 | 8 |
| Administration and general expenses | | 5,438,995 | 4,079,201 | 3,4 |

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| | | | | |
|---|----|-----------|-----------|-------|
| Amortization of brand name | 10 | 200,000 | 200,000 | 2 |
| Impairment of goodwill | 10 | -- | -- | 2 |
| | | ----- | ----- | ----- |
| Income from operations | 15 | 2,832,012 | 3,663,206 | 9 |
| Interest income | | 57,169 | 80,955 | 2 |
| Interest expenses | | (499,512) | (416,774) | (5) |
| Foreign exchange gain/(loss) | | 15,081 | (98,051) | (1) |
| Other income | | 224,292 | 372,133 | 1 |
| | | ----- | ----- | ----- |
| Income before income taxes and minority interest | | 2,629,042 | 3,601,469 | 6 |
| Income tax expense | 5 | (401,504) | (266,059) | (1) |
| | | ----- | ----- | ----- |
| Net income before minority interest | | 2,227,538 | 3,335,410 | 4 |
| Minority interest | | 41,072 | 14,202 | |
| | | ----- | ----- | ----- |
| Net income | | 2,268,610 | 3,349,612 | 4 |
| | | | | |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments net of tax | | 142,777 | 290,354 | (|
| | | ----- | ----- | ----- |
| Comprehensive income | | 2,411,387 | 3,639,966 | 4 |
| | | ===== | ===== | ===== |
| | | | | |
| Earnings per share | 12 | | | |
| Basic | | \$ 0.40 | \$ 0.59 | \$ |
| | | ===== | ===== | ===== |
| | | | | |
| Diluted | | \$ 0.37 | \$ 0.55 | \$ |
| | | ===== | ===== | ===== |

See notes to these consolidated financial statements

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Bonso Electronics International Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in United States Dollars)

Common stock

| | Shares issued and outstanding | Amount outstanding | Additional paid-in capital | Common Stock held at treasury | Retained earnings |
|--|-------------------------------------|-----------------------|----------------------------------|-------------------------------------|----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| | | \$ | \$ | \$ | \$ |
| Balance, March 31, 2003 | 5,529,133 | 16,583 | 21,458,376 | (38,832) | 6,533,224 |
| Net income | -- | -- | -- | -- | 2,268,610 |
| Common stock issued upon exercise of warrants | 32,982 | 99 | 272,003 | -- | -- |
| Purchase of common stock | (14,576) | (43) | (25,806) | -- | -- |
| Retirement of common stock | (19,900) | (60) | (38,772) | 38,832 | -- |
| Dividend paid | -- | -- | -- | -- | (286,041) |
| Foreign exchange translation adjustment | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |

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| | | | | | |
|--|-----------|--------|------------|-------|------------|
| Balance, March 31, 2004 | 5,527,639 | 16,579 | 21,665,801 | -- | 8,515,793 |
| | ===== | ===== | ===== | ===== | ===== |
| Net income | -- | -- | -- | -- | 3,349,612 |
| Common stock issued upon exercise of warrants | 50,000 | 150 | 98,987 | -- | -- |
| Dividend paid | -- | -- | -- | -- | (557,763) |
| Foreign exchange translation adjustment | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, March 31, 2005 | 5,577,639 | 16,729 | 21,764,788 | -- | 11,307,642 |
| | ===== | ===== | ===== | ===== | ===== |
| Net Income | -- | -- | -- | -- | 484,128 |
| Dividend Paid | -- | -- | -- | -- | (557,764) |
| Foreign exchange translation adjustment | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, March 31, 2006 | 5,577,639 | 16,729 | 21,764,788 | -- | 11,234,006 |
| | ===== | ===== | ===== | ===== | ===== |

See notes to these consolidated financial statements

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Bonso Electronics International Inc.
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)

| | Year Ended March 31, | | |
|---|----------------------|-------------|-------------|
| | 2004 | 2005 | 2006 |
| | ----- | ----- | ----- |
| | \$ | \$ | |
| Cash flows from operating activities | | | |
| Net income | 2,268,610 | 3,349,612 | 484,128 |
| Adjustments to reconcile net income to net cash provided by operating activities : | | | |
| Depreciation | 2,675,549 | 2,206,099 | 2,149,599 |
| Amortization | 553,491 | 566,987 | 520,599 |
| Impairment on property | 161,499 | 148,198 | 69,079 |
| Reversal of software impairment | (150,000) | -- | -- |
| Loss/(gain) on disposal of fixed assets | 39,867 | 35,392 | (110,939) |
| Minority interest | (41,072) | (14,203) | -- |
| Impairment on goodwill | -- | -- | 258,149 |
| Other | (296,957) | (28,029) | (59,389) |
| Changes in assets and liabilities: | | | |
| Trade receivable | (4,198,142) | (196,199) | 3,845,739 |
| Other receivables, deposits and prepayments | 277,576 | (561,664) | (537,719) |
| Deposits | -- | -- | (90,719) |
| Notes receivable | 358,188 | -- | -- |
| Inventories | 1,774,586 | (520,307) | (3,632,979) |
| Accounts payable | 1,929,512 | (1,341,461) | (650,369) |
| Accrued charges and deposits | 1,274,511 | (973,575) | 456,779 |

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| | | | |
|---|-------------|-------------|-----------|
| Tax recoverable | (58,464) | (428,154) | 303,22 |
| Income tax payable | 331,572 | (279,485) | -- |
| Deferred tax | 139,718 | (27,534) | (7,61 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 7,040,044 | 1,935,677 | 2,997,56 |
| | ----- | ----- | ----- |
| Cash flows from investing activities | | | |
| Restricted cash deposits | 4,099,831 | (511) | 4,84 |
| Deposits for property, plant and equipment | (617,056) | -- | -- |
| Proceeds from disposal of property, plant and equipment | 115,721 | 22,256 | 579,89 |
| Acquisition of property, plant and equipment | (2,543,734) | (684,398) | (1,340,13 |
| Acquisition of long term investment | -- | (500,000) | -- |
| | ----- | ----- | ----- |
| Net cash provided by/(used in) investing activities | 1,054,762 | (1,162,653) | (755,39 |
| | ----- | ----- | ----- |
| F-5 | | | |
| Bonso Electronics International Inc. Consolidated Statements of Cash Flows (continued) (Expressed in United States Dollars) | | | |
| Cash flows from financing activities | | | |
| Issue of shares on exercise of warrants and options | 272,102 | 99,137 | -- |
| Repurchase of redeemable common stock | -- | (1,445,808) | -- |
| Repurchase of common stock | (25,849) | -- | -- |
| Proceeds from long-term borrowings | 79,025 | -- | -- |
| Capital lease inception/(payments) | 668,025 | (433,869) | (454,03 |
| Net (repayment)/advance under banking facilities | (1,763,094) | 167,234 | (2,299,65 |
| Payment of dividends to stockholders | (286,041) | (557,763) | (557,76 |
| | ----- | ----- | ----- |
| Net cash used in financing activities | (1,055,832) | (2,171,069) | (3,311,45 |
| | ----- | ----- | ----- |
| Net increase/(decrease) in cash and cash equivalents | 7,038,974 | (1,398,045) | (1,069,27 |
| Net effect of cumulative translation adjustment | 142,777 | 290,354 | (56,05 |
| Cash and cash equivalents, beginning of year | 3,633,528 | 10,815,279 | 9,707,58 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of year | 10,815,279 | 9,707,588 | 8,582,25 |
| | ===== | ===== | ===== |
| | 2004 | 2005 | 200 |
| | \$ | \$ | |
| Supplemental disclosure of cash flow information | | | |
| Cash paid during the year for: | | | |
| Interest paid | 499,512 | 416,774 | 494,31 |
| Income tax paid, net of (refund) | (21,123) | 329,483 | 153,00 |
| Non-cash investing and financing activities | | | |
| Other intangible assets reclassified from deposit | -- | 544,267 | -- |
| Property, plant and machinery acquired under | | | |

capital leases

1,551,119

--

188,71

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

1 Description of business and significant accounting policies

Bonso Electronics International Inc. ("the Company") and its subsidiaries (collectively, the "Group") are engaged in the designing, manufacturing and selling of a comprehensive line of electronic scales and weighing instruments, electronic consumer products and telecommunication products.

The consolidated financial statements have been prepared in United States dollars and in accordance with generally accepted accounting principles in the United States of America. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include provisions made against inventories and trade receivable, the valuation of long-lived assets, and the impairment of goodwill. Actual results could differ from those estimates.

The significant accounting policies are as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Group. All significant intercompany accounts and transactions are eliminated in consolidation.

Acquisitions of companies have been consolidated from the date on which control of the net assets and operations was transferred to the Group.

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the excess of the purchase cost over the fair value of assets acquired less liabilities assumed of acquired companies.

(b) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments.

(c) 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

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inventory obsolescence based on inventory levels, material composition and expected usage as of that date.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

1 Description of business and significant accounting policies

(d) 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 collectibility 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 shipped to the customer from our facility. Shipping costs billed to our customers are included within revenue. Associated costs are classified in cost of goods sold.

The company provides to certain customers an additional 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 at the time of sale and estimated based on past history. 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.

(e) Long Term Investment

Long term investment is related to a 7% zero coupon capital guaranteed fund with maturity on October 11, 2007. Long term investment is recorded at amortized cost. The company is intended to hold this investment until maturity.

(f) Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

Long-lived assets held and used by the Group and intangible assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Group 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. For the year ended March 31, 2006, the Group made a provision for impairment of approximately \$69,077 on investment properties due to the decline in market value.

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Goodwill is subject to an annual impairment review. The evaluation of goodwill for impairment involves two steps: (1) the identification of potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill and (2) the measurement of the amount of goodwill loss by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill and recognizing a loss by the excess of the latter over the former. The company measures fair value based upon internal models. Based on the assessment for the year ended March 31, 2006, the Group made a provision for impairment of goodwill of approximately \$258,141 for Korona Hauschaltswaren GmbH & Co.KG due to the continued weak performance of the scales business.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

1 Description of business and significant accounting policies

(g) Brand name

Brand name acquired as part of the purchase of a business is capitalized based on the estimated fair value as at the date of acquisition and amortized using the straight-line method over the related estimated useful life of 15 years. Where an indication of impairment exists, the carrying amount of the brand name is assessed and written down to its recoverable amount.

(h) Other intangible assets

Other intangible assets represent taxi licenses which are stated at cost and are amortized on a straight-line basis over the related granted useful life of 50 years, representing the shorter of the remaining term of the lease or the expected useful life to the Group.

(i) Property, plant and equipment

(i) Property, plant and equipment are stated at cost. Leasehold land and buildings are amortized on a straight-line basis over 15 to 50 years, representing the shorter of the remaining term of the lease or the expected useful life to the Group.

(ii) Other fixed assets are carried at cost and depreciated using the straight-line method over their expected useful lives to the Group. The principal annual rates used for this purpose are:

| | |
|-----------------------------------|----------------|
| Plant and machinery | - 14% to 33.3% |
| Furniture, fixtures and equipment | - 20% |
| Motor vehicles | - 20% |

(iii) The cost of major improvements and betterments is capitalized, whereas the cost of maintenance and repairs is expensed in the year incurred.

(iv) Any gain or loss on disposal is included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(j) Trade receivable

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Provisions are made against trade receivables to the extent that collection is considered to be doubtful.

(k) Research and development costs

Research and development costs are expensed in the financial period during which they are incurred.

(l) Advertising

Advertising costs are expensed as incurred and are included within selling expenses. (2006: 255,006, 2005: \$246,193 and 2004: \$363,160).

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

1 Description of business and significant accounting policies

(m) Deferred income taxes

Amounts in the consolidated financial statements related to income taxes are calculated using the principles of SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 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 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 to the extent that realization of such benefits is more likely than not to occur.

(n) Foreign currency translations

(i) The Group's functional currency is the United States dollar. The financial statements of foreign subsidiaries where the United States dollar is the functional currency and which have certain transactions denominated in non-United States dollar currencies are translated into United States dollars at the exchange rates existing on that date. The translation of local currencies into United States dollars creates transaction adjustments which are included in net income (loss). Translations for transactions are recorded on their respective dates. Exchange differences are recorded in the Statements of Income (Loss) and Comprehensive Income (Loss).

(ii) The financial statements of foreign subsidiaries, where the non-United States dollar currencies are the functional currencies, are translated into United States dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates during each reporting period for statement of income. Adjustments resulting from translation of these financial statements are reflected as a separate component of shareholders' equity in accumulated other comprehensive income.

(o) Stock options

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Stock options have been granted to employees, directors and non-employee directors. Upon exercise of the options, the holder can acquire share of common stock of the Group at an exercise price determined by the board of directors. The options are exercisable based on the vesting terms stipulated in the option agreements or plan. The Group follows the intrinsic method of accounting for these options.

The Company applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. Under APB Opinion No. 25, as the exercise price of all the options issued by the Company was equal to or higher than the market price of the underlying stock on the date of grant, no compensation expense had been recognized for the years ended March 31, 2004, 2005 and 2006.

The Company has applied the pro forma fair value disclosures as permitted under SFAS No.123. If the Company had accounted for its stock option plans by recording compensation based on the fair value at grant date for such awards consistent with the method of SFAS No.123, the Company's net (loss) income and net (loss) income per share would have been increased/reduced to the pro forma amounts as follows:

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

| | | | | |
|---|--|------------|------------|------------|
| 1 | Description of business and significant accounting policies | 2004 \$ | 2005 \$ | 2006 \$ |
| | Net income as reported | 2,268,610 | 3,349,612 | 484,128 |
| | Deduct: | | | |
| | Total stock-based employee compensation expense determined under fair value based method for all stock options, net of related tax effects | (844,525) | (191,712) | (83,605) |
| | Pro forma net income | 1,424,085 | 3,157,900 | 400,523 |
| | Basic earnings per share | | | |
| | As reported | \$0.40 | \$0.59 | \$0.09 |
| | Pro forma | \$0.25 | \$0.56 | \$0.07 |
| | Diluted earnings per share | | | |
| | As reported | \$0.37 | \$0.55 | \$0.08 |
| | Pro forma | \$0.23 | \$0.52 | \$0.07 |

(p) Warrants issued for non - cash consideration

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Warrants issued in consideration for services rendered are recorded at fair value and a charge equivalent to fair value is included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The warrants have been accounted for in accordance with EITF 96-18 "Accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, Goods or Services". The fair value for these warrants is estimated at the date of grant using a Black-Scholes Option Valuation model.

(q) Recent accounting pronouncements

In May 2005, the FASB issued SFAS No.154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No.20, "Accounting Changes" and SFAS No.3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). SFAS 154 changes the requirements of the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognised by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after 15 December 2005; however, the statement does not change the transitional provisions of any existing accounting pronouncements. The Group does not believe the adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

In March 2005, the SEC issued SAB No.107"Share Based Payment" which offers guidance on SFAS No.123(R). SAB No.107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No.123(R) while enhancing the information that investors receive. SAB No.107 creates a framework that is premised on two overarching themes: (i) considerable judgement will be required by preparers to successfully implement SFAS No.123(R), specifically when valuing employee stock options; and (ii) reasonable individuals, acting in good faith, may reach different

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

1 Description of business and significant accounting policies

conclusions on the fair value of employee stock options. Key topics covered by SAB No.107 include valuation models, expected volatility and expected term. The Group will adopt SAB No.107 concurrently with the adoption of SFAS No.123(R) with effect from April 1, 2006. The Group does not expect the adoption of this SAB to have a material impact on its consolidated financial position or results of operations.

In October 2005, the FASB issued FSP FAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No.123(R)". The FSP provides an exception to the application of the concept of "mutual understanding" in the determination of whether a grant date has occurred. The exception permits companies to measure compensation cost for equity awards to employees on the Board approval date if certain conditions are met, provided that the communication to the employee occurs within a "relatively short period of time" from the approval date. The Group will adopt the provisions of this FSP concurrently with the adoption of SFAS

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No.123(R) with effect from April 1, 2006. The Group does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In November 2005, the FASB issued FSP FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Award" which provides an elective shortcut approach when a company transitions to SFAS 123(R). The alternative method significantly simplifies the calculation of the beginning pool. The FSP provides guidance for the presentation of excess tax benefits in the statement of cash flows for companies that elect to adopt the simplified alternative method of calculating the pool. The guidance in the FSP is effective on November 10, 2005. The FSP allows up to one year from initial adoption of SFAS 123(R) on April 1, 2006 to evaluate the available transition alternatives. The Group does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In November 2005, the FASB issued FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlements upon the Occurrence of a Contingent Event" which provides that an option or similar instrument that is classified as equity, but subsequently becomes a liability because the contingent cash settlement event is probable of occurring, shall be accounted for similar to a modification from an equity to liability award. The Group does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In July 2006, the FASB released FIN 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109 ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is effective for annual periods beginning after December 15, 2006. The Group is in the process of assessing the impact of the recent accounting pronouncement.

In September 2006, the FASB issued FAS 157, Fair Value Measurements. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group is in the process of assessing the impact of the recent accounting pronouncement.

(r) Comparatives

Certain of the comparative figures have been reclassified to confirm with the current year's presentation.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

2 Allowance for doubtful accounts

Changes in the allowance for doubtful accounts comprise:

| | 2004 | 2005 | 2006 |
|------------------------------|-----------|-----------|-----------|
| | \$ | \$ | \$ |
| Balance, April 1 | 421,339 | 383,770 | 399,006 |
| Exchange adjustment | 24,076 | 18,744 | (21,415) |
| Additions charged to expense | 187,679 | 197,310 | 223,388 |
| Write-off | (249,324) | (200,818) | (373,978) |
| | ----- | ----- | ----- |
| Balance, March 31 | 383,770 | 399,006 | 227,001 |
| | ===== | ===== | ===== |

3 Inventories

The components of inventories are as follows:

| | 2005 | 2006 |
|------------------|------------|------------|
| | \$ | \$ |
| Raw materials | 5,958,084 | 6,005,337 |
| Work in progress | 2,194,432 | 3,423,775 |
| Finished goods | 3,249,723 | 5,606,104 |
| | ----- | ----- |
| | 11,402,239 | 15,035,216 |
| | ===== | ===== |

During the years ended March 31, 2004, 2005 and 2006 there were non-cash write-offs of specific inventories of \$24,407, \$233,246 and \$26,592 respectively.

4 Long-term debt

Long-term debt comprises:

| | March 31 | |
|--|-----------|----------|
| | 2005 | 2006 |
| | \$ | \$ |
| Long term bank loan at bank's floating base rate + 4%, denominated in Canadian dollars | 48,611 | 7,197 |
| Mortgage loan at bank's prime interest rate + 1.15%, denominated in Canadian dollars | 171,093 | 41,132 |
| Business loans at bank's prime interest rate + 1.10%, denominated in Canadian dollars | 37,046 | -- |
| | ----- | ----- |
| Long-term debt | 256,750 | 48,329 |
| Less: current portion | (249,271) | (48,329) |
| | ----- | ----- |
| Long-term debt, less current maturities | 7,479 | -- |
| | ===== | ===== |

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

5 Taxation

- (a) The companies comprising the Group are subject to tax on an entity basis on income arising in or derived from Hong Kong, the Peoples' Republic of China ("PRC"), Germany, the United States, the United Kingdom and Canada. The current rates of taxation of the subsidiaries operating in Hong Kong and Shenzhen in the PRC are 17.5% and 7.5% respectively. The subsidiary of the Group in Germany is registered as a partnership in Germany which is subject to a statutory tax rate of 14.17%. The Group is not subject to income taxes in the British Virgin Islands. The statutory tax rates in the United States, the United Kingdom and Canada are 15%, 30%, and 36% respectively.
- (b) Pursuant to the relevant income tax laws in the PRC, Bonso Electronics (Shenzhen) Co., Ltd, a wholly owned subsidiary of the Company, was fully exempt from PRC state income tax for two years starting from the first profit-making year followed by a 50% reduction over the ensuing three years. The first profit-making year of Bonso Electronics (Shenzhen) Co., Ltd. was deemed to be the financial year ended December 31, 1998 and the last year it was entitled to this benefit was December 31, 2002. In 2003, Bonso Electronics (Shenzhen) Co., Ltd was accredited as an "Advanced Corporation" A further 50% tax reduction was granted for another three years and the last year it is entitled to this benefit is December 31, 2005. With effect from January 1, 2006, Bonso Electronics (Shenzhen) Co., Ltd is subject to a 10% income tax.
- (c) The components of the income tax benefit (expense) are as follows:

| | 2004 | 2005 | 2006 |
|---------------------------------------|-----------|-----------|-----------|
| | \$ | \$ | \$ |
| Deferred income tax benefit (expense) | (149,468) | 27,434 | 21,194 |
| Current income tax expense | (252,036) | (293,493) | (152,668) |
| | ----- | ----- | ----- |
| Total income tax expense | (401,504) | (266,059) | (131,474) |
| | ===== | ===== | ===== |

- (d)
- | | 2005 | 2006 |
|-----------------------------|--------|--------|
| | \$ | \$ |
| Deferred income tax | 98,906 | 82,529 |
| Deferred income liabilities | 43,856 | 19,863 |

Deferred tax assets comprise the following:

| | 2005 | 2006 |
|---------------------------|-----------|-----------|
| | \$ | \$ |
| Tax loss carry forwards | 479,341 | 349,914 |
| Others | (42,779) | (55,185) |
| Less: Valuation allowance | (337,656) | (212,200) |

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| | | |
|-------------------------|----------|--------|
| Net deferred tax assets | 98,906 | 82,529 |
| Less: current portion | (52,057) | -- |
| Non-current portion | 46,849 | 82,529 |

As of March 31, 2006, the Group had accumulated tax losses amounting to \$2,469,400 (the tax effect thereon is \$349,914), which may be carried forward and applied to reduce future taxable income which is earned in or derived from Germany. Realization of deferred tax assets associated with tax loss carry forwards is dependent upon generating sufficient taxable

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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income prior to their expiration. A valuation allowance is established against such tax losses when management believes it is more likely than not that a portion may not be utilized.

As of March 31, 2006, the Group's accumulated tax losses have no definite period of expiration.

5 Taxation (Continued)

(e) Changes in the valuation allowance consist of:

| | 2004 | 2005 | 2006 |
|--|---------|---------|-----------|
| | \$ | \$ | \$ |
| Balance, April 1 | 163,645 | 251,429 | 337,656 |
| Charged/(credited) to income tax expense | 87,784 | 86,227 | (125,456) |
| Balance, March 31 | 251,429 | 337,656 | 212,200 |

(f) The actual income tax expense attributable to earnings for the years ended March 31, 2004, 2005 and 2006 differed from the amounts computed by applying the Hong Kong statutory tax rate in accordance with the relevant income tax law as a result of the following:

| | 2004 | 2005 | 2006 |
|--|-----------|-----------|-----------|
| | \$ | \$ | \$ |
| Hong Kong statutory tax rate | 17.5% | 17.5% | 17.5% |
| Income tax expense at the Hong Kong statutory tax rate | (460,082) | (630,257) | (107,730) |
| Offshore profit not subject to income tax | 348,194 | 688,668 | 154,444 |
| Expenses not deductible for income tax purposes | (158,710) | (169,596) | (370,962) |
| Changes in valuation allowance | (87,784) | (86,227) | 125,456 |

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| | | | |
|---|-----------|-----------|-----------|
| (Under)/over provision for Hong Kong tax in prior years | (30,987) | (69,389) | 6,623 |
| Income tax rate differentials | (22,310) | (4,424) | 55,602 |
| Tax losses utilized | 10,175 | 5,166 | 5,093 |
| | ----- | ----- | ----- |
| Total income tax expense | (401,504) | (266,059) | (131,474) |

6 Leases

(a) Capital leases

Motor vehicles and plant and machinery include the following amounts for capitalized leases:

| | Motor vehicles | | Plant and machinery | |
|--------------------------------|----------------|-------|---------------------|-----------|
| | ----- | | ----- | |
| | March 31 | | March 31 | |
| | ----- | | ----- | |
| | 2005 | 2006 | 2005 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cost | 110,065 | -- | 2,316,002 | 1,731,894 |
| Less: accumulated amortization | (110,065) | -- | (1,527,540) | (388,894) |
| | ----- | ----- | ----- | ----- |
| | -- | -- | 788,462 | 1,343,000 |
| | ===== | ===== | ===== | ===== |

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

6 Leases (Continued)

During the years ended March 31, 2004, 2005 and 2006, the Group entered into additional capital lease obligations amounting to \$1,551,119, \$Nil and \$188,718 respectively.

Future minimum payments under capital leases as of March 31, 2006 with an initial term of more than one year are as follows:

| | |
|---|----------|
| | \$ |
| 2007 | 180,470 |
| | ----- |
| Total minimum lease payments | 180,470 |
| Less: amount representing interest | (13,668) |
| | ----- |
| Present value of net minimum lease payments (including current portion of 166,802 as of March 31, 2006) | 166,802 |
| | ===== |

(b) Operating leases

As of March 31, 2006, future minimum lease payments in respect of non-cancellable operating leases for factory, office premises and staff

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quarters in Hong Kong, the PRC, Germany, the United States, the United Kingdom and Canada are as follows:

| | | \$ |
|------------|--|-----------|
| 2007 | | 1,032,270 |
| 2008 | | 910,346 |
| 2009 | | 847,961 |
| 2010 | | 1,095,197 |
| Thereafter | | 17,104 |
| | | ----- |
| | | 3,902,878 |
| | | ===== |

Rental expense for all operating leases amounted to \$478,986, \$521,819 and \$688,469 for the year ended March 31, 2004, 2005 and 2006, respectively.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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7 Banking facilities

As of March 31, 2006, the Group had general banking facilities for bank overdrafts, letters of credit, notes payable and short-term loans. The facilities are interchangeable with total amounts available of \$36,018,301 (2005: \$29,909,886). The general banking facilities utilized by the Group are denominated in United States dollars, Hong Kong dollars, Japanese Yen and Canadian dollars.

The Group's general banking facilities, expressed in United States dollars, are further detailed as follows:

| | Amount available | | Amount utilized | |
|------------------------------|------------------|------------|-----------------|-----------|
| | March 31 | | March 31 | |
| | 2005 | 2006 | 2005 | 2006 |
| | \$ | \$ | \$ | \$ |
| Import and export Facilities | | | | |
| Letters of credit | 21,987,179 | 26,602,564 | 3,785,817 | 3,310,673 |
| Including sub-limit of: | | | | |
| Notes payable | 20,846,154 | 20,846,154 | 3,744,726 | 3,310,673 |

Terms of b

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| | | | | | |
|----------------------------|------------------------------|------------------------------|-----------------------------|-----------------------------|-----------------------------------|
| Short-term loans | 6,231,026 | 7,246,526 | 4,742,685 | 2,936,467 | Pr mi or EON t or HIB |
| Other facilities | | | | | |
| Bank overdrafts | 1,434,931 | 1,912,461 | 281,085 | 471,254 | +0.5 or HIB |
| Long-term debt (Note 4) | 256,750 | 256,750 | 256,750 | 48,329 | Pr +1% t or HIB |
| | ----- 29,909,886 ===== | ----- 36,018,301 ===== | ----- 9,066,337 ===== | ----- 6,766,723 ===== | |

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

7 Banking facilities (Continued)

The amounts of banking facilities utilized by the Group are denominated in the following currencies:

| | Amount utilized | |
|-----------------------|-----------------------------|-----------------------------|
| | March 31 | |
| | 2005 | 2006 |
| | \$ | \$ |
| Euro | 4,742,686 | 2,936,467 |
| Hong Kong dollars | 2,688,542 | 2,261,593 |
| Japanese Yen | 44,822 | -- |
| United States dollars | 1,052,452 | 1,041,883 |
| Canadian dollars | 537,835 | 526,780 |
| | ----- 9,066,337 ===== | ----- 6,766,723 ===== |

The Prime Rate and HIBOR rate were 8% and 4.4846% per annum, respectively, as of March 31, 2006. The Prime Rate is determined by the Hong Kong Bankers Association and is subject to revision from time to time.

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The banking facilities are collateralised by the following:

- (a) bank guarantee of \$6,618,333 (2005: \$5,740,000) and restricted cash deposits of \$Nil (2005: \$4,848). The restricted cash deposits have original maturities of less than three months;
- (b) a legal charge over a leasehold property of one of the Group's subsidiaries with net book value of \$Nil (2005: \$449,428);
- (c) a personal guarantee of \$102,000 (2005: \$102,000) by a director of one of the Group's subsidiaries.

The weighted average interest rate of short-term borrowings of the Group is as follows:

| | Year ended March 31 | |
|------------------|---------------------|-------|
| | 2005 | 2006 |
| Bank overdrafts | 5.00% | 6.01% |
| Notes payable | 3.33% | 4.83% |
| Short-term loans | 3.33% | 4.35% |

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

8 Related party transactions

- (a) The Group paid emoluments, commissions and/or consultancy fees to its directors as follows:

Year ended

| March 31 | Mr. So Hung Gun, Anthony | Ms. Pang Kit Teng, Cathy | Mr. Chun Kim Wah | | |
|----------|-----------------------------|-----------------------------|--------------------------|------------------------|--|
| ----- | ----- | ----- | ----- | | |
| 2004 | \$630,821(iii) | \$128,015 | \$152,554(ii) | | |
| 2005 | \$700,000(iii) | \$111,912 | \$134,350(ii) | | |
| 2006 | \$583,215(iii) | \$113,913 | \$137,990(ii) | | |
| | Mr. Fok Woo Ping | Mr. George O'Leary | Mr. J Stewart Jackson | Mr. Henry Schlueter | |
| | ----- | ----- | ----- | ----- | |
| 2004 | Nil | \$172,125(i) | Nil | \$230,909(iv) | |
| 2005 | Nil | \$158,766(v) | Nil | \$119,201(iv) | |
| 2006 | Nil | \$240,000 | Nil | \$ 23,519(iv) | |

- (i) This represented consultancy fee paid to Mr. George O'Leary. Since April 1, 2001, a monthly consultancy fee was paid to Mr. O'Leary for provision of support and marketing services in the United States.

- (ii) Included in the emoluments is a housing allowance for \$38,462 for each

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of the three years in the period ended March 31, 2006 payable to a company in which Mr. Chung Kim Wah has a beneficial interest.

- (iii) Apart from the emoluments paid by the Group as shown above, one of the properties of the Group in Hong Kong is also provided to Mr. So Hung Gun, Anthony as part of his compensation.
 - (iv) Mr. Henry Schlueter was appointed as a director of the Company on October 10, 2001. The amount for the years ended March 31, 2004, 2005 and 2006 represented professional fees paid to Schlueter & Associates, P.C., the Group's SEC counsel in which Mr. Henry Schlueter is one of the principals.
 - (v) Included in the emoluments is a monthly consultancy fee to Mr. O'Leary for provision of support and marketing services in the United States and director fee since January 17, 2005.
- (b) For the year ended March 31, 2005, the Group sold scales to Tantric Europe Ltd. ("Tantric") amounting to \$99,410. There was no such transaction in the year ended March 31, 2006. Tantric is 100% (2005: 100%) owned by Mohan Thadani, the Chief Executive Officer and minority shareholder of one of the subsidiaries of the Company.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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9 Provident fund plan

- (a) With effect from January 1, 1988, Bonso Electronics Limited ("BEL"), a wholly-owned foreign subsidiary of the Company, 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.

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 in or after December 2000, excluding factory workers, are eligible to join the MPF.

- (b) Members of the Plan are required to contribute 5% of their monthly salary. The contribution by BEL is as follows:

| Years of service ----- | % of salary as BEL's contribution ----- |
|---------------------------|--|
| Less than 5 years | 5.0% |
| 5 to 10 years | 7.5% |
| More than 10 years | 10.0% |

Members' and employers' contributions to the MPF are both at 5% of the members' monthly salaries and are subject to a maximum contribution of HK\$1,000 monthly.

- (c) At normal retirement age, death or ill health, the member shall be entitled to receive from the Plan a lump sum equal to the total of the member's and

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BEL's contributions plus the return on their investment. On resignation prior to normal retirement age, a member shall be entitled to receive from the Plan a lump sum equal to the member's contributions plus a percentage of the employer's balance determined in accordance with a predetermined set scale.

On resignation or at normal retirement age, death or ill health, the member of the MPF shall be entitled to a lump sum equal to the total of the member's and BEL's contributions plus the return on their investment.

- (d) BEL's total contributions to the Plan and the MPF for the years ended March 31, 2004, 2005 and 2006 aggregated \$77,402, \$83,277 and \$95,339 respectively.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

10 Goodwill, Brand name and Other intangible assets

Goodwill, brand name and other intangible assets are analysed as follows:

| | Goodwill | | Brand name | | Other intangible |
|------------------------------------|------------------|----------------|------------------|------------------|------------------|
| | ----- | | ----- | | ----- |
| | March 31 | | March 31 | | March |
| | 2005 | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ | \$ |
| Cost | 1,100,962 | 1,100,962 | 3,000,000 | 3,000,000 | 544,267 |
| Less: accumulated amortization | -- | -- | (802,608) | (1,002,608) | (1,129) |
| Less: impairment loss for the year | -- | (258,141) | -- | -- | -- |
| | <u>1,100,962</u> | <u>842,821</u> | <u>2,197,392</u> | <u>1,997,392</u> | <u>543,138</u> |
| | ===== | ===== | ===== | ===== | ===== |

Goodwill of the Group of \$842,821 as at March 31, 2006 (2005: \$1,100,962) was not subject to amortization. Amortization expense in relation to brand name was \$200,000 for each of the years ended March 31, 2004, 2005 and 2006. Amortization expense in relation to other intangible assets was \$Nil, \$1,129, \$13,548 for each of the years ended March 31, 2004, 2005 and 2006.

As of March 31, 2006, future minimum amortization expenses in respect of brand name and other intangible assets are as follows:

| Brand name | Other intangible assets |
|------------|-------------------------|
| \$ | \$ |

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| | | |
|------------|-----------|-----------|
| 2007 | 200,000 | 13,548 |
| 2008 | 200,000 | 13,548 |
| 2009 | 200,000 | 13,548 |
| 2010 | 200,000 | 13,548 |
| 2011 | 200,000 | 13,548 |
| Thereafter | 997,392 | 461,850 |
| | ----- | ----- |
| Total | 1,997,392 | \$529,590 |
| | ===== | ===== |

Based on the assessment for the year ended March 31, 2006, the Group made a provision for impairment of goodwill of approximately \$258,141 for Korona Hauschaltswaren GmbH & Co.KG due to the continued weak performance of the scales business.

11 Commitments and contingencies

As of March 31, 2006, the Group had commitments to acquire plant and machineries from third parties for an aggregate consideration of \$65,692 (2005: \$230,055), of which \$32,607 (2005: \$86,567) had been paid as deposits.

Contractual arrangements we have entered into among our us and our subsidiary in China may be subject to scrutiny by China tax authorities and a finding against Bonso and its subsidiary in China may result in additional tax liabilities that could substantially reduce our consolidated net income and the value of our investment. Under Chinese laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the Chinese tax authorities determine that the contractual arrangements among our wholly owned subsidiary in China and Bonso do not represent an arm's length price and adjust Bonso or its China subsidiary's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, increase its tax liabilities for Chinese tax purposes. Our consolidated net income may be materially and adversely affected if our affiliated entities' tax liabilities increase.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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12 Earnings per share

| | Year ended March 31 | | |
|--|---------------------|-----------|-----------|
| | 2004 | 2005 | 2006 |
| | \$ | \$ | \$ |
| Income available to common Shareholders | 2,268,610 | 3,349,612 | 484,128 |
| Weighted average shares outstanding | 5,702,015 | 5,646,676 | 5,577,639 |
| Incremental shares from assumed exercise of: | | | |
| Warrants | 3,746 | -- | -- |
| Stock options | 354,503 | 407,627 | 360,005 |

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| | | | |
|----------------------------------|-----------|-----------|-----------|
| Dilutive potential common shares | 358,249 | 407,627 | 360,005 |
| Diluted weighted average shares | 6,060,264 | 6,054,303 | 5,937,644 |
| Basic earnings per share | \$0.40 | \$0.59 | 0.09 |
| Diluted earnings per share | \$0.37 | \$0.55 | 0.08 |

Basic earnings per share is computed by dividing net income/(loss) available to common shareholders by the weighted average number of shares of common stock issued and outstanding. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive shares of common stock that were outstanding during the period, including warrants and stock options.

Options to purchase 40,000 shares, 40,000 shares, 30,000 shares, 228,000 and 20,000 shares of common stock at \$6.20, \$6.12, \$7.875, \$8.00 and \$8.125, respectively, were outstanding as at March 31, 2006 but were not included in the calculation of diluted earnings per share during the year ended March 31, 2006 due to their anti-dilutive effect.

13 Shareholders' equity

Preferred stock

The Company had authorized share capital of \$100,000 or 10,000,000 shares of preferred stock, with par value of \$0.01 each, divided into 2,500,000 shares each of class A preferred stock, class B preferred stock, class C preferred stock and class D preferred stock. Shares may be issued within each class from time to time by the Company's Board of Directors in its sole discretion without the approval of the shareholders with such designations, power, preferences, rights, qualifications, limitation and restrictions as the Board of Directors shall fix and as have not been fixed in the Company's Memorandum of Association. The Company had not issued any shares of preferred stock as of March 31, 2006.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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14 Stock option and bonus plans

- (a) 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 stock bonus.

The purpose of this 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 the Stock Bonus Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company.

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The Stock Bonus Plan shall be 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 who shall be a non-employee of the Company. The initial Committee members are Anthony So, Woo Ping Fok and George O'Leary. 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.

On March 23, 2004, our stockholders adopted the 2004 Stock Option Plan (the "2004 Plan") which provides 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 Plan.

The purpose of the 2004 Plan is to secure 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 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 who shall be a non-employee of the Company. The committee members currently are Anthony So, Woo Ping Fok and George O'Leary. 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 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 Stock Option 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.

In October 1996, the Board of Directors approved the 1996 Stock Option Plan and 1996 Non-Employee Directors' Stock Option Plan. Under the 1996 Stock Option Plan, the Company may grant options of common stock to certain employees and directors of the Company for a maximum of 900,000 shares. The 1996 Stock Option Plan is administered by a committee appointed by the Board of Directors which determines the terms of options granted, including the exercise price, the option periods and the number of shares to be subject to each option. The exercise price of options granted under the 1996 Stock Option Plan may be less than the fair market value of the common shares on the date of grant. The maximum term of options granted under the 1996 Stock Option Plan is 10 years. The right to acquire the common shares is not assignable except for certain conditions stipulated in the 1996 Stock Option Plan.

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Notes to Consolidated Financial Statements (Expressed in United States Dollars)

Under the 1996 Non-Employee Directors' Stock Option Plan, the non-employee directors are automatically granted stock options on the third business day following the day of each annual general meeting of the Company to purchase an aggregate of 600,000 shares of common stock. The exercise price of all options granted under the 1996 Non-Employee Directors' Stock Option Plan shall be one hundred percent of the fair market value per share of the common shares on the date of grant. The maximum term of options granted under the 1996 Non-Employee Directors' Stock Option Plan is 10 years. No stock option may be exercised during the first six months of its term except for certain conditions provided in the 1996 Non-Employee Directors' Stock Option Plan. The right to acquire the common shares is not assignable except for under certain conditions stipulated in the 1996 Non-Employee Directors' Stock Option Plan.

In April 2003, the Company issued options to certain directors and non-employee directors of the Company to purchase an aggregate of 372,500 shares of common stock of the Company at an exercise price of \$1.61. The options shall expire on March 31, 2013 and can be exercised at any time after granting. The exercise prices of these options were equal to the fair market value at the time of grant. 30,000 options have been exercised during the year ended March 31, 2005 and no option was exercised during the year ended March 31, 2006.

In March 2004, the Company issued options to certain non-employee directors of the Company to purchase an aggregate of 40,000 shares of common stock of the Company at an exercise price of \$6.12. The options shall expire on March 25, 2014 and can be exercised at any time after granting. The exercise prices of these options were equal to the fair market value at the time of grant. No such option was exercised during the year ended March 31, 2006.

In September 2004, the Company issued options to certain non-employee directors of the Company to purchase an aggregate of 40,000 shares of common stock of the Company at an exercise price of \$6.20. The options shall expire on September 12, 2014 and can be exercised at any time after granting. The exercise prices of these options were equal to the fair market value at the time of grant. No such option was exercised during the year ended March 31, 2006.

In December 2005, the Company issued options to certain non-employee directors of the Company to purchase an aggregate of 30,000 shares of common stock of the Company at an exercise price of \$4.50. The options shall expire on December 4, 2015 and can be exercised at any time after granting. The exercise prices of these options were equal to the fair market value at the time of grant. No such options had been exercised during the year ended March 31, 2006.

(b) The stock options summary as of March 31, 2006 is as follows:

| | Number of shares | Average per share Exercise price |
|-------------------------|---------------------|--|
| Balance, March 31, 2004 | 1,084,500 | \$ 3.95 |
| Exercised | (50,000) | (\$1.99) |
| Granted | 40,000 | \$ 6.20 |

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| | | |
|-------------------------|-----------|---------|
| | ----- | ----- |
| Balance, March 31, 2005 | 1,074,500 | \$ 4.13 |
| Granted | 30,000 | \$ 4.50 |
| Balance, March 31, 2006 | 1,104,500 | \$ 4.13 |

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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- (c) The following table summarizes the information about all stock options of the Company outstanding as at March 31, 2006:

| Weighted average exercise price | Number outstanding at March 31, 2006 | Weighted average remaining life (years) | Exercisable shares at March 31, 2006 |
|------------------------------------|--|--|--|
| ----- | ----- | ----- | ----- |
| \$8.125 | 20,000 | 3.8 | 20,000 |
| \$8.000 | 228,000 | 3.8 | 228,000 |
| \$7.875 | 30,000 | 4.8 | 30,000 |
| \$3.650 | 196,000 | 5.0 | 196,000 |
| \$2.550 | 10,000 | 5.5 | 10,000 |
| \$2.500 | 168,000 | 5.9 | 168,000 |
| \$1.610 | 342,500 | 7 | 342,500 |
| \$6.120 | 40,000 | 8 | 40,000 |
| \$6.200 | 40,000 | 8.5 | 40,000 |
| \$4.500 | 30,000 | 9.75 | 30,000 |
| | ----- | | ----- |
| \$4.009 | 1,104,500 | 5.85 | 1,104,500 |
| | ===== | | ===== |

- (d) Pro forma information regarding net income and earnings per share is required by SFAS No. 123 "Accounting for Stock-Based Compensation", and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The weighted average fair value of options granted during the years ended March 31, 2004, 2005 and 2006 were \$844,525, \$191,712 and \$83,605 respectively. The fair value for these options was estimated at the date of grant using a Black-Scholes Option Valuation model with the following weighted-average assumptions for the years ended March 31, 2004, 2005 and 2006:

| | 2004 | 2005 | 2006 |
|--|---------|-----------|----------|
| | \$ | \$ | \$ |
| Weighted risk-free interest rate | 2.83% | 4.46% | 4.29% |
| Dividend yield | 1.53% | 1.80% | 2% |
| Weighted volatility factor of the expected market price of the Company's common share | 98.24% | 110% | 69.14% |
| Weighted average expected life of the option | 5 years | 7.2 years | 10 years |

The Company has applied the pro forma fair value disclosures as permitted under SFAS No.123.

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15 Business segment information

- (a) The Group is organized based on the products it offers. This organizational structure, the Group's operation can be classified into three business segments, Scales, Telecommunications products and Other.

Scales operations principally involve production and marketing of sensor based scales products. These include bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications.

Telecommunication products operations principally involve production and modification of two-way radios and cordless telephones that are used in consumer and commercial applications.

The Group established the "Other" segment which principally includes the activities of (i) tooling and mould charges for scales and telecommunication products, and (ii) supporting service to customers including performing repair work for customers and sales of spare parts.

The accounting policies of the Group's reportable segments are the same as those described in the description of business and significant accounting policies.

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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15 Business segment information

Summarized financial information by business segment for 2004, 2005 and 2006 is as follows:

| | Net sales | Operating profit/(loss) | Identifiable assets as of March 31 | Depreciation and amortization | Capital expenditures |
|----------------------------|------------|-------------------------|------------------------------------|-------------------------------|----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| | \$ | \$ | \$ | \$ | |
| 2006 | | | | | |
| ----- | | | | | |
| Scales | 43,553,161 | 5,545,751 | 21,518,522 | 740,575 | 3 |
| Telecommunication products | 20,750,920 | (959,436) | 15,856,567 | 1,110,862 | 5 |
| Other | 238,882 | 42,999 | 796,704 | 58,078 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating segments | 64,542,963 | 4,629,314 | 38,171,793 | 1,909,515 | 8 |
| Corporate | -- | (3,718,271) | 11,307,095 | 760,671 | 4 |
| | ----- | ----- | ----- | ----- | ----- |
| Group | 64,542,963 | 911,043 | 49,478,888 | 2,670,186 | 1,3 |
| | ===== | ===== | ===== | ===== | ===== |
| 2005 | | | | | |
| ----- | | | | | |

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| | | | | | |
|----------------------------|------------|-----------|------------|-----------|-------|
| Scales | 47,256,574 | 3,345,455 | 21,193,423 | 443,740 | 1 |
| Telecommunication products | 20,656,491 | 230,177 | 8,461,183 | 793,796 | 1 |
| Other | 1,689,127 | 304,595 | 716,479 | 58,078 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating segments | 69,602,192 | 3,880,227 | 30,371,085 | 1,295,614 | 2 |
| Corporate | -- | (217,021) | 22,091,671 | 1,477,472 | 4 |
| | ----- | ----- | ----- | ----- | ----- |
| Group | 69,602,192 | 3,663,206 | 52,462,756 | 2,773,086 | 6 |
| | ===== | ===== | ===== | ===== | ===== |

2004

| | | | | | |
|----------------------------|------------|-------------|------------|-----------|-------|
| Scales | 46,211,039 | 5,827,669 | 27,443,213 | 1,566,913 | 2,6 |
| Telecommunication products | 27,450,322 | 1,026,131 | 8,718,211 | 1,238,270 | 1 |
| Other | 1,302,724 | 173,870 | 716,479 | 58,078 | 1 |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating segments | 74,964,085 | 7,027,670 | 36,877,903 | 2,863,261 | 2,9 |
| Corporate | -- | (4,195,658) | 16,720,542 | 365,779 | |
| | ----- | ----- | ----- | ----- | ----- |
| Group | 74,964,085 | 2,832,012 | 53,598,445 | 3,229,040 | 2,9 |
| | ===== | ===== | ===== | ===== | ===== |

Operating profit by segment equals total operating revenues less expenses that are related to the segment's operating revenues. Operating loss of the corporate segment consists principally of salaries and related costs of administrative staff, and administration and general expenses of the Group. Identifiable assets by segment are those assets that are used in the operation of that segment. Corporate assets consist principally of cash and cash equivalents, deferred income tax assets and other identifiable assets not related specifically to individual segments. Goodwill of \$1,100,962, \$1,100,962 and \$842,821 arising from the purchase of Korona Hauschaltswaren GmbH & Co.KG and Gram Precision Scales, Inc. is included in identifiable assets of the Scales segment as of March 31, 2004, 2005 and 2006 respectively. Impairment loss of goodwill of \$258,141 in relation to Korona Hauschaltswaren GmbH & Co.KG is included in the operating results of the Scales segment for the year ended March 31, 2006.

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Bonso Electronics International Inc.
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- (b) The Group primarily operates in Hong Kong, the PRC, Germany, Canada, the United States and the United Kingdom. The manufacture of components and their assembly into finished products is carried out in the PRC. The Hong Kong office is mainly responsible for various corporate activities, the purchase of raw materials, arrangement of shipments and research and development. Subsidiaries in Germany, Canada, the United States and the United Kingdom are responsible for the distribution of electronics scales and telecommunication products in Europe and North America. As the operations are integrated, it is not practicable to distinguish the net income derived among the activities in Hong Kong, the PRC, Germany, Canada, the United States and the United Kingdom.

Total property, plant and equipment, net by geographical areas are as

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follows:

| | 2005 | 2006 |
|--|------------|------------|
| | \$ | \$ |
| Hong Kong | 3,771,080 | 3,685,511 |
| The PRC | 9,522,560 | 8,674,403 |
| Germany | 275,946 | 136,495 |
| Canada | 687,135 | 270,194 |
| United States of America | 42,316 | 66,474 |
| United Kingdom | 12,949 | -- |
| Poland | -- | 852 |
| | ----- | ----- |
| Total property, plant and equipment, net | 14,311,986 | 12,833,929 |
| | ===== | ===== |

- (c) The following is a summary of net sales by geographical areas, which are defined by the final shipment destination, constituting 10% or more of total sales of the Group for the years ended March 31, 2004, 2005 and 2006:

| | Year ended March 31 | | | | | |
|--------------------------|---------------------|------|--------------|------|------------|------|
| | 2004 | % | 2005 | % | 2006 | % |
| | \$ | | \$ | | \$ | |
| Canada | 3,768,000 | 5% | \$ 2,686,951 | 4% | 1,637,447 | 3% |
| United States of America | 41,302,191 | 55% | 38,638,906 | 55% | 37,352,618 | 58% |
| Germany | 17,429,011 | 23% | 15,025,103 | 22% | 13,302,506 | 21% |
| United Kingdom | 3,879,272 | 5% | 2,769,900 | 4% | 2,262,160 | 3% |
| Other EC countries | 6,483,109 | 9% | 7,948,970 | 11% | 7,997,740 | 12% |
| Asia and Others | 2,102,502 | 3% | 2,532,362 | 4% | 1,990,492 | 3% |
| | ----- | --- | ----- | --- | ----- | --- |
| | 74,964,085 | 100% | 69,602,192 | 100% | 64,542,963 | 100% |
| | ===== | === | ===== | === | ===== | === |

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

- (d) The details of sales made to customers constituting 10% or more of total sales of the Group are as follows:

| | Business segment | Year ended March | | | |
|------------------------------|-----------------------------|------------------|----|------------|----|
| | | 2004 | % | 2005 | % |
| | | \$ | | \$ | |
| Sunbeam Products, Inc. (USA) | Scales | 10,301,621 | 14 | 11,708,143 | 17 |
| TTI Tech Co., Ltd. | Tele-communication products | 18,664,970 | 25 | 7,309,546 | 11 |

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| | | | | | |
|------------------------------|------------------------------------|---------------------|-----------|---------------------|-------------|
| Global Link Corporation Ltd. | Tele- communication products | 7,927,646 ----- | 11 --- | 11,893,578 ----- | 17 --- |
| | | 36,894,237 ===== | 50 === | 30,911,267 ===== | 45 ===== |

16 Fair value of financial instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" defines the fair value of a financial instrument at which the instrument could be exchanged in a current transaction between willing parties.

The carrying value of all of the Group's financial instruments classified as current assets or current liabilities are deemed to approximate fair value because of the short maturity of these instruments. These would include cash and cash equivalents, accounts receivable, accounts payable and accrued and other liabilities, which are reflected on the consolidated balance sheets.

In the opinion of management, the carrying amount of the Group's long-term debt approximates fair value as the interest rate applicable is believed to approximate the market rates that would be offered to the Group for debts with same remaining maturities.

17 Post balance sheet date events

On August 13, 2006, Bonso entered into a letter of intent to acquire approximately 100,000 square meters of land for future expansion. Under the terms of the letter of intent, the cost of the land is approximately \$760,000. No payment has been made as of the date of this report.