BONSO ELECTRONICS INTERNATIONAL INC
Form 20-F
September 30, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended March 31, 2011

OR

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

OR

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

Commission File Number: 0-17601

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

British Virgin Islands
(Jurisdiction of incorporation or organization)

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

Albert So, Chief Financial Officer
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Unit 1404, 14/F, Cheuk Nang Centre,
9 Hillwood Road, Tsimshatsui
Kowloon, Hong Kong
(Name, Telephone, email and/or fax number and address of Company Contact Person)

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

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

COMMON STOCK, PAR VALUE $.003

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

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

5,577,639 shares of common stock, $0.003 par value, at March 31, 2011 (including 330,736 shares that are held in treasury)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.
Yes o No x

If the report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15D of the Securities Exchange Act of 1934.
Yes o No x

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

Yes x No o

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

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

Large Accelerated Filer o Accelerated Filer o Non-accelerated filer x

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 o Item 18 o

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

Yes o No x

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FORWARD-LOOKING STATEMENTS

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

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

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

FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

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

REFERENCES

In this Annual Report, “China” refers to all parts of the People's Republic of China other than the Special Administrative Region of Hong Kong. The terms “Bonso,” “we,” “our,” “us,” “The Group” and the “Company” refer to Bonso Electr International Inc. and, where the context so requires or suggests, our direct and indirect subsidiaries. References to “dollars,” “U.S. Dollars” or “US$” are to United States Dollars, “HK$” are to Hong Kong Dollars, “Euros” or “euro” are t European Monetary Union's Currency, and “RMB” are to Chinese Renminbi.

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

A. Selected Financial Data.

The selected consolidated financial data as of March 31, 2010 and 2011 and for each of the three fiscal years ended March 31, 2011 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, 2007, 2008 and 2009, and for each of the two fiscal years in the period ended March 31, 2008, have been derived from our audited consolidated financial statements that are not included in this Annual Report. The selected consolidated financial data is qualified in their entirety by reference to, and should be read in conjunction with, the Consolidated Financial Statements and related notes included in the F pages of this Annual Report and Item 5. – "Operating and Financial Review and Prospects" included in this Annual Report.

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SELECTED CONSOLIDATED FINANCIAL DATA

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

	Year Ended March 31,				
	2007 (1)(2) $	2008 (1)(2) $	2009 (1)(2)(3) $	2010 (1)(2) $	2011 (1)(2) $
Net sales	48,272	45,496	40,378	28,543	28,387
Cost of sales	(40,304)	(43,629)	(34,707)	(23,693)	(24,760)
Gross margin	7,968	1,867	5,671	4,850	3,627
Selling expenses	(874)	(720)	(649)	(375)	(249)
Salaries and related costs	(3,017)	(3,541)	(3,777)	(2,539)	(2,716)
Research and development expenses	(983)	(883)	(792)	(580)	(334)
Administration and general expenses	(1,655)	(3,351)	(4,602)	(2,011)	(1,959)
Amortization of brand name	(200)	(200)	-	-	-
Impairment of goodwill	-	(843)	-	-	-
Impairment of brand name	-	(1,597)	-	-	-
Impairment on share investment	-	(200)	-	-	-
Income (loss) from operations	1,239	(9,468)	(4,149)	(655)	(1,631)
Interest income	309	198	127	103	6
Interest expenses	(122)	(448)	(209)	(69)	(56)
Foreign exchange loss	(193)	(431)	(279)	(522)	(130)
Gain on disposal of property	-	3,124	162	-	155
Gain on disposal of intangible assets	-	-	-	-	41
Other (expenses) income	(236)	592	707	620	184
Income (loss) before income taxes and minority interest	997	(6,433)	(3,641)	(523)	(1,431)
Income tax (expense) benefit	(910)	341	(208)	(9)	-
Income (loss) from continuing operations	87	(6,092)	(3,849)	(532)	(1,431)
Loss from discontinued operations	(1,458)	(2,458)	(3,735)	(126)	(129)
Net loss	(1,371)	(8,550)	(7,584)	(658)	(1,560)
Earnings (loss) per share					
- Continuing operations	$ 0.01	$ (1.09)	$ (0.73)	$ (0.10)	$ (0.27)
- Discontinued operations	$ (0.26)	$ (0.44)	$ (0.72)	$ (0.03)	$ (0.02)
- Total	$ (0.25)	$ (1.53)	$ (1.45)	$ (0.13)	$ (0.29)
Weighted average shares	5,577,639	5,577,639	5,246,903	5,246,903	5,246,903
Diluted weighted average shares	5,937,644	5,577,639	5,246,903	5,246,903	5,246,903

(1) The diluted net loss per share was the same as the basic net loss per share for the fiscal years ended March 31, 2007, 2008, 2009, 2010 and 2011 as all potential ordinary shares, including the stock options, are anti-dilutive and therefore excluded from the computation of diluted net loss per share.

(2) The statement of operations for fiscal years ended March 31, 2007, 2008, 2009, 2010 and 2011 present continuing and discontinued operations in conjunction with the Consolidated Financial Statements.

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

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

			March 31,		
	2007 (1)	2008 (1)	2009 (1)	2010 (1)	2011 (1)
	$	$	$	$	$
Cash and cash equivalents	8,118	9,654	8,044	8,085	5,407
Working capital of continuing operations	16,842	11,815	11,244	10,538	7,933
Total assets of continuing operations	-	34,044	25,620	23,489	21,807
Total assets of discontinued operations	-	7,742	3,819	200	5
Total assets	47,519	41,786	29,439	23,689	21,812
Current liabilities of continuing operations	16,394	11,990	6,993	6,789	6,285
Long-term debts and capital leases	59	184	52	-	-
Deferred income tax assets	87	22	-	-	-
Total liabilities of continuing operations	-	14,774	9,654	9,403	8,899
Total liabilities of discontinued operations	-	6,107	5,787	1,098	1,086
Common stock	17	17	17	17	17
Shareholders' equity	31,051	20,904	13,998	13,188	11,827
Dividends declared per share	-	-	-	-	-

(1) The selected financial data for balance sheets for fiscal years ended March 31, 2007, 2008, 2009, 2010 and 2011 present continuing and discontinued operations in conjunction with the Consolidated Financial Statements.

Risk Factors

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

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

We Could Face Increased Currency Risks If China Does Not Maintain The Stability Of The Hong Kong Dollar or the Chinese Renminbi. The Hong Kong Dollar and the United States Dollar have been fixed at approximately 7.80 Hong Kong Dollars to 1.00 U.S. Dollar since 1983. From 1994 until July 2005, the Chinese Renminbi had remained stable against the U.S. Dollar at approximately 8.28 to 1.00 U.S. Dollar. On July 21, 2005, the Chinese currency regime was altered to link the RMB to a "basket of currencies," which includes the U.S. Dollar, Euro, Japanese Yen and Korean Won. Under the rules, the RMB is allowed to move 0.3% on a daily basis against the U.S. Dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3% daily movement against the U.S. Dollar to 0.5%. Following the removal of the U.S. Dollar peg, the RMB appreciated more than 20% against the U.S. Dollar over the following three years. Since July 2008, however, the RMB has traded within a narrow range against the U.S. Dollar. As a consequence, the RMB has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. Dollar. On June 20, 2010, the People's Bank of China ("PBOC") announced that the government of the People's Republic of China ("PRC") would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. It is difficult to predict how this new policy may impact the RMB exchange rate. As of September 20, 2011, the RMB was valued at 6.3595 per U.S. Dollar. On June 19, 2010, the PBOC released a statement indicating that it would "proceed further with reform of the RMB exchange rate regime and increase the RMB exchange rate flexibility." Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position and the value of our common shares and any dividends payable to our common shareholders in U.S. Dollars. In addition, the Chinese government continues to receive significant international pressure to further liberalize its currency policy and as a result may further change its currency policy. The Chinese government in the past has expressed its intention in the Basic Law of the PRC to maintain the stability of the Hong Kong currency after the sovereignty of Hong Kong was transferred to China in July 1997. However, there can be no assurance that the Hong Kong Dollar will remain pegged against the U.S. Dollar or that the Chinese Renminbi will not be allowed to fluctuate more than 0.5% on a daily basis. If the current exchange rate mechanism is changed, we shall face increased currency risks, which could have a material adverse effect upon the Company.

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

Continuing Economic Weakness May Adversely Affect Our Earnings, Liquidity And Financial Position. The Company's business has been challenging recently as a consequence of adverse worldwide economic conditions. In particular, there has been an erosion of global consumer confidence from concerns over declining asset values, price instability, geopolitical issues, the availability and cost of credit, rising unemployment and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations. These concerns slowed global economic growth and resulted in recessions in many countries, including in the U.S., Europe and certain countries in Asia. The global economic weakness has negatively impacted our operating results since 2008. While there are signs that the overall economic situation is stabilizing, any recovery in the economy may be weak or short-lived. Recessionary conditions may return. If any of these potential negative economic conditions occur, a number of material adverse effects on our business could occur and could have a negative impact upon our results of operations. Further, slower overall growth of the Chinese economy may have a material adverse effect upon the Company and its results of operations.

The Economy Of China Has Been Experiencing Significant Growth, Leading To Some Inflation. If The Government Tries To Control Inflation By Traditional Means Of Monetary Policy Or Returns To Planned Economic Techniques, Our Business Will Suffer A Reduction In Sales Growth And Expansion Opportunities. The rapid growth of the PRC economy has historically resulted in high levels of inflation. If the government tries to control inflation, it may have an adverse effect on the business climate and growth of private enterprise in the PRC. An economic slowdown may reduce our revenues. If inflation is allowed to proceed unchecked, our costs would likely increase, and there can be no assurance that we would be able to increase our prices to an extent that would offset the increase in our expenses.

Changes To PRC Tax Laws And Heightened Efforts By China's Tax Authorities To Increase Revenues Are Expected To Subject Us To Greater Taxes. Under PRC law before 2008, we were afforded a number of tax concessions by, and tax refunds from, China's tax authorities on a substantial portion of our operations in China by reinvesting all or part of the profits attributable to our PRC manufacturing operations. However, on March 16, 2007, the Chinese government enacted a unified enterprise income tax law, or "EIT," which became effective on January 1, 2008. Prior to the EIT, as a foreign invested enterprise, or "FIE," located in Shenzhen of the PRC, our PRC subsidiaries enjoyed a national income tax rate of 15% and were exempted from the 3% local income tax. The preferential tax treatment to our subsidiaries in the PRC of qualifying for tax refunds as a result of reinvesting their profits earned in previous years in the PRC also expired on January 1, 2008. Under the EIT, apart from those qualified as high-tech enterprises, most domestic enterprises and FIEs will be subject to a single PRC enterprise income tax rate of 25% in year 2012 and afterward. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various administrative regions and countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes.

We Face Risks By Operating In China, Because The Chinese Legal System Relating To Foreign Investment And Foreign Operations Such As Bonso's Is Evolving And The Application Of Chinese Laws Is Uncertain. The legal system of China relating to foreign investments is continually evolving, and there can be no certainty as to the application of its laws and regulations in particular instances. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of that law. Further, various disputes may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination. Continued uncertainty relating to the laws in China and the application of the laws could have a material adverse effect upon us and our operations in China.

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

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

If Our Sole Factory Were Destroyed Or Significantly Damaged As A Result of Fire, Flood Or Some Other Natural Disaster, We Would Be Adversely Affected. All of our products are manufactured at our manufacturing 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 $26.4 million covering our stock in trade, goods and merchandise, furniture and equipment and buildings. We do not maintain business interruption insurance. Investors are cautioned that material damage to, or the loss of, our 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.

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

Enforcement of the Labor Contract Law, Minimum Wage Increases and Future Changes In The Labor Laws In China May Result In The Continued Increase In Labor Costs. On June 29, 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor union and employee assemblies, employment without a written contract, dismissal of employees, severance and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the Labor Contract Law, an employer is obliged to sign an unlimited-term labor contract with any employee who has worked for the employer for 10 consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, new annual leave requirements mandate that annual leave ranging from five to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. In addition, as the interpretation and implementation of these new regulations are still evolving, we cannot assure you that our employment practices do not, or will not, violate the Labor Contract Law and other labor-related regulations. Between the fiscal years ended March 31, 2007 and 2011, we experienced an increase in the cost of labor caused by the increase in the minimum hourly rate. In accordance with the new minimum wage set by the local authorities in May 2010, we increased the minimum wage for labor from RMB 900 (or approximately $132) per month to RMB 1,100 (or approximately $162) per month beginning July 1, 2010. The minimum wage was increased to RMB 1,320 (or approximately $206) per month beginning April 1, 2011. We believe that increased labor costs in China will have a significant effect on our total production costs and results of operations and that we will not be able to continue to increase our production at our manufacturing facility without substantially increasing our non-production salaries and related costs. This increase in minimum wage will increase our labor costs by 20%, or approximately $955,000, annually. If we are subject to severe penalties or incur significant liabilities in connection with the enforcement of the Labor Contract Law, disputes or investigations, our business and results of operations may be adversely affected. Any future changes in the labor laws in the PRC could result in our having to pay increased labor costs. There can be no assurance that the labor laws will not change, which may have a material adverse effect upon our business and our results of operations.

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

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 four customers for a significant portion of our sales during the fiscal year. During the fiscal years ended March 31, 2009, 2010 and 2011, the same four customers accounted for approximately 78%, 81% and 83% of sales, respectively. During the fiscal year ended March 31, 2011, 60% of our sales were to a single customer (57% during the fiscal year ended March 31, 2010). We do not enter into long-term contracts with our customers but manufacture based upon purchase orders and therefore cannot be certain that sales to these customers will continue. The loss of any of our largest customers would likely have a material negative impact on our sales revenue and our business.

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

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

Our Sales Through Retail Merchants Result In Seasonality, Susceptibility To A Downturn In The Retail Economy And Sales Variances Resulting From Retail Promotional Programs. Many of our other customers sell to retail merchants. Accordingly, these portions of our customer base are susceptible to a further downturn in the retail economy. A greater number of our sales of scales and telecommunications products occur between the months of July and October 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 is 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. 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 products. If those customers place significant orders, we may not be able to increase our production quickly enough to fulfill the customers' orders. The inability to fulfill customer orders could damage our relationships with customers and reduce our net sales.

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

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

Certain Subsidiaries Of The Company Received On-going Enquiries From The Local Tax Authorities During The Year. If The Subsidiaries Were Finally Held Liable For Such Additional Taxation, Our Consolidated Net Income And The Value Of Your Investment Could Be Substantially Reduced. During the fiscal years ended March 31, 2009, 2010 and 2011, certain of our subsidiaries were, and continue to be, subject to enquiries from the local tax authorities. Upon the adoption of ASC 740 (formerly FIN 48), "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109," or FIN 48, the Company recorded a provision of approximately $2,164,000 in relation to uncertain tax positions as of April 1, 2007. The assessment is subject to final determination by the local tax authorities and may be different from what we have recorded as a provision. As such, there can be no assurance that the inquiry will not result in the imposition of additional income tax expense on the Group, which could have a material adverse effect upon the Group and its results of operations.

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

Increased Prices For Raw Materials May Have A Negative Impact Upon Us. During the fiscal year ended March 31, 2011, 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 in the future, it will likely result in an increase in the costs of components to us, as well as an increase in our operating expenses, which may have a material adverse effect upon our business and results of operations.

We May Face An Increased Shortage Of Factory Workers. During the fiscal years ended March 31, 2007 and 2008, we experienced labor shortages for factory workers. During the fiscal year ended March 31, 2009, we reduced our number of factory workers due to the decrease in demand for our products. Further, we reduced our labor requirements by subcontracting out some production processes during the fiscal year ended March 31, 2009. During the fiscal year ended March 31, 2010, we increased the number of our factory workers. During the fiscal year ended March 31, 2011, we again reduced our full workforce in Shenzhen, PRC as we prepare to transit our operations to a new factory in XinXing. See "Employees" below. There can be no assurance that we will not experience an increased need for workers in China in the future or that we can adequately staff the factory, including our new factory in XinXing. The inability to adequately staff our factory could have a material adverse impact on production, which could lead to delays in shipments or missed sales. In the event that we have delayed or lost sales, we may need to deliver goods by air at our cost to ensure that our products arrive on time, which would likely result in an increase in air freight costs and vendor fines and could result in missed sales, any of which could have a material adverse effect upon our business and our results from operations. We intend to monitor the quality of goods from outsourcing through our incoming quality control process; however, we cannot guarantee the ability of our subcontractors to deliver goods on time.

Recent Changes In The PRC's Labor Law Could Penalize Bonso If It Needs To Make Additional Workforce Reductions. In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered as one of the strictest labor laws in the world, among other things, this new law requires an employer to conclude an "open-ended employment contract" with any employee who either has worked for the employer for 10 years or more or has had two consecutive fixed-term contracts. An "open-ended employment contract" is in effect a lifetime, permanent contract, which is terminable only in specified circumstances, such as a material breach of the employer's rules and regulations, or for a serious dereliction of duty. Under the new law, downsizing by 20% or more of each individual entity may occur only under specified circumstances, such as a restructuring undertaken pursuant to China's Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations. Also, if we lay off more than 20 employees at one time, we have to communicate with the labor union of our Company and report to the District Labor Bureau. During the fiscal year ended March 31, 2011, we recognized a provision for severance payment of $659,000 in anticipation of reducing our full workforce in Shenzhen, PRC as we transit our operations to a new factory in Xinxing (2010: $659,000). This accrued severance payment allowance is reviewed every year. We may incur much higher costs under China's labor laws if we are forced to downsize again, and accordingly, this new labor law may exacerbate the adverse effect of the economic environment on our financial results and financial condition.

We Face Increasing Competition In Our Industry And May Not Be Able To Successfully Compete With Our Competitors. Our business is in an industry that is becoming increasingly competitive, and many of our competitors, both local and international, have substantially greater technical, financial and marketing resources than we have. As a result, we may be unable to compete successfully with these competitors. We compete with scale manufacturers in the Far East, the United States, and Europe. We believe that our principal competitors in the scale and telecommunications market are other original equipment manufacturer ("OEM") and original design manufacturer ("ODM") manufacturers, and all companies engaged in 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 scale and 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. As of August 31, 2011, Mr. Anthony So, our founder and Chairman, beneficially owns approximately 44.4% of the shares of our common stock, including shares underlying his outstanding options, or 40.9% of the issued and outstanding shares of our common stock. Due to his stock ownership, Mr. So may be in a position to elect the board of directors and, therefore, to control our business and affairs, including certain significant corporate actions such as acquisitions, the sale or purchase of assets and the issuance and sale of our securities. Mr. So may be able to prevent or cause a change in control of the Company. We also may be prevented from entering into transactions that could be beneficial to us without Mr. So's consent. The interest of our largest shareholder may differ from the interests of other shareholders.

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

Compliance Costs With The Securities Laws And Regulations Pursuant To The Sarbanes-Oxley Act of 2002 Will Increase Our Costs. The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure, accounting and compliance practices. In response to the requirements of that act, the Securities and Exchange Commission and NASDAQ have promulgated new rules on a variety of subjects. Compliance with these rules, as well as with the Sarbanes-Oxley Act of 2002, including, but not limited to, compliance with Section 404 that requires management to assess the effectiveness of its internal control over financial reporting, has increased our legal, financial and accounting costs, and we expect the cost of compliance with these new rules to be permanent. Further, the new rules may increase the expenses associated with our director and officer liability insurance.

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

Our Results Could Be Affected By Changes In Currency Exchange Rates. Changes in currency rates involving the Hong Kong Dollar or Chinese Renminbi could increase our expenses. During the fiscal years ended March 31, 2009, 2010 and 2011, our financial results were affected by currency fluctuations, resulting in a total foreign exchange loss of approximately $279,000, $522,000 and $130,000, respectively. Generally, our revenues are collected in United States Dollars. Our costs and expenses are paid in United States Dollars, Hong Kong Dollars, and Chinese Renminbi. We face a variety of risks associated with changes among the relative value of these currencies. Appreciation of the Chinese Renminbi against the Hong Kong Dollar and the United States Dollar would increase our expenses when translated into United States Dollars and could materially and adversely affect our margins and results of operations. If the trend of Chinese Renminbi appreciation continues against the Hong Kong Dollar and the United States Dollar, our operating costs will further increase and our financial results will be adversely affected. In addition, a significant devaluation in the Chinese Renminbi or Hong Kong Dollar could have a material adverse effect upon our results of operations. If we determined to pass onto our customers through price increases the effect of increases in the Chinese Renminbi relative to the Hong Kong Dollar and the United States Dollar, it would make our products more expensive in global markets, such as the United States and the European Union. This could result in the loss of customers, who may seek, and be able to obtain, products and services comparable to those we offer in lower-cost regions of the world. If we did not increase our prices to pass on the effect of increases in the Chinese Renminbi relative to the Hong Kong Dollar and the United States Dollar, our margins and profitability would suffer.

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

Further, we may be notified that we are infringing patents, trademarks, copyrights or other intellectual property rights owned by other parties. In the event of an infringement claim, we may be required to spend a significant amount of money to develop a non-infringing alternative or to obtain licenses. We may not be successful in developing such an alternative or obtaining a license on reasonable terms, if at all. Any litigation, even without merit, could result in substantial costs and diversion of resources and could have a material adverse affect on our business and results of operations.

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

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

Certain Legal Consequences of Foreign Incorporation and Operations

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

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

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

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

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

Item 4. Information on the Company

History and Development of the Company

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

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

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

In April 2007, we formed a new wholly-owned subsidiary, Bonso USA, Inc., a Nevada corporation ("Bonso USA"), to focus on the sales of industrial scales in the U.S. market. We are in the process of liquidating Bonso USA.

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

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

	2009	2010	2011
Property plant & equipment and land use rights	$72,000	$491,000	$1,397,000

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.

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

Business Overview

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

Since 1989, we have manufactured all of our products in China in order to take advantage of the lower overhead costs and competitive labor rates. Our factory is currently located in Shenzhen, China, about 50 miles from Hong Kong. The convenient location permits us to easily manage manufacturing operations from Hong Kong and facilitates transportation of our products out of China through the ports of Hong Kong and Yantian (Shenzhen).

Products

Our sensor-based scale products include bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications. These products accounted for 75% of revenue for the fiscal year ended March 31, 2009, 88% for 2010 and 91% for 2011. We believe that our industrial scales will continue to be a larger portion of our scales revenue as we are able to secure orders from our major customers.

Our wireless telecommunications products include two-way radios and cordless telephones that are used in consumer and commercial applications. These products accounted for 24% of revenue for the fiscal year ended March 31, 2009, 11% for 2010 and 7% for 2011. The decrease in sales of telecommunications products was caused by the continuation of the Company's decision to give up orders of telecommunications products with low profit margins. Management believes that the revenue from our telecommunications products will end since the Company terminated its production of telecommunications products in February 2011.

The Company has recently begun to produce certain electrical pet care products, including a bark control device. The Company did not have any revenue from pet care products during the fiscal year ended March 31, 2011. As of the date of this report, it remains to be seen if pet care products will become a significant new product line for the Company.

We also receive revenue from certain customers for the development and manufacture of tooling and molding for scales and telecommunication products. Generally, these tools and moulds are used by us for the manufacture of products. We also generate some sales of scrap materials. These revenues accounted for approximately 1% of net sales for the fiscal years ended March 31, 2009, 1% for 2010 and 2% for 2011.

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, 2009, 2010, and 2011:

	Year ended March 31,		
Product Line	2009	2010	2011
Scales	75%	88%	91%
Telecommunication Products	24%	11%	7%
Others	1%	1%	2%
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 our ability to become profitable are also dependent upon our ability to control production costs and increase production capacity. Our strategy to achieve these goals is as follows:

Product Enhancement And Diversification. We continually seek to improve and enhance our existing products in order to provide a longer product life-cycle and to meet increasing customer demands for additional features. Our research and development staff are currently working on a variety of projects to enhance our existing scale products and in the postal scale/meter area. See “Products, Research and Development/Competition” below.

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

Controlling Production Costs. In 1989, recognizing that labor cost is a major factor permitting effective competition in the consumer electronic products industry, we relocated all of our manufacturing operations to China to take advantage of the large available pool of lower-cost manufacturing labor. We located our manufacturing facilities within 50 miles of Hong Kong in order to facilitate transportation of our products to markets outside of China while benefiting from the advantages associated with manufacturing in China and in the Shenzhen Special Economy Zone.

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

Increasing Production Capacity. In November 2006, Bonso entered into a land purchase agreement to acquire 133,500 square meters of land for future expansion in XinXing, China. The construction of the new manufacturing facility began during the fiscal year ended March 31, 2010 and is expected to be completed by 2012. We intend to carefully monitor our capacity needs and to expand capacity as necessary.

Customers and Marketing

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

Net export sales to customers by geographic area consisted of the following for each of the three years ended March 31, 2009, 2010 and 2011.

	Year ended March 31:					
	2009		2010		2011	
	$ in thousands	%	$ in thousands	%	$ in thousands	%
United States of America	26,923	67	19,799	69	18,893	67
Germany	4,782	12	3,923	14	5,557	20
Other European Countries	2,858	7	685	3	1,011	3
Asia and Others	5,815	14	4,136	14	2,926	10
Total	40,378	100	28,543	100	28,387	100

We maintain a marketing and sales team of eight people. Also, our experienced engineering teams work directly with our customers to develop and tailor our products to meet the customers’ specific needs. We market our products primarily through a combination of direct contact by our experienced in-house technical sales staff and our sales representatives and through the use of direct mail catalogues and product literature. During the fiscal years ended March 31, 2009, 2010 and 2011, we recorded total commission payments of approximately $92,000, $42,000 and $3,000, respectively. In addition, our marketing teams contact existing and potential customers by telephone, mail and facsimile and in person.

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

Percent of Sales – Year ended March 31:

Electronics Sensor Customers	2009	2010	2011
Sunbeam Products, Inc.	45%	57%	60%
Gottl Kern + Sohn GMBH	10%	9%	14%
Pitney Bowes Inc.	12%	8%	6%

Our major telecommunications products customer and its percentage of sales for each of the prior three fiscal years are below:

Percent of Sales – Year ended March 31:

Telecommunications Customer	2009	2010	2011
TTI Tech Co., Ltd.	11%	7%	3%

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, 2007 and 2008, 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 increased during this time period due to an increase in worldwide demand for electronic components such as those used in the production of our products. During the fiscal year ended March 31, 2009 and 2010, there were no significant changes to the price of oil, steel or other raw materials. However, the price of oil and other raw materials increased during the fiscal year ended March 31, 2011. 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.

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 have also received certification according to the Environmental Management Standards of ISO 14001:2004, the Occupational Health and Safety Management Standard of OHSAS 18001 and management system for medical devices of ISO13485:2003.

ISO 9001 is one of the ISO 9000 series of quality system standards developed by the International Organization for Standardization, a worldwide federation of national standards bodies. ISO 9001 provides a model for quality assurance (and continuous improvement) in product development, manufacturing, installation and servicing that focuses on meeting customer requirements. 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.

ISO 13485 certification ensures that we have implemented and maintained a quality system for the design and manufacture of medical devices and allows us to develop and manufacture safe and effective medical devices.

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

The Company provides to certain customers an additional one to two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facility. In addition, certain products sold by the Company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales at the time of sale to three years 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.

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

We have obtained a trademark registration in Hong Kong and China for the marks BONSO and MODUS in connection with certain electronic apparatus.

We rely on a combination of patent, trademark and trade secret laws, employee and third party non-disclosure agreements and other intellectual property protection methods to protect our proprietary rights. There can be no assurance that third parties will not assert infringement or other claims against us with respect to any existing or future products. We cannot assure you that licenses would be available if any of our technology 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 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 OEM's, OBM's and ODM's. 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 facilities in China. We principally employ Chinese engineers and technicians at costs that are substantially lower than those that would be required in Hong Kong. At March 31, 2011, we employed 25 individuals in Hong Kong and China for our engineering staff, who 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 ODM's and OEM's. We anticipate hiring additional research and development personnel to meet the increased demand for scale products.

The manufacture and sale of electronic sensor-based and wireless products is highly competitive. Competition is primarily based upon unit price, product quality, reliability, product features and management's reputation for integrity. Accordingly, reliance is placed on research and development of new products, line extensions and technological, quality and other continuous product improvement. There can be no assurance that we will enjoy the same degree of success in these efforts in the future. Research and development expenses aggregated approximately $792,000 during the fiscal year ended March 31, 2009, $580,000 during the fiscal year ended March 31, 2010 and $334,000 during fiscal year ended March 31, 2011.

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 remainder of the year, our products do not appear to be subject to significant seasonal variation. Sales of telecommunication products are generally higher in the summer months. 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, provincial, 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 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 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 two wholly-owned Hong Kong subsidiaries, Bonso Electronics Limited ("BEL") and Bonso Advanced Technology Limited ("BATL"). BEL was organized under the laws of Hong Kong and is responsible for the design, development, manufacture and sale of our products. BATL was organized under the laws of Hong Kong and has been used to acquire and hold certain property investments in China.

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.

BATL has one active PRC subsidiary, Bonso Advanced Technology (Xinxing) Limited, which is organized under the laws of the PRC and is used to acquire and hold our new manufacturing facility that is being constructed in XinXing, China.

We also have another wholly-owned British Virgin Islands subsidiary, Modus Enterprise International Inc.

As of March 31, 2009, Modus Enterprise International Inc. owned 100% of Korona. Korona was engaged in marketing, distributing and retailing consumer bathroom and kitchen scale products throughout Europe. Effective March 31, 2009, we sold certain assets of Korona to Beurer GmbH, and we are in the process of dissolving Korona.

Effective November 1, 2008, we sold our 51% of the equity of Gram Precision to Mohan Thadani, the founder of Gram Precision. Gram Precision was primarily engaged in the distribution and marketing of pocket and industrial scales in the United States, Canada and Europe.

In April 2007, we formed a wholly-owned subsidiary, Bonso USA, a Nevada corporation. We are in the process of dissolving Bonso USA.

Property, Plant and Equipment

British Virgin Islands

Our corporate administrative offices are located at Cragmuir Chambers, Road Town, Tortola, British Virgin Islands and corporate administrative matters are conducted through our registered agent, HWR Services Limited, located at P.O. Box 71, Road Town, Tortola, British Virgin Islands.

Hong Kong

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

China

Our 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 four factory buildings, which contain approximately 276,000 square feet, two workers' dormitories, containing approximately 103,000 square feet, a canteen and recreation center of approximately 26,000 square feet, an office building, consisting of approximately 26,000 square feet, and two staff quarters for our supervisory employees, consisting of approximately 34,000 square feet, for a total of approximately 465,000 square feet. All of the facilities noted above are wholly-owned, except for two factory buildings with approximately 90,000 square feet.

We also own one residential property in Shenzhen, which is located at Lakeview Mansion, B-20C, Hujinju Building No. 63, Xinan Road, Boacheng Baoan Shenzhen, China. It consists of approximately 1,591 square feet and is utilized by our directors when they require accommodations in China.

We also own two office units in Beijing, namely Units 12 and 13 on the third floor, Block A of Sunshine Plaza in Beijing, China. Unit 12 consists of 1,102 square feet and Unit 13 consists of 1,860 square feet. One Unit is rented to an unaffiliated third party for an aggregate monthly rental of approximately RMB 14,000, or approximately $2,000, while the other unit is rented to another unaffiliated third party for an aggregate monthly rental of approximately RMB8,000 or approximately $1,000.

In November, 2006, Bonso entered into a land use right purchase agreement with Xincheng Hi-Tech Industrial Estate to acquire a piece of land of 133,500 square meters for future expansion of the Company's operations in XinXing. The land transfer was completed in 2009. During the fiscal year ended March 31, 2010, the first phase of construction of the new manufacturing facilities commenced, and the construction is expected to be completed in 2012.

Adequacy of Facilities

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

Item 4A. Unresolved Staff Comments

Not Applicable.

Item 5. Operating and Financial Review and Prospects

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

Overview

During the fiscal year ended March 31, 2011, the Company experienced decreased revenues. Our sales dropped due to the Company's decision to terminate the manufacturing of telecommunication products. Sales for electronic scales increased due to higher demand for consumer products.

We derive our revenues principally from the sale of sensor-based scales manufactured in China, which represent 91% of total sales for the fiscal year ended March 31, 2011. As mentioned in Item 3. – "Key Information – Risk Factors," we are dependent upon a limited number of major customers for a significant portion of our revenues. Our revenues and business operation are subject to fluctuation if there is a loss of orders from any of our largest customers. Further, the pricing of our scales and telecommunication products are becoming increasingly competitive, especially to our customers in the United States and Germany, who contributed approximately 87% of our revenue during the fiscal year ended March 31, 2011.

During the fiscal year ended March 31, 2009, net sales from continuing operations were approximately $40,378,000, and net loss was approximately $7,584,000. During the fiscal year ended March 31, 2010, net sales from continuing operations were approximately $28,543,000, and net loss was approximately $658,000. During the fiscal year ended March 31, 2011, net sales from continuing operations were approximately $28,387,000, and net loss was approximately $1,560,000.

Costs are increasing in China, and our labor costs represented approximately 16.8% of our total production costs in the fiscal year ended March 31, 2011, compared to 16.5% in the fiscal year ended March 31, 2010. There was no change in the minimum wage set by the PRC government during the fiscal year ended March 31, 2010, as compared to fiscal year ended March 31, 2009. In accordance with the new minimum wage set by the local authorities in May 2010, we increased the minimum wage for labor from RMB 900 (or approximately $132) per month to RMB 1,100 (or approximately $162) per month beginning July 1, 2010. The minimum wage was increased to RMB 1,320 (or approximately $206) per month beginning April 1, 2011. We believe that increased labor costs in China will have a significant effect on our total production costs and results of operations and that we will not be able to continue to increase our production at our manufacturing facility without substantially increasing our non-production salaries and related costs. This increase in minimum wage will increase our labor costs by 20%, or approximately $955,000, annually. There can be no assurance that labor costs will not further increase or that any additional 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. Prices of raw materials increased during the fiscal year ended March 31, 2011 but did not vary significantly during the fiscal year ended March 31, 2010. Prices of raw materials decreased during the fiscal year ended March 31, 2009 due to decreases in oil prices. There can be no assurance that raw material costs will not fluctuate or that any additional increase in raw material costs will not have a material adverse effect upon our results of operations.

Operating Results

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

	Fiscal Year Ended March 31,		
	2009	2010	2011
Statement of Operations Data	%	%	%
Net sales	100.0	100.0	100.0
Cost of sales	(86.0)	(83.0)	(87.2)
Gross margin	14.0	17.0	12.8
Selling expenses	(1.6)	(1.3)	(0.9)
Salaries and related costs	(9.4)	(9.0)	(9.6)
Research and development expenses	(2.0)	(2.0)	(1.2)
Administration and general expenses	(11.4)	(7.0)	(6.9)
Loss from operations	(10.4)	(2.3)	(5.7)
Interest income	0.3	0.4	0.0
Interest expenses	(0.5)	(0.3)	(0.2)
Foreign exchange loss	(0.6)	(1.8)	(0.5)
Gain on disposal of property	0.4	-	-
Other income	1.8	2.1	1.3
Loss before income taxes	(9.0)	(1.9)	(5.0)
Income tax expenses	(0.5)	(0.0)	(0.0)
Loss from continuing operations	(9.5)	(1.9)	(5.0)
Loss from discontinued operations	(9.3)	(0.4)	(0.5)
Net loss	(18.8)	(2.3)	(5.5)

Fiscal year ended March 31, 2011 compared to fiscal year ended March 31, 2010

Net Sales. Our sales decreased approximately $156,000, or 0.5%, from approximately $28,543,000 for the fiscal year ended March 31, 2010 to approximately $28,387,000 for the fiscal year ended March 31, 2011. The decrease in sales was primarily the result of decreased demand for our telecommunication products. Sales of our scales and other business increased 3.2% from approximately $25,522,000 for the fiscal year ended March 31, 2010 to approximately $26,331,000 for the fiscal year ended March 31, 2011, and sales for telecommunications products decreased 32.0% from approximately $3,022,000 for the fiscal year ended March 31, 2010 to approximately $2,056,000 for the fiscal year ended March 31, 2011. The increase in sales for scales and other business was the result of increased demand for consumer electronics scale products. The decrease in sales for telecommunications products was caused by the continuation of the Company's decision to give up orders of telecommunications products with low profit margins.

Gross Margin. Gross margin as a percentage of revenue decreased to approximately 12.8% during the fiscal year ended March 31, 2011, as compared to approximately 17.0% during the fiscal year ended March 31, 2010. The lower gross margin was primarily the result of the increased prices of raw materials and increase in labor costs mainly due to the increase in minimum wage in China.

Selling Expenses. Selling expenses decreased by approximately $126,000 from approximately $375,000 for the fiscal year ended March 31, 2010 to approximately $249,000 for the fiscal year ended March 31, 2011, or 33.6%. Local freight costs and related selling expenses decreased during the year due to consolidation of shipments made during the fiscal year ended March 31, 2011.

Salaries And Related Costs. Salaries and related costs increased by approximately $177,000, or 7.0%, from approximately $2,539,000 for the fiscal year ended March 31, 2010 to approximately $2,716,000 for the fiscal year ended March 31, 2011. The increase in salaries and related costs was primarily the result of increased salary for staff in China as a result of the minimum wage increase during the fiscal year ended March 31, 2011.

Research And Development. Research and development expenses decreased approximately $246,000, or 42.4%, from approximately $580,000 for the fiscal year ended March 31, 2010 to approximately $334,000 for the fiscal year ended March 31, 2011. The decrease in research and development was primarily the result of a reduction in the number of total engineers employed. Research and Development as a percentage of revenue decreased from 2.0% during the fiscal year ended March 31, 2010 to 1.2% during the fiscal year ended March 31, 2011.

Administration And General Expenses. Administration and general expenses decreased by approximately $52,000, or 2.6%, from approximately $2,011,000 for the fiscal year ended March 31, 2010 to approximately $1,959,000 for the fiscal year ended March 31, 2011. The reduction was the result of various cost reductions undertaken by the Company to cope with the reduced revenue. During the fiscal year ended March 31, 2011, the Company terminated the rented office in Hong Kong and combined all the functions with the existing factory in Shenzhen.

Loss From Operations. As a result of the factors described above, loss from operations increased by 149.0% from a loss of approximately $655,000 for the fiscal year ended March 31, 2010 to a loss of approximately $1,631,000 for the fiscal year ended March 31, 2011.

Interest Income. Interest income decreased by $97,000, or 94.2%, from approximately $103,000 for the fiscal year ended March 31, 2010 to approximately $6,000 for the fiscal year ended March 31, 2011. The decrease was the result of fewer deposits in savings accounts and a decrease in interest rates for interest bearing accounts during the fiscal year ended March 31, 2011.

Interest Expenses. Interest expenses decreased approximately $13,000, or 18.8%, from approximately $69,000 for the fiscal year ended March 31, 2010 to approximately $56,000 for the fiscal year ended March 31, 2011. This decrease was primarily the result of a decrease in utilization of the Company's banking facilities during the fiscal year ended March 31, 2011.

Foreign Exchange Loss. Foreign exchange loss decreased approximately $392,000, or 75.1%, from approximately $522,000 for the fiscal year ended March 31, 2010 to approximately $130,000 for the fiscal year ended March 31, 2011. This decrease was primarily the result of the appreciation of the United States Dollar compared to the Chinese Renminbi during the fiscal year ended March 31, 2011, as compared to a significant appreciation of the Chinese Renminbi to the United States Dollar during the fiscal year ended March 31, 2010.

Other Income. Other income decreased approximately $436,000, or 70.3%, from approximately $620,000 for the fiscal year ended March 31, 2010 to approximately $184,000 for the fiscal year ended March 31, 2011. During the fiscal years ended March 31, 2010 and 2011, the Company recovered $210,000 and $45,000, respectively, of a bad debt from the sale of Gram Precision that was previously impaired.

Income Tax Expense. Income tax expense was $9,000 during the fiscal year ended March 31, 2010, as compared to $0 during the fiscal year ended March 31, 2011. The income tax expense decreased due to losses in each of our segments for the fiscal year ended March 31, 2011.

Loss from Discontinued Operations. Loss from discontinued operations increased approximately $3,000 from $126,000 for the fiscal year ended March 31, 2010 to approximately $129,000 for the fiscal year ended March 31, 2011. The increase was the result of increased liquidation costs recognized during the fiscal year ended March 31, 2011.

Net Loss. As a result of the factors described above, net loss increased from a loss of approximately $658,000 for the fiscal year ended March 31, 2010 to a loss of approximately $1,560,000 for the fiscal year ended March 31, 2011, an increased loss of approximately $902,000, or 137.1%.

Foreign Currency Translation Adjustments. Foreign currency translation adjustments, net of tax, increased from a loss of approximately $152,000 for the fiscal year ended March 31, 2010 to a gain of approximately $199,000 for the fiscal year ended March 31, 2011, an increase of approximately $351,000, or 230.9%. The increased foreign currency translation adjustment, net of tax, was primarily the result of fluctuation of the Chinese Renminbi against the United States Dollar.

Comprehensive Loss. As a result of the factors described above, comprehensive loss increased from a loss of approximately $810,000 for the fiscal year ended March 31, 2010 to a loss of approximately $1,361,000 for the fiscal year ended March 31, 2011, an increase of approximately $551,000, or 68.0%.

Fiscal year ended March 31, 2010 compared to fiscal year ended March 31, 2009

Net Sales. Our sales decreased approximately $11,835,000, or 29.3%, from approximately $40,378,000 for the fiscal year ended March 31, 2009 to approximately $28,543,000 for the fiscal year ended March 31, 2010. The decrease in sales was primarily the result of decreased demand for our telecommunication products and consumer electronics scales products. Sales of our scales and other business decreased 17.4% from approximately $30,903,000 for the fiscal year ended March 31, 2009 to approximately $25,522,000 for the fiscal year ended March 31, 2010, and sales for telecommunications products decreased 68.1% from approximately $9,475,000 for the fiscal year ended March 31, 2009 to approximately $3,022,000 for the fiscal year ended March 31, 2010. The decrease in sales for scales and other business was the result of reduced demand for consumer electronics scale products due to the worldwide economic downturn since the end of calendar year 2008. The decrease in sales for telecommunications products was caused by the continuation of the Company’s decision to give up orders of telecommunications products with low profit margins.

Gross Margin. Gross margin as a percentage of revenue increased to approximately 17.0% during the fiscal year ended March 31, 2010, as compared to approximately 14.0% during the fiscal year ended March 31, 2009. The higher gross margin was the result of the Company's decision to reduce products with low profit margins from its telecommunication products, and reduced costs of raw materials both as a result of the Company's efforts to purchase materials more cost effectively and the effort to redesign existing products with less material consumption. As a result of these factors, our gross profit margin increased by 3.0% when compared to the prior fiscal year.

Selling Expenses. Selling expenses decreased by approximately $274,000 from approximately $649,000 for the fiscal year ended March 31, 2009 to approximately $375,000 for the fiscal year ended March 31, 2010. Local freight costs and related selling expenses decreased during the year due to fewer shipments made as a result of decreased sales for the fiscal year ended March 31, 2010. As a result, selling expenses decreased by 42.2% when compared to the prior fiscal year.

Salaries And Related Costs. Salaries and related costs decreased by approximately $1,238,000, or 32.8%, from approximately $3,777,000 for the fiscal year ended March 31, 2009 to approximately $2,539,000 for the fiscal year ended March 31, 2010. The reduction in salaries and related costs was primarily the result of streamlining the managerial and operational personnel to correspond to the reduction in sales for the fiscal year ended March 31, 2010.

Research And Development. Research and development expenses decreased approximately $212,000, or 26.8%, from approximately $792,000 for the fiscal year ended March 31, 2009 to approximately $580,000 for the fiscal year ended March 31, 2010. The decrease in research and development was primarily the result of a reduction in the number of total engineers employed. Research and Development as a percentage of revenue remained at 2.0% during the fiscal year ended March 31, 2010 and the fiscal year ended March 31, 2009.

Administration And General Expenses. Administration and general expenses decreased by approximately $2,591,000, or 56.3%, from approximately $4,602,000 for the fiscal year ended March 31, 2009 to approximately $2,011,000 for the fiscal year ended March 31, 2010. During the fiscal year ended March 31, 2009, the Company recognized a one-off bad debt provision of approximately $1,700,000 relating to the disposition of the Company's Canadian subsidiary, Gram Precision, in November 1, 2008. The Company's effort to reduce expenses as a result of lower sales for the fiscal year ended March 31, 2010, together with the absence of any one-off bad debt provision such as the approximately $1,700,000 made in fiscal year 2009, resulted in the lower administration and general expenses for the fiscal year ended March 31, 2010.

Loss From Operations. As a result of the factors described above, loss from operations decreased by 84.2% from a loss of approximately $4,149,000 for the fiscal year ended March 31, 2009 to a loss of approximately $655,000 for the fiscal year ended March 31, 2010.

Interest Income. Interest income decreased by $24,000, or 18.9%, from approximately $127,000 for the fiscal year ended March 31, 2009 to approximately $103,000 for the fiscal year ended March 31, 2010. This decrease was primarily the result of fewer deposits in higher yield accounts and a decrease in interest rates for interest bearing accounts during the fiscal year ended March 31, 2010.

Interest Expenses. Interest expenses decreased approximately $140,000, or 67.0%, from approximately $209,000 for the fiscal year ended March 31, 2009 to approximately $69,000 for the fiscal year ended March 31, 2010. This decrease was primarily the result of a decrease in interest rates during the fiscal year ended March 31, 2009 and decreased utilization of the Company’s banking facilities.

Foreign Exchange Loss. Foreign exchange loss increased approximately $243,000, or 87.1%, from approximately $279,000 for the fiscal year ended March 31, 2009 to approximately $522,000 for the fiscal year ended March 31, 2010. This increase was primarily the result of the change in the rate of appreciation of Chinese Renminbi against the United States Dollar during the fiscal year ended March 31, 2010, as compared to that during the fiscal year ended March 31, 2009.

Other Income. Other income decreased approximately $87,000, or 12.3%, from approximately $707,000 for the fiscal year ended March 31, 2009 to approximately $620,000 for the fiscal year ended March 31, 2010. During the fiscal year ended March 31, 2009, the sale of a warehouse in Hong Kong resulted in a gain of $136,016, but there was no disposal of properties which could result in a gain during the fiscal year ended March 31, 2010.

Income Tax Expense. Income tax expense decreased approximately $199,000 from $208,000 during the fiscal year ended March 31, 2009 to $9,000 during the fiscal year ended March 31, 2010. For the fiscal year ended March 31, 2009, the Company wrote off deferred income tax assets of $191,618 because of operations loss for the year, but for the fiscal year ended March 31, 2010, the Company recognized an increase in deferred tax liability of $5,000.

Gain on Disposal of Subsidiary under Loss from Discontinued Operations. Effective November 1, 2008, the Company disposed of its Canadian subsidiary, Gram Precision, since this reporting unit experienced operating losses in the fiscal years ended March 31, 2007 and 2008 and for the seven-month period ended October 31, 2008. The Company recognized a gain of approximately $363,000 from the disposition because the Company was relieved of Gram’s liabilities during the fiscal year ended March 31, 2009. There was no disposal of subsidiaries or gain or loss thereof for the fiscal year ended March 31, 2010.

Net Loss. As a result of the factors described above, net loss decreased from a loss of approximately $7,584,000 for the fiscal year ended March 31, 2009 to a loss of approximately $658,000 for the fiscal year ended March 31, 2010, a decrease of approximately $6,926,000, or 91.3%.

Foreign Currency Translation Adjustments. Foreign currency translation adjustments, net of tax, decreased from a gain of $811,000 for the fiscal year ended March 31, 2009 to a loss of approximately $153,000 for the fiscal year ended March 31, 2009, a decrease of approximately $964,000, or 118.9%. This decrease in foreign currency translation adjustments, net of tax, was primarily the result of fluctuation of the Chinese Renminbi against the United States Dollar.

Comprehensive Loss. As a result of the factors described above, comprehensive loss decreased from a loss of approximately $6,773,000 for the fiscal year ended March 31, 2009 to a loss of approximately $810,000 for the fiscal year ended March 31, 2010, a decrease of approximately $5,963,000, or 88.0%.

Impact of Inflation

We believe that inflation had an impact on our business during the fiscal year ended March 31, 2011. The minimum wage increased from RMB 900 (or approximately $132) per month to RMB 1,100 (or approximately $162) per month beginning July 1, 2010. The minimum wage increased to RMB 1,320 (or approximately $206) per month beginning April 1, 2011. As a result, we believe that inflation will continue to increase our operating costs and cost of raw materials and have a significant impact upon us in the future. We have generally been able to modify and improve our product designs so that we could either increase the prices of our products or lower the production costs in order to keep pace with inflation. Oil prices have been volatile in recent years. If oil prices increase, it will likely result in an increase in the cost of components to us, as well as an increase in our operating expenses, which will have a material adverse effect upon our business and results of operations. Further, the increase in labor costs and operating costs in the PRC had a material impact on our profitability.

Taxation

The companies comprising the Group are subject to tax on an entity basis on income arising in, or derived from, Hong Kong, the PRC, Germany, the United States and Canada. The current rate of taxation of the subsidiary operating in Hong Kong is 16.5%. The Group is not subject to income taxes in the British Virgin Islands. The statutory tax rates in Canada and the United States were 36% and 34%, respectively, for the three years ended March 31, 2011.

The tax rates for our subsidiary in PRC were 22% in 2010, 24% in 2011 and 25% in 2012 and beyond. There is no tax payable in Hong Kong on offshore profit or on dividends paid to Bonso Electronics Limited by its subsidiaries or to us by Bonso Electronics Limited. Therefore, our overall effective tax rate may be lower than that of most United States corporations; however, this advantage could be materially and adversely affected by changes in the tax laws of the British Virgin Islands, Hong Kong or China.

On March 16, 2007, the Chinese government enacted a unified enterprise income tax law, or “EIT,” which became effective on January 1, 2008. Prior to the EIT, as a foreign invested enterprise, or “FIE,” located in Shenzhen of the PRC, our PRC subsidiaries enjoyed a national income tax rate of 15% and were exempted from the 3% local income tax. The preferential tax treatment to our subsidiaries in the PRC of qualifying for tax refunds as a result of reinvesting their profits earned in previous years in the PRC also expired on January 1, 2008. Under the EIT, apart from those qualified as high-tech enterprises, most domestic enterprises and FIEs will be subject to a single PRC enterprise income tax rate of 25% in year 2012 and afterward.

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

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

During the fiscal years ended March 31, 2008, 2009 and 2010, certain of our subsidiaries were, and continue to be, subject to inquiries from the local tax authorities. Upon the adoption of ASC 740 (formerly FIN 48), “Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109,” the Company recorded a provision of approximately $2,164,000 in relation to uncertain tax positions as of April 1, 2007. The assessment is subject to final determination by the local tax authorities and may be different from what we have recorded as a provision. As such, there can be no assurance that the inquiry will not result in imposing additional income tax expense on the Group, which could have a material adverse effect upon the Group and its results of operations.

Contractual arrangements we have entered into among us and our subsidiaries in different locations may be subject to scrutiny by respective tax authorities, and a finding against the Company and its subsidiaries may result in additional tax liabilities that could substantially reduce our consolidated net income. We could face material and adverse tax consequences if respective tax authorities determine that the contractual arrangements among our subsidiaries and Bonso do not represent an arm’s length price and adjust Bonso’s or its subsidiaries’ income. Our consolidated net income may be materially and adversely affected if our affiliated entities’ tax liabilities increase.

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

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

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 a devaluation in United States Dollars. For the reasons discussed in the paragraphs below, management believes that it may be possible that there will be some fluctuation in the coming year. During the fiscal year ended March 31, 2011, we experienced a foreign currency loss of approximately $130,000. We do not 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, 2011 and 2010 which was subjected to foreign currency risk is as follows:

	March 31, 2010 $ in thousands	March 31, 2011 $ in thousands
Hong Kong dollars	2,164	1,333

The amount above is due within one year.

Fluctuations in the value of the Hong Kong Dollar have not been significant since October 17, 1983, when the Hong Kong government tied the value of the Hong Kong Dollar to that of the United States Dollar. However, there can be no assurance that the value of the Hong Kong Dollar will continue to be tied to that of the United States Dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese Renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund’s Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon. From 1994 until July 2005, the Chinese Renminbi had remained stable against the U.S. Dollar at approximately 8.28 to 1.00 U.S. Dollar. On July 21, 2005, the Chinese currency regime was altered to link the RMB to a “basket of currencies,” which includes the United States Dollar, Euro, Japanese Yen and Korean Won. Under the rules, the RMB is allowed to move 0.3% on a daily basis against the United States Dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3% daily movement against the United States Dollar to 0.5%. On June 20, 2010, the PBOC announced that the PRC government would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. It is difficult to predict how this new policy may impact the RMB exchange rate. As of September 20, 2011, the RMB was valued at 6.3595 per U.S. 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. We do not currently engage in hedging transactions; however we may undertake hedging activities in the future. 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 internally generated funds and bank debt. We do not use off-balance sheet financing arrangements, such as securitization of receivables or obtaining access to assets through special purpose entities, as sources of liquidity. Our primary uses of cash have been to fund expansions and upgrades of our manufacturing facilities.

Operating activities used $1,190,000 of net cash for the fiscal year ended March 31, 2011, as compared to $3,486,000 of net cash generated from operating activities during the fiscal year ended March 31, 2010. This decrease in the amount of cash used by operating activities was primarily attributable to our reduction in inventory in accordance with the lower sales amount for the fiscal year ended March 31, 2010 and the recovered accounts receivable for our discontinued operations during the fiscal year ended March 31, 2010.

As of March 31, 2011, we had approximately $5,407,000 in cash and cash equivalents, as compared to $8,085,000 in cash and cash equivalents as of March 31, 2010. Working capital at March 31, 2011 was approximately $6,851,000, as compared to $9,640,000 at March 31, 2010. 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, 2011, we had approximately $1,311,000 in net trade receivables, as compared to $1,324,000 as of March 31, 2010. This decrease of $13,000 was primarily attributable to lower sales close to the end of the fiscal year, compared to that of March 31, 2010.

As of March 31, 2011, we had approximately $4,848,000 in inventories, as compared to $4,990,000 as of March 31, 2010. This decrease of $142,000 was primarily attributable to reduction of inventory in light of the lower sales amount in the fiscal year ended March 31, 2011.

As of March 31, 2011, we had a total of approximately $4,062,000 in notes payable and accounts payable, as compared to $4,727,000 as of March 31, 2010. The decrease of $665,000 was primarily attributable to the decreased notes payable due to decreased utilization of banking facilities.

As of March 31, 2011 we had in place general banking facilities with one financial institution with amounts available aggregating approximately $8,554,000 (2010: $13,682,000). Such facilities include the ability to obtain overdrafts, letters of credit, short-term notes payable, factoring, short-term loans and long-term loans. As of March 31, 2011, we had utilized approximately $1,333,000 from these general banking facilities. Interest on this indebtedness fluctuates with the prime rate and the Hong Kong Interbank Offer Rate as set by the Hong Kong Bankers Association. The bank credit facilities are collateralized by our bank guarantee. 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. During the fiscal years ended March 31, 2011 and 2010, we paid a total of approximately $56,000 and $69,000, respectively, in interest on indebtedness for continuing operations. During the fiscal year ended March 31, 2011, one of the banking facilities was terminated and was not renewed, which resulted in the reduction of the available banking facilities.

Our current ratio decreased from 2.22 as of March 31, 2010 to 1.93 as of March 31, 2011. Our quick ratio decreased from 1.59 as of March 31, 2010 to 1.27 as of March 31, 2011.

Due to the new minimum wage set by the local authorities in May 2010, we have increased the minimum wage for labor from RMB 900 (or approximately $132) per month to RMB 1,100 (or approximately $162) per month beginning July 1, 2010. The minimum wage was increased to RMB 1,320 (or approximately $206) beginning April 1, 2011. This increase in minimum wage will increase our labor costs by 20%, or approximately $955,000 annually.

During the fiscal year ending March 31, 2012, we expect we will need to expend approximately $548,000 on the construction of our new facility in XinXing, China.

We believe that our cash flows from operations, our current cash balance and funds available under our working capital and credit facilities will be sufficient to meet our working capital needs and planned capital expenditures for at least the next 12 to 24 months. However, a decrease in the demand for our products or increase in our costs of goods sold or expenses may affect our internally generated funds, and we would further look to our banking facilities to meet our working capital demands.

Commitments

The following table sets forth information with respect to our commitments as of March 31, 2011:

			Payments due by Period		
	Total	Within 1 year	Within 1 to 3 years	Within 3 to 5 years	More than 5 years
	$ in thousands	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Notes payable and bank overdrafts (1)	$1,333	$1,333	$0	$0	$0
Operating leases	$141	$141	$0	$0	$0
Capital leases	$0	$0	$0	$0	$0
Construction in Xinxing	$548	$548	$0	$0	$0
Interest on capital leases	$0	$0	$0	$0	$0
Income tax liabilities (2)	$2,595	$0	$2,595	$0	$0
Total	$4,617	$2,022	$2,595	$0	$0

(1) Represents amounts due within one year under our banking facilities agreement.
(2) Effective April 1, 2007, the Company adopted ASC 740. As a result of the adoption of ASC 740, the Company recognized an approximately $1,170,000 increase in the liability for unrecognized tax benefits and penalties of approximately $994,000, which were accounted for as a reduction to the April 1, 2007 balance of retained earnings. The Company assessed its tax position during the fiscal year ended March 31, 2011 and concluded that the same tax liability was carried forward.

For a discussion of interest rates on our notes payable and short-term loans, see “Item 11. - Qualitative and Quantitative Disclosures About Market Risk” below.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The SEC has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and results and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical policies include 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 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. For a discussion of all our significant accounting policies, see 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. The Company continuously reviews slow-moving and obsolete inventory and assesses any inventory obsolescence based on inventory levels, material composition and expected usage as of that date.

Revenue Recognition

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

The Company provides to certain customers an additional one to two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facilities. In addition, certain products sold by the Company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales at the time of sale to three years 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.

Due to similar contractual terms, the Company’s revenue recognition policies do not differ among its significant product lines (i.e., sensor based scales versus wireless products) and among various marketing venues used by the Company (i.e., distributors and direct sales force) and do not vary in different parts of the world.

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.

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 a discounted future cash flow analysis. No provision was made by the Group on impairment of long lived assets, including goodwill, and other acquired intangible assets for the years ended March 31, 2011, 2010 and 2009.

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.

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. No provision was made by the Group on impairment of brand name for the years ended March 31, 2011, 2010 and 2009.

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 collectability of certain receivables, as certain receivables may be identified as collectible that are subsequently uncollectible and which could result in a subsequent write-off of the related receivable to the statement of operations. Most of the Company's trade receivables are generally unsecured, except for one customer with receivables covered by credit insurance. To determine the necessity of a provision, the Company analyzes the age of the receivables and the customer's ability to pay based on past payment history, financial statements and various information of the customer. Any change in the collectability of accounts receivable that were not previously provided for could significantly change the calculation of such provision and the results of our operations.

Income Taxes, Deferred Income Taxes

On April 1, 2007, the Company adopted FIN 48, now codified with ASC 740. ASC 740 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of ASC 740. The Company's accounting policy is to treat interest and penalties as a component of income taxes.

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

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 those that would be required in Hong Kong. Research and development costs are expensed in the financial period during which they are incurred.

Trend Information

Although we are optimistic about our future in the manufacture and sale of sensor-based scales products, we are dependent upon a limited number of customers for a significant portion of our revenues, and the loss of any of these customers could have a material adverse effect upon us and our results of operations. As of March 31, 2011, our backlog of manufacturing orders was $5,951,000 as compared to $7,380,000 as of March 31, 2010. We expect that in the fiscal year ending March 31, 2012, the trend of sales from scales will be more or less the same as the year ended March 31, 2011, while the sales of telecommunication products will be discontinued in the fiscal year ended March 31, 2012.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

In January 2010, the FASB issued ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”). ASU 2010-06 requires reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820. The guidance is effective for any fiscal year that begins after December 15, 2010 and should be used for quarterly and annual filings. We do not believe that adoption of ASU 2010-06 will have a significant impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (“ASU 2011-04”). This update amends ASC Topic 820, “Fair Value Measurement and Disclosure.” ASU 2011-04 clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for annual and interim reporting periods beginning on or after December 15, 2011, which means that it will be effective for our fiscal quarter beginning January 1, 2012. The new guidance is to be adopted prospectively, and early adoption is not permitted. We do not believe that adoption of ASU 2011-04 will have a significant impact on our financial position, results of operations or cash flows.

On June 16, 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” (“ASU 2011-05”). This update amends ASC Topic 220, “Comprehensive Income” to provide that total comprehensive income will be reported in one continuous statement or two separate but consecutive statements of financial performance. Presentation of total comprehensive income in the statement of stockholders' equity or the footnotes will no longer be allowed. The calculation of net income and basic and diluted net income per share will not be affected. ASU 2011-005 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, which means that it will be effective for our fiscal year beginning July 1, 2012. Retrospective adoption is required and early adoption is permitted. We do not believe that adoption of ASU 2011-05 will have a significant impact on our financial position, results of operations or cash flows.

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	68	Chairman of the Board, Chief Executive Officer and Director, President and Treasurer
Kim Wah Chung	53	Director of Engineering and Research and Development and Director
Woo-Ping Fok	62	Director
J. Stewart Jackson, IV	75	Director
Henry F. Schlueter	60	Director and Assistant Secretary
Albert So	33	Chief Financial Officer and Secretary

ANTHONY SO is the founder of Bonso. He has been our Chairman of the Board of Directors since July 1988. He was appointed as the Chief Executive Officer and President on November 16, 2006. 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.

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

WOO-PING FOK was elected to our Board of Directors on September 21, 1994. Mr. Fok has practiced law in Hong Kong since 1991 and is a Consultant with Messrs. C.K. Mok & Co. Mr. Fok’s major areas of practice include conveyancing 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 the first self-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 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.

ALBERT SO was appointed as the Chief Financial Offer of the Company in March 2009. Mr. So was first employed as the Financial Controller of the Company in January 2008 and as a management trainee of the Company in November 2004. Prior to his employment as a management trainee of the Company, Mr. So was a student. Mr. So is a Certified Management Accountant, Financial Risk Manager, and has received a Bachelor degree in Mathematics from Simon Fraser University in Burnaby, British Columbia, Canada.

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

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

Compensation

The aggregate amount of compensation paid by us and our subsidiaries during the year ended March 31, 2011 to all directors, former directors, and officers as a group for services in all capacities was $1,285,000. Total compensation for the benefit of Anthony So was $915,000, for the benefit of Kim Wah Chung was $165,000, for the benefit of Albert So was $118,000 and for the benefit of Henry F. Schlueter was an aggregate of $87,000. The $87,000 listed as having been paid for the benefit of Mr. Schlueter was paid to his law firm, Schlueter & Associates, P.C. for legal services rendered.

We did not set aside or accrue any amounts to provide pension, retirement or similar benefits for directors and officers for the fiscal year ended March 31, 2011, other than contributions to our Provident Fund Plan, which aggregated $15,000 for officers and directors.

Employment Agreements

We have employment agreements with Anthony So and Kim Wah Chung. Mr. So's employment agreement provides for a maximum yearly salary of approximately $800,000 per year plus bonus, and Mr. Chung's employment agreement provides for a maximum yearly salary of approximately $200,000 per year plus bonus, as stated in their respective employment agreements, which expire on March 31, 2013. One of the properties of the Group in Hong Kong is also provided to Mr. So as part of his compensation. Mr. So's employment agreement contains a provision under which we will be obligated to pay Mr. So all compensation for the remainder of his employment agreement and five times his annual salary and bonus compensation if a change of control, as defined in his employment agreement occurs.

Options of Directors and Senior Management

The following table provides information concerning options owned by the directors and senior management at March 31, 2011.

Name	Number of Common Shares Subject to Stock Options	Exercise Price Per Share	Expiration Date
Anthony So	128,000	$3.65	April 9, 2011
	128,000	$2.50	March 6, 2012
	222,500	$1.61	March 31, 2013
Kim Wah Chung	20,000	$3.65	April 9, 2011
	20,000	$2.50	March 6, 2012
	55,000	$1.61	March 31, 2013
Woo-Ping Fok	10,000	$6.12	March 25, 2014
	10,000	$6.20	September 12, 2014
	10,000	$4.50	December 4, 2015
J. Stewart Jackson IV	10,000	$2.55	October 15, 2011
	10,000	$1.61	March 31, 2013
	10,000	$6.12	March 25, 2014
	10,000	$6.20	September 12, 2014
	10,000	$4.50	December 4, 2015
Henry F. Schlueter	10,000	$6.12	March 25, 2014
	10,000	$6.20	September 12, 2014
	10,000	$4.50	December 4, 2015

Directors

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

Employee retirement benefits

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

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

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

(b) The contributions to each of the above schemes are recognized as employee benefit expense when they are due and are charged to the consolidated statement of income (loss). The Group’s total contributions to the above schemes for the years ended March 31, 2009, 2010 and 2011 amounted to approximately $325,000, $276,000 and $318,000 respectively. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

Board Practices

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

NASDAQ Exemptions and Home Country Practices

NASDAQ Marketplace Rule 4350 provides that foreign private issuers may elect to follow certain home country corporate governance practices so long as they provide NASDAQ with a letter from outside counsel in 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 NASDAQ certifying that certain of Bonso's corporate governance practices are not prohibited by the relevant laws of the British Virgin Islands. We will follow British Virgin Island law in respect to the following requirements:

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

Audit Committee

Mr. Woo Ping Fok and Mr. Henry F. Schlueter are the members of the Audit Committee. Mr. Fok is "independent" as defined in the NASDAQ listing standards, and Mr. Schlueter may not be considered "independent" since his law firm serves as Bonso's United States counsel.

The Audit Committee was established to: (i) review and approve the scope of audit procedures employed by our independent auditors; (ii) review and approve the audit reports rendered by our independent auditors; (iii) approve the audit fee charged by the independent auditors; (iv) report to the Board of Directors with respect to such matters; (v) recommend the selection of independent auditors; and (vi) discharge such other responsibilities as may be delegated to it from time to time by the Board of Directors. Effective as of August 17, 2000, the Board of Directors adopted a formal charter for its Audit Committee, which was amended effective June 30, 2005.

Employees

At March 31, 2011, we employed a total of 1,487 persons, as compared to 1,879 persons at March 31, 2010 and 1,557 persons at March 31, 2009; 14 employees in Hong Kong (22 in 2010 and 24 in 2009), 1,473 employees in China (1,857 in 2010 and 1,533 in 2009). 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 August 31, 2011:

Name	Shares of Common Stock Owned of Record		Options Held		Total Number of Shares of Common Stock Beneficially Owned	Percent of Beneficial Ownership	
Anthony So	2,281,770	(1) (7)	350,500	(2)	2,632,270	47.0	%
Kim Wah Chung	93,700		75,000	(3)	168,700	3.2	%
Henry F. Schlueter	34,000		30,000	(4)	64,000		