BONSO ELECTRONICS INTERNATIONAL INC
Form 20-F
September 27, 2007

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

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

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

OR

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

Commission File Number: 0-17601

BONSO ELECTRONICS INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

British Virgin Islands
(Jurisdiction of incorporation or organization)

Unit 1106 - 1110
11/F, Star House
3 Salisbury Road
Tsimshatsui
Kowloon, Hong Kong
(Address of principal executive offices)

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

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

COMMON STOCK, PAR VALUE $.003

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

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

5,577,639 shares of common stock, $0.003 par value, at March 31, 2007

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

Yes [ ] No [X]

If the report is an annual or transition report, indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or 15D of the Securities Exchange Act of 1934.

Yes [ ] No [X]

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

Yes [X] No [ ]

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

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

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

Item 17 [ ] Item 18 [X]

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

Yes [ ] No [X]

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FORWARD-LOOKING STATEMENTS

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

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

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

FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

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

REFERENCES

In this Annual Report, "China" refers to all parts of the People's Republic of China other than the Special Administrative Region of Hong Kong. The terms "Bonso," "we," "our," "us," and the "Company" refer to Bonso Electronics

International Inc. and, where the context so requires or suggests, our direct and indirect subsidiaries. References to "dollars" or "$" are to United States Dollars, "HK$" are to Hong Kong Dollars, "Euros" or "(euro)" are to the European Monetary Union's Currency, "GPB" are to British Pounds, "RMB" are to Chinese Renminbi and "CDN" are to Canadian Dollars.

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

The selected consolidated financial data as of March 31, 2006 and 2007 and for each of the three fiscal years ended March 31, 2007 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, 2003, 2004 and 2005, and for each of the two fiscal years in the period ended March 31, 2004 have been derived from our audited consolidated financial statements that are not included in this Annual Report. The selected consolidated financial data is qualified in their entirety by reference to, and should be read in conjunction with, the Consolidated Financial Statements and related notes and Item 5 - "Operating and Financial Review and Prospects" included in this Annual Report.

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SELECTED CONSOLIDATED FINANCIAL DATA

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

	Year Ended March 31,			
	2003(1)	2004	2005	200
Net sales	$ 46,400	$ 74,964	$ 69,602	$ 64,54
Cost of sales	(35,528)	(57,481)	(53,138)	(51,11
Gross margin	10,872	17,483	16,464	13,42

Selling expenses	(2,467)	(3,122)	(2,595)	(2,11
Salaries and related costs	(4,563)	(5,150)	(5,216)	(5,68
Research and development expenses	(393)	(740)	(710)	(84
Administration and general expenses	(3,957)	(5,439)	(4,079)	(3,42
Amortization of brand name	(200)	(200)	(200)	(20
Impairment of goodwill	--	--	--	(25
Loss from water damage	--	--	--	--
(Loss) Income from operations	(708)	2,832	3,664	91
Interest income	85	57	81	20
Interest expense	(533)	(500)	(417)	(50
Foreign exchange gain (loss)	(96)	15	(98)	(18
Other income	99	225	372	19
Consultancy fee	(381)	--	--	--
(Loss) Income before income taxes and minority interest	(1,534)	2,629	3,602	61
Income tax expense	(37)	(402)	(266)	(13
Net (loss) income before minority interest	(1,571)	2,227	3,336	48
Minority interest	(72)	41	14	--
Net (loss) income	($ 1,643)	2,268	3,350	48
(Loss) earnings per share				
- Basic	($ 0.2936)	$ 0.3979	$ 0.5932	$ 0.08
- Diluted	($ 0.2936)	$ 0.3743	$ 0.5533	$ 0.08
Weighted average shares	5,599,238	5,702,015	5,646,676	5,577,63
Diluted weighted average shares	5,599,238	6,060,264	6,054,303	5,937,64

(1) The diluted net loss per share was the same as the basic net loss per share for the fiscal years ended March 31, 2003 and March 31, 2007 as all potential ordinary shares including the stock options and warrants are anti-dilutive and therefore excluded from the computation of diluted net loss per share.

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

	March 31,			
	2003	2004	2005	2006(1)
Cash and cash equivalents	$ 3,633	$10,815	$ 9,708	$ 8,582
Working capital	$ 9,777	$12,901	$15,345	$16,945
Total assets	$48,911	$53,598	$52,463	$49,479
Current liabilities	$18,424	$20,190	$18,319	$15,657
Long-term debts and capital leases	$ 606	$ 1,158	$ 168	$ 0
Deferred income tax assets	$ 167	$ 67	$ 99	$ 83
Common stock	$ 17	$ 17	$ 17	$ 17
Shareholders' equity	$28,379	$30,750	$33,932	$33,802
Dividends declared per share	--	$ 0.05	$ 0.10	$ 0.05

(1) Certain comparative figures have been reclassified to conform to the current year's presentat

Exchange Rate Information

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

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on August 31, 2007 were U.S. $1.00 = CDN $1.0560, U.S. $1.00 = RMB 7.5462, U.S. $1.00 = HK 7.7968, U.S. $1.3641= Euro 1.00, U.S $2.0165 = 1.00 GBP, respectively. The following table sets forth the high and low noon buying rates between Canadian Dollars and U.S. Dollars, Chinese Renminbi and U.S. Dollars, Hong Kong Dollars and U.S. Dollars, Euros and U.S. Dollars and British Pounds and U.S. Dollars for each month during the six month period ended August 31, 2007.

NOON BUYING RATE Cathy : Hank to update

	CDN$ Per U.S. $1		RMB Per U.S. $1		HK$ PER U.S. $1		U.S. $1 PER EURO	
	High	Low	High	Low	High	Low	High	Low
March 2007	1.181	1.153	7.7454	7.8177	7.8177	7.8093	1.3374	1.3094
April 2007	1.1583	1.1068	7.7345	7.709	7.8212	7.8095	1.366	1.3363
May 2007	1.1136	1.0727	7.7065	7.6463	7.8236	7.8044	1.3616	1.3419
June 2007	1.0727	1.0579	7.668	7.612	7.8188	7.8062	1.3526	1.3295
July 2007	1.0689	1.0372	7.6055	7.5580	7.8264	7,8129	1.3831	1.3592
August 2007	1.0754	1.0497	7.6181	7.5420	7.8285	7.7968	1.3808	1.3402

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

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AVERAGE NOON BUYING RATE

	CDN$ Per U.S. $1	RMB PER U.S. $1	HK$ PER U.S. $1	U.S. $1 PER EURO
2002	1.5704	8.2770	7.7997	0.9454
2003	1.4013	8.2772	7.7876	1.1315
2004	1.3017	8.2768	7.7891	1.2438
2005	1.1689	8.0699	7.8000	1.2096
2006	1.1383	7.8994	7.7802	1.2829

On July 21,2005, the Peoples Bank of China announced it would revalue the RMB by 2.1%, linking the RMB to a "basket of currencies" which includes the US dollar, Euro, Japanese Yen and Korean Won, rather than directly at 8.28 RMB to the dollar as it has for a decade. Under the new rules, the RMB would be allowed to move 0.3% on a daily basis against the dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3 percent daily movement against the US dollar to 0.5 percent. RMB has appreciated 8.87 % against the U.S. dollar between July 21, 2005 and August 31, 2007. As of August 31, 2007, the RMB was valued at 7.5462 per US Dollar.

Risk Factors

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

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

We Could Face Increased Currency Risks If China Does Not Maintain The Stability Of The Hong Kong Dollar or the Chinese Renminbi. The Hong Kong Dollar and the United States Dollar have been fixed at approximately 7.80 Hong Kong Dollars to 1.00 U.S. Dollar since 1983. The Chinese Renminbi had remained stable against the U.S. Dollar at approximately 8.28 to 1.00 U.S. Dollar for several years and not until July 21, 2005 that the Chinese currency regime was altered linking the RMB to a "basket of currencies." which includes the US dollar, Euro, Japanese Yen and Korean Won. Under the new rules, the RMB would be allowed to move 0.3% on a daily basis against the dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3 percent daily movement against the US dollar to 0.5 percent. RMB has appreciated 8.86% against the U.S. dollar between July 21, 2005 and August 31, 2007. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable to our common shareholders in U.S. dollars. As of August 31, 2007, the RMB was valued at 7.5462 per US Dollar. In addition, China's government continues to receive significant international pressure to further liberalize its currency policy and as a result may further change its currency policy. The Chinese government in the past has expressed its intention in the Basic Law to maintain the stability

of the Hong Kong currency after the sovereignty of Hong Kong was transferred to China in July 1997. However, there can be no assurance that the Hong Kong Dollar will remain pegged against the U.S. Dollar or the 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 face increased currency risks, which could have a material adverse effect upon the Company.

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

On March 16 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law increases the corporate income tax rate for foreign invested enterprises to 25% with effect from January 1, 2008.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grand-fathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, we will assess their impact, if any.

We Face Risks By Operating In China, Because The Chinese Legal System Relating To Foreign Investment And Foreign Operations Like Bonso's Is Evolving And The Application Of Chinese Laws Is Uncertain. The legal system of China relating to foreign investments is continually evolving, and there can be no 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 precedented value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of that law. Continued uncertainty relating to the laws in China could have a material adverse effect upon 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 Guang Dong Province" and officially designated a portion of Shenzhen as The Shenzhen Special Economy Zone. Foreign enterprises in these areas benefit from greater economic autonomy and special tax incentives than enterprises in other parts of China. Changes in the policies or laws governing Special Economic Zones could have a material adverse effect on us. Moreover, economic reforms and growth in China have been more successful in certain provinces than others, and the continuation or increase of these disparities could affect the political or social stability of China, which could have a material adverse effect 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 currently manufactured at our manufacturing facility located in Shenzhen, China. Fire fighting and disaster relief or assistance in China may not be as developed as in Western countries. Apart from our China operation, the warehouse and storage facility in Germany and Canada are also subject to the risks of loss or damage due to fire, flood, or any other natural disaster. Recent flooding of the river in Germany has imposed severe loss on us as a result of the damage of the inventory and equipment and interruption of business. We currently maintain property damage insurance aggregating approximately $24.75 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.

Future Changes in the Labor Laws in China may result in the Continued Increase in Labor Costs. During the fiscal year ended March 31, 2007, we experienced an increase in the cost of labor caused by the increase in the minimum hourly rate. Any future changes in the labor laws in the PRC could result in us having to pay increased labor costs. There can be no assurance that the labor laws will not change, which may have a material adverse effect upon our business and our results of operations.

Risk Factors Relating to Our Business

We Depend Upon Our Largest Customers For A Significant Portion Of Our Sales Revenue, And We Cannot Be Certain That Sales To These Customers Will Continue. If Sales To These Customers Do Not Continue, Then Our Sales Will Decline And Our Business Will Be Negatively Impacted. Traditionally, we have relied upon 3 customers for a significant portion of our sales during the fiscal year. During the fiscal year ended March 31, 2005, these three customers accounted for approximately 45% of our sales. During the fiscal year ended March 31, 2006 and March 31, 2007, the same three customers accounted for approximately 48% of our sales for both years. 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, 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 And Susceptibility To A Downturn In The Retail Economy And Sales Variances Resulting From Retail Promotional Programs. A significant amount of our net sales, $13,437,337, is the result of Korona's sales of bathroom and kitchen scales to retail merchants in Europe. In addition, many of our other customers sell to retail merchants. Accordingly, these portions of our customer base are susceptible to a downturn in the retail economy. A greater number of our sales of scales and telecommunications products occur between the months of April and September for shipment in the summer in preparation of the Christmas holiday. Throughout the remainder of the year, our products do not appear to be subject to significant seasonal variation. However, past sales patterns may not be indicative of future performance. A significant portion of our sales in Europe 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 year ended March 31, 2007, certain of our subsidiaries were and continue to be subject to enquiries from the local tax authorities. We have made an assessment under SFAS 5 "Accounting for Contingencies" and believed that no additional income tax expense was necessary as of March 31, 2007, as the relevant tax authority was still in the information gathering stage on their enquiries and it was practically difficult to have a reasonable estimate of the possible outcome of these enquiries at this stage. We believe we have a reasonable likelihood of success with respect to these enquiries. There can be no assurance that the enquiry 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. The Company will adopt FIN 48 "Accounting for uncertainty in income taxes" effective from April 1, 2007, the amount of income tax provisions required under FIN 48 could be significantly different.

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 or any of its subsidiaries' income in the form of a transfer pricing adjustment. 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 to our affiliated entities for under-paid taxes. Our consolidated net income may be materially and adversely

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affected if our affiliated entities' tax liabilities increase or if they are found to be subject to late payment fees or other penalties. The Company will adopt FIN 48 effective from April 1, 2007, the amount of income tax provisions required under FIN 48 could be significantly different.

Increased Prices for Raw Materials May have a negative impact upon us. During the fiscal years ended March 31, 2006 and 2007, the costs of component parts increased due to the increase in the price of oil used in the production of components such as plastic resin, steel and other raw materials. If oil prices continue to increase, it will likely result in an increase in the costs of components to us as well as an increase in our operating expenses, which may have a material adverse effect upon our business and results of operations.

We May Face an Increased Shortage of Factory Workers. During the fiscal years ended March 31, 2005, March 31, 2006 and March 31, 2007, we experienced labor shortages for factory workers. Due to increases in demand for workers in China, we cannot assure you that we can adequately staff the factory. The ability to adequately staff our factory could have a material impact on production, which could lead to delays in shipments or missed sales. In the event that we have delayed or lost sales, we may need to deliver goods by air to ensure that our products arrive on time, which would likely result in an increase in air freight costs, vendor fines and could result in missed sales, any of which could have a material adverse effect upon our business and our results from operations. For the fiscal years ended March 31, 2008, we will reduce the labour requirements by sub-contracting out some production processes that our sub-contractor have a competitive advantage in the cost of production. We will benefit from the lower cost of production and higher business flexibility.

We Face Increasing Competition in Our Industry and May not be able to successfully compete with our competitors. Our business is in an industry that is becoming increasingly competitive, and many of our competitors, both local and international, have substantially greater technical, financial and marketing resources than we have, and as a result, we may be unable to compete successfully with these competitors. We compete with scale manufacturers in the Far East, the United States, and Europe. We believe that our principal competitors in the scale and telecommunications market are other OEM and original design manufacturer "ODM" manufacturers, and all companies engaged in the branded, ODM and OEM business. Both the scale and the telecommunications markets are highly competitive and we face pressures on pricing and lower margins as evidenced by the decline in margins that we have experienced with our telecommunications products. Lower margins may affect our ability to cover our costs which could have a material negative impact on our operations and our business.

We Are Controlled By Our Management, Whose Interest May Differ From Those Of The Other Shareholders. At the present time, Mr. Anthony So, our founder and Chairman, beneficially owns approximately 36.41% of the outstanding shares of common stock, including shares underlying his outstanding options, or 29.16% without including his outstanding options. Due to his stock ownership, Mr. So may be in a position to elect the board of directors and, therefore, to control our business and affairs including certain significant corporate actions such as acquisitions, the sale or purchase of assets and the issuance and sale of our securities. Mr. So may be able to prevent or cause a change in control. We also

may be prevented from entering into transactions that could be beneficial to us without Mr. So's consent. The interest of our largest shareholder may differ from the interests of other shareholders.

Compliance costs with recently enacted changes in the securities laws and regulations pursuant to the Sarbanes-Oxley Act of 2002 will increase our costs. The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure, accounting and compliance practices. In response to the requirements of that act, the Securities and Exchange Commission and the NASDAQ have promulgated new rules on a variety of subjects. Compliance with these new rules as well as the Sarbanes-Oxley Act of 2002 has increased our legal, financial and accounting costs, and we expect the cost of compliance with these new rules to continue to increase and to be permanent. Further, the new rules may increase the expenses associated with our director and officer liability insurance.

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

Our Results Could be Affected By Changes In Currency Exchange Rates. Changes in currency rates involving the Canadian Dollar, Hong Kong dollar, Chinese Renminbi, British Pounds or the Euro could increase our expenses.

During the fiscal years ended March 31, 2005, 2006 and 2007, our financial results were affected by currency fluctuations, resulting in a total foreign exchange loss of $98,051, $183,887 and $183,952, respectively. Generally, our revenues are collected in United States Dollars, Euros and Canadian Dollars. Our costs and expenses are paid in United States Dollars, Canadian Dollars, Hong Kong Dollars, British Pound, Euros and Chinese Renminbi. We face a variety of risks associated with changes among the relative value of these currencies. An appreciation of the Canadian Dollar, Chinese Renminbi, Hong Kong Dollar, British Pound, or the Euro against the U.S. Dollar would increase our expenses when translated into U.S. Dollars and could materially and adversely affect our margins and results of operations. In addition, a significant devaluation in the Canadian Dollar, Chinese Renminbi, Hong Kong Dollar, British Pound or Euro could have a material adverse effect upon our results of operations if it destabilizes the economy of Canada, China, Hong Kong, Great Britain or the European Union.

Protection And Infringement Of Intellectual Property. Except for three patents held by Gram Precision, the trademark for KORONA and twelve trademarks currently held by Gram Precision, we have no patents, licenses, franchises, concessions or royalty agreements that are material to our business. We have obtained a trademark registration in Hong Kong and China for the marks BONSO and MODUS in connection with certain electronic apparatus. Unauthorized parties may attempt to copy aspects of our products or trademarks or to obtain and use information that we regard as proprietary. Policing unauthorized use of our

products is difficult. Our means of protecting our proprietary rights may not be adequate. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Our failure to adequately protect our proprietary rights may allow third parties to duplicate our products or develop functionally equivalent or superior technology. In addition, our competitors may independently develop similar technology or design around our proprietary intellectual property.

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

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

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

Certain Legal Consequences of Foreign Incorporation and Operations

Judgments Against The Company And Management May Be Difficult To Obtain Or Enforce. We are a holding corporation organized as an International Business Company under the laws of the British Virgin Islands and our principal operating subsidiaries are organized under the laws of Hong Kong and the laws of the Peoples' Republic of China. Our principal executive offices are located in Hong Kong and the Peoples' Republic of China, Korona is located in Germany and Gram Precision is located in Canada. Outside the United States, it may be difficult

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for investors to enforce judgments obtained against us in actions brought in the United States, including actions predicated upon the civil liability provisions of federal securities laws. In addition, most of our officers and directors reside outside the United States and the assets of these persons are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons, or to enforce against the Company or these persons judgments predicated upon the liability provisions of United States federal securities laws. Our Hong Kong counsel and our British Virgin Islands counsel have advised that there is substantial doubt as to the enforceability against us or any of our directors or officers in original actions or in actions for enforcement of judgments of United States courts in claims for liability based on the civil liability provisions of federal securities laws.

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

Future issuances of preference shares could materially and adversely affect the holders of our common shares or delay or prevent a change of control. Our Memorandum and Articles of Association provide the ability to issue an aggregate of 10,000,000 shares of preferred stock in four classes. While currently no preferred shares are issued or outstanding, we may issue preferred shares in the future. Future issuance of preferred shares could materially and adversely affect the rights of the holders of our common shares, dilute the common shareholders or delay or prevent a change of control.

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

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

We May Not Pay Dividends In The Future. Although we have declared dividends on April 2, 2003 and July 13, 2004 and July 12, 2005 and August 22, 2006, we may not be able to declare dividends or the board of directors may decide not to declare dividends in the future. We will determine the amounts of any dividends when and if they are declared, in the future at the time of declaration.

Item 4. Information on the Company

History and Development of the Company

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

Effective as of May 1, 2001 we acquired 100% of the equity of Korona. Korona markets consumer scale products throughout Europe to retail merchandisers and distributors. These products feature contemporary designs using the latest materials and attractive packaging.

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

In April 2007, we set up a new wholly-owned subsidiary, Bonso USA Inc. The new subsidiary will focus on the sales of industrial scales in the US market.

Our corporate administrative matters are conducted through our registered agent, HWR Services Limited, P.O. Box 71, Road Town, Tortola, British Virgin

Islands. Our principal executive offices are located at Unit 1106 - 1110, 11/F, Star House, 3 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong. Our telephone number is 852-2605-5822, our facsimile number is 852-2691-1724, our e-mail address is info@bonso.com and our website is www.bonso.com.

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

	2005	2006	2007
Property Plant & Equipment	$684,398	$1,340,134	$342,110

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.

In November, 2006, Bonso entered into a land purchase agreement with Xincheng Hi-Tech Industrial Estate to acquire a piece of land of approximately 146,673 square meters for future expansion of the Company's operations in XinXing. Pursuant to the land purchase agreement, the total consideration will be approximately $1,472,000 (RMB11,145,500). In July 2007, the Company paid a deposit of approximately $610,000 (RMB4,617,900).

This new piece of land is more than triple the size of the land upon which the Company's existing facilities are located in Shenzhen, China. It is expected that the land transfer will be completed in 2008 and the first phase of construction of the new manufacturing facilities will be completed in 2010. The projected capital expenditure for the first phase of investment is approximately $10,000,000. Our plans for capital improvements are subject to change from time to time.

Business Overview

Bonso Electronics International Inc. designs, develops, produces and sells electronic sensor-based and wireless products for private label Original Equipment Manufacturers (individually "OEM" or collectively "OEMs"), Original Brand Manufacturers (individually "OBM" or collectively "OBMs") and Original Design Manufacturers (individually "ODM" or collectively "ODMs").

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

Products

Our sensor-based scale products are comprised of bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications. These products accounted for 68% of revenue for the fiscal year ended March 31, 2005, 67% for 2006 and 75% for 2007. 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 are primarily comprised of two-way radios and cordless telephones that are used in consumer and commercial applications. These products accounted for 30% of revenue for the fiscal year ended March 31, 2005, 32% for 2006 and 24% for 2007. We believe that our telecommunications products will maintain stable due to stagnation in the industry.

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 2% of net sales for the fiscal year ended March 31, 2005, 1% for 2006 and 1% for 2007.

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, 2005, 2006, and 2007.

	Year ended March 31,		
Product Line	2005	2006	2007
Scales	68%	67%	75%
Telecommunications Products	30%	32%	24%
Others	2%	1%	1%
Total	100%	100%	100%

Business Strategy

We believe that our continued growth depends upon our ability to strengthen our customer base by enhancing and diversifying our products, increasing the number of customers and expanding into additional markets, while maintaining or increasing sales of our products to existing customers. Our continued growth and profitability is also dependent upon our ability to control production costs and increase production capacity. Our strategy to achieve these goals is as follows:

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

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

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

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

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

Increasing Production Capacity. We have significantly expanded our production capacity by leasing additional factory and dormitory buildings immediately adjacent to our factory in China. We have the opportunity to increase our capacity through the construction and/or leasing of additional factory and dormitory space near our factory in China. Further, in November, 2006, Bonso entered into a land purchase agreement to acquire approximately 146,673 square meters of land for future expansion in XinXing, China. We intend to carefully monitor our capacity needs and to expand capacity as necessary.

Customers and Marketing

We sell our products primarily in the United States and Europe. Customers for our products are primarily OEMs, OBMs and ODMs, which market the products under their own brand names. We continue to market our products to OEM's, OBM's and ODM's at trade shows, via e-mail and facsimile. Gram Precision engages in the distribution and marketing of pocket and industrial scales in the United States, Canada, and Europe. Korona engages in the distribution and marketing of electronic and mechanical body and kitchen scales directly to the retail and catalogue markets in Europe.

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Net export sales to customers by geographic area consisted of the following for each of the three years ended March 31, 2005, 2006 and 2007.

Year ended March 31,

2005	2006	2007

Canada	$2,686,951	4%	$1,637,447	3%	$2,239,419
United States of America	$38,638,906	55%	$37,352,618	58%	$36,432,384
Germany	$15,025,103	22%	$13,302,506	21%	$17,545,242
United Kingdom	$2,769,900	4%	$2,262,160	3%	$1,480,464
Other EC Countries	$7,948,970	11%	$7,997,740	12%	$5,739,117
Asia and Others	$2,532,362	4%	$1,990,492	3%	$3,054,754
Total	$69,602,192	100%	$64,542,963	100%	$66,491,380

We maintain a marketing and sales team of 19 people in China, a marketing team of 3 people in Canada for Gram Precision and a sales team of 12 people at Korona in Germany (including 8 sales representative and sales agents and 4 persons who are directly employed by Korona). Also, our experienced engineering teams work directly with our customers to develop and tailor our products to meet the customer's specific needs. We market our products primarily through a combination of direct contact by our experienced in-house technical sales staff and our sales representatives, and through the use of direct mail catalogues and product literature. Korona sells its products primarily through direct contact by sales teams with customers. External sales agents may be hired to conduct sales and we may pay commissions to the agents in connection with the sales. During the fiscal years ended March 31, 2005, 2006 and 2007 we recorded a total commission payment of $440,743, $379,162 and $543,349, respectively. In addition, our marketing teams contact existing and potential customers by telephone, mail, facsimile, and in person.

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

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Percent of Sales - Year ended March 31,

Electronics Sensor Customers	2005	2006	2007
Sunbeam Products, Inc.	17%	16%	23%
BSH HISNI APARATI, D.O.O.	4%	3%	7%
Salter Housewares Ltd.	3%	4%	2%
Media Markt und Saturn Verwaltungs GmbH	6%	5%	4%
Pitney Bowes, Inc.	6%	7%	7%

A list of our major telecommunications customers for each of the prior three fiscal years follows: Percent of Sales - Year ended March 31,

Telecommunications Customer	2005	2006	2007
TTI Tech Co., Ltd.	11%	16%	12%
Global Link Corporation Ltd.	17%	16%	13%

Sales of our products to OEMs and ODM's accounted for approximately 67% of our total net sales in the year ended March 31, 2005, 70% for both the year ended March 31, 2006 and March 31, 2007. Korona contributed $16,959,313 of our total net sales or 24% of total net sales for the year ended March 31, 2005, $13,672,447 or 21% of total net sales for the year ended March 31, 2006 and $13,437,337 or 20% of total net sales for the year ended March 31, 2007. Gram Precision contributed $5,961,367 of our total net sales or 9% of total net sales for the year ended March 31, 2005, $5,571,132 or 9% of total net sales for the year ended March 31, 2006 and $4,767,667 or 7% of total net sales for the year ended March 31, 2007.

Component Parts and Suppliers

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

During the fiscal years ended March 31, 2005, March 31, 2006 and March 31, 2007, the costs of component parts increased due to the increase in the price of oil used in the production of components such as plastic resin, steel and other raw materials. Further, we believe that costs of component parts have also increased due to an increase in worldwide demand for electronic components such as those used in the production of our products. We have taken steps to reduce our exposure to any inability to obtain components by forecasting with an increased buffer rate and placing orders for components earlier and allowing for longer delivery lead times. Because of these actions, we do not expect to experience any difficulty in obtaining needed component parts for our products.

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Quality Control

We have received ISO 9001: 2000 certification from Det Norske Veritas Certification B.V., the Netherlands. The ISO 9001: 2000 certification was awarded to our subsidiary, Bonso Electronics Limited and to Bonso Electronics Limited's subsidiary Bonso Electronics (Shenzhen) Company Limited. Further, we have received TL 9000 certification for our telecommunications products. We also received certification according to the Environmental Management Standards of ISO 14001:2004 and the Occupational Health and Safety Management Standard of OHSAS 18001.

ISO 9001 is one of the ISO 9000 series of quality system standards developed by the International Organization for Standardization, a worldwide federation of national standards bodies. ISO 9001 provides a model for quality assurance (and continuous improvement) in product development, manufacturing, installation and servicing that focuses on meeting customer requirements. The TL 9000 standard was developed by the Quality Excellence for Suppliers of Telecommunications (QuEST) Leadership Forum. The TL 9000 certification process was developed exclusively to address the quality of products and services provided by suppliers to the telecommunications industry.

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

The European Union has enacted the Restriction of the Use of Certain

Hazardous Substances in Electrical and Electronic Equipment Directive ("RoHS"). RoHS prohibits the use of certain substances, including lead, in certain products, sold after July 1, 2006. We believe that we can manufacture compliant products, and believe that we can be assured a supply of compliant components from suppliers.

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

We have obtained a trademark registration in Hong Kong and China for the marks BONSO and MODUS in connection with certain electronic apparatus. Also, we have acquired the trademark registration rights to the KORONA mark for 16 European countries and in the United States. Gram Precision has three patents for scales and twelve trademarks.

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

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

Product Research and Development/Competition

The major responsibility of the product design, research and development personnel is to develop and produce designs to the satisfaction of and in accordance with the specifications provided by the OEMs, OBMs and ODMs. We believe our engineering and product development capabilities are important to the future success of our business. As an ODM, we take specifications that are provided to us by the customer and design a product to meet those specifications. Some of our product design, research, and development activities are customer funded and are under agreements with specific customers for specific products. We have successfully lowered the costs for our research and development team by moving most research and development activities to our facility in China. We principally employ Chinese engineers and technicians at costs that are substantially lower than that would be required in Hong Kong. At March 31, 2007, we employed 72 individuals in Hong Kong and China for our engineering staffs, which are at various times engaged in research and development. The major responsibility of the product design and research and development personnel is to develop and produce designs of scales products to the satisfaction of and in accordance with the specifications provided by the ODMs and OEMs. We anticipate hiring additional research and development personnel to meet the increased demand for scales products.

The manufacturing and sale of electronic sensor-based and wireless products is highly competitive. Competition is primarily based upon unit price, product quality, reliability, product features and management's reputation for integrity. Accordingly, reliance is placed on research and development of new 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 $710,355 during the fiscal year ended March 31, 2005, $847,401 during the fiscal year ended March 31, 2006 and $983,172 during the fiscal year ended March 31, 2007.

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

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

Transportation

Typically, we sell products either F.O.B. Hong Kong or Yantian (Shenzhen), which means that our customers are responsible for the transportation of finished products from Hong Kong or Yantian (Shenzhen) to their final destination. Transportation of components and finished products to and from the point of shipment is by truck. To date, we have not been materially affected by any transportation problems. However, transportation difficulties affecting air cargo or shipping, such as an extended closure of ports that materially disrupts the flow of our customers' products into the United States, could materially and adversely affect our sales and margins if, as a result, our customers delay or cancel orders or seek concessions to offset expediting charges they incurred pending resolution of the problems causing the port closures.

Government Regulation

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

Foreign Operations

A significant amount of our products are manufactured at our factory 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 one wholly-owned Hong Kong subsidiary - Bonso Electronics Limited ("BEL"). BEL was organized under the laws of Hong Kong and is responsible for the design, development, manufacture and sale of our products.

BEL has one active Hong Kong subsidiary - Bonso Investment Limited ("BIL"). BIL was organized under the laws of Hong Kong and has been used to acquire and hold our property investments in Hong Kong and China.

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

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

In April 2007, we set up a new wholly-owned subsidiary, Bonso USA Inc. This subsidiary is responsible for the sale of industrial scales in the United

States.

Property, Plant and Equipment

British Virgin Islands

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

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Hong Kong

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

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

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

China

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

We also own 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 directors when they require accommodations in China.

We also own two office units in Beijing, namely Units 12 and 13 on the 3rd floor, Block A of Sunshine Plaza in Beijing, China. Unit 12 consists of 1,102 square feet and Unit 13 consists of 1,860 square feet. One Unit is rented to unaffiliated third parties for an aggregate monthly rental of RMB9,692, or approximately $1,255.

Germany

Korona leases approximately 885 square meters of office space located at

Auf den Huttenberg 1-3, 35428 Langgons-Niederkleen, Germany. This facility is used as Korona's principal executive offices and the monthly rent for this facility is (euro) 6,427.12.

Poland

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

United States

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

Canada

Gram Precision leases approximately 10,800 square feet of office and warehouse space located at 2855 Argentia Road, Unit 1, Mississauga, Ontario, L5N8G6, Canada. The monthly rent for this facility is CDN 11,123.

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 attached elsewhere in this Annual Report.

Overview

We derive our revenues principally from the sale of sensor-based and wireless products manufactured in China, which represent 75% and 24% of total sales for the fiscal year ended March 31, 2007, respectively. As mentioned in Item 3 - "Key Information - Risk factors relating to our business," we are dependent upon a limited number of major customers for a significant portion of our revenues. Our revenues and business operation will be subject to fluctuation if there is loss of orders from any of our largest customers. Further, the pricing of our scales and telecommunication products are becoming increasingly competitive, especially to our customers in the United States and Germany, who contributed over 81% of our revenue during the fiscal year ended March 31, 2007.

In the fiscal year ended March 31, 2005, net sales were approximately $69,602,000 and net income was approximately $3,350,000. During the fiscal year ended March 31, 2006 net sales decreased to approximately $64,543,000 and net income decreased to approximately $484,000. During the fiscal year ended March 31, 2007 net sales increased to approximately $66,491,000 and net loss was approximately $1,371,000.

Labor costs are increasing in China and our labor costs represent approximately 10% of our total production costs. We believe that increased labor costs in China will have a significant effect on our total production costs or 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. 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.

Operating Results

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

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	Fiscal Year Ended		
Income Statement Data	2005	2006	2007
Net sales			
Cost of sales	(76.3)	(79.2)	(81.1)
Gross margin	23.7	20.8	18.9
Selling expenses	(3.7)	(3.3)	(3.7)
Salaries and related costs	(7.5)	(8.8)	(8.2)
Research and development expenses	(1.0)	(1.3)	(1.5)
Administration and general expenses	(5.9)	(5.3)	(4.5)
Amortization of brand name	(0.3)	(0.3)	(0.3)
Impairment of goodwill	-	(0.4)	-
Loss from water damage	-	-	(1.1)
(Loss) income from operations			
Interest income	0.1	0.3	0.5
Interest expense	(0.6)	(0.8)	(0.9)
Foreign exchange loss	(0.1)	(0.3)	(0.3)
Other income	0.5	0.3	0.4
Income before income taxes and minority interest	5.2	1.0	(0.7)
Income tax expense	(0.4)	(0.2)	(1.3)
Minority interest	0.0	0.0	0.0
Net (loss) income	4.8	0.8	(2.0)

Fiscal year ended March 31, 2007 compared to fiscal year ended March 31, 2006

Net Sales. Our sales increased approximately $1,948,000 or 3.02% from approximately $64,543,000 for the year ended March 31, 2006, to approximately

$66,491,000 for the year ended March 31, 2007. The increase in sales was primarily the result of increased sales of scales products caused by the increased orders from our major scale customers. Sales of our scales and others business increased 14.7% from approximately $43,792,000 for the year ended March 31, 2006, to approximately $50,243,000 for the year ended March 31, 2007, and sales for telecommunications products decreased 21.7% from approximately $20,751,000 for the year ended March 31, 2006, to approximately $16,248,000 for the year ended March 31, 2007. The decrease in sales for telecommunications products was caused by the decreased orders from our major telecommunications customers.

Gross Margin. Gross margin as a percentage of revenue declined to approximately 18.9% during the year ended March 31, 2007 as compared to approximately 20.8% during the year ended March 31, 2006. The Company was confronted with a tough operating environment in this fiscal year. One of the challenges was rising operating overheads. Continuing from an escalating trend in recent years, the prices of crude oil and other key raw materials remained high, thereby driving up production costs for the Company. Furthermore, labour costs were also increasing. The general labour shortage in Shenzhen required us to offer higher wages to our workers in order to retain them. As a result of all these factors, our gross profit margin had decreased by 1.9%.

Selling Expenses. Selling expenses increased by approximately $366,000 or 17.3% from approximately $2,111,000 for the year ended March 31, 2006 to approximately $2,477,000 for the year ended March 31, 2007. This increase was primarily the result of increase in air freight cost to meet customers' delivery schedule.

Salaries And Related Costs. Salaries and related costs decreased by approximately $243,000 or 4.3% from approximately $5,681,000 for the year ended March 31, 2006 to approximately $5,438,000 for the year ended March 31, 2007. This decrease was due to the decrease in the number of staff.

Research And Development. Research and development expenses increased approximately $136,000 or 16.1% from approximately $847,000 for the year ended March 31, 2006 to approximately $983,000 for the year ended March 31, 2007. The increase in research and development was primarily due to increased research and development activities, such as hiring of additional staff and certification. for both the telecommunications products and new scale models. Research and Development as a percentage of revenue increased to 1.48% during the year ended March 31, 2007 as compared to 1.31% during the year ended March 31, 2006.

Administration And General Expenses. Administration and general expenses decreased by approximately $415, 000 or 12.1 % from approximately $3,420,000 for the year ended March 31, 2006 to approximately $3,005,000 for the year ended March 31, 2007. This decrease was primarily due overall reduction in operating expenses for the year ended March 31, 2007 owing to cost control measures.

Amortization Of Brand Names. During the years ended March 31, 2006 and 2007 we amortized $200,000 relating to the brand names acquired upon the acquisition of Korona. Brand names are amortized using the straight-line method over the related estimated useful life of 15 years.

Impairment of Goodwill. Based on the assessment for the year ended March 31, 2006, the Group made a provision for impairment of approximately $258,000 for one of the subsidiaries, Korona Hauschaltswaren Gmbh & Co.KG, due to the continued weak performance of the scales business. There was no impairment loss recognized during the fiscal year ended March 31, 2007.

Loss from Water Damage. During the fiscal year ended March 31, 2007, we incurred a loss of $700,950 from water damage which resulted from a heavy rain which caused a river near where our Germany logistic warehouse was located to overflow. We are now in the process of negotiating with our insurance carrier for compensation of the loss.

(Loss)/Income From Operations. As a result of the above changes, (loss)/ income from operations decreased by 128.3% from a gain of approximately $911,000 for the year ended March 31, 2006 to a loss of approximately $258,000 for the year ended March 31, 2007.

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Interest Income. Interest income increased by $111,000 or 55% from approximately $202,000 for the year ended March 31, 2006 to approximately $313,000 for the year ended March 31, 2007. The increase were primarily the result of depositing our cash into higher yield accounts and the increase in interest rates.

Interest Expenses. Interest expenses increased approximately $122,000 or 24.2% from approximately $504,000 for the year ended March 31, 2006 to approximately $626,000 for the year ended March 31, 2007. This increase was primarily due to the increase in interest rates on funds borrowed from the banks and the increase in bank borrowings during the year ended March 31, 2007.

Foreign Exchange Losses. There was no significant change in the foreign exchange losses during the year ended March 31, 2007 compared to the year ended March 31, 2006. Despite the continual appreciation of RMB, the effect was offset by fluctuation of foreign currency denominated balances.

Other Income. Other income increased approximately $112,000 or 59% from approximately $190,000 for the year ended March 31,2006, to approximately $302,000 for the year ended March 31, 2007. The increase was primarily due to gain from disposal of investment properties in the PRC.

Income Tax Expense. Income tax expense increased approximately $787,000 or 601% from approximately $131,000 during the year ended March 31, 2006 to $918,000 during the year ended March 31, 2007, representing approximately 0.2% and approximately 1.4% of net sales respectively. The increase was primarily the result of assessing the impact of the new developments of tax rules in the various tax jurisdictions that the group's subsidiaries are operating. We have performed the assessment in pursuant to FASB No. 5 "Accounting for Contingencies" and made a provision of approximately $737,000 in relation to this contingent liability.

Net Income. As a result of the above changes, net income decreased from a profit of approximately $484,000 for the period ended March 31, 2006 to a loss of approximately $1,371,000 for the period ended March 31, 2007, a decrease of approximately $1,855,000, or 383.3%.

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

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

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

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

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

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

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

Amortization Of Brand Names. During the years ended March 31, 2005 and 2006 we amortized $200,000 relating to the brand names acquired upon the acquisition of Korona. Brand names are amortized using the straight-line method over the related estimated useful life of 15 years.

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

Income From Operations. As a result of the above changes, income from operations decreased by 75.14% from approximately $3,664,000 for the year ended March 31, 2005 to approximately $911,000 for the year ended March 31, 2006.

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

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

Foreign Exchange Losses/Gains. Foreign exchange loss increased from a loss of approximately $98,000 for the year ended March 31, 2005 to a loss of approximately $184,000 for the year ended March 31, 2006. The increase was primarily attributable to the increased strength of the Canadian Dollar and especially the value of the Chinese Renminbi against the U.S. Dollar. On top of that, the RMB will no longer be linked to the US currency but rather to a basket of currencies with a 0.3% margin of fluctuation. This change in policy has resulted in an approximately 3.7% appreciation of the RMB against the U.S. dollar between July 21, 2005 and August 21, 2006.

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

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

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

Impact of Inflation

We believe that inflation has not had a material affect on our business during the fiscal year ended March 31, 2007. During the fiscal years ended March 31, 2002 to March 31, 2006, Hong Kong experienced a period of deflation and Germany sustained a low inflation rate. The estimated inflation rates for 2006 of Hong Kong, PRC, Germany, United States and Canada are 2.2%, 3.5%, 1.3%, 1.7%, 2.5% and 2% respectively. We have generally been able to modify and improve our product designs so that we could either increase the prices of our products or lower the production cost in order to keep pace with inflation. Although our costs of components used in the manufacture of our products have been relatively stable, we believe that any possible significant increase in material costs would affect the entire electronics industry. Thus, it would not have a negative material impact on our competitive position in the industry.

Taxation

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 rates of taxation of the subsidiary operating in Hong Kong is 17.5%. The subsidiary of the Group in Germany is registered as a partnership in Germany which is subject to a statutory tax rate of 14.17%. The Group is not subject to income taxes in the British Virgin Islands. The statutory tax rates in the United States and Canada are 15% and 36%, respectively.

Pursuant to the relevant income tax laws in the PRC, Bonso Electronics (Shenzhen) Co., Ltd, a wholly owned subsidiary of the Company, was fully exempt from PRC state income tax for two years starting from the first profit-making year followed by a 50% reduction over the ensuing three years. The first profit-making year of Bonso Electronics (Shenzhen) Co., Ltd. was deemed to be the financial year ended December 31, 1998 and the last year it was entitled to this benefit was December 31, 2002. In 2003, Bonso Electronics (Shenzhen) Co., Ltd was accredited as an "Advanced Corporation" and a further 50% tax reduction was granted for another three years. The last year it was entitled to this benefit was December 31, 2005. Under the Implementation Rules of the Foreign Enterprise Income Tax Law, Bonso Electronics (Shenzhen) Co. Ltd. was entitled to a further tax rate reduction to 10% for the calendar year ended December 31, 2006, as its export sale exceed 70% of its revenue.

Most of our subsidiaries' profits accrue in Hong Kong and the PRC where the applicable tax rates are currently 17.5% and 10%, respectively. There is no tax payable in Hong Kong on offshore profit or on dividends paid to Bonso Electronics Limited by its subsidiaries or to us by Bonso Electronics Limited. Therefore, our overall effective tax rate may be lower than that of most United States corporations; however, this advantage could be materially and adversely affected by changes in the tax laws of the British Virgin Islands, Germany, Canada, Hong Kong or China.

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 year ended March 31, 2007, certain of our subsidiaries were and continue to be subject to enquiries from the local tax authorities. We have made an assessment under SFAS 5 "Accounting for Contingencies" and believed that no additional income tax expense was necessary as of March 31, 2007, as the relevant tax authority was still in the information gathering stage on their enquiries and it was practically difficult to have a reasonable estimate of the possible outcome of these enquiries at this stage. We believe we have a reasonable likelihood of success with respect to these enquiries. There can be no assurance that the enquiry 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 Bonso 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 or its subsidiaries' income. Our consolidated net income may be materially and adversely affected if or affiliated entities' tax liabilities increase. The Company will adopt FIN 48 "Accounting for uncertainty in income taxes" effective from April 1, 2007, the amount of income tax provisions required under FIN 48 could be different.

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

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

Foreign Currency Exchange Rates

We sell most of our products to international customers. Our principal export markets are North America (mainly the United States), Europe (mainly Germany) and Asia. Other markets are other European countries (such as the United Kingdom), Australia and Africa. Sales to international customers are made directly by us to our customers. We sell all of our products in United States Dollars and pay for our material components principally in United States Dollars and Hong Kong Dollars. A very small portion of the components used are paid for in Japanese Yen. Most factory expenses incurred are paid in Chinese Renminbi. Because the Hong Kong Dollar is pegged to the United States Dollar, in the past our only material foreign exchange risk previously arose from potential fluctuations in the Chinese Renminbi and the devaluation in United States Dollars; management believes that it may be possible that there will be some fluctuation in the coming year.

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Gram Precision principally pays for its products in United States Dollars and Canadian dollars and sells its products in Canadian, United States Dollars, and United Kingdom Pound Sterling. Korona primarily pays for its products in United States Dollars and Euros and sells its products in Euros. During the fiscal year ended March 31, 2007, we experienced a foreign currency loss of $183,952. We don't currently engage in hedging transactions; however we may undertake hedging activities in the future.

A summary of our debts from our banking facilities utilized as at March 31, 2007 which was subjected to foreign currency risk is as below:

	March 31, 2007 $
Euro	3,576,366
Hong Kong dollars	2,957,631
United States dollars	778,895
Canadian dollars	459,710

7,772,602
=========

All the balances above are due within one year.

Fluctuations in the value of the Hong Kong Dollar have not been significant since October 17, 1983, when the Hong Kong government tied the value of the Hong Kong Dollar to that of the United States Dollar. However, there can be no assurance that the value of the Hong Kong Dollar will continue to be tied to that of the United States Dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese Renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund's Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon. On July 21, 2005, the Peoples Bank of China announced it would revalue the RMB by 2.1%, linking the RMB to a "basket of currencies" which includes the US dollar, Euro, Japanese Yen and Korean Won, rather than directly at 8.28 RMB to the dollar as it has for a decade. Under the new rules, the RMB will be allowed to move 0.3% on a daily basis against the dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3 percent daily movement against the US dollar to 0.5 percent. As of August 31, 2007, the RMB was valued at 7.5462 per US Dollar. There can be no assurance that these currencies will remain stable or will fluctuate to our benefit.

To manage our exposure to foreign currency and translation risks, we may purchase currency exchange forward contracts, currency options, or other derivative instruments, provided such instruments may be obtained at suitable prices. Management intends to take corrective action in an effort to attempt to minimize any negative impact foreign currency fluctuations may have upon us. However, to date we have not done so. If we are unsuccessful in hedging against currency fluctuations, it may have a material adverse effect on us.

Liquidity and Capital Resources

We have financed our growth and cash needs to date primarily from 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, to make strategic acquisitions and to fund increases in inventory and accounts receivable resulting from increased sales.

Operating activities provided $1,416,241 of net cash for the fiscal year ended March 31, 2007 compared to $2,480,213 of net cash for the fiscal year ended March 31, 2006. This decrease in the amount of cash provided by operating activities was primarily attributable to a decrease in net income.

As of March 31, 2007, we had $8,118,018 in cash and cash equivalents as compared to $8,582,257 as of March 31, 2006. Working capital at March 31, 2007, was $16,841,659 compared to $16,945,184 at March 31, 2006. There are no other material unused sources of liquid assets. We believe there are no material restrictions (including foreign exchange controls) on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans, advances or product/material purchases. We believe our working capital is sufficient for our present requirements.

As of March 31, 2007, we had $6,739,567 in trade receivable as compared to $6,740,229 as of March 31, 2006.

As of March 31, 2007, we had $14,997,788 in inventories as compared to $15,035,216 as of March 31, 2006.

As of March 31, 2007, we had a total of $9,090,852 in notes payable and accounts payable as compared to $9,598,886 as of March 31, 2006. The decrease of $508,034 was primarily attributable to timely payment to our vendors.

As of March 31, 2007 we had in place general banking facilities with 6 financial institutions with amounts available aggregating $30,017,128. Such facilities include the ability to obtain overdrafts, letters of credit, short-term notes payable, short-term loans and long-term loans. As of March 31, 2007, we had utilized $7,772,602 from these general banking facilities. Interest on this indebtedness fluctuates with the prime rate and HIBOR as set by the Hong Kong Bankers Association; the EONIA as set by the Germany Bankers Association and the Prime rate as set by the Canada Bankers Association. The bank credit facilities are collateralized by certain of our bank guarantees and one of the credit facilities is collateralized by a personal guarantee from the director of one of the Group's subsidiaries. Our bank credit facilities are due for renewal annually. We anticipate that the banking facilities will be renewed on substantially the same terms and our utilization in the next year will remain at a similar level as that in the current year. Excluding the capital lease obligations, the amounts of total short-term bank borrowings outstanding as of March 31, 2007 and 2006 were $3,576,366 and $2,936,467, respectively. During the fiscal years ended March 31, 2007 and 2006, we paid a total of $516,272 and $480,642, respectively, in interest on indebtedness.

Our current ratio decreased from 2.08 as of March 31, 2006 to 2.03 as of March 31, 2007. Our quick ratio decreased from 1.12 as of March 31, 2006 to 1.11 as of March 31, 2007.

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

Commitments

The following table sets forth information with respect to our commitments as of March 31, 2007.

Payments due by Period

	Total	Within 1 year	Within 1 to 3 years	Within 3 to 5 years	More t yea
Notes Payable	$3,736,526	$3,736,526	$0	$0	$0
Short-term loans	$3,576,366	$3,576,366	$0	$0	$0
Operating Leases	$3,847,657	$1,065,588	$1,861,720	$920,349	$0
Capital Leases	$154,983	$95,725	$59,258	$0	$0
Acquisition of land	$1,472,325	$610,000	$862,325	$0	$0
Interest on loans	$297,933	$297,933	$0	$0	$0
Interest on capital leases	$28,130	$17,374	$10,756	$0	$0
Total	$ 13,113,920	$9,399,512	$ 2,794,059	$920,349	$0

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

Critical Accounting Policies

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

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

Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined on a first-in, first-out basis. Net realizable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of completion and disposal. 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 collectibility of the sales price is reasonably assured. Revenue is recognized when title and risk of loss transfers to the customer, which is generally when the product is shipped to the customer from our facility. Shipping costs billed to our customers are included within revenue. Associated costs are classified in cost of goods sold.

The Company provides to certain customers an additional two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facility. In addition, certain products sold by the company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales at the time of sale 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 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. For the year ended March 31, 2007, the Group made a provision for impairment of approximately $5,414 (2006: $69,077, 2005: $148,198), on investment properties due to the decline in market value.

Goodwill is subject to an annual impairment review. The evaluation of goodwill for impairment involves two steps: (1) the identification of potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill and (2) the measurement of the amount of goodwill loss by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill and recognizing a loss by the excess of the latter over the former. The Company measures fair value based upon a discounted future cash flow analysis. Based on the assessment for the year ended March 31, 2007, no provision was made by the Group on impairment of goodwill (2006: $258,141, 2005: nil).

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