

BONSO ELECTRONICS INTERNATIONAL INC.

**ANNUAL REPORT TO SHAREHOLDERS
FOR
FISCAL YEAR END MARCH 31, 2023**

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INTRODUCTION

Bonso Electronics International Inc. (the “Company” or “we”) is a limited liability company incorporated under the laws of the British Virgin Islands. Since inception, we have designed, developed, produced and sold electronic sensor-based and wireless products for private label original equipment manufacturers (individually “OEM” or, collectively, “OEMs”), original brand manufacturers (individually “OBM” or, collectively, “OBMs”) and original design manufacturers (individually, “ODM” or, collectively, “ODMs”).

The Company has three direct wholly-owned subsidiaries as follows:

- (i) Bonso Electronics Limited, incorporated in Hong Kong (“BEL”), which has two wholly-owned subsidiaries: (a) Bonso Investment Limited, incorporated in Hong Kong (“BIL”); and (b) Bonso Electronics (Shenzhen) Company Limited, incorporated in the People’s Republic of China (“PRC”) (“BESCL”);
- (ii) Bonso Advanced Technology Limited, incorporated in Hong Kong (“BATL”), which has two wholly-owned subsidiaries: (a) Bonso Advanced Technology (Xinxing) Company Limited, incorporated in the PRC (“BATXXCL”); and (b) Bonso Technology (Shenzhen) Company Limited, incorporated in the PRC (“BTL”); and
- (iii) Modus Enterprise International Inc., incorporated in the British Virgin Islands (“MEII”), which has one wholly-owned subsidiary, Modus Pets Inc., incorporated under the laws of the State of Nevada, United States (“MPI”). MPI was dissolved in November 2022.

The three indirect subsidiaries that are incorporated in the PRC are referred to herein as the “PRC Subsidiaries.”

Shareholders have purchased shares of Bonso Electronics International Inc., a British Virgin Island company. Our operations are conducted through our Hong Kong and PRC Subsidiaries. At no time will the Company’s shareholders directly own shares of any of the subsidiaries.

Notice of Delisting and Transfer of Listing

The Board of Directors of the Company recently determined it to be in the best interests of the Company and its shareholders to voluntarily delist the Company’s common stock from The Nasdaq Stock Market, LLC (“Nasdaq”), which traded under the symbol “BNSO”. The Board of Director’s decision and approval to delist and deregister the Company’s securities was made after careful and thorough consideration of the advantages and disadvantages of continuing registration and the continuing costs and demands on management time arising from compliance with SEC and other regulatory requirements. Based upon ownership of the Company’s shares by fewer than 300 holders of record, the Board of Directors further approved the de-registration of the Company’s common stock under the Securities Exchange Act of 1934, as amended (the “Exchange Act” and suspend its public reporting obligations. The Company notified Nasdaq of the Board of Director’s determination on June 12, 2023.

The Company filed a Form 25 with the Securities and Exchange Commission on June 23, 2023. The Nasdaq delisting became effective on July 11, 2023, at which time trading on Nasdaq ceased. The common stock now is eligible for quotation on the Pink tier of OTC Markets Group if market makers commit to making a market in the Company’s shares. As of the date of this Annual Report to Shareholders, the Company has identified certain market makers to list on the Pink tier of the OTC Markets. Upon listing, the Company can provide no assurance that trading in its common stock would continue on the OTC Markets Group or otherwise.

The Company filed a Form 15 with the Securities and Exchange Commission on July 12, 2023, at which time the Company’s obligation to file periodic reports under the Exchange Act, including annual and current reports on Form 20-F, and Form 6-K, respectively, were suspended. All requirements associated with being an Exchange Act-registered company, including the requirement to file current and periodic reports, terminate permanently 90 days thereafter.

As a result of the de-registration of the Company’s common stock under the Exchange Act, the Company intends to voluntarily make periodic financial and other information available to its shareholders via its website at

www.Bonso.com, including this Annual Report to Shareholders. Upon termination of the registration of its common stock, the Company's securities are not eligible for trading on any national exchange or the OTCQB market.

The Company may also periodically elect to repurchase shares on the open market at prevailing market prices or in privately negotiated transactions following the filing of the Form 15.

Operations in China

Because we conduct business operations in China, the Chinese government may exercise significant oversight and discretion over those operations and may intervene in or influence those operations at any time, which could result in a material change in our operations and/or in the value of our common stock. In addition, we may be materially affected by recent statements by the Chinese government indicating an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based companies including, but not limited to, cybersecurity review and regulatory review of the overseas listing of securities through an offshore holding company. We are also subject to the risks of uncertainty about any future actions the Chinese government may take in this regard.

Cybersecurity

As we conduct a substantial portion of our operations in China, we are subject to legal and operational risks associated with having substantial operations in China, including risks related to the legal, political and economic policies of the Chinese government, the relations between China and the United States and Chinese or United States regulations, which risks could result in a material change in our operations and/or cause our common stock to significantly decline in value or become worthless. In addition, they may affect our ability to offer or continue to offer securities to investors outside the PRC. Recently, the PRC government initiated a series of regulatory actions and made a number of public statements on the regulation of business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews and expanding efforts in anti-monopoly enforcement. New laws, such as the Measures for Cybersecurity Review, could significantly limit or completely hinder our ability to offer or continue to offer securities to overseas investors and cause such securities to significantly decline in value or to be worthless.

The PRC, through the Cyberspace Administration of China (the “CAC”), proposed new rules and enacted new laws that would require companies collecting or holding large amounts of data to undergo a cybersecurity review prior to listing in foreign countries, a move that would significantly tighten oversight over China-based Internet giants. Pursuant to Article 6 of the Measures for Cybersecurity Review (Draft for Comments), companies holding data on more than 1 million users must now apply for cybersecurity approval when seeking listings in other nations due to the risk that such data and personal information could be “affected, controlled, and maliciously exploited by foreign governments.” On January 4, 2022, the CAC issued the Revised Measures on Cyberspace Security (the “Revised Measures”), which became effective on February 15, 2022 and which require that operators of critical information infrastructure (“CII”) intending to procure network products and services that may affect national security undergo cybersecurity review. This has impacted and could potentially impact a broad range of data-rich tech companies. The Revised Measures expand the scope of reviewed business entities to now include network platform (“NP”) operators intending to engage in certain activities, such as applying to list abroad. The Revised Measures establish a Cybersecurity Review Office (the “CRO”), an administrative body within the CAC, to formulate the regulations for cybersecurity review and to lead the cybersecurity review process. Affected CII operators and NP operators are required to submit an application to the CRO, and the CRO will assess whether a cybersecurity review is required.

If an entity is a CII operator or an NP operator, it is required to apply for cybersecurity review if any of the following three conditions is met: (i) the CII operator proposes to procure network products and services that affect or may affect national security; (ii) the NP operator proposes to carry out data processing activities that affect or may affect national security; or (iii) the NP operator controls personal information of more than 1,000,000 users and proposes to apply for overseas listing. The term “overseas listings” is often interpreted as listings outside of China, such as in the U.S.; “network products and services” include core network equipment, high capability computers and servers, high capacity data storage, large databases and applications, network security equipment and cloud

computing services; and “data processing” means the collection, storage, use, processing, transmission, provision and disclosure of data.

Since inception, we have designed, developed, produced and sold electronic sensor-based and wireless products for private OEMs, OBM and ODMs. Our PRC Subsidiary, BATXXCL, acquired a new manufacturing facility in Xinxing, Guangdong, China; BTL provides product design and distribution services; and BESCL is engaged in the proposed reconstruction of the Company’s existing Shenzhen factory into a high-rise industrial and commercial complex through our agreement with a property developer in Shenzhen (“Fangda”). We do not believe that these businesses involve the collection of user data, implicate cybersecurity or involve any type of restricted industry.

We believe that none of our PRC Subsidiaries is subject to cybersecurity review under the Revised Measures nor is our common stock subject to the review or prior approval of the CAC or the China Securities Regulatory Commission (the “CSRC”). Uncertainties still exist, however, due to the possibility that laws, regulations or policies in the PRC could change rapidly in the future. Any future action by the PRC government expanding the categories of industries and companies whose foreign securities offerings are subject to review by the CSRC or the CAC could significantly limit or completely hinder our ability to offer or continue to offer securities to overseas investors and could cause such securities to significantly decline in value or to become worthless.

Public Company Accounting Oversight Board (“PCAOB”)

Our auditor, MSPC Certified Public Accountants and Advisors, A Professional Corporation (“MSPC”), the independent registered public accounting firm that will issue the audit report to be included in an amendment to this Annual Report to Shareholders, is located in the United States, and is registered with the PCAOB. Since it is located in the United States, it is subject to PCAOB inspections. However, our Company and its auditor are not subject to the rules promulgated by the PCAOB as the Company is no longer registered under the Exchange Act, and is no longer required to file periodic reports under the Exchange Act.

The financial statements included in this Annual Report to Shareholders have not been audited by MSPC.

Implications of Being a Holding Company

As a holding company, we may rely on dividends and other distributions on equity paid by our subsidiaries, including our PRC Subsidiaries, for cash and financing requirements. We are permitted under the laws of the British Virgin Islands and our memorandum and articles of association (as amended from time to time) to provide funding to our subsidiaries incorporated in the BVI, the PRC and Hong Kong, through loans or capital contributions. Our subsidiary incorporated in the BVI is permitted under the laws of the BVI to provide funding to us through dividend distribution subject to certain restrictions laid down in the BVI Business Companies Act 2004 (as amended) and memorandum and articles of association of our BVI subsidiary. Our subsidiaries are permitted under the respective laws of China and Hong Kong to provide funding to us through dividend without restrictions on the amount of the funds, other than as limited by the amount of their distributable earnings. However, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends to us. See “Risk Factors - Political, Legal, Economic and Other Uncertainties of Operations in China and Hong Kong.”

Cash Flows

Any PRC regulations pertaining to our corporate structure or to loans to and investment in our PRC Subsidiaries by our offshore holding company may delay us from making loans or capital contributions to any of our subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

With regards to our corporate structure, any funds we may transfer to one of our PRC Subsidiaries, either as a loan or as an increase in registered capital, are subject to approval by or registration with relevant government authorities in China regardless of the amount of the transfer. According to the relevant PRC regulations, capital contributions to our PRC Subsidiaries are subject to the submission of reports of changes through the enterprise

registration system and registration with a local bank authorized by the State Administration of Foreign Exchange of the PRC (“SAFE”). In addition, any foreign loan procured by our PRC Subsidiaries is required to be registered with SAFE and such loan is required to be registered with the NPRC.

Moreover, any limitation on the ability of our PRC Subsidiaries to transfer cash out of China and/or make remittance to pay dividends to us could limit our ability to access cash generated by the operations of our PRC Subsidiaries.

Under PRC laws, rules and regulations, each of our three PRC Subsidiaries is required to set aside at least 10% of its after-tax profits each year, after making up for previous years’ accumulated losses, if any, to fund certain statutory reserves, until the aggregate amount of such fund reaches 50% of its registered capital. As a result of these laws, rules and regulations, our PRC Subsidiaries are restricted in their ability to transfer a portion of their respective net assets to us. There can be no assurance that the PRC government will not intervene or impose restrictions on our ability to transfer or distribute cash within our organization or to foreign investors, which could result in an inability or prohibition on making transfers or distributions outside of China and may adversely affect our business, financial condition and results of operations.

We are permitted under the laws of the British Virgin Islands to provide funding to our subsidiaries incorporated in China and Hong Kong through loans or capital contributions without restrictions on the amount of the funds and, recognizing the above-mentioned restriction in the PRC, our subsidiaries are permitted under the respective laws of China and Hong Kong to provide funding to us through dividend distribution. However, if any of our subsidiaries incur debt on their own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends to us. None of our subsidiaries has made any dividends or other distributions to us as of the date of this Annual Report. In the future, cash proceeds raised from overseas financing activities may be transferred by us to our PRC subsidiaries via capital contribution or shareholder loans, as the case may be. See “Risk Factors - Political, Legal, Economic and Other Uncertainties of Operations in China and Hong Kong.

As of the date of this Annual Report to Shareholders, there are cash flows between us and our subsidiaries and among our subsidiaries. Funds are transferred among our PRC Subsidiaries for working capital purposes. Our products are manufactured in our Xinxing factory and exported to our subsidiary located in Hong Kong. The subsidiary in Hong Kong sells the products to its overseas customers. As a result, our subsidiary in Hong Kong subsequently transfers funds to the Xinxing factory for purchase of the export products. Also, the subsidiary in Hong Kong will purchase raw materials and import to the Xinxing factory. The Xinxing factory will pay the subsidiary in Hong Kong for the raw materials. Therefore, our subsidiaries transfer cash in and out of the PRC.

The transfer of funds among companies is subject to the Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (2020 Revision, the “Provisions on Private Lending Cases”), which was implemented on August 20, 2020 to regulate the financing activities between natural persons, legal persons and unincorporated organizations. The Provisions on Private Lending Cases does not prohibit using cash generated from one subsidiary to fund another subsidiary’s operations. We have not been notified of any other restriction which could limit our PRC subsidiaries’ ability to transfer cash between subsidiaries.

Foreign Exchange

The PRC government’s control over the conversion of foreign exchange and fluctuations in the value of RMB may result in foreign currency exchange losses and limit our ability to pay dividends. Since our PRC Subsidiaries conduct business in the PRC, we receive part of their revenue and pay part of our expenses in RMB. The value of the RMB against the U.S. dollar and other currencies fluctuates from time to time and is subject to domestic and international political and economic developments, including the global and monetary effects of the war in Ukraine, as well as the fiscal and foreign exchange policies prescribed by the PRC government. We cannot assure you that the value of the RMB will remain at the current level against the U.S. dollar or any other foreign currency. If the RMB appreciates or depreciates against the U.S. dollar or any other foreign currency, it will have mixed effects on our PRC Subsidiaries’ businesses and there is no assurance that the overall effect will be positive.

The RMB is not currently a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Pursuant to the existing foreign exchange regulations in the PRC, we are allowed to carry out foreign exchange transactions for current account items (including dividend payment) without submitting the relevant documentary evidence of such transactions to the State Administration of Foreign Exchange of the PRC (“SAFE”) for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, we may need to obtain the SAFE’s prior approval for foreign exchange transactions for capital account items. If we fail to obtain the SAFE’s approval to convert RMB into foreign currencies for foreign exchange transactions, our Operating Subsidiaries’ business operations, financial condition, results of operations and prospects, as well as our ability to pay dividends, could be materially and adversely affected.

To address persistent capital outflows and the RMB’s depreciation against the U.S. dollar in the fourth quarter of 2016, the SAFE implemented a series of capital control measures in the subsequent months, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries’ dividends and other distributions may be subject to tightened scrutiny in the future. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC. Therefore, we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. Furthermore, if our PRC Subsidiaries incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments.

If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to transfer cash or the assets of our PRC Subsidiaries and pay dividends in foreign currencies to our shareholders. There can be no assurance that the PRC government will not intervene or impose restrictions on our ability to transfer or distribute cash or assets within our organization or to foreign investors, which could result in an inability or prohibition on making transfers or distributions outside of China and may adversely affect our business and financial condition. See “Risk Factors - Political, Legal, Economic and Other Uncertainties of Operations in China and Hong Kong” and “REGULATIONS IN CHINA APPLICABLE TO OUR BUSINESS—Foreign Currency Exchange.”

In addition, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless reduced under treaties or arrangements between the PRC central government and the governments of other countries or regions where the non-PRC-resident enterprises are tax resident. Pursuant to the tax agreement between Mainland China and the Hong Kong Special Administrative Region, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10%. However, if the relevant tax authorities determine that our transactions or arrangements are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future. Accordingly, there is no assurance that the reduced 5% withholding rate will apply to dividends received by our Hong Kong subsidiary from our PRC subsidiaries. This withholding tax will reduce the amount of dividends we may receive from our PRC subsidiaries.

Payment of Dividends

Dividends payable by the Company to our foreign investors and gain on the sale of our common stock may be subject to PRC income taxes. Pursuant to the EIT Law and the EIT Rules, subject to any applicable tax treaty or arrangement between the PRC and the jurisdiction of residence of our investors that provides a different income tax arrangement, the payment of dividends by a PRC resident enterprise to investors that are non-PRC resident enterprises (including enterprises that do not have an establishment or place of business in the PRC and enterprises that have an establishment or place of business but their income is not effectively connected with the establishment or place of business) or any gain realized on the transfer of shares by such investors is generally subject to PRC income tax at a rate of 10% to the extent such dividend has its source in the PRC or such gain is regarded as income derived from sources within the PRC. Under Individual Income Tax Law of the PRC and its implementation rules, dividends sourced within the PRC paid to foreign individual investors who are not PRC residents and gains from

PRC sources realized on the transfer of our common stock by such investors would be subject to PRC income tax at a rate of 20%, subject to any reduction or exemption set out in applicable tax treaties and PRC laws.

It is uncertain whether we will be considered a PRC “resident enterprise.” If we are considered a PRC “resident enterprise,” dividends payable by us with respect to our common stock, or any gain realized from the transfer of our common stock may be treated as income derived from sources within the PRC and may be subject to PRC income tax, subject to the interpretation, application and enforcement of the EIT law and the EIT rules by the relevant tax authorities. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our common stock which are “non-resident enterprises,” or if our Shareholders are required to pay PRC income tax on the transfer of our common stock under PRC tax laws, the value of an investment in our common stock may be materially and adversely affected.

FORWARD-LOOKING STATEMENTS

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

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

You should rely only on the forward-looking statements that reflect management's view as of the date of this Annual Report to Shareholders. 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 as described herein. 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 - 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. The financial statements for fiscal year ended March 31, 2023 included in this Annual Report to Shareholders have not been audited by MSPC, our auditor. However, the Company will make available on its website a link amendment to this Annual Report to Shareholders, which will include audited financial statements for the fiscal year ended March 31, 2023, together with the auditor's report when the audited financial statements are available.

REFERENCES

In this Annual Report to Shareholders, “China” refers to all parts of the People's Republic of China other than the Special Administrative Region of Hong Kong. The terms “Bonso,” “we,” “our,” “us,” “the Group” and the “Company” refer to Bonso Electronics International Inc. The reference to “PRC Subsidiaries” refers to BESCL, BATXXCL and BTL. References to “dollars,” “U.S. Dollars” or “US\$” are to United States Dollars, “HK\$” are to Hong Kong Dollars, “Euros” or “Euro” are to the European Monetary Union's Currency and “RMB” are to Chinese Renminbi.

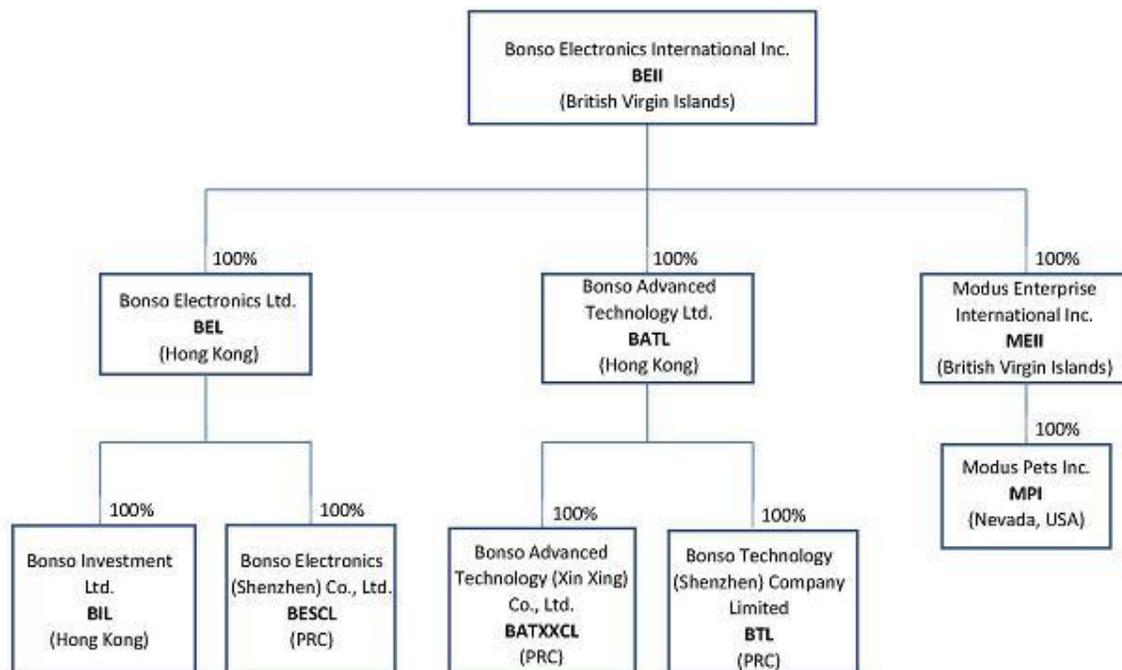
BUSINESS OF THE COMPANY

History and Development of the Company

Bonso Electronics International Inc. (the “Company” or “we”) was incorporated on August 8, 1988 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. Since inception, we have designed, developed, produced and sold electronic sensor-based and wireless products for private label original equipment manufacturers (individually “OEM” or, collectively, “OEMs”), original brand manufacturers (individually “OBM” or, collectively, “OBMs”) and original design manufacturers (individually, “ODM” or, collectively, “ODMs”).

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

Organizational Structure



The Company has three wholly-owned direct subsidiaries as follows:

- (i) Bonso Electronics Limited, incorporated in Hong Kong (“BEL”), which is responsible for the design, development, manufacture and sale of our products. BEL has two wholly-owned subsidiaries:
 - (a) Bonso Investment Ltd., incorporated in Hong Kong (“BIL”), which has been used to acquire and hold our investment properties in Hong Kong and China; and

- (b) Bonso Electronics (Shenzhen) Company Limited, incorporated in the PRC (“BESCL”), which was used to manufacture our products until January 2014. BESCL leased its factory to a third party from August 2013 to August 2019; however, the tenant terminated the lease as at January 31, 2019, and we were unable to re-lease the factory. Effective with the transfer of manufacturing operations to Xinxing, we ceased manufacturing operations in BESCL. Subject to receiving the necessary governmental approvals, we intend to re-develop the existing Shenzhen factory into a high-rise industrial and commercial complex through our agreement with a property developer in Shenzhen (“Fangda”), which is described in “Business Overview.”
- (ii) Bonso Advanced Technology Limited, incorporated in Hong Kong (“BATL”), which, along with BEL, is responsible for the design, development, manufacture and sale of our products. BATL has two wholly-owned subsidiaries:
- (a) Bonso Advanced Technology (Xinxing) Company Limited, incorporated in the PRC (“BATXXCL”), which is used to acquire and hold our new manufacturing facility in Xinxing, Guangdong, China; and
- (b) Bonso Technology (Shenzhen) Company Limited, incorporated in the PRC (“BTL”), which provides product design and distribution services for the Group.
- (iii) Modus Enterprise International Inc., incorporated in the British Virgin Islands (“MEII”), which is a holding company and has one wholly-owned subsidiary:
- (a) Modus Pets Inc., incorporated in the United States (“MPI”), which is utilized for selling products through Amazon Marketplace in the US. No business was conducted through MPI, and MPI was dissolved in November 2022.

The three indirect subsidiaries that are incorporated in the PRC are referred to herein as the “PRC Subsidiaries.”

Business Overview

Since inception, we have designed, developed, produced and sold electronic sensor-based and wireless products for private label OEMs, OBM and ODMs. Since 1989, we have manufactured all of our products in China in order to take advantage of the lower overhead costs and competitive labor rates. From 1989 until 2013, all of our production took place in our Shenzhen factory; however, during the fiscal year ended March 31, 2013 we began production in our Xinxing factory. We moved all production processes from our Shenzhen factory to the Xinxing factory during the fiscal year ended March 31, 2014, and we rented out the old Shenzhen factory to a third party as a source of rental income.

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

- Scales-manufactured at our factory in Xinxing;
- Pet Electronic Products-manufactured at our factory in Xinxing;
- Rental and Management-involves the leasing of our factory in Shenzhen, and the leasing of both factory space and equipment at our Xinxing facility; and
- Others-principally includes (i) tooling and mould charges for scales and pet electronic products, (ii) sales of scrap materials, and (iii) home appliances including cordless leaf blower, food vacuum sealers and hydroponic growing systems.

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, 2023, 2022 and 2021:

Product Line	Year ended March 31,		
	2023	2022	2021
Scales	68%	60%	41%
Pet Electronic Products and Others	22%	32%	52%
Rental and Management	10%	8%	7%
Total	100%	100%	100%

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

We have engaged consultants to assist us in obtaining the necessary governmental approvals to permit us to redevelop the Shenzhen factory into a high-end commercial complex, containing retail space, office space and some residential space. In July 2017, we signed a letter of intent, and in November 2017, we signed the definitive agreement with a property developer in Shenzhen (“Fangda”) to cooperate in reconstructing and redeveloping the Shenzhen factory. Fangda is a wholly owned subsidiary of Fangda Group Co., Ltd. (“Fangda Group”), which is listed on the Shenzhen Stock Exchange. In July 2018, we signed a supplementary agreement with Fangda to modify our approach in obtaining government approvals. Under the terms of the agreement, Fangda is responsible for applying for necessary government approvals and for financing and handling the redevelopment project. The agreement provides that both companies will share the redeveloped property after reconstruction/redevelopment is completed with Bonso holding a 45% interest in the total floor area. However, the final sharing ratio is subject to government approval of the total floor area. Fangda is in the process of obtaining necessary governmental approvals. We expect that Fangda will obtain all necessary approvals by the end of calendar year 2024; however, there can be no assurance that it will be successful in obtaining all necessary approvals. If we are successful in obtaining the necessary governmental approvals for the redevelopment, we believe that the rental income derived from leasing the redeveloped property will be a significant contributing factor to our profit in the future.

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

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

	On March 31,		
	2023	2022	2021
Property, plant & equipment, including investment property	\$ 262,000	\$ 1,205,000	\$ 700,000

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

All of the foregoing capital expenditures were financed principally from internally generated funds, except for three motor vehicles purchased with capital leases.

Business Strategy

Management of the Company believes that is in the best interest of the Company and our shareholders to further expand the Rental and Management segment. From 2013 to January 31, 2019, the Company leased its entire Shenzhen facility, consisting of seven buildings for a total of approximately 375,000 square feet, to an unaffiliated third party, and a portion of the facility has been leased to an unaffiliated third party since April 1, 2021. The Company, through its partner, Fangda, is currently continuing the process of applying for required permits to redevelop the Shenzhen facility into a high-end commercial complex, containing retail space, office space and some

residential space, all of which is intended to be leased out. We anticipate receiving required approvals by the end of calendar year 2023. The Company is also leasing an aggregate of approximately 172,000 square feet of its Xinxing facility to unaffiliated third parties, and completed construction of an additional building for lease at that location. Management believes that the Rental and Management segment will increase and constitute a more significant part of our total revenues in the future.

Scales, Pet Electronic Products and Other Segments

Products. Our sensor-based scale products include bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications. These products accounted for 68% of revenue for the fiscal year ended March 31, 2023, 60% for 2022 and 41% for 2021. We believe that our sensor-based scale products will continue to be a major portion of our revenue as we are able to secure orders from our major customers.

Since the fiscal year ended March 31, 2013, the Company has also produced pet electronic products that are sold to wholesalers and pet shops. The Company also sells its pet electronic products through online platforms including Taobao, Tmall, Alibaba and Amazon. These products accounted for 14% of revenue for the fiscal year ended March 31, 2023, 23% for 2022 and 51% for 2021.

We also receive revenue from certain customers for (i) the development and manufacture of tooling and moulding for scales and pet electronic products, although most of the tools and moulds that we produce are used by us for the manufacture of our products; (ii) sales of scrap materials; and (iii) the sale of home appliances, including cordless leaf blowers, food vacuum sealers and hydroponic growing systems through online platforms at Amazon. These revenues accounted for approximately 8% of revenue for the fiscal year ended March 31, 2023, 9% for 2022 and 1% for 2021.

The following table sets forth the percentage of net revenue for each of the product lines mentioned above for the fiscal years ended March 31, 2023, 2022 and 2021:

Product Line	Fiscal Year Ended March 31,		
	2023	2022	2021
Scales	68%	60%	41%
Pet Electronic Products	14%	23%	51%
Other	8%	9%	1%
Total	90%	92%	93%

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

Increased Focus upon Manufacturing and Selling Higher Margin Products and the Elimination or Decrease in the Production and Sale of Lower Margin Products. Since 2015 we have focused upon eliminating the production and sale of lower margin products that require the employment of larger numbers of workers and the commitment of substantial resources to carry or stock raw materials and components inventory. In addition, the Company is able to generate a higher margin for its products sold through online platforms where the products are sold directly to the end users without a middleman. With the decrease in the production and sale of lower margin products and increase in the sale of higher margin products, the Company has increased its gross profit margin from 21.9% for the fiscal year ended March 31, 2015 to 61.9% for the fiscal year ended March 31, 2021, 48.1% for the fiscal year ended March 31, 2022, and 38.7% for the fiscal year ended March 31, 2023.

Product Enhancement and Diversification. We continually seek to improve and enhance our existing products in order to provide a longer product life cycle and to meet increasing customer demands for additional

features. Our research and development staff is currently working on projects to enhance our existing scale, postal scale/meter and pet electronic products. Further, we are developing certain pet electronic products for distribution into the China market. See “Product Research and Development” and “Competition,” below.

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

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

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

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

Customers and Marketing. We sell our products primarily in the United States and Europe. Customers for our products are primarily OEMs, OBMs and ODMs, which market the products under their own brand names. We market our products to OEMs, OBMs and ODMs through our sales staff at trade shows, via e-mail and via our website. In addition, we market our pet electronic products to end users worldwide through online platforms. We have made sales through this medium primarily to end users in the United States, Europe and China. We have expanded our online sales to include home appliances, including cordless leaf blowers, food vacuum sealers and hydroponic growing systems.

Net export sales to customers in the United States and Europe constituting 10% or more of total revenue of the Company consisted of the following for each of the three years ended March 31, 2023, 2022 and 2021.

	Year ended March 31,					
	2023		2022		2021	
	\$ in thousands	%	\$ in thousands	%	\$ in thousands	%
United States of America	3,574	40	8,340	56	9,732	62
Germany	3,814	42	4,602	31	3,666	24

Total	7,388	82	12,942	87	13,398	86
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We maintain a marketing and sales team of five people. Also, our experienced engineering teams work directly with our customers to develop and tailor our products to meet the customers' specific needs. We market our products primarily through a combination of direct contact by our experienced in-house technical sales staff and through trade shows, e-mail and our website. We also offer certain of our products through Amazon. Commission payments of approximately \$5,000 were paid to the sales team during the fiscal year ended March 31, 2023 (2022: \$9,000; 2021: \$25,000). We hire third-party agents to handle sales and customer service for some of our online selling platforms. Commission payments of approximately \$189,000 were paid to agents during the fiscal year ended March 31, 2023 (2022: \$554,000; 2021: \$930,000).

Our top two customers and their percentage of revenue for the prior three fiscal years are below:

Percent of Revenue- Year ended March 31,

Customer	2023	2022	2021
Customer A	42%	30%	23%
Customer C	11%	12%	9%

Component Parts and Suppliers. We are not dependent upon any single supplier for key components. We purchase components for our products primarily from suppliers in Japan, Taiwan, Hong Kong and China.

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

Quality Control. We have received ISO 9001:2015 certification from BSI Assurance UK Limited. The ISO 9001:2015 certification was awarded to our subsidiary, Bonso Advanced Technology (Xinxing) Company Limited. ISO 9001 is one of the ISO 9000 series of quality system standards developed by the International Organization for Standardization, a worldwide federation of national standards bodies. ISO 9001 provides a model for quality assurance (and continuous improvement) in product development, manufacturing, installation and servicing that focuses on meeting customer requirements. We have also received certification on the management system for medical devices of ISO13485:2016, which ensures that we have implemented and maintained a quality system for the design and manufacture of medical devices and allows us to develop and manufacture safe and effective medical devices.

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

The Company provides to certain customers an additional one to two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facility.

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

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

could result in a significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation is determined in our favor.

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

Product Research and Development. The major responsibility of the product design, research and development personnel is to develop and produce designs to the satisfaction of, and in accordance with, the specifications provided by the OEMs, OBMs and ODMs. We believe our engineering and product development capabilities are important to the future success of our business. As an ODM, we take specifications that are provided to us by the customer and design a product to meet those specifications. Some of our product design, research and development activities are customer funded and are under agreements with specific customers for specific products. To reduce costs, we conduct our research and development at our facilities in China. We principally employ Chinese engineers and technicians at costs that are substantially lower than those that would be required in Hong Kong. At March 31, 2023 and 2022, we employed 12 and 11 individuals, respectively, in Hong Kong and China for our engineering staff, who are at various times engaged in research and development.

Competition. The manufacture and sale of electronic sensor-based and wireless products is highly competitive. Competition is primarily based upon unit price, product quality, reliability, product features and management's reputation for integrity. Accordingly, reliance is placed on research and development of new products, line extensions and technological quality and other continuous product improvement. There can be no assurance that we will enjoy the same degree of success in these efforts in the future. Research and development expenses aggregated approximately \$220,000, \$237,000 and \$229,000 during the fiscal years ended March 31, 2023, 2022 and 2021, respectively.

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

Transportation. Typically, we sell products either F.O.B. Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou), which means that our customers are responsible for the transportation of finished products from Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou) to their final destination. Transportation of components and finished products to and from the point of shipment is by truck. To date, we have not been materially affected by any transportation problems. However, transportation difficulties affecting air cargo or shipping, such as an extended closure of ports that materially disrupts the flow of our customers' products to their destination, mainly the United States and Europe, could materially and adversely affect our sales and margins if, as a result, our customers delay or cancel orders or seek concessions to offset expediting charges they incurred pending resolution of the problems causing the port closures. For products sold through online platforms, the Company ships to customers directly by door-to-door courier services from our factory to customers located in China. For products sold through the Amazon selling platform, goods are supplied to Amazon fulfillment centers, and are shipped by Amazon with Fulfillment by Amazon service.

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

Foreign Operations.

China. Our products are manufactured at our factory located in China. While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies between the United States and China have arisen that threaten the status quo involving trade between the United States and China. In 2018 and 2019, the U.S. government imposed tariffs on certain foreign goods, including some of the Company's products, and indicated a willingness to impose tariffs on imports of other products. Related to this action, certain foreign governments, including China, instituted retaliatory tariffs on certain U.S. goods, and indicated a willingness to impose additional tariffs on U.S. products. It remains unclear what the U.S. government or foreign governments will or will not do with respect to recent or future tariffs or other international trade agreements and policies. A trade war or other governmental action related to tariffs or international trade agreements or policies could adversely impact our supply chain and could result in significant additional costs to us when shipping our products to various customers in the United States. This, in turn, could require us to increase prices to our customers, which may reduce demand for our products, or, if we are unable to increase prices, result in lowering our margin on products sold, which would have a material adverse effect on our business and results of operations. During the fiscal year ended March 31, 2023, the United States accounted for approximately 40% of net export sales of our manufactured products as opposed to 56% and 62% for the years ended March 31, 2022 and 2021.

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

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

Rental and Management Segment

Since 2014, when we leased our Shenzhen manufacturing facility to a third party, we have gradually been developing a rental and management segment of our business. We currently lease approximately 172,000 square feet of space in Xinxing, as well as machinery to third parties for an aggregate gross monthly income of approximately RMB 240,000, or \$34,000. During the fiscal year ended March 31, 2023 and 2022, rental and management income accounted for approximately 10% and 8% of our net income, respectively. A description of the leases of factory space and equipment that we have entered into is set forth below under "Real Property."

Real Property. A description of our real properties follows:

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

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

approximately 375,000 square feet. The Company entered into a rental agreement in June 2013 to rent out the Shenzhen factory to a third party from August 2013 to July 31, 2019. However, in December 2018, the local environmental protection bureau ordered the tenant to cease production of its primary products as a result of the imposition of higher pollution standards resulting from the conversion two years before of a nearby industrial factory to residential buildings. The tenant terminated the lease agreement as at January 31, 2019 and relocated. The Company then leased out part of the Shenzhen factory to a third party since April 1, 2021.

We have engaged consultants to assist us in obtaining the necessary governmental approvals to permit us to redevelop the Shenzhen factory into a high-end commercial complex, containing retail space, office space and some residential space. In November 2017, we entered into an agreement with Fangda, a property developer in Shenzhen. Fangda has taken over the process to facilitate and obtain the necessary governmental approvals. We have experienced delays due to changes in the local district planning process and regulations, and we anticipate that Fangda will complete the approval process in 2024; however, there can be no assurance that it will be successful in obtaining all necessary approvals. If Fangda is successful in obtaining the necessary governmental approvals for the redevelopment, we believe that the rental income derived from leasing the redeveloped property will be a significant contributing factor to our profit in the future.

We own a residential unit in Shenzhen. This unit, namely Unit 302, 5th Building, Hua Qiang City, is located at Feng Tang Road in Fu Hai, Bao An, Shenzhen. This unit, consisting of 1,354 square feet, is located near our existing Shenzhen factory and is utilized as quarters for the senior officers of the Company during their visits and monitoring of the redevelopment of the Shenzhen factory.

Our Xinxing factory is located in Xinxing High-Tech Industrial Estate, Xinxing, Yunfu City, Guangdong, China. This factory land area is approximately 1,185,000 square feet, with six factory buildings consisting of approximately 523,000 square feet, three dormitories consisting of an aggregate of approximately 86,000 square feet, a canteen consisting of 15,000 square feet and an office building consisting of 50,000 square feet.

The following table summarizes all the rental agreements with respect to portions of our Xinxing factory that we are renting to third parties.

Tenant	Leased assets	Area in square feet	From	To	Current Monthly Rent in RMB	Remarks
Tenant A	factory space, machines and equipment	29,523	Jan 01, 2021	Dec 31, 2026	51,495	
Tenant B	machines and equipment		Jul 01, 2023	Jun 30, 2024	7,000	
Tenant C	factory space	41,979	Oct 01, 2016	Sep 30, 2024	61,578	
Tenant D	factory space	43,271	Feb 14, 2017	Feb 13, 2026	50,853	
Tenant E	factory space	18,891	Jan 1, 2023	Dec 31, 2028	21,938	

Tenant H	factory space	1,991	Nov 06, 2019	Jun 05, 2024	3,134	
Tenant I	factory space	7,535	Mar 01, 2020	Feb 13, 2026	9,625	
Tenant J	factory space	22,772	Jun 13, 2020	May 12, 2028	25,599	
Tenant L	factory space	6,458	Sep 25, 2021	Sep 24, 2027	8,400	
Total		172,420			239,622 (or approximately \$35,000)	

We own an apartment unit in Shenzhen, Unit 1502 located at Fuyong Chamber of Commerce Building, which consists of approximately 957 square feet. The Company leased this property to a third party from December 2016 to November 2019. Since the termination of the rental agreement in November 2019, the Company has utilized the apartment as staff quarters.

REGULATIONS IN CHINA APPLICABLE TO OUR BUSINESS

Regulations Related to Foreign Invested Enterprises

According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (the “Negative List”) as promulgated and effective in July 2019, the original Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) was repealed. Overseas investors are not allowed to invest in any foreign investment prohibited field on the Negative List and shall have an access permit for investing in a non-prohibited investment field on the Negative List. Fields not included in the Negative List for the market entry of foreign investment shall be managed according to the principle of equal treatment of domestic and foreign investment.

The business scope of the Company is the development, manufacture and sale of electronic sensor-based and wireless products. According to the Negative List, the business scope of the Company does not fall in any field on the Negative List and therefore is not subject to any special management measures for the access of foreign investment.

The Foreign Investment Law of the People’s Republic of China (the “Foreign Investment Law”), which was promulgated in March 2019 and became effective on January 1, 2020, replaced the three legacy laws on foreign invested enterprises including the Wholly Foreign-owned Enterprises Law of the People’s Republic of China (the “Wholly Foreign-owned Enterprises Law”) which was previously applicable to the Company. The organizational form, organization structure and activities of a foreign-invested enterprise are now governed by the provisions of the Company Law of the People’s Republic of China, the Partnership Enterprise Law of the People’s Republic of China and other relevant laws. However, the Foreign Investment Law sets up a transitional period of five years after the implementation of the Foreign Investment Law, during which foreign-invested enterprises established according to the Wholly Foreign-owned Enterprise Law before the implementation of the Foreign Investment Law may maintain their original organization forms, etc. Specific implementing measures are to be prescribed by State Council.

Regulations on Trademark Protection

Intellectual property rights, also known as “knowledge ownership rights,” refer to “property rights enjoyed by right holders for the intellectual work created by their intellectual work,” and are generally only valid for a limited time. Various intellectual creations such as inventions, designs, literary and artistic works, as well as signs, names and images used in commerce, can all be considered intellectual property owned by a person or organization. Since the 1980s, while continuously improving the construction of the domestic legal system, China has successively joined some major international conventions, treaties and agreements for the protection of intellectual property rights. In particular, on December 11, 2001, China became a member of the World Trade Organization’s Agreement on Trade-related Intellectual Property Rights.

The Trademark Law of the PRC was passed by the National People’s Congress on August 23, 1982 and last amended in April, 2019, effective in November 2019. The Law states that an applicant for trademark registration should fill in the product category and product name of the used trademark in accordance with the stipulated commodity classification form and file an application for registration. Trademark registration applicants can apply for registration of the same trademark for multiple categories of goods through one application. A registered trademark is valid for a period of ten years from the date of approval of the registration. If the registered trademark has expired and it needs to continue to be used, the trademark registrant must go through the renewal formalities within 12 months before the expiration of the time limit; if it cannot be handled during this period, it may grant a grace period of six months. Each renewal registration is valid for a period of ten years, counting from the date following the expiration of the previous validity period of the mark. If registrants fail to complete the renewal formalities at the expiration of the time limit, their registered trademarks shall be cancelled. In addition, if the registered trademark is a well-known trademark, it shall be managed in accordance with the Regulations on the Recognition and Protection of Well-known Trademarks issued by the State Administration of Industry and Commerce on July 3, 2014. The regulation states that well-known trademarks are trademarks that are well-known to the relevant public in China. The relevant public includes consumers who are related to the use of a certain type of goods or services marked by the trademark, other operators who produce the aforementioned goods or provide services, and the sellers and related personnel involved in the distribution channels. The recognition of well-known trademarks follows the principle of case identification and passive protection.

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

Foreign Currency Exchange

The Regulations on Foreign Exchange Management of the PRC was promulgated by the State Council of the PRC on January 29, 1996 and revised on January 14, 1997 and August 1, 2008, respectively. The regulations stipulate that foreign exchange income from current accounts of domestic institutions shall be sold to the designated foreign exchange bank in accordance with the provisions of the State Council concerning the management of foreign exchange, sales of foreign exchange and payment of foreign exchange, or be approved to open foreign exchange accounts in designated foreign exchange banks. The remittances used by domestic institutions for the current account shall be paid in accordance with the provisions of the State Council concerning the management of foreign exchange, sales of foreign exchange, and payment of foreign exchange, with valid certificates and commercial documents, to foreign exchange designated banks. Foreign exchange collections and import payments made by domestic institutions shall be subject to verification procedures in accordance with the regulations of the State on the management of the cancellation of foreign exchange receipts for export and the verification of the import payment and foreign exchange cancellation. Foreign exchange earnings from capital accounts of domestic institutions shall be subject to the opening of foreign exchange accounts in designated foreign exchange banks in accordance with the relevant regulations of the State and shall be approved by the foreign exchange administrative authority if they are sold to designated foreign exchange banks.

On October 21, 2005, the State Administration of Foreign Exchange (“SAFE”) issued a Circular on the Relevant Issues Concerning Domestic Investors Financing through Overseas Special Purpose Vehicles and Foreign Exchange Management of Return Investment, namely Document No. 75, which came into effect on November 1, 2005. The term “special purpose company” as mentioned in the circular refers to an overseas company directly established or indirectly controlled for the purpose of overseas equity financing (including convertible bond financing) by a domestic resident legal person or a domestic resident natural person with the assets or equity of a domestic company held by it. The “return investment” in the circular refers to the direct investment activities carried

out by domestic residents through the special purpose company, including but not limited to the following methods: purchasing or replacing the Chinese company's equity in a domestic company, setting up a foreign-invested enterprise in the country and purchasing or negotiating the control of domestic assets through the company, negotiating the purchase of domestic assets, establishing a foreign-invested enterprise with the investment in the asset and increasing the capital of the domestic enterprise. The "domestic resident legal person" in the circular refers to a legal person and other economic organization legally established in China; "domestic resident natural person" refers to a natural person holding a legal ID card such as an ID card or passport of the PRC, or natural persons habitually residing in China because of economic interests although they do not have legal status in China. The term "control" in this circular refers to the acquisition, trust, holding, voting right, repurchase, convertible bonds, etc. of domestic residents to acquire the operating right, income right or decision-making right of a special purpose company or a domestic company. Before a domestic resident establishes or controls an overseas special purpose company, he must, with relevant materials, apply to the local foreign exchange branch and foreign exchange administration department (hereinafter referred to as the SAFE) to apply for foreign exchange registration procedures for overseas investment. Domestic residents who inject the assets or equity of domestic enterprises owned by them into special purpose companies or conduct overseas equity financing after injecting assets or equity into special purpose companies, must go through the formalities for the change in the foreign exchange registration of overseas investment in relation to their equity in the special purpose company and their changes, and they should provide relevant materials when handling. After injecting a special purpose company or investing in foreign equity financing after injecting assets or equity into a special purpose company, the company shall handle the foreign exchange registration change procedures for overseas investment in relation to the equity of the special purpose company and its changes and shall provide relevant material. After completing procedures for the foreign exchange registration and change of overseas investment in accordance with regulations, the domestic residents may pay special purpose companies for profits, dividends, liquidation, equity conversion, capital reduction, etc. If a special purpose company has any significant capital changes such as capital increase or reduction, equity transfer or replacement, merger or division, long-term equity or debt investment, external guarantee, etc. and does not involve return investment, the domestic residents must apply to SAFE for handling the change of foreign exchange registration of overseas investment or filing procedures within 30 days from the occurrence of major events. If a domestic resident set up or controlled a special purpose company abroad before the implementation of this notice and completed the return investment but failed to register the foreign investment registration of the foreign investor according to the provisions, he was required to go to the local SAFE to renew the foreign investment registration of the foreign investor before March 31, 2006 according to the provisions of this notice. After completing the renewing registration of foreign exchange registration of overseas investment, SAFE may handle foreign exchange registration procedures for foreign investment and foreign debt for the relevant domestic enterprise.

On August 29, 2008, SAFE issued a Circular on the Improvement of the Business Operations Related to Foreign Exchange Capital Payment and Foreign Exchange Capital Management of Foreign-invested Enterprises, that is, Circular No. 142. The circular indicates that the RMB funds received from the foreign exchange enterprise's capital gains shall be used within the business scope approved by the government approval department. Unless otherwise specified, the RMB funds obtained through settlement shall not be used for domestic equity investment. Excluding commercial real estate investment enterprises, foreign-funded enterprises may not purchase domestic real estate that is not for their own use in the form of RMB funds obtained through capital settlement. The use of RMB funds from foreign exchange-funded enterprises for capital investment in securities shall be implemented in accordance with relevant state regulations.

On November 9, 2011, SAFE issued a circular on further clarifying and standardizing issues concerning the management of foreign exchange operations for certain capital accounts, namely Circular 45, which clarified the scope of application of Circular 142. The circular pointed out that foreign-invested enterprises must not use the RMB funds derived from the foreign exchange capital settlement for domestic equity investment. Foreign-invested enterprises with equity investment approved by the relevant competent authorities must use their foreign exchange capital and domestic Chinese-funded institutions must use the foreign exchange funds in the asset liquidation account for domestic equity investments, with reference to the principle of foreign exchange capital contribution management of foreign-invested companies. Foreign-funded enterprises must not issue entrusted loans, repay inter-enterprise loans (including third-party advances) or repay bank loans that are re-lending to third parties in the form of RMB funds derived from foreign exchange capital settlement. Foreign-funded enterprises may not, in principle,

deliver various types of deposits in the form of RMB funds derived from foreign exchange capitalization. Funds in the dedicated deposit account may not be settled.

On July 4, 2014, SAFE issued a circular on the issues relating to the pilot reform of foreign exchange capital management of foreign-invested enterprises in certain regions (i.e., Circular 36). The circular pointed out that since August 4, 2014, pilot projects for the reform of the management of foreign exchange capital in foreign exchange enterprises will be carried out in some regions. The foreign exchange capital recognized in the capital contribution account of a foreign-invested enterprise through the foreign exchange administration where it is located can be processed at the bank according to the actual business needs of the enterprise. The capital of a foreign-invested enterprise and the RMB funds derived from its settlement of foreign exchange shall not be used for the following purposes:

- (i) it shall not be used directly or indirectly for expenditures outside the scope of business operations or prohibited by national laws and regulations;
- (ii) unless otherwise provided by laws and regulations, no direct or indirect investment in securities may be used;
- (iii) may not directly or indirectly be used to issue RMB entrusted loans (except for business scope permits), repayment of inter-enterprise loans (including third-party advances), and repayment of bank-denominated loans that have been transferred to third parties; and
- (iv) except for commercial investment in real estate companies, they may not be used to pay for the purchase of non-self-use real estate.

Also, on July 4, 2014, SAFE issued a circular on the related issues concerning the Domestic Residents' Foreign Investment through Special Purpose Companies and Foreign Exchange Management for Return Investments. This is known as Document No. 37. Compared with Circular 75, Circular 37 further simplified and facilitated the cross-border capital transactions of domestic residents involved in investment and financing activities through special purpose companies. The circular stipulates that SAFE shall exercise registration management for the establishment of special purpose companies for domestic residents. Before a domestic resident can use the legal assets or rights at home and abroad to invest in a special purpose company, he shall apply to SAFE for the foreign exchange registration formalities for overseas investment. If the domestic residents' profits and bonuses obtained from special purpose companies are transferred back to China, they shall be handled in accordance with the current regulations on foreign exchange management; if the foreign exchange income from capital changes is transferred back to China, they shall be handled in accordance with the foreign exchange management provisions for capital accounts.

On March 30, 2015, SAFE issued a notice on reforming the foreign exchange capital management of foreign-invested enterprises, namely, Circular No. 19, which took effect on June 1, 2015. The circular indicates that SAFE has decided to implement the reform of foreign exchange capital management of foreign-invested enterprises on a nation-wide basis after summarizing the pilot experience in previous regions. At the same time, Circular 142 and Circular 36 were repealed.

Regulations on Dividend Distribution

The principal regulations governing dividend distributions by wholly foreign owned enterprises include the Company Law, as amended, the Foreign Investment Law and Regulation on the Implementation of the Foreign Investment Law as promulgated and effective in January 2020. Under these laws and regulations, wholly foreign owned enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with the PRC accounting standards and regulations. Additionally, a wholly foreign owned enterprise is required, as other enterprises subject to PRC laws, to set aside at least 10% of its after tax profits each year, if any, to fund statutory reserve funds of the enterprise until the cumulative amount of such funds reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

Regulations on Labor

According to the Labor Law of the PRC (promulgated in 1994, last amended in 2018), Labor Contract Law of the PRC (promulgated in 2007, amended in 2012) and Implementation Regulations of the Labor Contract Law of the PRC (promulgated in 2008), it is stipulated that employers and laborers should establish labor contracts when they establish labor relations. The labor contract concluded according to law is binding, and employers and laborers shall perform the obligations stipulated in the labor contract. Where a labor relationship has been established and a written labor contract has not been concluded at the same time, a written labor contract shall be concluded within one month from the date of employment. Where an employer and a laborer conclude a labor contract prior to employment, the labor relationship shall be established from the date of employment. The state implements a minimum wage security system. The specific standards for minimum wages are stipulated by the people's governments of provinces, autonomous regions and municipalities directly under the Central Government and reported to the State Council for the record. The employer's payment of laborers' wages must not be less than the local minimum wage standard. The employer must provide laborers with labor safety and hygiene conditions that comply with the state regulations and necessary labor protection supplies. Workers engaged in occupational hazard operations should carry out regular health checks.

The provisions concerning the employment of foreigners in China are mainly based on the Regulations on the Administration of Employment of Foreigners in China jointly issued by the Ministry of Labor, the Ministry of Public Security, the Ministry of Foreign Affairs and the Ministry of Foreign Trade and Economic Cooperation on January 22, 1996, as amended on November 12, 2010 and March 13, 2017. The regulation states that employers employing foreigners must apply for employment permits for the foreigner. Foreigners can only be hired after obtaining permission and obtaining the Employment License for Foreigners of the PRC (hereinafter referred to as "permit"). Foreigners employed in China should enter the country on a Z-visa (if they have a mutual visa exemption agreement, they should be dealt with according to the agreement). After entering China and obtain the Foreigner's Employment Permit (hereinafter referred to as "employment permit"), they will be able to obtain employment in China. Foreigners who have not obtained a residence permit (namely, those with F, L, C and G visas), foreigners studying in China or performing internships and dependents of foreigners holding a Z visa may not be employed in China. In exceptional circumstances, the employer may apply for a permit in accordance with the approval procedures stipulated in these Regulations. Foreigners employed with a permit to the public security agency change their status and apply for an employment permit or residence permit. Employing units and foreigners hired shall conclude labor contracts according to law. The duration of a labor contract must not exceed five years. When the employment contract signed between the foreigner and the employing unit expires, the employment permit will be invalid.

The provisions concerning the employment of foreigners as teachers mainly refer to the circular concerning the Handling of Work Permits for Foreign Experts Coming to China issued by the State Administration of Foreign Experts Affairs on September 30, 2004. The circular states that foreign experts hired to work in China should obtain the Work Permit for Foreign Experts to Come to China. Foreign experts applying for Work Permits for Foreign Experts to Work in China shall abide by Chinese laws and regulations, be in good health, have no criminal record and meet one of the following conditions:

- (i) to implement intergovernmental agreements and agreements between international organizations, and foreign trade contracts, foreign professional skills or management personnel working for employment in China;
- (ii) foreign professionals who are engaged in education, scientific research, journalism, publishing, culture, arts, health, sports, etc. in China;
- (iii) appointed as a deputy general manager or above in an enterprise in China, or a foreign professional or technical person enjoying equal treatment;
- (iv) foreign experts or human agency agencies accredited by the State Administration of Foreign Experts Affairs Representatives of nationalities; and

(v) applicants for work in the fields of economy, technology, engineering, trade, finance, accounting, taxation, tourism, etc., with special expertise, foreign professional skills or management personnel in short supply in China.

Foreign experts in paragraphs (ii) and (iii) shall have a bachelor's degree or above and more than 5 years of relevant work experience (except that language teachers must have a bachelor's degree or above and more than 2 years of relevant work experience). All units intending to hire foreign experts shall be entitled to Accreditation of Foreign Experts Units and obtain the Certificate of Employment of Foreign Expert Units. This certificate is the basic proof of foreign nationals applying for work permits, invitation letters, foreign expert certificates and residence procedures in China. Newly-run schools and other education and training institutions should run for more than one year, only after the basic stability of teachers, students, and teaching institutions, they can apply for qualification approval procedures. However, the formal establishment of Chinese-foreign cooperatively-run schools and schools that specially recruit children from foreign nationals are not subject to this restriction. The Provincial Foreign Experts Bureaus, State Council related ministries and commissions, and the directly-affiliated agencies' foreign affairs divisions (bureaus) shall be responsible for the annual inspection work of the local or department according to the annual inspection notice issued by the State Administration of Foreign Experts Affairs and submit the regional annual inspection report to the State Administration of Foreign Experts Bureau by the end of December. The National Bureau of Foreign Experts conducts annual inspections of all eligible units from January 1 to January 31 every year. All overseas organizations that intend to send cultural and educational experts to China must obtain the Authorization of the Qualifications of Overseas Organizations that Introduce Foreign Cultural and Educational Experts to Work in China and obtain the Authority Certification for Overseas Organizations that Introduce Foreign Cultural and Educational Experts to Work in China. This certificate is the basic proof of the overseas organization's intermediary business of cultural and educational experts in China. The State Bureau of Foreign Experts Affairs and the Bureau of Foreign Experts at the provincial level conduct annual inspections of overseas organizations that have obtained the qualifications for introducing foreign cultural and educational experts to China from January 1 to March 31 every year, and organize dispatch teams and personnel to provide training and internships. Training, study and other forms of training for overseas training institutions must all obtain the Organizational Dispatch Group and Personnel Qualifications for Overseas Training Institutions and obtain the Certificate of Organization Qualification for Organizing Delegation Groups and People to Overseas Training. Organizations that organize their own personnel to go abroad for training only shall be excluded.

According to the decision regarding the cancellation of 13 administrative licenses of the State Council issued by the State Council on February 13, 2016, the accreditation of foreign experts by the State Foreign Experts Bureau was cancelled.

On March 28, 2017, the State Administration of Foreign Experts Affairs, the Ministry of Human Resources and Social Security, the Ministry of Foreign Affairs and the Ministry of Public Security jointly issued a notice on the Full Implementation of the Work Permit System for Foreigners to Come to China. The circular states that foreigners allowed to work in China will receive Work Permits for Foreigners to Come to China to replace Foreigner Employment Permits and Foreign Experts to Work Permits in China since April 1, 2017.

Tax regulations

PRC corporate income tax

On March 6, 2007, the National People's Congress of the PRC issued the Corporate Income Tax Law of the PRC, which was implemented on January 1, 2008 and last amended in December 2018. The tax law stipulates that foreign-invested enterprises and domestic enterprises have an income tax rate of 25%. Small and low profit enterprises that meet certain conditions will be subject to a 20% income tax rate. Enterprises with high priority which need to be supported by the state are taxed at a reduced rate of 15%. On December 6, 2007, the State Council issued the Regulations on the Implementation of the Enterprise Income Tax Law of the PRC, which took effect on January 1, 2008.

On April 22, 2009, the State Administration of Taxation issued a notice on Relevant Issues of Overseas Registered Chinese-Funded Controlled Enterprises Recognized as Resident Enterprises on the Basis of Actual Management Institutional Standards, which became effective on January 1, 2008. The circular states that overseas

Chinese-invested enterprises that meet the following conditions shall determine that they are resident companies of the actual administrative agency in China (hereinafter referred to as non-domestically registered resident enterprises), implement corresponding tax administration and collect corporate income tax on their income from inside and outside China:

- (i) the places where senior management personnel responsible for the implementation of daily production and operation management operations and their senior management departments perform their duties are mainly located in China;
- (ii) the company's financial decisions (such as borrowings, lending, financing, financial risk management, etc.) and personnel decisions (such as appointments, dismissals, remunerations, etc.) are determined by institutions or personnel located in China or need to be approved by an organization or person located in China;
- (iii) the company's main property, accounting book, company seal, board of directors and minutes of shareholders' meetings, etc. are located or stored in China; and
- (iv) 50% or more of the voting directors or senior executives of the corporation often reside in China.

On July 27, 2011, the State Administration of Taxation issued an announcement on the issuance of the Administrative Measures on the Income Tax of Overseas-registered Chinese-controlled Holding Enterprises (Trial), which took effect on September 1, 2011. The measure points out that non-domestic-registered resident enterprises shall, in accordance with relevant Chinese laws and regulations and regulations of the competent departments of finance and taxation under the State Council, formulate financial and accounting statements, and shall, within 15 days from the date of receipt of tax registration certificates, submit the enterprise's financial and accounting systems or financial accounting, the handling methods and related information to the competent tax authorities for the record. Non-domiciled registered resident companies that obtain dividends, bonuses and other equity investment income derived from China, income from interest, rent, royalties, transfer of property income and other income, shall issue a copy of the company's Certificate of Resident Identity of Overseas-registered Chinese-controlled Enterprises issued by the company. According to Article 26 of the Corporate Income Tax Law of the PRC and Articles 17, 18 and 91 of the Implementation Regulations on Enterprise Income Tax Law of the PRC, the following income of enterprises is tax exempt income:

- (i) interest income from government bonds;
- (ii) dividends, bonuses and other equity investment gains among eligible resident companies;
- (iii) non-resident enterprises that have established establishments in China obtain dividends, dividends, and other equity investment income from resident enterprises that are actually in contact with the institution or site; and
- (iv) income of qualified non-profit organizations.

The applicable tax rate for income obtained by non-resident enterprises is 20%. Corporate income tax on income earned by non-resident enterprises is levied at the rate of 10%. That is to say, general overseas companies transferring 10% of the corporate income tax shall be subject to the transfer of equity in Chinese enterprises or the dividend distribution of Chinese enterprises. However, if the non-resident enterprise is a resident enterprise belonging to a country or region that has signed a tax treaty or arrangement with China, it may enjoy preferential tax treaty provisions.

PRC withholding tax

Foreign enterprises have no institutions or places in China, but have obtained profits, interest, rent, royalties and other income from China, or have established institutions or places, but the above-mentioned income has no actual connection with institutions and places. The amount of income is subject to withholding income tax. In accordance with the accrued method, the payer (payer) pays the tax on the proceeds (payments) to the beneficiary

(the payee). The withholding income tax belongs to personal income tax or corporate income tax, but it is only a source of income tax control. It is a taxation of a personal income tax or corporate income tax.

In 2008, China began to impose a dividend withholding income tax on foreign-invested enterprises at a tax rate of 20%, generally levied at 10%. Hong Kong, Macao, Singapore, Seychelles and others have signed tax treaties with China or have special taxes. The preferential national tax rate for the countries in the arrangement is as low as 5%. Therefore, when a Hong Kong company affiliated to the group obtains the after-tax profits distributed by the mainland Chinese company it invests, the mainland Chinese company must withhold and pay 5% of the withholding income tax.

In addition, Notice No.88 (2017) on “the Issues Concerning the Direct Investment of Foreign Investors in Distributing the Withholding Income Tax Policy” stipulates that foreign investors who meet the conditions of direct investment shall not be subject to withholding tax.

PRC Business Tax and Value-Added Tax (VAT)

On March 23, 2016, the Ministry of Finance and the State Administration of Taxation issued a circular on the Full Implementation of the Business Tax Levy of VAT Pilots. The circular indicates that since May 1, 2016, pilots for the change of business tax to VAT have been fully promoted throughout the country, and all business tax taxpayers were included in the scope of the pilot and were changed from paying business tax to paying VAT. According to notice No.36 (2016) issued by the Ministry of Finance and the State Administration of Taxation, the Comprehensive Project replaces Business Tax with Value-added Tax.

RISK FACTORS

You should carefully consider the following risks, together with all other information included in this Annual Report to Shareholders. 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

Changes in international trade or investment policies and barriers to trade or investment, and the ongoing geopolitical conflict, may have an adverse effect on our business and expansion plans, and could lead to the delisting or a prohibition of quotations being published in the OTC Pink market of our securities in the U.S. and/or other restrictions or prohibitions on investing in our securities.

In recent years, international market conditions and the international regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. In particular, the U.S. administration has advocated for and taken steps toward restricting trade in certain goods, particularly from China. From 2018 to late 2019, the United States announced several tariff increases that applied to products imported from China, totaling over US\$550 billion. By the end of 2019, the two countries had reached a phase one trade deal to roll back tariffs and suspend certain tariff increases by the United States that were scheduled to take effect from December 2019, and in January 2020, the two sides entered into a formal phase one agreement on trade. The progress of trade talks between China and the United States is subject to uncertainties, and there can be no assurance as to whether the United States will maintain or reduce tariffs, or impose additional tariffs on Chinese products in the near future. Furthermore, in August 2019, the U.S. Treasury Department labelled China as a currency manipulator, which label was officially dropped by the U.S. Treasury Department in January 2020. However, it is uncertain whether the U.S. government may issue any similar announcement in the future. As a result of such announcement, the United States may take further actions to eliminate perceived unfair competitive advantages created by alleged manipulating actions. Changes to national trade or investment policies, treaties and tariffs, fluctuations in exchange rates or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we sell our products, as well as our financial condition and results of operations.

In addition, the United States is considering ways to limit U.S. investment portfolio flows into China. For example, in May 2020, under pressure from U.S. administration officials, the independent Federal Retirement Thrift Investment Board suspended its implementation of plans to change the benchmark of one of its retirement asset funds to an international index that includes companies in emerging markets, including China. China-based companies, including us and our related entities, may become subject to executive orders or other regulatory actions that may, among other things, prohibit U.S. investors from investing in these companies and delist the securities of these companies from U.S. exchanges. As a result, U.S. and certain other persons may be prohibited from investing in the securities of our company or our related entities, whether or not they are listed on U.S. exchanges. For example, in November 2020, the U.S. administration issued U.S. Executive Order 13959, prohibiting investments by any U.S. persons in publicly traded securities of certain Chinese companies that are deemed owned or controlled by the Chinese military. In May 2021, the American depositary shares of China Telecom, China Mobile and China Unicom were delisted from the NYSE to comply with this executive order. In June 2021, the U.S. administration expanded the scope of the executive order to Chinese defense and surveillance technology companies. Geopolitical tensions between China and the United States may intensify and the United States may adopt even more drastic measures in the future.

China and other countries have retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. For instance, in response to the tariffs announced by the United States, in 2018 and 2019, China announced it would stop buying U.S. agricultural products and imposed tariffs on over US\$185 billion worth of U.S. goods. Although China subsequently granted tariff exemptions for certain U.S. products as a result of trade talks and the phase one trade deal agreed with the United States, it is uncertain whether there will be any further material changes to China's tariff policies. Any further actions to increase existing tariffs or impose additional tariffs could result in an escalation of the trade conflict, which would have an adverse effect on manufacturing, trade and a wide range of industries that rely on trade, including logistics, retail sales and other businesses and services, which could adversely affect our business operations and financial results.

Additionally, China has issued regulations to give itself the ability to unilaterally nullify the effects of certain foreign restrictions that are deemed to be unjustified to Chinese individuals and entities. The Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures promulgated by the Ministry of Commerce ("MOFCOM") on January 9, 2021 with immediate effect, provide that, among other things, Chinese individuals or entities are required to report to the MOFCOM within 30 days if they are prohibited or restricted from engaging in normal business activities with third-party countries or their nationals or entities due to non-Chinese laws or measures; and the MOFCOM, following the decision of the relevant Chinese authorities, may issue prohibition orders contravening such non-Chinese laws or measures. Furthermore, on June 10, 2021, the Standing Committee of the National People's Congress of China promulgated the Anti-foreign Sanctions Law, which came into effect on the same day. The Anti-foreign Sanctions Law prohibits any organization or individual from implementing or providing assistance in implementation of discriminatory restrictive measures taken by any foreign state against the citizens or organizations of China. In addition, all organizations and individuals in China are required to implement the retaliatory measures taken by relevant departments of the State Council. Since the aforesaid laws and rules were newly promulgated, there exist high uncertainties as to how such regulations will be interpreted and implemented and how they would affect our business, results of operations or the trading prices of our Shares.

The institution of trade tariffs both globally and between the U.S. and China specifically carries the risk of negatively affecting China's overall economic condition, which could have a negative impact on us. Furthermore, imposition of tariffs could have a negative impact on our supply chain and on foreign demand for our products and, thus, could have a material adverse impact on our business and results of operations. During the year ended March 31, 2022, approximately 56% of our sales were to customers in the United States.

Trade tensions and policy changes have also led to measures that could have adverse effects on China-based issuers, including legislation in the United States that requires listed companies whose audit reports and/or auditors are not subject to review by the PCAOB to be subject to enhanced disclosure obligations and be subject to delisting if they do not comply with the requirements.

The market price for our shares could be adversely affected by increased tensions between the United States and China.

Recently there have been heightened tensions in the economic and political relations between the United States and China. On June 30, 2020, the Standing Committee of the PRC National People's Congress issued the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (HKSAR). This law defines the duties and government bodies of the HKSAR for safeguarding national security and four categories of offences-secession, subversion, terrorist activities and collusion with a foreign country or external elements to endanger national security-and their corresponding penalties. On July 14, 2020, U.S. President Donald Trump signed the Hong Kong Autonomy Act, or HKAA, into law, authorizing the U.S. administration to impose blocking sanctions against individuals and entities who are determined to have materially contributed to the erosion of Hong Kong's autonomy. On August 7, 2020 the U.S. government imposed HKAA-authorized sanctions on eleven individuals, including HKSAR chief executive Carrie Lam. The HKAA further authorizes secondary sanctions, including the imposition of blocking sanctions, against foreign financial institutions that knowingly conduct a significant transaction with foreign persons sanctioned under this authority. The imposition of sanctions such as those provided in the HKAA is in practice discretionary and highly political, especially in a relationship as extensive and complex as that between the United States and China. It is difficult to predict the full impact of the HKAA on Hong Kong and companies like the Company. Furthermore, legislative or administrative actions in respect of Sino-U.S. relations could cause investor uncertainty for affected issuers, including us, and the market price of our shares could be adversely affected.

We will rely on dividends and other distributions on equity paid by our subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

Our Company is a holding company and we will rely on dividends and other distributions on equity paid by our subsidiaries for our cash and financing requirements. Within our direct holding structure, the cross-border transfer of funds within our corporate group is legal and compliant with the laws and regulations of the PRC, Hong Kong and the BVI. Our PRC and Hong Kong subsidiaries are permitted under the respective laws of the PRC and Hong Kong to provide funding to us through dividends without restriction on the amount of the funds, other than as limited by the amount of their distributable earnings. However, to the extent cash is in our PRC or Hong Kong subsidiaries, there is a possibility that the funds may not be available to fund our operations or for other uses outside of the PRC or Hong Kong due to interventions or the imposition of restrictions and limitations by the PRC or the Hong Kong government on the ability to transfer cash. In addition, if any of our subsidiaries incur debt on their own behalf in the future, the instruments governing such debt may restrict their ability to pay dividends to us.

Under the laws of the British Virgin Islands and our Articles of Association, our Company is permitted to provide funding to its subsidiaries through loans or capital contributions, provided that such funding is in the best interest of our Company. Our board of directors has complete discretion as to whether to distribute dividends. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, all dividends are subject to certain restrictions under British Virgin Islands law, namely that the Company may only pay dividends out of profits or share premium and provided that under no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. The British Virgin Islands does not impose a withholding tax on payments of dividends to shareholders.

Under Hong Kong law, dividends may only be paid out of distributable profits (that is, accumulated realized profits less accumulated realized losses) or other distributable reserves. Dividends cannot be paid out of share capital. There are no restrictions or limitation under the laws of Hong Kong imposed on the conversion of HK dollars into foreign currencies and the remittance of currencies out of Hong Kong, nor is there any restriction on foreign exchange to transfer cash between our Company and its subsidiaries, across borders and to U.S. investors, nor on distributing earnings from our subsidiaries' businesses to our Company and U.S. investors. Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends.

Under PRC laws, rules and regulations, our PRC subsidiaries are required to set aside at least 10% of their after-tax profits each year, after making up for previous years' accumulated losses, if any, to fund certain statutory

reserves, until the aggregate amount of such fund reaches 50% of their registered capital. As a result of these laws, rules and regulations, our PRC subsidiaries are restricted in their ability to transfer a portion of their respective net assets to us. However, there can be no assurance that the PRC government will not intervene or impose restrictions on our ability to transfer or distribute cash within our organization or to foreign investors, which could result in an inability or prohibition on making transfers or distributions outside of China and may adversely affect our business, financial condition and results of operations.

During the fiscal years ended March 31, 2020, 2021 and 2020 and through the date of this Annual Report, neither the Company nor any of its subsidiaries has paid dividends or made distributions to U.S. investors. In the future, any cash proceeds raised from overseas financing activities may be transferred by us to our subsidiaries via capital contribution or shareholder loans, as the case may be.

To the extent cash is in our PRC or Hong Kong subsidiaries, there is a possibility that the funds may not be available to fund our operations or for other uses outside of the PRC or Hong Kong due to interventions or the imposition of restrictions and limitations by the PRC or Hong Kong government on the ability to transfer cash. Any limitation on the ability of our subsidiaries to pay dividends or make other distributions to us could materially and adversely affect our financial position and the value of our common stock.

It may be difficult for overseas regulators to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of a mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by our shareholders in protecting their interests.

We could face increased currency risks if Hong Kong and China do not maintain the stability of the Hong Kong Dollar or the Chinese Renminbi.

The Hong Kong Dollar and the United States Dollar have been fixed at approximately 7.80 Hong Kong Dollars to 1.00 U.S. Dollar since 1983. The market exchange rate has not deviated materially from the level of HK\$7.80 to US\$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has stated its intention to maintain the link at that rate.

From 1994 until July 2005, the Chinese Renminbi had remained stable against the U.S. Dollar at approximately RMB8.28 to U.S.\$1.00. On July 21, 2005, the Chinese currency regime was altered to link the RMB to a “basket of currencies,” which includes the U.S. Dollar, Euro, Japanese Yen and Korean Won. Under the rules, the RMB was allowed to move 0.3% on a daily basis against the U.S. Dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3% daily movement against the U.S. Dollar to 0.5%. Following the removal of the U.S. Dollar peg, the RMB appreciated more than 20% against the U.S. Dollar over the following three years. Since July 2008, however, the RMB has traded within a narrow range against the U.S. Dollar. As a consequence, the RMB has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. Dollar. On June 20, 2010, the People's Bank of China (“PBOC”) announced that the government of the People's Republic of China (“PRC”) would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again, though there have been periods when the U.S. dollar has appreciated against the Renminbi as well. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. As of July 14, 2023, the RMB was valued at

7.1414 per U.S. Dollar. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position and the value of our common shares and any dividends payable to our common shareholders in U.S. Dollars.

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

We could incur additional liabilities or our subsidiaries' reputations could be damaged if we do not protect our customer data or if our subsidiaries' information systems are breached.

We and our subsidiaries are dependent on information technology networks and systems to process, transmit and store electronic information and to communicate with customers. Security breaches of this infrastructure could lead to shutdowns or disruptions of our and our subsidiaries' systems and potential unauthorized disclosure of confidential information. We and our subsidiaries are also required at times to manage, utilize and store sensitive or confidential customer or employee data. As a result, we are subject to laws and regulations designed to protect this information. If any person, including us or our subsidiaries' employees, mismanages or misappropriates such data, we or our subsidiaries could be subject to monetary damages, fines and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential customer or employee data, whether through systems failure, employee negligence, fraud or misappropriation could damage our reputations, disrupt operations or result in remedial or other costs, fines or lawsuits and cause a loss of customers.

Legal requirements relating to the collection, storage, handling, and transfer of personal data continue to evolve. China's Cybersecurity Law ("CSL"), which came into effect in June 2017, regulates how organizations should protect digital information and outlines measures to safeguard Internet systems, products and services against cyberattacks. The CSL was supplemented in May 2018 with the Personal Information Security Specification, which was amended and strengthened in February 2019. Although these amendments attempt to ease the compliance burden placed on businesses, the laws could impose significant limitations, require changes to our PRC Subsidiaries' businesses or restrict their use or storage of personal information, which may increase our PRC Subsidiaries' compliance expenses and make their businesses more costly or less efficient to conduct.

Recently, the PRC government initiated a series of regulatory actions and made a number of public statements on the regulation of business operations in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas, adopting new measures to extend the scope of cybersecurity reviews, and expanding efforts in anti-monopoly enforcement. New laws, such as the Measures for Cybersecurity Review, could significantly limit or completely hinder our ability to offer or continue to offer securities to overseas investors and cause such securities to significantly decline in value or to be worthless.

The PRC, through the Cyberspace Administration of China (the "CAC"), has recently proposed new rules and enacted new laws that would require companies collecting or holding large amounts of data to undergo a cybersecurity review prior to listing in foreign countries, a move that would significantly tighten oversight over China-based Internet giants. Pursuant to Article 6 of the Measures for Cybersecurity Review (Draft for Comments), companies holding data on more than 1 million users must now apply for cybersecurity approval when seeking listings in other nations due to the risk that such data and personal information could be "affected, controlled, and maliciously exploited by foreign governments." On January 4, 2022 and effective February 15, 2022, the CAC issued the Revised Measures on Cyberspace Security (the "Revised Measures"), which requires that operators of critical information infrastructure ("CII") intending to procure network products and services that may affect national security undergo cybersecurity review. This has impacted and could potentially impact a broad range of data-rich tech companies. The Revised Measures expand the scope of reviewed business entities to now include network platform ("NP") operators intending to engage in certain activities, such as applying to list abroad. The Revised Measures establish a Cybersecurity Review Office (the "CRO"), an administrative body within the CAC, to formulate the regulations for cybersecurity review and to lead the cybersecurity review process. Applicable CII

operators and NP operators are required to submit an application to the CRO, and the CRO will assess whether a cybersecurity review is required.

If an entity is a CII operator or a NP operator, it is required to apply for cybersecurity review if any of the following three conditions is met: (i) the CII operator proposes to procure network products and services that affect or may affect national security; (ii) the NP operator proposed to carry out data processing activities that affect or may affect national security; (iii) or the NP operator controls personal information of more than 1,000,000 users and proposes to apply for overseas listing. The term “overseas listings” is often interpreted as listings outside of China, such as in the U.S. And, “network products and services” include core network equipment, high capability computers and servers, high capacity data storage, large databases and applications, network security equipment, cloud computing services; “data processing” means the collection, storage, use, processing, transmission, provision and disclosure of data.

Our PRC Subsidiaries businesses may involve the collection of user data, implicate cybersecurity or involve another type of restricted industry. We believe that none of our PRC Subsidiaries are subject to cybersecurity review under the Revised Measures nor are the common stock subject to the review or prior approval of the CAC or the CRSC. Uncertainties still exist, however, due to the possibility that laws, regulations or policies in the PRC could change rapidly in the future. Any future action by the PRC government expanding the categories of industries and companies whose foreign securities offerings are subject to review by the CRSC or the CAC could significantly limit or completely hinder our ability to offer or continue to offer securities to overseas investors and could cause such securities to significantly decline in value or to be worthless.

Changes in China’s economic, political or social conditions or government policies could have a material adverse effect on our business and operations.

A considerable portion of our assets and operations are located in the PRC. Our property in Shenzhen and our manufacturing facility in Xinxing are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in the PRC generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over the PRC’s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over past decades, growth has been uneven, both geographically and among various sectors of the economy. Any adverse changes in economic conditions in the PRC, in the policies of the Chinese government or in the laws and regulations in the PRC could have a material adverse effect on the overall economic growth of the PRC. Such developments could adversely affect our business and operating results, lead to a reduction in demand for our services and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in the PRC, which may adversely affect our business and operating results.

The economy in China has grown significantly over the past 20 years, which has resulted in inflation and an increase in the average cost of labor, especially in the coastal cities. Since 2014, China’s consumer price index, the broadest measure of inflation, has risen at annual rates ranging from 1.1% (between June 2020 and June 2021) and 2.5% (between June 2021 and June 2022) and it rose by 0.0% between June 2022 and June 2023. China’s

overall economy and the average wage in the PRC are expected to continue to grow. Continuing inflation and material increases in the cost of labor in China could diminish our competitive advantage. If the government tries to control inflation, it may have an adverse effect on the business climate and growth of private enterprise in the PRC. An economic slowdown may reduce our revenues. If inflation is allowed to proceed unchecked, our costs would likely increase, and there can be no assurance that we would be able to increase our prices to an extent that would offset the increase in our expenses.

Continuing economic weakness may adversely affect our earnings, liquidity and financial position.

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

Because a considerable portion of our operations are in China, our business is subject to the complex and rapidly evolving laws and regulations there. The Chinese government may exercise significant oversight and discretion over the conduct of our business and may intervene in or influence our operations at any time, which could result in a material change in our operations and/or the value of our common stock.

Our property in Shenzhen and our manufacturing facility in Xinxing are located in China. As a business operating in China, we are subject to the laws and regulations of the PRC, which can be complex and evolve rapidly. The PRC government has the power to exercise significant oversight and discretion over the conduct of our business, and the regulations to which we are subject may change rapidly and with little notice to us or our shareholders. As a result, the application, interpretation, and enforcement of new and existing laws and regulations in the PRC are often uncertain.

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. If the Chinese government does not encourage foreign investment and operations in China, 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.

Further, these laws and regulations may be interpreted and applied inconsistently by different agencies or authorities, and inconsistently with our current policies and practices. New laws, regulations, and other government directives in the PRC may also be costly to comply with, and such compliance or any associated inquiries or investigations or any other government actions may: (i) delay or impede our development; (ii) result in negative publicity or increase our operating costs; (iii) require significant management time and attention; and (iv) subject us

to remedies, administrative penalties and even criminal liabilities that may harm our business, including fines assessed for our current or historical operations.

The promulgation of new laws or regulations, or the new interpretation of existing laws and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we conduct our PRC Subsidiaries' businesses and could require us to change certain aspects of their businesses to ensure compliance, which could decrease demand for their products, reduce revenues, increase costs, require our PRC Subsidiaries to obtain more licenses, permits, approvals or certificates, or subject us to additional liabilities. To the extent any new or more stringent measures are required to be implemented, our business, financial condition and results of operations could be adversely affected as well as materially decrease the value of our ordinary shares.

If the Chinese government were to impose new requirements for approval from the PRC authorities to issue our common stock to foreign investors or list on a foreign exchange, such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

Notwithstanding any approvals or permits required for the redevelopment of our factory in Shenzhen, China, as of the date of this Annual Report to Shareholders, we: (i) are not required to obtain permissions from any PRC authorities to operate or issue our common stock to foreign investors, (ii) are not subject to permission requirements from the China Securities Regulatory Commission (the "CSRC"), the Cyberspace Administration of China (the "CAC") or any other entity that is required to approve our PRC Subsidiaries' operations; and (iii) have not received nor were denied such permissions by any PRC authorities. Nevertheless, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the "Opinions on Severely Cracking Down on Illegal Securities Activities According to Law," or the Opinions, which were made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies.

Given the current PRC regulatory environment, it is uncertain when and whether we will be required to obtain permission from the PRC government to list on U.S. exchanges in the future, and even when such permission is obtained, whether it will be denied or rescinded. We have been closely monitoring regulatory developments in China regarding any necessary approvals from the CSRC or other PRC governmental authorities required for overseas listings, including this offering. As of the date of this Annual Report to Shareholders, we have not received any inquiry, notice, warning, sanctions or regulatory objection to this offering from the CSRC or other PRC governmental authorities. However, there remains significant uncertainty as to the enactment, interpretation and implementation of regulatory requirements related to overseas securities offerings and other capital markets activities.

According to the Administration Provision and the Measures (Draft for Comments), only new initial public offerings and refinancing by existent overseas listed Chinese companies will be required to go through the filing process with PRC administrations; other existent overseas listed companies will be allowed sufficient transition period to complete their filing procedure, which means if we complete the offering prior to the effectiveness of Administration Provisions and Measures, we will certainly go through the filing process in the future, perhaps because of refinancing or given by sufficient transition period to complete filing procedure as an existent overseas listed Chinese company. However, it is uncertain when the Administration Provision and the Measures will take effect or if they will take effect as currently drafted.

If it is determined in the future that the approval of the CSRC, the CAC or any other regulatory authority is required for this offering, we may face sanctions by the CSRC, the CAC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operations in China or take other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of our securities. The CSRC, the CAC, or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of our ordinary shares. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC, the CAC or other regulatory PRC agencies later promulgate

new rules requiring that we obtain their approvals for this offering, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding such an approval requirement could have a material adverse effect on our ability to continue to offer securities to investors, the trading price of our securities and the value of our securities to significantly decline or be worthless.

Changes to PRC tax laws and heightened efforts by China's tax authorities to increase revenues are expected to subject us to greater taxes.

Since January 1, 2012, our PRC Subsidiaries have been subject to a single PRC enterprise income tax rate of 25%. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various administrative regions and countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by taxing authorities and to possible changes in law, which may have retroactive effect. We cannot determine in advance the extent to which some jurisdictions may require us to pay taxes or make payments in lieu of taxes.

We face risks by operating in China because the Chinese legal system relating to foreign investment and foreign operations such as Bonso's is evolving and the application of Chinese laws is uncertain.

The legal system of China relating to foreign investments is continually evolving, and there can be no certainty as to the application of its laws and regulations in particular instances. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 41 years has significantly enhanced the protections afforded to various forms of foreign investment in China. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may not be possible to obtain swift and equitable enforcement of that law. Further, various disputes may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination. Continued uncertainty relating to the laws in China and the application of the laws could have a material adverse effect upon us and our operations in China.

Changes in the policies, regulations and rules, and the enforcement of laws of the PRC government may be implemented quickly with little advance notice and could have a significant impact upon our PRC Subsidiaries' ability to operate profitably in the PRC. The PRC legal system also embodies uncertainties, which could limit law enforcement availability. Therefore, our assertions and beliefs of the risk imposed by the PRC legal and regulatory system cannot be certain.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, decided legal cases have little precedence. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past several decades has significantly enhanced the protections afforded to various forms of foreign investment in China. Our PRC Subsidiaries are subject to PRC laws and regulations. However, these laws and regulations change frequently, and the interpretation and enforcement involve uncertainties. For instance, we may have to resort to administrative and court proceedings to enforce the legal protection that we are entitled to by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting statutory and contractual terms, it may be difficult to evaluate the outcome of administrative court proceedings and the level of law enforcement that we would receive in more developed legal systems. Such uncertainties, including the inability of our PRC Subsidiaries to enforce their contracts, could affect our business and operation. In addition, confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to our business, including the promulgation of new laws. This may include changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the availability of law enforcement.

The Chinese government may exercise significant oversight and discretion over the conduct of our PRC Subsidiaries' business and may intervene in or influence their operations at any time, which could result in a material change in their operations and/or the value of our common stock. Changes in the policies, regulations, rule, and the enforcement of laws of the Chinese government may also be implemented quickly with little advance notice. Therefore, our assertions and beliefs of the risk imposed by the PRC legal and regulatory system cannot be certain.

Our Company is a holding company and we conduct our operation through our subsidiaries in Hong Kong and the PRC. The PRC government may choose to exercise significant oversight and discretion, and the regulations to which our PRC Subsidiaries are subject may change rapidly and with little notice to them or our shareholders. As a result, the application, interpretation, and enforcement of new and existing laws and regulations in China are often uncertain. In addition, these laws and regulations may be interpreted and applied inconsistently by different agencies or authorities, and inconsistently with our PRC Subsidiaries' current policies and practices. New laws, regulations, and other government directives in China may also be costly to comply with, and such compliance or any associated inquiries or investigations or any other government actions may:

- delay or impede our PRC Subsidiaries' development;
- result in negative publicity or increase our PRC Subsidiaries' operating costs;
- require significant management time and attention; and
- subject us to remedies, administrative penalties and even criminal liabilities that may harm our PRC Subsidiaries' business, including fines assessed for our PRC Subsidiaries current or historical operations, or demands or orders that our PRC Subsidiaries modify or even cease their business practices.

We are aware that recently the PRC government initiated a series of regulatory actions and statements to regulate business operations in certain areas in China with little advance notice, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas using a variable interest entity ("VIE") structure, adopting new measures to extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement. These regulatory actions and statements emphasize the need to strengthen the administration over illegal securities activities and the supervision of China-based companies seeking overseas listings. Additionally, companies are required to undergo a cybersecurity review if they hold large amounts of data related to issues of national security, economic development or public interest before carrying our mergers, restructuring or splits that affect or may affect national security. These statements were recently issued and their official guidance and interpretation remain unclear at this time. While we believe that our PRC Subsidiaries' operations are not currently being affected, they may be subject to additional and stricter compliance requirements in the near term. Compliance with new regulatory requirements or any future implementation rules may present a range of new challenges which may create uncertainties and increase our PRC Subsidiaries' cost of operations.

The Chinese government may intervene or influence our PRC Subsidiaries' operations at any time and may exert more control over offerings conducted overseas and foreign investment in China-based issuers, which may result in a material change in our PRC Subsidiaries' operations and/or the value of our common stock. Any legal or regulatory changes that restrict or otherwise unfavorably impact our PRC Subsidiaries' ability to conduct their business could decrease demand for their services, reduce revenues, increase costs, require them to obtain more licenses, permits, approvals or certificates, or subject them to additional liabilities. To the extent any new or more stringent measures are implemented, our business, financial condition and results of operations could be adversely affected, and the value of our PRC Shares could decrease or become worthless.

Although we are based in Hong Kong, if we should become subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed China-based companies, we may have to expend significant resources to investigate and/or defend the allegations, which could harm our subsidiaries' business operations and our reputation, and could result in a loss of our shareholders' investment in our common stock if such allegations cannot be addressed and resolved favorably.

During the last several years, U.S.-listed public companies that have substantially all of their operations in China have been the subject of intense scrutiny by investors, financial commentators and regulatory agencies. Much of the scrutiny has centered on financial and accounting irregularities and mistakes, lack of effective internal controls over financial reporting and, in many cases, allegations of fraud. As a result of this scrutiny, the publicly traded stock of many U.S.-listed Chinese companies that have been the subject of such scrutiny has sharply decreased in value. Many of these companies are now subject to shareholder lawsuits and/or SEC enforcement actions that are conducting internal and/or external investigations into the allegations.

Although we are based in Hong Kong, if we should become the subject of any such scrutiny, whether any allegations are true or not, we may have to expend significant resources to investigate such allegations and/or defend the Company. Such investigations or allegations would be costly and time-consuming and likely would distract our management from our normal business and could result in our reputation being harmed. The price of our common stock could decline because of such allegations, even if the allegations are false.

Any PRC regulations pertaining to loans to and investment in PRC entities by offshore holding companies may delay us from making loans or capital contributions to our PRC Subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

With regards to our corporate structure, any funds we may transfer to our PRC Subsidiaries, either as loans or as increases in registered capital, are subject to approval by or registration with relevant government authorities in China regardless of the amount of the transfer. According to the relevant PRC regulations, capital contributions to our PRC Subsidiaries are subject to the submission of reports of changes through the enterprise registration system and registration with a local bank authorized by SAFE. In addition, any foreign loan procured by our PRC Subsidiaries is required to be registered with SAFE and such loan is required to be registered with the NPRC. We may not be able to complete such registrations or obtain necessary approvals on a timely basis with respect to future capital contributions or foreign loans by us to our PRC Subsidiaries. If we fail to complete such registration or other procedures, our ability to maintain our corporate structure while capitalizing our PRC Subsidiaries' operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

There are political risks associated with conducting business in Hong Kong.

Any adverse economic, social and/or political conditions, material social unrest, strike, riot, civil disturbance or disobedience, as well as significant natural disasters, may affect the market and adversely affect the business operations of the Company. Hong Kong is a special administrative region of the PRC and the basic policies of the PRC regarding Hong Kong are reflected in the Basic Law, Hong Kong's constitutional document, which provides Hong Kong with a high degree of autonomy and executive, legislative and independent judicial powers, including that of final adjudication under the principle of "one country, two systems." However, there is no assurance that there will not be any changes in the economic, political and legal environment in Hong Kong in the future. Since certain of our operations are based in Hong Kong, including the base for our corporate offices, any change of such political arrangements may pose immediate threat to the stability of the economy in Hong Kong, thereby directly and adversely affecting our results of operations and financial positions.

Under the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, Hong Kong is exclusively in charge of its internal affairs and external relations, while the government of the PRC is responsible for its foreign affairs and defense. As a separate customs territory, Hong Kong maintains and develops relations with foreign states and regions. Based on certain recent developments, including the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region issued by the Standing Committee of the PRC National People's Congress in June 2020, the U.S. State Department has indicated that the United States no longer considers Hong Kong to have significant autonomy from China and at the time President Trump signed an executive order and Hong Kong Autonomy Act, or HKAA, to remove Hong Kong's preferential trade status and to authorize the U.S. administration to impose blocking sanctions against individuals and entities who are determined to have materially contributed to the erosion of Hong Kong's autonomy. The United States may impose the same tariffs and other trade restrictions on exports from Hong Kong that it places on goods from mainland China. These and other recent actions may represent an escalation in political and trade tensions involving the U.S, China and Hong Kong, which could potentially harm our business.

Given the relatively small geographical size of Hong Kong, any of such incidents may have a widespread effect on our subsidiaries' business operations, which could in turn adversely and materially affect our business, results of operations and financial condition. It is difficult to predict the full impact of the HKAA on Hong Kong and companies with operations in Hong Kong like us. Furthermore, legislative or administrative actions in respect of China-U.S. relations could cause investor uncertainty for affected issuers, including us, and the market price of our common stock could be adversely affected.

Controversies affecting China's trade with the United States could harm our results of operations or depress our stock price.

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

If our factories were destroyed or significantly damaged as a result of fire, flood or some other natural disaster, we would be adversely affected.

All of our products are manufactured at our manufacturing facilities located in Xinxing, Guangdong, China. Fire-fighting and disaster relief or assistance in China may not be as developed as in Western countries. We currently maintain property damage insurance aggregating approximately \$36 million covering our stock in trade, goods and merchandise, furniture and equipment and buildings. We do not maintain business interruption insurance. Investors are cautioned that material damage to, or the loss of, our factories due to fire, severe weather, flood or other act of God or cause, even if insured, could have a material adverse effect on our financial condition, results of operations, business and prospects.

Our results could be harmed if we have to comply with new environmental regulations.

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

Enforcement of the labor contract law, minimum wage increases and future changes in the labor laws in China may result in a continued increase in labor costs.

On June 29, 2007, the Standing Committee of the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor union and employee assemblies, employment without a written contract, dismissal of employees, severance and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the Labor Contract Law, an employer is obliged to sign an unlimited-term labor contract with any employee who has worked for the employer for 10 consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, current annual leave requirements mandate that annual leave ranging from five to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. In addition, as the interpretation and implementation of these new regulations are still evolving, we cannot assure you that our employment practices do not, or will not, violate the Labor Contract Law and other labor-related regulations.

Between the fiscal years ended March 31, 2010 and 2015, we experienced an increase in the cost of labor caused by the increase in the minimum hourly rate. In accordance with the new minimum wage set by the local authorities, we increased the minimum wage for our labor in Shenzhen from RMB 1,100 (or approximately \$162) per month in 2010 to RMB 1,808 (or approximately \$293) per month beginning February 1, 2014. We started hiring workers in our Xinxing factory during the fiscal year ended March 31, 2013, and the minimum wage at that time in Xinxing was RMB 1,010 per month (or approximately \$160). On May 1, 2015, the minimum wage at Xinxing was increased to RMB 1,210 per month (or approximately \$181 per month) and on July 1, 2018, the minimum wage at Xinxing was increased to RMB 1,410 per month (or approximately \$213 per month). Since December 1, 2021, it has been RMB1,620 (or approximately \$257) per month. We believe that increased labor costs in China will have a significant effect on our total production costs and results of operations and that we will not be able to continue to increase our production at our manufacturing facilities without substantially increasing our non-production salaries and related costs. If we are subject to severe penalties or incur significant liabilities in connection with the enforcement of the Labor Contract Law, disputes or investigations, our business and results of operations may be adversely affected. Any future changes in the labor laws in the PRC could result in our having to pay increased labor costs. There can be no assurance that the labor laws will not change, which may have a material adverse effect upon our business and our results of operations.

If we were to lose our existing banking facilities or those facilities were substantially decreased or less favorable terms were imposed upon us, the Company could be materially and adversely affected.

We maintain banking facilities with Hang Seng Bank Limited, which are subject to renewal on an annual basis. We use these banking facilities to fund our working capital requirements. The credit markets in Hong Kong and throughout the world have tightened and experienced extraordinary volatility and uncertainty. We have had discussions with several of our banks and believe that the availability of our banking facilities will continue on terms that are acceptable to us. However, as a result of changes in the capital or other legal requirements applicable to the banks or if our financial position and operations were to deteriorate further, our costs of borrowing could increase or the terms of our banking facilities could be changed so as to impact our liquidity. If we are unable to obtain needed capital on terms acceptable to us, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Risk Factors Relating to Our Business

Our business is subject to risks arising from epidemic diseases, such as the outbreak of COVID-19 in 2020.

In December 2019, a novel strain of COVID-19 was reported in Wuhan, China. On March 11, 2020, the World Health Organization categorized it as a pandemic. The Chinese government, as well as other governments worldwide, employed various measures to reduce the spread of COVID-19, including city lockdowns, quarantines, travel restrictions, suspension of business activities and school closures.

Our business has been and may continue to be adversely impacted by the COVID-19 epidemic. Our three PRC Subsidiaries are located and conduct operations in China relating to the manufacture of our sensor-based scales and pet electronic products, as are a majority of their employees, suppliers, product manufacturers and distributors. During fiscal year ended March 23, 2023, revenues from our scales and pet electronic products segments and from our rental and management segment decreased as compared to the fiscal year ended March 31, 2022. Net revenue, (loss)/income from operations and net (loss)/income were approximately \$9,047,000, (\$2,679,000) and (\$2,392,000), respectively, for the fiscal year ended March 31, 2023, \$14,801,000, (\$2,407,000) and (\$2,760,000), respectively, for the fiscal year ended March 31, 2022 and \$15,590,000, \$726,000 and \$1,771,000, respectively, for the fiscal year ended March 31, 2021.

Moreover, our plans for the reconstruction and redevelopment of the Shenzhen factory were delayed because of the restrictions imposed by the PRC government delaying Fangda's plans for financing and handling the redevelopment project, including obtaining the necessary government approvals.

Although our PRC Subsidiaries resumed operations approximately September 2020, there is still uncertainty about the duration, severity and long-term impact of the COVID-19 pandemic, both in China and globally, and the extent of the long-term disruption to business and the economy remains unknown. A number of

COVID variants have emerged since the original strain, the most recent of which exhibit increased contagiousness and antibody resistance, and a resurgence of the disease could negatively affect our production capacity or result in disruption of our supply chains. The continued uncertainties associated with COVID-19 may cause our revenue and cash flows to underperform in fiscal year 2023 and potentially beyond. The extent of the future impact of COVID-19 and its variants is still highly uncertain and cannot be predicted as of the date of this Annual Report to Shareholders. We are uncertain as to when any new outbreaks of COVID-19 may occur and how long it may take for them to be contained, and we cannot predict if the impact of any such outbreaks or associated containment measures will be short-lived or long-lasting. If future outbreaks of COVID-19 are not effectively controlled within a short period of time, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may also experience negative effects from other future public health crises beyond our control. These events are impossible to forecast, their negative effects may be difficult to mitigate and they could adversely affect our business, financial condition and results of operations.

The war in Ukraine could materially and adversely affect our business and results of operations.

The outbreak of war in Ukraine has affected global economic markets, including a dramatic increase in the price of oil and gas, and the uncertain resolution of this conflict could result in protracted and/or severe damage to the global economy. Russia's military interventions in Ukraine have led to, and may lead to, additional sanctions being levied by the United States, the European Union and other countries against Russia and possibly countries that support, directly or indirectly, Russia's incursion. Russia's military incursion and the resulting sanctions could adversely affect global energy and financial markets and thus could affect our businesses and the businesses of our customers, even though we do not have any direct exposure to Russia or the adjoining geographic regions. The extent and duration of the military action, sanctions and resulting market disruptions are impossible to predict, but could be substantial. Any such disruptions caused by Russian military action or resulting sanctions may magnify the impact of other risks described herein. We cannot predict the progress or outcome of the situation in Ukraine, as the conflict and governmental reactions are rapidly developing and beyond their control. Prolonged unrest, intensified military activities or more extensive sanctions impacting the region could have a material adverse effect on the global economy, and such effect could in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

Any limitation on our ability to sell our products on Amazon's platform could have a material adverse impact on our business, results of operations, financial condition and prospects.

A significant portion of our sales of pet electronic products is through direct sales on the Amazon marketplace and any change, limitation or restriction, even if temporary, on our ability to operate on Amazon's platform could have a material adverse impact on our business, results of operations, financial condition and prospects.

We directly sell our pet electronic products on Amazon. In April 2023, we terminated our agency relationships with agents selling our products on Amazon. We are subject to Amazon's terms of service and various other Amazon seller policies and services that apply to third parties selling products on Amazon's marketplace. Amazon has the right to terminate or suspend its agreement with us at any time and for any reason. Amazon may take other actions against us, such as suspending or terminating a seller account or product listing and withholding payments owed to us indefinitely. While we endeavor to materially comply with the terms of services of the marketplaces on which we operate, and to provide our consumers with a great experience, we can provide no assurances that these marketplaces will have the same determination with respect to our compliance.

Amazon or any other marketplace on which we choose to sell can make changes to their respective platforms that could require us to change the manner in which we operate, limit our ability to successfully launch new products or increase our costs to operate and such changes could have an adverse effect on our business, results of operations, financial condition and prospects. Examples of changes that could impact us relate to platform fee charges (i.e., selling commissions), exclusivity, inventory warehouse availability, excluded products and limitations

on sales and marketing. Any change, limitation or restriction on our ability to sell on Amazon's platform, even if temporary, could have a material impact on our business, results of operations, financial condition and prospects.

In addition, in response to the COVID-19 pandemic, Amazon implemented changes to its fulfillment services platform such that certain products deemed non-essential have extended delivery times and Amazon is currently not accepting goods to any of its warehouses that are deemed non-essential. The impact of this change could have a material effect on our revenues, profitability and financial condition.

We depend upon our largest customers for a significant portion of our sales revenue, and we cannot be certain that sales to these customers will continue. If sales to these customers do not continue, then our sales revenue will decline and our business will be negatively impacted.

During the fiscal years ended March 31, 2023 and 2022, our top two customers accounted for 53% and 42% of our revenue, respectively. Those same two customers accounted for 32% during the fiscal year ended March 31, 2021. 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 two largest customers would have a material negative impact on our sales revenue and our business. There can be no assurance that we would be able to compensate for the loss of any of these major customers.

Defects in our products could impair our ability to sell our products or could result in litigation and other significant costs.

Detection of any significant defects in our products may result in, among other things, delay in time-to-market, loss of market acceptance and sales of our products, diversion of development resources, injury to our reputation or increased warranty costs. Because our products are complex, they may contain defects that cannot be detected prior to shipment. These defects could harm our reputation, which could result in significant costs to us and could impair our ability to sell our products. The costs we may incur in correcting any product defects may be substantial and could decrease our profit margins.

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

Our sales through retail merchants result in seasonality, susceptibility to a downturn in the retail economy and sales variances resulting from retail promotional programs.

Many of our customers sell to retail merchants. Accordingly, these portions of our customer base are susceptible to downturns in the retail economy. A greater number of our sales of scales products occur between the months of July and October in preparation for the Christmas holiday. Throughout the remainder of the year, our products do not appear to be subject to significant seasonal variation. However, past sales patterns may not be indicative of future performance.

Our customers are dependent on shipping companies for delivery of our products, and interruptions to shipping could materially and adversely affect our business and operating results.

Typically, we sell our products either F.O.B. Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou), and our customers are responsible for the transportation of products from Hong Kong, Yantian (Shenzhen) or Nansha (Guangzhou) to their final destinations. Our customers rely on a variety of carriers for product transportation through various world ports. A work stoppage, the effects of the war in Ukraine, a strike or shutdown of one or more major ports or airports or quarantines imposed by governmental officials because of a resurgence in COVID 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 and Andrew So, our Chief Executive Officer. We have key man life insurance on Mr. Andrew So, but not for Mr. Anthony So. To the extent that the services of either Mr. Anthony So or Mr. Andrew So would be unavailable to us, we would be required to obtain another person or persons to perform his duties. We may be unable to employ another qualified person with the appropriate background and expertise to replace either of these persons on terms suitable to us.

Contractual arrangements we have entered into among us and our subsidiaries may be subject to scrutiny by the respective tax authorities, and a finding that the Company 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 us do not represent an arm's length price and adjust our, or any of our subsidiaries', income in the form of a transfer pricing adjustment. We did not consider it necessary to make tax provision in this respect. However, there can be no assurance that the assessment performed by the local tax authorities will result in the same position. A transfer pricing adjustment could, among other things, result in a reduction, for tax purposes, of expense deductions recorded by us or any of our subsidiaries, which could in turn increase its tax liabilities. In addition, the tax authorities may impose late payment fees and other penalties on our affiliated entities for underpaid taxes. Our consolidated net income may be materially and adversely affected if our affiliated entities' tax liabilities increase or if they are found to be subject to late payment fees or other penalties.

Any lack of requisite approvals, licenses or permits applicable to our subsidiaries' businesses may have a material and adverse impact on our business, financial condition and results of operation.

In accordance with the relevant laws and regulations in the PRC, our PRC Subsidiaries are required to maintain various approvals, licenses and permits to operate their businesses, including but not limited to, business licenses. These approvals, licenses and permits are obtained upon satisfactory compliance with, among other things, the applicable laws and regulations. Moreover, as part of our ongoing business strategy, we intend to focus our efforts on redeveloping our Shenzhen factory into a high-end commercial complex containing retail space, office

space and some residential space. Although it is taking several years to obtain all necessary governmental approvals for us to redevelop the Shenzhen factory, we think it is likely that we will obtain the necessary approvals. However, there can be no assurance that we will be able to obtain all requisite permits and approvals from relevant government authorities in relation to the redevelopment of the Shenzhen factory and the development of the commercial complex.

As of the date of this Annual Report to Shareholders, our PRC Subsidiaries have received all necessary governmental approvals for their operations in the PRC and have not been denied any such approvals. For further discussion, including the possible consequences for non-compliance, see “Regulations in China Applicable to our Business.”

Increased prices for raw materials may have a negative impact upon us.

The price level of certain raw materials has increased each year since the fiscal year ended March 31, 2016. We believe that this trend is highly likely to continue in light of the war in Ukraine and the various sanctions applied to Russia by certain countries, including the U.S. Moreover, the price of some of the raw materials fluctuates directly with the price of oil. Since the invasion by Russia of Ukraine, oil prices have dramatically and steadily increased. If oil prices continue to increase in the future, it will likely result in a further increase in the costs of components to us, as well as an increase in our operating expenses, which could have a material adverse effect upon our business and results of operations.

We may face an increased shortage of factory workers.

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

Recent changes in the PRC’s labor law could penalize the Company if it needs to make additional workforce reductions.

In June 2007, the National People’s Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. It formalizes workers’ rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered as one of the strictest labor laws in the world, among other things, this new law requires an employer to conclude an “open-ended employment contract” with any employee who either has worked for the employer for 10 years or more or has had two consecutive fixed-term contracts. An “open-ended employment contract” is in effect a lifetime, permanent contract, which is terminable only in specified circumstances, such as a material breach of the employer’s rules and regulations, or for a serious dereliction of duty. Under this law, downsizing by 20% or more of each individual entity may occur only under specified circumstances, such as a restructuring undertaken pursuant to China’s Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations. Also, if we lay off more than 20 employees at one time, we have to communicate with the labor union of our Company and report to the District Labor Bureau. During the fiscal year ended March 31, 2014, we paid severance payments of \$1,194,000 for reducing our full workforce in Shenzhen, PRC as we moved our operations to the new factory in Xinxing. As of March 31, 2023 and 2022, the accumulated provision for severance payments was \$672,000 and \$693,000, respectively (2021: \$568,000). This accrued severance payment allowance is reviewed every year. We may incur much higher costs under China’s labor laws if we are forced to downsize again, and accordingly, this new labor law may exacerbate the adverse effect of the economic environment on our financial results and financial condition.

We face increasing competition in our industry and may not be able to successfully compete with our competitors.

Our business is in an industry that is becoming increasingly competitive, and many of our competitors, both local and international, have substantially greater technical, financial and marketing resources than we have. As a

result, we may be unable to compete successfully with these competitors. We compete with scale manufacturers in the Far East, the United States and Europe. We believe that our principal competitors in the scale market are other original equipment manufacturers (“OEMs”) and original design manufacturers (“ODMs”), and all companies engaged in the branded, ODM and OEM business. The scale market is highly competitive, and we face pressures on pricing which could result in lower margins. Lower margins may affect our ability to cover our costs, which could have a material negative impact on our operations and our business.

We are controlled by our management, whose interests may differ from those of the other shareholders.

As of the date of this Annual Report to Shareholders, Mr. Anthony So, our founder and Chairman, owned or controlled approximately 50.1% of our outstanding shares of common stock. Andrew So, our Chief Executive Officer and President, owned approximately 9.7% of our outstanding shares. Albert So, our Chief Financial Officer, owned approximately 5.6% of our outstanding shares. The record ownership of Mr. Anthony So, Mr. Andrew So and Mr. Albert So aggregates 65.4% of the shares entitled to vote. The other directors of the Company own or record 4.8% of the shares entitled to vote. Accordingly, the existing management and directors of the Company can vote in the aggregate 70.2% of the shares entitled to vote. As a result, the current directors and management of the Company are in a position to elect the Board of Directors and, therefore, to control our business and affairs, including certain significant corporate actions such as acquisitions, the sale or purchase of assets and the issuance and sale of our securities. The current directors and management may be able to prevent or cause a change in control of the Company. We also may be prevented from entering into transactions that could be beneficial to us without the current directors’ and management’s consent. The interest of our largest shareholders may differ from the interests of other shareholders. There are no agreements, understandings or commitments among the members of the Board to vote their shares in any specific manner or to vote collectively for or against any matter that may come before the shareholders.

We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.

We are responsible for establishing and maintaining adequate internal control over our financial reporting. As disclosed in “Controls and Procedures,” we have identified, in conjunction with our independent auditors, certain material weaknesses in our internal control over financial reporting related to our financial closing process, the lack of trained accounting personnel and the failure to enter certain transactions into the accounting records on a timely basis.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of March 31, 2023, based on criteria set forth by the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have experienced material weaknesses in our internal controls for several years; however, management has been unable to implement effective remediation measures.

As discussed below in “Controls and Procedures”, we are developing and intend to implement remediation plans designed to address these material weaknesses; however, the material weaknesses will not be remediated until the necessary controls have been implemented and are determined to be operating effectively. We do not know the specific time frame needed to fully remediate the material weaknesses identified. We cannot assure you that our efforts to fully remediate these internal control weaknesses will be successful or that similar material weaknesses will not recur. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Notwithstanding the identified material weaknesses, management believes the consolidated financial statements included in this Annual Report to Shareholders fairly presents in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Due to inherent limitations, there can be no assurance that our system of disclosure and internal controls and procedures will be successful in preventing all errors or fraud or in informing management of all material information in a timely manner.

Our disclosure controls and internal controls and procedures may not prevent all errors and all fraud. A control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system reflects that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur simply because of error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by circumvention of the internal control procedures. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Management has concluded that the Company's disclosure controls and procedures for the fiscal year ended March 31, 2023, were ineffective.

There are inherent uncertainties involved in estimates, judgments and assumptions used in the preparation of financial statements in accordance with U.S. GAAP, and any changes in estimates, judgments and assumptions could have a material adverse effect on our business, financial position and results of operations.

The consolidated financial statements included in the periodic reports we previously filed with the SEC and the unaudited financial statements included herein have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities and related reserves, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to changes in the future, and any such changes could result in corresponding changes to the amounts of assets, liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our financial position and results of operation.

Compliance costs with the securities laws, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), the Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and other regulatory initiatives have increased and may continue to increase our costs.

Although we are no longer registered under the Exchange Act and have delisted from the NASDAQ Stock Market we remain subject to certain provisions of the Dodd-Frank Act, the Sarbanes-Oxley Act, and the laws and regulations applicable to a company whose securities are traded in the OTC Pink market. In addition, new accounting pronouncements, and new regulatory legislation, rules or accounting changes may increase our cost of being a public company trading on the OTC Pink market, and may have an adverse impact on our future financial position and operating results. Any such increased costs could negatively impact our earnings and have a material adverse effect on our financial position and results of operations.

Our operating results and stock price are subject to wide fluctuations.

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

Our results could be affected by changes in currency exchange rates.

Changes in currency rates involving the Hong Kong Dollar or Chinese Renminbi could increase our expenses. During the fiscal year ended March 31, 2023 our financial results were affected by currency fluctuations,

resulting in a total foreign exchange gain of approximately \$22,000 (2022: loss of \$79,000; 2021: loss of \$31,000). Generally, our revenues are collected in United States Dollars and Chinese Renminbi. Our costs and expenses are paid in United States Dollars, Hong Kong Dollars and Chinese Renminbi. We face a variety of risks associated with changes among the relative value of these currencies. Appreciation of the Chinese Renminbi against the Hong Kong Dollar and the United States Dollar would increase our expenses when translated into United States Dollars and could materially and adversely affect our margins and results of operations. If the trend of Chinese Renminbi appreciation continues against the Hong Kong Dollar and the United States Dollar, our operating costs will further increase and our financial results will be adversely affected. In addition, a significant devaluation in the Chinese Renminbi or Hong Kong Dollar could have a material adverse effect upon our results of operations. If we determined to pass onto our customers through price increases the effect of increases in the Chinese Renminbi relative to the Hong Kong Dollar and the United States Dollar, it would make our products more expensive in global markets, such as the United States and the European Union. This could result in the loss of customers, who may seek, and be able to obtain, products and services comparable to those we offer in lower-cost regions of the world. If we did not increase our prices to pass on the effect of increases in the Chinese Renminbi relative to the Hong Kong Dollar and the United States Dollar, our margins and profitability would suffer.

Protection and infringement of intellectual property.

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

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

Cancellations or delays in orders could materially and adversely affect our gross margins and operating income.

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

We generally have no written agreements with suppliers to obtain components, and our margins and operating results could suffer from increases in component prices.

We are typically responsible for purchasing components used in manufacturing products for our customers. We generally do not have written agreements with our suppliers of components. This typically results in our bearing the risk of component price increases because we may be unable to procure the required materials at a price level necessary to generate anticipated margins from the orders of our customers. Prices of components may increase in the future for a variety of reasons. Accordingly, additional increases in component prices could materially and adversely affect our gross margins and results of operations.

We may encounter difficulties in obtaining approval to redevelop our Shenzhen factory land, which could adversely affect our growth and business prospects.

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

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

We signed an agreement with a property developer in Shenzhen -- Shenzhen Fangda Property Development Company Limited ("Fangda") -- to cooperate in reconstructing and redeveloping the Shenzhen factory in November 2017, and we signed a supplementary agreement with Fangda in July 2018. Fangda is a wholly owned subsidiary of Fangda Group Co., Ltd. ("Fangda Group"), which is listed on the Shenzhen Stock Exchange. Under the terms of the agreement, Fangda is responsible for applying for necessary government approvals and for financing and handling the redevelopment project, including facilitating the obtaining of necessary governmental approvals. We have experienced delays due to changes in the local district planning process and regulations, and we currently anticipate completing the approval process in 2024; however, there can be no assurance that we will be successful in obtaining all necessary approvals. If we are not successful in the implementation of our property development project, our growth, business, financial condition and results of operations could be adversely affected. We signed a supplementary agreement with Fangda in March 2023, under which Fangda agreed to pay us RMB 6,000,000 (or approximately USD 879,000) per year, or RMB 10,000,000 (or approximately USD 1,465,000) per year after the construction commences, as rental compensation until the redevelopment project is completed.

We may not have adequate financing, whether through bank loans or other arrangements, to fund the redevelopment of our Shenzhen factory site, and capital resources may not be available on commercially reasonable terms, or at all.

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

We or Fangda may fail to obtain or experience material delays in obtaining, requisite certificates, licenses, permits or governmental approvals for redevelopment of our Shenzhen factory, and as a result our redevelopment plans, business, results of operations and financial condition may be materially and adversely affected.

As of the date of this Annual Report to Shareholders, we and Fangda, our property development partner, remain involved in obtaining the necessary permits and approvals for development of our Shenzhen factory. Property development in the PRC is heavily regulated. Property developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. During various stages of our property redevelopment project, we/Fangda will be required to obtain and maintain various certificates, licenses, permits and governmental approvals, including but not limited to qualification certificates, land use rights certificates, construction land planning permits, construction works planning permits, construction works commencement permits, pre-sale permits and completion certificates. Before the government authorities issue any certificate, license or permit, we/Fangda must also meet specific conditions. We believe that we will be able to obtain all necessary approvals and permits by the end of the calendar year 2024. We cannot assure you that we/Fangda will be able to adapt to new PRC land policies that may come into effect from time to time with respect to the property development industry or that we/Fangda will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain all necessary certificates, licenses or permits for our property development in a timely manner, or at all, in the future. If we/Fangda fail to obtain or encounter significant delays in obtaining the necessary certificates, licenses or permits we will not be able to continue with our redevelopment plans, and our business, results of operations and financial condition may be adversely affected.

Our income from the rental and management segment has dropped due to the termination of the lease agreement for rental of our Shenzhen factory.

Previously, we derived a majority of our rental income from the rental of our Shenzhen factory facility. That lease was terminated as of January 31, 2019. The Company has leased out part of the Shenzhen factory to a third party since April 1, 2021. Assuming appropriate governmental approvals are obtained, of which there can be no assurance, it will still be several years before development is completed and before we will have any revenues relating to the redevelopment of the Shenzhen factory property. During that time we will not be generating any rents from our Shenzhen factory facility other than from the above-mentioned lease. However, we believe that we will have sufficient cash reserves plus cash flow from the rental of factory space at Xinxing and from manufacturing for our operations to continue and to meet the Company's liquidity requirements.

We have not paid dividends since 2007 and may not pay dividends in the future.

We have not paid dividends on our common stock since 2007, and we may not be able to declare dividends, or the Board of Directors may decide not to declare dividends, in the future. We will determine the amounts of any dividends when and if they are declared, in the future at the time of declaration.

Certain Legal Consequences of Foreign Incorporation and Operations

Judgments against the company and management may be difficult to obtain or enforce.

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

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

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

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

In the PRC, the recognition and enforcement of foreign judgments are provided for under PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other form of reciprocity with the United States or the British Virgin Islands that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedure Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or in the British Virgin Islands.

Because we are incorporated in the British Virgin Islands, you may not have the same protections as shareholders of U.S. corporations.

We are organized under the laws of the British Virgin Islands. Principles of law relating to matters affecting the validity of corporate procedures, the fiduciary duties of our management, directors and controlling shareholders and the rights of our shareholders differ from, and may not be as protective of shareholders as, those that would apply if we were incorporated in a jurisdiction within the United States. Our directors have the power to take certain actions without shareholder approval, including amending our Memorandum or Articles of Association,

which are the terms used in the British Virgin Islands for a corporation's charter and bylaws, respectively, and approving certain fundamental corporate transactions, including reorganizations, certain mergers or consolidations and the sale or transfer of assets. In addition, there is doubt that the courts of the British Virgin Islands would enforce liabilities predicated upon United States federal securities laws.

Future issuances of preference shares could materially and adversely affect the holders of our common shares or delay or prevent a change of control.

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

Our shareholders do not have the same protections or information generally available to shareholders of corporations registered under the Exchange Act because we have de-registered under the Exchange Act and we are not a U.S., corporation.

We are no longer subject to the Exchange Act and are not required to file any reports with the SEC. Accordingly, our shareholders are not afforded the same protections or information generally available to investors in public companies registered under the Exchange Act or for companies organized in the United States.

Our Board's ability to amend our charter without shareholder approval could have anti-takeover effects that could prevent a change in control.

As permitted by the laws of the British Virgin Islands, our Memorandum and Articles of Association may be amended by our Board of Directors without shareholder approval. This includes amendments to increase or reduce our authorized capital stock. Our Board's ability to amend our charter documents without shareholder approval could have the effect of delaying, deterring or preventing a change in control of the Company, including a tender offer to purchase our common shares at a premium over the current market price.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

The following discussion and analysis should be read in conjunction with our Unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders. The Company will make available on its website an amendment to this Annual Report to Shareholders containing audited financial statements and the auditor's report when the audited financial statements are available.

Overview

During the fiscal year ended March 31, 2023, revenues from our scales and pet electronic products segments and from our rental and management segment decreased as compared to the fiscal year ended March 31, 2022.

We derive our revenues principally from the sale of sensor-based scales and pet electronic products manufactured in China, which together represent 90% of total revenue for the fiscal year ended March 31, 2023. As discussed above in "Risk Factors", we are dependent upon a limited number of major customers for a significant portion of our revenues. Our revenues and business operation are subject to fluctuation if there is a loss of orders from any of our largest customers. Further, the pricing of our scale products is becoming increasingly competitive, especially to our customers in the United States and Germany, who together contributed approximately 82% of our revenue during the fiscal year ended March 31, 2023.

During the fiscal year ended March 31, 2023, we derived approximately \$950,000 of rental and management income from leasing our real properties to third parties.

Net revenue, (loss)/income from operations and net (loss)/income were approximately \$9,047,000, (\$2,679,000) and (\$2,392,000), respectively, for the fiscal year ended March 31, 2023, \$14,801,000, (\$2,407,000) and (\$2,760,000), respectively, for the fiscal year ended March 31, 2022 and \$15,590,000, \$726,000 and \$1,771,000, respectively, for the fiscal year ended March 31, 2021.

Labor costs per worker are increasing in China. In Xinxing, Guangdong, PRC, the minimum wage was RMB 1,010 (or approximately \$160) per month beginning in May 1, 2013, RMB 1,210 (or approximately \$181) per month beginning in May 1, 2015, RMB 1,410 (or approximately \$213) per month beginning in July 1, 2018, and since December 1, 2021 it has been RMB1,620 (or approximately \$257). We believe that future increases in labor costs in China would have a significant effect on our total production costs and results of operations. Our labor costs represented approximately 11.9% of our total production costs in the fiscal year ended March 31, 2023 compared to 11.4% in the fiscal year ended March 31, 2022 and 12.0% in the fiscal year ended March 31, 2021. Total labor costs increased from approximately \$715,000 in the fiscal year ended March 31, 2021 to \$873,000 in the fiscal year ended March 31, 2022 and decreased to \$659,000 in the fiscal year ended March 31, 2023. The decrease in overall labor costs was the result of decreased units of scales and pet electronic products in the fiscal year ended March 31, 2023. There can be no assurance that labor costs will not increase in the future or that any future increase in labor costs will not have a material adverse effect upon our results of operations.

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

We have not experienced significant difficulties in obtaining raw materials for our products, and management does not anticipate any such difficulties in the foreseeable future. The price of raw materials has increased over each of the last five fiscal years. There can be no assurance that raw material costs will not fluctuate or that any future increase in raw material costs will not have a material adverse effect upon our results of operations.

Operating Results

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

Statement of Operations Data	Year Ended March 31,					
	2023		2022		2021	
	\$'000	%	\$'000	%	\$'000	%
Net revenue - scales	6,141	67.9	8,811	59.5	6,494	41.7
Net revenue - pet electronic products and others	1,956	21.6	4,765	32.2	8,063	51.7
Net revenue - rental and management	950	10.5	1,225	8.3	1,033	6.6
Net revenue - subtotal	9,047	100.0	14,801	100.0	15,590	100.0
Cost of revenue - scales	(3,665)	(40.5)	(4,472)	(30.2)	(2,283)	(14.6)
Cost of revenue - pet electronic products and others	(1,167)	(12.9)	(2,418)	(16.3)	(2,834)	(18.2)

Cost of revenue - rental and management	(710)	(7.8)	(789)	(5.3)	(823)	(5.3)
Cost of revenue - subtotal	(5,542)	(61.3)	(7,679)	(51.9)	(5,940)	(38.1)
Gross profit - scales	2,476	27.4	4,339	29.3	4,212	27.0
Gross profit - pet electronic products and others	789	8.7	2,347	15.9	5,229	33.5
Gross profit - rental and management	240	2.7	436	2.9	209	1.3
Gross profit - subtotal	3,505	38.7	7,122	48.1	9,650	61.9
Selling, general and administrative expenses	(6,184)	(68.4)	(9,529)	(64.4)	(8,924)	(57.2)
(Loss) / income from operations	(2,679)	(29.6)	(2,407)	(16.3)	726	4.7
Non-operating (expenses) / income, net	(11)	(0.1)	58	0.4	431	2.8
(Loss) / income before income taxes	(2,690)	(29.7)	(2,349)	(15.9)	1,157	7.4
Income tax benefit / (expense)	298	3.3	(411)	(2.8)	614	3.9
Net (loss) / income	(2,392)	(26.4)	(2,760)	(18.6)	1,771	11.4

Fiscal year ended March 31, 2023 compared to fiscal year ended March 31, 2022

Net Revenue. Our revenue decreased by approximately \$5,754,000 or 38.9% from approximately \$14,801,000 for the fiscal year ended March 31, 2022 to approximately \$9,047,000 for the fiscal year ended March 31, 2023. The decrease was mainly due to decrease in sales of scales and pet electronic products.

The decrease in sales revenue from the scales segment was primarily due to lower demand of our scale products from our customers.

The revenue decrease in the pet electronic products and others segment was due to lower demand for pet electronic products. Both our selling price and our sales volume decreased. As a result, the revenue from pet electronic products and others decreased by approximately \$2,809,000 or 59.0%) from approximately \$4,765,000 for the fiscal year ended March 31, 2022 to approximately \$1,956,000 for the fiscal year ended March 31, 2023.

The revenue decrease in the rental and management segment was due to early termination for some of the tenancy agreements.

Cost of Revenue. Cost of revenue decreased by approximately \$2,137,000 or 27.8% from approximately \$7,679,000 for the fiscal year ended March 31, 2022 to approximately \$5,542,000 for the fiscal year ended March 31, 2023. The decrease in cost of revenue was primarily the result of decrease in sales of scales and pet electronic products.

Gross Profit. Gross profit as a percentage of revenue was approximately 38.7% during the fiscal year ended March 31, 2023 as compared to approximately 48.1% during the fiscal year ended March 31, 2022. The decrease in gross profit margin was primarily the result of a decrease in the revenue from pet electronic products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately \$3,345,000 or 35.1% from approximately \$9,529,000 for the fiscal year ended March 31, 2022 to approximately \$6,184,000 for the fiscal year ended March 31, 2023. The decrease was primarily the result of decreased selling expenses associated with decreased sales of pet electronic products through Amazon Marketplace for the fiscal year ended March 31, 2023.

(Loss) / Income from Operations. As a result of the factors described above, loss from operations increased by 11.3% from approximately \$2,407,000 for the fiscal year ended March 31, 2022 to approximately \$2,679,000 for the fiscal year ended March 31, 2023.

Non-operating (Expenses) / Income, Net. Non-operating income decreased approximately \$69,000 or 119.0% from an income of approximately \$58,000 for the fiscal year ended March 31, 2022 to an expense of approximately \$11,000 for the fiscal year ended March 31, 2023. The net decrease was primarily the result of a reduced gain from investment in financial instruments and decreased interest income since less cash was placed in fixed deposits during the fiscal year ended March 31, 2023.

Income Tax Benefit / (Expense). Income tax benefit was approximately \$298,000 for the fiscal year ended March 31, 2023 and an expense of \$411,000 for the fiscal year ended March 31, 2022.

Net (Loss) / Income. As a result of the factors described above, net loss decreased from approximately \$2,760,000 for the fiscal year ended March 31, 2022 to approximately \$2,392,000 for the fiscal year ended March 31, 2023, a decrease in loss of approximately \$368,000 or 13.3%.

Foreign Currency Translation Adjustments, Net of Tax. Foreign currency translation adjustments, net of tax, decreased from a gain of approximately \$707,000 for the fiscal year ended March 31, 2022 to a loss of approximately \$1,069,000 for the fiscal year ended March 31, 2023, a decrease of approximately \$1,776,000 or 251.2%. The decreased foreign currency translation, net of tax, was primarily the result of the depreciation of the Chinese Renminbi against the United States Dollar during the fiscal year ended March 31, 2023.

Comprehensive (Loss) / Income. As a result of the factors described above, our comprehensive (loss) increased further from approximately \$2,053,000 for the fiscal year ended March 31, 2022, to approximately \$3,461,000 for the fiscal year ended March 31, 2023, an increase of loss of approximately \$1,408,000 or 68.6%.

Fiscal year ended March 31, 2022 compared to fiscal year ended March 31, 2021

Net Revenue. Our revenue decreased by approximately \$789,000 or 5.1%, from approximately \$15,590,000 for the fiscal year ended March 31, 2021 to approximately \$14,801,000 for the fiscal year ended March 31, 2022. The decrease was mainly due to decrease in sales of pet electronic products.

The increase in sales revenue from the scales segment was primarily due to higher demand of our scale products from our top customers

The revenue decrease in the pet electronic products and others segment was due to lower demand for pet electronic products. Due to competition from other similar products in the market, both our selling price and our sales volume decreased, and the revenue from pet electronic products and others for the fiscal year ended March 31, 2022 decreased by approximately \$3,298 (or 40.9%) as compared to that for the fiscal year ended March 31, 2021.

The revenue increase in the rental and management segment was due to increased monthly rent for some of the tenancy agreements.

Cost of Revenue. Cost of revenue increased by approximately \$1,739,000 or 29.3% from approximately \$5,940,000 for the fiscal year ended March 31, 2021 to approximately \$7,679,000 for the fiscal year ended March 31, 2022. The increase in cost of revenue was primarily the result of increased demand of scale products.

Gross Profit. Gross profit as a percentage of revenue was approximately 48.1% during the fiscal year ended March 31, 2022, as compared to approximately 61.9% during the fiscal year ended March 31, 2021. The decrease in gross profit margin was primarily the result of increased material costs and increased labor costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by approximately \$605,000 or 6.8%, from approximately \$8,924,000 for the fiscal year ended March 31, 2021 to approximately \$9,529,000 for the fiscal year ended March 31, 2022. The increase was primarily the result of a recognition of an impairment loss of approximately \$522,000 for financial instruments at amortized cost during the fiscal year ended March 31, 2022.

(Loss) / Income from Operations. As a result of the factors described above, income from operations decreased by 431.5% from an income of approximately \$726,000 for the fiscal year ended March 31, 2021 to a loss of approximately \$2,407,000 for the fiscal year ended March 31, 2022.

Non-operating (Expenses) / Income, Net. Non-operating (expenses) / income, net decreased approximately \$373,000, or 86.5%, from a gain of approximately \$431,000 for the fiscal year ended March 31, 2021 to a gain of approximately \$58,000 for the fiscal year ended March 31, 2022. The net decrease was primarily the result of a gain on disposal of property, plant and equipment during the fiscal year ended March 31, 2021 while there is no such gain during the fiscal year ended March 31, 2022.

Income Tax (Expense) / Benefit. Income tax expense was approximately \$411,000 for the fiscal year ended March 31, 2022 and a benefit of \$614,000 for the fiscal year ended March 31, 2021.

Net (Loss) / Income. As a result of the factors described above, consolidated net income decreased from net income of approximately \$1,771,000 for the fiscal year ended March 31, 2021 to net loss of approximately \$2,760,000 for the fiscal year ended March 31, 2022, a decrease in income of approximately \$4,531,000, or 255.8%.

Foreign Currency Translation Adjustments, Net of Tax. Foreign currency translation adjustments, net of tax, decreased from a gain of approximately \$1,051,000 for the fiscal year ended March 31, 2021 to a gain of approximately \$707,000 for the fiscal year ended March 31, 2022, a decrease of approximately \$344,000, or 32.7%. The decreased foreign currency translation, net of tax, was primarily the result of less fluctuation of the Chinese Renminbi against the United States Dollar during the fiscal year ended March 31, 2022.

Comprehensive (Loss) / Income. As a result of the factors described above, our comprehensive income decreased from a gain of approximately \$2,822,000 for the fiscal year ended March 31, 2021 to a loss of approximately \$2,053,000 for the fiscal year ended March 31, 2022, a decrease of approximately \$4,875,000, or 172.7%.

Taxation

The companies comprising the Group are subject to tax on an entity basis on income arising in, or derived from, Hong Kong and the PRC. The current rate of taxation of the subsidiary operating in Hong Kong is 16.5%. However, BATL, which operates in Hong Kong, is subject to a Hong Kong profits tax rate of 8.25% on its first HKD 2 million of estimated assessable profits and at 16.5% on the remaining estimated assessable profits. The Group is not subject to income taxes in the British Virgin Islands.

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

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

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

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

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

Dividends, if any, paid to any United States resident or citizen shareholder are treated as dividend income for United States federal income tax purposes. Such dividends are not eligible for the 50% dividends-received deduction allowed to United States corporations on dividends from a domestic corporation under Section 243 of the United States Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Various Internal Revenue Code provisions impose special taxes in certain circumstances on non-United States corporations and their shareholders. You are urged to consult your tax advisor with regard to such possibilities and your own tax situation.

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

Foreign Currency Exchange Rates

We sell most of our products to international customers. Our principal export markets are North America (mainly the United States), Europe (mainly Germany) and Asia. Other markets are other European countries (such as the United Kingdom), Australia and Africa. Sales to international customers are made directly by us to our customers. We sell all of our products in United States Dollars and Chinese Renminbi and pay for our material components principally in United States Dollars, Hong Kong Dollars and Chinese Renminbi. Most factory expenses incurred are paid in Chinese Renminbi. Because the Hong Kong Dollar is pegged to the United States Dollar, in the past our only material foreign exchange risk arose from potential fluctuations in the Chinese Renminbi and devaluation in United States Dollars. For the reasons discussed in the paragraphs below, management believes that it may be possible that there will be some fluctuation in the coming year. During the fiscal year ended March 31, 2023, we experienced a foreign currency exchange gain of approximately \$22,000 (2022: loss of \$79,000).

A summary of our debts from our banking facilities utilized as at March 31, 2023 and 2022 that were subject to foreign currency risk follows:

<u>March 31, 2023</u>	<u>March 31, 2022</u>
US\$ in thousands	US\$ in thousands
54	332

The amount above is due within one year.

Fluctuations in the value of the Hong Kong Dollar have not been significant since October 17, 1983, when the Hong Kong government tied the value of the Hong Kong Dollar to that of the United States Dollar. However, there can be no assurance that the value of the Hong Kong Dollar will continue to be tied to that of the United States Dollar. China adopted a floating currency system on January 1, 1994, unifying the market and official rates of foreign exchange. China approved current account convertibility of the Chinese Renminbi on July 1, 1996, followed by formal acceptance of the International Monetary Fund's Articles of Agreement on December 1, 1996. These regulations eliminated the requirement for prior government approval to buy foreign exchange for ordinary trade transactions, though approval is still required to repatriate equity or debt, including interest thereon. From 1994 until July 2005, the Chinese Renminbi had remained stable against the United States Dollar at approximately 8.28 to 1.00 United States Dollar. On July 21, 2005, the Chinese currency regime was altered to link the RMB to a "basket of currencies," which includes the United States Dollar, Euro, Japanese Yen and Korean Won. Under the rules, the RMB was allowed to move 0.3% on a daily basis against the United States Dollar. The People's Bank of China, on May 21 2007, widened the RMB trading band from 0.3% daily movement against the United States Dollar to 0.5%. On June 20, 2010, the People's Bank of China increased the flexibility of the exchange rate and between June 30, 2010 and December 31, 2013, the value of the Renminbi appreciated approximately 12.0% against the United States Dollar, although the value of the Renminbi depreciated approximately 2.5% against the United States Dollar in 2014. In August 2015, the People's Bank of China changed the way it calculates the mid-point price of Renminbi against the United States Dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the Renminbi depreciated approximately 5.8% against the United States Dollar, and between December 31, 2015 through July 14, 2023, it has depreciated by approximately 16.9% against the U.S.

Dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuations of the Renminbi against the United States Dollar. Accordingly, it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the United States Dollar in the future. As of July 14, 2023, the RMB was valued at 7.1414 per U.S. Dollar as compared to 6.7554 per U.S. Dollar as of July 15, 2022.

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

Liquidity and Capital Resources

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

Operating activities generated approximately \$1,268,000 of net cash during the fiscal year ended March 31, 2023 as compared to approximately \$2,130,000 of net cash used for the fiscal year ended March 31, 2022. The increase in the amount of cash generated by operating activities was primarily attributable to the decrease in inventories and trade receivables during the fiscal year ended March 31, 2023.

Investing activities used approximately \$888,000 of net cash during the fiscal year ended March 31, 2023 as compared to approximately \$1,141,000 of net cash used during the fiscal year ended March 31, 2022. The decrease in net cash used is primarily the result of a decrease in spending on construction during the fiscal year ended March 31, 2023.

Financing activities used approximately \$188,000 of net cash during the fiscal year ended March 31, 2023 as compared to approximately \$659,000 of net cash used during the fiscal year ended March 31, 2022. The decrease in net cash used in financing activities is the result of a lower amount used in the repayment of bank loans during the fiscal year ended March 31, 2023.

As of March 31, 2023, we had approximately \$6,292,000 in cash and cash equivalents as compared to approximately \$6,740,000 in cash and cash equivalents as of March 31, 2022. Working capital at March 31, 2023 was approximately \$1,061,000 as compared to approximately \$6,874,000 at March 31, 2022. The decrease in working capital was primarily the result of the net loss incurred in operating activities for the fiscal year ended March 31, 2023. 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, 2023, we had approximately \$306,000 in net trade receivables, as compared to approximately \$1,493,000 as of March 31, 2022. The decrease of approximately \$1,187,000 was primarily attributable to decreased sales to major customers with open accounts before March 31, 2023 compared to that before March 31, 2022.

As of March 31, 2023, we had approximately \$948,000 in inventories as compared to approximately \$2,127,000 as of March 31, 2022. This decrease of approximately \$1,179,000 was primarily attributable to the lower level of inventory required due to lower demand of scales and pet electronics products in the fiscal year ended March 31, 2023.

As of March 31, 2023, we had a total of approximately \$374,000 in notes and accounts payable as compared to approximately \$605,000 as of March 31, 2022. The decrease of approximately \$231,000 was primarily attributable to decreased raw materials purchased before March 31, 2023.

As of March 31, 2023, we had in place general banking facilities with one financial institution with amounts available aggregating approximately \$5,128,000 (2022: \$5,128,000). Such facility includes the ability to obtain overdrafts, letters of credit, short-term notes payable, factoring, short-term loans, long-term loans and

financial instruments. As of March 31, 2023, we had utilized approximately \$54,000 (2022: \$332,000) from this general banking facility. Interest on this indebtedness fluctuates with the prime rate and the Hong Kong Interbank Offer Rate as set by the Hong Kong Bankers Association. The bank credit facility is collateralized by our bank guarantee, an investment property of the Company and the rental assignment over such property, a life insurance contract and a listed debt instrument. Our bank credit facility is due for renewal annually. We anticipate that the banking facility will be renewed on substantially the same terms and our utilization in the next year will remain at a similar level as that in the current year. During the fiscal years ended March 31, 2023 and 2022, we paid a total of approximately \$5,000 and \$16,000, respectively, in interest on indebtedness.

Our current ratio decreased from 2.48 as of March 31, 2022 to 1.14 as of March 31, 2023. Our quick ratio decreased from 2.02 as of March 31, 2022 to 1.02 as of March 31, 2023.

As of March 31, 2023, we expect to spend approximately \$40,000 on additional construction, leasehold improvements, new machinery and tooling in our Xinxing manufacturing facility in the next twelve months.

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

Commitments

The following table sets forth information with respect to our commitments as of March 31, 2023:

	Payments due by Period				
	Total	Within 1	2 to 3 years	4 to 5 years	More than
	\$ in thousands	year \$ in thousands	\$ in thousands	\$ in thousands	5 years \$ in thousands
Bank loans	54	54	-	-	-
Construction in Xinxing	40	40	-	-	-
Income tax liabilities	-	-	-	-	-
Total	94	94	-	-	-

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

Critical Accounting Policies

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The most critical accounting policies are the ones that are most important to the portrayal of our financial condition and results and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical policies include valuation of inventories, allowance for expected credit losses, income taxes and deferred income taxes and revenue recognition.

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

Inventories

Inventories are stated at the lower of cost, as determined on a first-in, first-out basis, or net realizable value. Costs of inventories include purchase and related costs incurred in bringing the products to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventory carrying values are higher than net realizable value. Some of the significant factors the Company considers in estimating the net realizable value of its inventories include the likelihood of changes in market and customer demand and expected changes in market prices for its inventories.

Trade receivables and allowance for expected credit losses

Trade receivables primarily represent amounts due from customers, that are typically non-interest bearing and are recorded at the invoiced amount, net of allowances for doubtful accounts and sales returns, if any. Trade receivables are considered overdue when settlement does not occur within the payment terms. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing trade receivables. Bad debt expense is included in administrative and general expenses.

The Company recognizes an allowance for expected credit losses to ensure accounts and other receivables are not overstated due to uncollectibility. Allowance for doubtful receivables is maintained for all customers based on a variety of factors, including the length of time the receivables are past due, significant one-time events and historical experience. An additional allowance for individual accounts is recorded when the Company becomes aware of customers' or other debtors' inability to meet their financial obligations, such as bankruptcy filings or deterioration in the customer's or other debtor's operating results or financial position. If circumstances related to customers or debtors change, estimates of the recoverability of receivables will be further adjusted. Trade receivable balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Income taxes and deferred income taxes

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

The Company complies with ASC 740 for uncertainty in income taxes recognized in financial statements. ASC 740 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company's accounting policy is to treat interest and penalties as components of income taxes. The income tax returns of some of the Company's subsidiaries through the fiscal year ended March 31, 2022 have been assessed by the tax authorities. The tax returns of the Company's PRC subsidiaries for 2022, 2021 and 2020 are subject to examination by the PRC taxing authorities.

Revenue recognition

The Company follows ASC Topic 606, "*Revenue from Contracts with Customers (Topic 606)*". Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company applies the following steps to recognize revenues: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the

transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation.

Product sales

The Company's revenue from contracts with customers is derived from product revenue principally from the sales of electronic scales and pet electronic products directly to customers. The Company sells goods to customers based on purchase orders received from the customers. The Company has determined there is one performance obligation for each model included in the purchase orders. The performance obligation is considered to be met and revenue is recognized when the customer obtains control of the goods, which is generally the point at which products are leaving the ports of Hong Kong, Shenzhen or Nansha (Guangzhou), or when risks and rewards are transferred to the customer. The Company did not recognize any revenue from contracts with customers for performance obligations satisfied over time during the years ended March 31, 2023, 2022 and 2021.

The transaction price is generally in the form of a fixed price which is agreed with the customer at contract inception. The transaction price is recorded net of any sales return, surcharges and value-added taxes on gross sales. The Company allocates the transaction price to each performance obligation based on the purchase orders. Customers are required to pay over an agreed-upon credit period, usually between 15 to 119 days. In certain circumstances, the Company will request a deposit from a customer. Customers' deposits are settled as part of the outstanding bill upon receiving an acknowledgement from customers. For the remaining balance of the outstanding bill, the customer is required to pay over an agreed-upon credit period, usually between 0 to 15 days.

Return rights

The Company does not generally provide its customers with a right of return or production protection. Each customer is required to perform a product quality check before accepting delivery of goods. The Company provides to certain customers an additional one to two percent of the quantity of certain products ordered in lieu of a warranty, which is recognized as cost of sales when these products are shipped to customers from the Company's facilities.

The Company sells its products through Amazon's online platform. Customers purchasing products through Amazon have a 30-day right of return from the date of receipt of the product. The Company recorded a refund liability of approximately \$8,000 at March 31, 2023 (2022: \$28,000; 2021: \$29,000) for these expected returns, which was based on the average monthly returns received for Amazon sales.

Value-added taxes and surcharges

The Company presents revenue net of value-added taxes ("VAT") and surcharges incurred. Surcharges are sales related taxes representing the City Maintenance and Construction Tax and Education Surtax. VAT, business taxes and surcharges collected from customers, net of VAT paid for purchases, are recorded as a liability in the consolidated balance sheets until these are paid to the tax authorities.

Outbound freight and handling costs

The Company accounts for product outbound freight and handling costs as fulfillment activities and presents the associated costs in selling, general and administrative expenses in the period in which it sells the product.

Disaggregation of revenue

The Company disaggregates its revenue from different types of contracts with customers by principal product categories, as the Company believes it best depicts the nature, amount, timing and uncertainty of its revenue and cash flows. See Note 19 for product revenues by segment.

Contract balances

The Company did not recognize any contract asset as of March 31, 2022 and March 31, 2023. The timing between the recognition of revenue and receipt of payment is not significant. The Company's contract liabilities

consist of deposits received from customers. As of March 31, 2022 and 2023, the balances of the contract liabilities are approximately \$320,000 and \$264,000, respectively. All contract liabilities at the beginning of the year ended March 31, 2023 were recognized as revenue during the year ended March 31, 2023 and all contract liabilities as of the end of the year ended March 31, 2023 are expected to be realized in the following year.

Trend Information

We continue to be dependent upon a limited number of customers for a significant portion of our revenues, and the loss of any of these customers could have a material adverse effect upon us and our results of operations. As of March 31, 2023, our backlog of manufacturing orders was approximately \$727,000 as compared to approximately \$1,737,000 as of March 31, 2022. We expect that the demand for our products in the fiscal year ending March 31, 2024 will be similar to that in the fiscal year ended March 31, 2023.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires the Company to make estimates, judgments, and assumptions that can have a meaningful effect on the reporting of consolidated financial statements. Critical accounting estimates are defined as those reflective of significant judgments, estimates and uncertainties, which may result in materially different results under different assumptions and conditions. The Company believes the following are its critical accounting estimates:

Long-live assets and intangible assets impairment review

Long-lived assets held and used by the Company and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the asset. The undiscounted and discounted cash flow analyses based on a number of estimates and assumptions, including the projected future operating results of the asset group, discount rate and long-term growth rate. Since the market value of the assets cannot be obtained reliably, we evaluate the impairment of the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition based on the historical trends and existing macroeconomic conditions. Any changes in these estimates can have a significant impact on the assessment which could result in a material impairment loss.

Deferred tax asset valuation allowance

Future tax benefits, such as net operating loss carry forwards, are recognized as deferred tax assets. Recognized deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance analysis based on a number of estimates and assumptions, including the projected future operating results of each subsidiary and long-term growth rate. Any changes in these estimates can have a significant impact on the assessment which could impact the future periods.

Long-term investment and impairment assessment

The Company invested in an equity investment without a readily determinable fair value. The Company elected to use the measurement alternative at cost, less any impairment, with subsequent adjustments for observable price changes resulting from orderly transactions for identical or similar investments of the same issuer, if any. The Company's annual impairment review considers both qualitative and quantitative factors that may have a significant effect on the fair value of these equity securities, and requires significant use of estimates and assumptions..

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

Our Board of Directors and executive officers are listed below:

<u>Name</u>	<u>Age</u>	<u>Position with Bonso</u>
Anthony So	79	Chairman of the Board and Director
Andrew So	37	Deputy Chairman of the Board, President, Chief Executive Officer and Director
Albert So	45	Director, Chief Financial Officer, Treasurer, Financial Controller and Secretary
Kim Wah Chung	65	Director, Director of Engineering and Research and Development
Woo-Ping Fok	74	Director
Henry F. Schlueter	72	Director and Assistant Secretary

ANTHONY SO is the founder of Bonso. He has been our Chairman of the Board of Directors since July 1988. He was appointed as the Chief Executive Officer and President on November 16, 2006, and served in those capacities until March 20, 2015 when Andrew So was appointed President. On March 15, 2019, Mr. Anthony So resigned from the position of Chief Executive Officer. Mr. So received his BSE degree in civil engineering from National Taiwan University in 1967 and a Master degree in Business Administration (“MBA”) from the Hong Kong campus of the University of Hull, Hull, England in 1994. Mr. So has been Chairman of the Hong Kong GO Association since 1986 and also served as Chairman of the Alumni Association of National Taiwan University for the 1993-1994 academic years. Mr. So has served as a trustee of the Chinese University of Hong Kong, New Asia College since 1994.

ANDREW SO joined the Company in August 2009 and has been a director since February 25, 2012. Mr. So currently holds the position of Chief Executive Officer, and has also held the positions of Deputy Chairman of the Board and President since March 20, 2015. Andrew So was appointed as the Chief Executive Officer on March 15, 2019. Mr. So graduated with distinctions in 2008 from the University of Toronto, Canada, with a Bachelor of Commerce degree (BComm). From 2008 to 2009, prior to his employment with the Company, Mr. So worked as a Derivatives Analyst at State Street Trust Company Canada, Toronto, Canada. Mr. So graduated from the MBA Program of Hong Kong University of Science and Technology in the Fall of 2014.

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

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

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

its head office in Edmonton, Alberta, Canada. In 1991, Mr. Fok was qualified to practice as a Solicitor of England & Wales, a Solicitor of Hong Kong and a Barrister & Solicitor of Australian Capital Territory.

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

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

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

Compensation

The aggregate amount of compensation paid by us and our subsidiaries during the year ended March 31, 2023 and 2022 to all directors and officers as a group for services in all capacities was approximately \$1,158,000 and \$1,441,000, respectively. Total compensation for the benefit of Anthony So was approximately \$496,000 (2022: \$643,000); for the benefit of Kim Wah Chung was approximately \$153,000 (2022: \$171,000); for the benefit of Andrew So was approximately \$272,000 (2022: \$383,000); for the benefit of Albert So was approximately \$177,000 (2022: \$184,000); for the benefit of Henry F. Schlueter was an aggregate of approximately \$60,000 (2022: \$60,000); and for the benefit of Woo-Ping Fok was an aggregate of approximately \$nil (2022: \$nil). One of the properties of the Company in Hong Kong is also provided to Mr. Anthony So for his accommodation. The approximately \$60,000 paid for the benefit of Mr. Schlueter was paid to Schlueter & Associates, P.C., for legal services rendered during fiscal year ended March 31, 2023. The amount for the year ended March 31, 2023 included unpaid vacation payments of approximately \$24,000, \$10,000, \$14,000 and \$11,000 for Mr. Anthony So, Mr. Kim Wah Chung, Mr. Andrew So and Mr. Albert So, respectively.

We did not set aside or accrue any amounts to provide pension, retirement or similar benefits for directors and officers for the fiscal year ended March 31, 2023 other than contributions to our Provident Fund Plan, which aggregated \$18,000 (2022: \$18,000) for officers and directors.

Employment Agreements

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

Options of Directors and Senior Management

The following table provides information concerning options owned by the directors and senior management at July 15, 2023.

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

Directors

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

Employee retirement benefits

BEL

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

MPF

The Mandatory Provident Fund (the “MPF”) was introduced by the Hong Kong Government and commenced in December 2000. BEL joined the MPF by implementing a plan with a major international assurance company. All permanent Hong Kong full time employees who joined BEL on or after December 2000, excluding factory workers, are eligible to join the MPF. Eligible employees’ and the employer’s contributions to the MPF are both at 5% of the eligible employee’s monthly salary and are subject to a current maximum mandatory contribution of HK\$1,500 (US\$192) monthly.

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

The contributions to each of the above schemes are recognized as employee benefit expense when they are due and are charged to the consolidated statement of income (loss). The Group’s total contributions to the above schemes for the years ended March 31, 2021, 2022 and 2023 amounted to approximately \$149,000, \$345,000 and \$343,000, respectively. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

Board Practices

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

We will follow British Virgin Island law in respect to the following requirements:

- A majority of Bonso’s Board of Directors will not be independent;
- Bonso will not have a nominating committee;
- Bonso will not have a compensation committee;
- Bonso’s independent directors will not meet in executive session; and
- Bonso’s audit committee may have only one member.

Audit Committee

Mr. Woo-Ping Fok is the sole member of the Audit Committee and Mr. Schlueter serves as an ad hoc member. Mr. Fok is “independent” as defined in the NASDAQ listing standards, and Mr. Schlueter may not be considered “independent” since his law firm serves as the Company’s United States counsel.

The Audit Committee was established to: (i) review and approve the scope of audit procedures employed by our independent auditors; (ii) review and approve the audit reports rendered by our independent auditors; (iii) approve the audit fee charged by the independent auditors; (iv) report to the Board of Directors with respect to such matters; (v) recommend the selection of independent auditors; and (vi) discharge such other responsibilities as may be delegated to it from time to time by the Board of Directors. Effective as of June 30, 2015, the Board of Directors adopted an amended charter for its Audit Committee.

Audit Committee Financial Expert

Henry F. Schlueter is an ad hoc member of the Company’s Audit Committee and is deemed to be a financial expert. Mr. Schlueter, the Company’s outside securities counsel, may not be deemed to be “independent” within the definition of “independence formerly applicable under the NASDAQ rules..

Employees

At March 31, 2023, we employed a total of 172 persons (8 in Hong Kong and 164 in China) as compared to 208 at March 31, 2022 (8 in Hong Kong and 200 in China). Our number of employees has decreased each year since March 31, 2015 when we employed 528 persons. Employees are not covered by collective bargaining agreements. We consider our global labor practices and employee relations to be good.

SECURITY OWNERSHIP

The following table shows the number of shares of common stock beneficially owned by our directors and executive officers as of July 15, 2023:

Name	Shares of Common Stock Owned of Record	Options Held	Total Number of Shares of Common Stock Beneficially Owned	Percent of Beneficial Ownership ⁽¹⁾
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Anthony So	2,431,770 ⁽²⁾	150,000 ⁽³⁾	2,581,770	51.6%
Andrew So	473,540	125,000 ⁽⁴⁾	598,540	12.0%
Albert So	269,459	60,000 ⁽⁵⁾	329,459	6.7%
Kim Wah Chung	133,700	40,000 ⁽⁶⁾	173,700	3.6%
Woo-Ping Fok	91,507	25,000 ⁽⁷⁾	116,507	2.4%
Henry F. Schlueter	9,567	25,000 ⁽⁸⁾	34,567	0.7%
All Directors and Officers as a group (6 persons)	3,409,543	425,000	3,834,543	72.6%

- (1) The number of shares outstanding is 4,857,187 shares, with 5,828,205 total number of shares issued, of which 971,018 shares are held in treasury. The calculations herein are based on the number of shares outstanding of 4,857,187. Under the rules of the SEC, shares of common stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.
- (2) Includes 1,143,421 shares of common stock owned of record by a corporation that is wholly owned by a trust of which Mr. So is the sole beneficiary.
- (3) Includes options to purchase 150,000 shares of common stock at an exercise price of \$1.50 per share expiring on March 31, 2025.
- (4) Includes options to purchase 125,000 shares of common stock at an exercise price of \$1.50 per share expiring on March 31, 2025.
- (5) Includes options to purchase 60,000 shares of common stock at an exercise price of \$1.50 per share expiring on March 31, 2025.
- (6) Includes options to purchase 40,000 shares of common stock at an exercise price of \$1.50 per share expiring on March 31, 2025.
- (7) Includes options to purchase 25,000 shares of common stock at an exercise price of \$1.50 per share expiring on March 31, 2025.
- (8) Includes options to purchase 25,000 shares of common stock at an exercise price of \$1.50 per share expiring on March 31, 2025.

Stock Option and Bonus Plans

The 2004 Stock Option Plan

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

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

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

by the optionee other than by will or the laws of descent and distribution, and each option will be exercisable during the lifetime of the optionee only by the optionee.

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

As of July 15, 2015, 850,000 options, all with an exercise price of \$1.50 per share, had been granted to officers and directors of the Company under the 2004 Plan. Options for 425,000 shares were exercised during the fiscal year ended March 31, 2020, resulting in the issuance of 284,566 shares of common stock and the surrender of 140,434 options in connection with cashless exercises. The options for 425,000 shares that remain outstanding as of March 31, 2023 will expire on March 31, 2025 if not previously exercised.

2004 Stock Bonus Plan

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

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

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

As of March 31, 2023, no shares had been granted under the Stock Bonus Plan.

Major Shareholders

We are not directly or indirectly owned or controlled by any foreign government or by another corporation. The following table sets forth, as of July 15, 2023, beneficial ownership of our common stock by each person, to the best of our knowledge, known to own beneficially 5% or more of our common stock outstanding as of such date. Except as otherwise indicated, all shares are owned directly and hold equal voting rights.

Name	Shares of Common Stock Owned	Options to Purchase Common Stock	Percent of Beneficial Ownership ⁽¹⁾
Anthony So	2,431,770 ⁽²⁾	150,000	51.6%
Andrew So	473,540	125,000	12.0%
Albert So	269,459	60,000	6.7%
CAS Corporation	290,654 ⁽³⁾	-	6.0%

- (1) The number of shares outstanding is 4,857,187 shares, with 5,828,205 total number of shares issued, of which 971,018 shares are held in treasury. The calculations above are based upon the number of shares outstanding of 4,857,187. Under the rules of the SEC, shares of common shares that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.
- (2) Includes 1,143,421 shares of common stock owned of record by a corporation that is wholly owned by a trust of which Mr. So is the sole beneficiary.
- (3) According to the Schedule 13D filed by CAS Corporation on December 11, 2007.

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

RELATED PARTY TRANSACTIONS

We provide a house in Hong Kong that is owned by the Company to Mr. Anthony So for his use as his personal residence.

We paid Schlueter & Associates, P.C. an aggregate of \$60,000 in each of the fiscal years ended March 31, 2021, 2022 and 2023 for legal fees. Mr. Henry F. Schlueter, a director of the Company, is the Managing Director of Schlueter & Associates, P.C.

One of the Company's subsidiaries in Shenzhen, PRC, rents an apartment unit located in Shenzhen from Mr. Anthony So, a director of the Company, for staff quarters. The monthly rental payment for the unit is approximately \$293. The total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2023 was approximately \$4,000 (2022: \$4,000; 2021: \$4,000). The rental agreement for this apartment unit terminates on July 31, 2024

One of the Company's subsidiaries in Xinxing, PRC rents an apartment unit located in Xinxing from Mr. Andrew So, our President and Chief Executive Officer and a director of the Company, for staff quarters. Mr. Andrew So is the sole owner of this apartment unit. Since December 1, 2018, the monthly rental payment has been approximately \$600, and the total rental payment paid to Mr. Andrew So during the fiscal year ended March 31, 2023 was approximately \$nil (2022: \$nil; 2021: \$2,000). The rental agreement for this apartment unit terminated on July 31, 2020, and was not renewed.

SHARE CAPITAL AND LISTING DETAILS

Our common stock traded on the NASDAQ Capital Market under the symbol BNSO in the United States until July 3, 2023, and has since that time traded on the OTC Pink Market following our voluntary delisting from the NASDAQ Capital Market. The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share reported by NASDAQ. The quotations represent prices between dealers and do not include retail markup, markdown or commissions and may not necessarily represent actual transactions.

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

Period	High	Low
April 1, 2018 to March 31, 2019	\$ 5.04	\$ 1.62
April 1, 2019 to March 31, 2020	\$ 3.06	\$ 1.72
April 1, 2020 to March 31, 2021	\$ 10.44	\$ 1.94
April 1, 2021 to March 31, 2022	\$ 12.70	\$ 3.05

April 1, 2022 to March 31, 2023	\$	12.09	\$	2.26
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The following table sets forth the high and low sale prices during each of the quarters in the two-year period ended June 30, 2023.

Period		High		Low
July 1, 2021 to September 30, 2021	\$	9.77	\$	5.88
October 1, 2021 to December 31, 2021	\$	6.14	\$	4.02
January 1, 2022 to March 31, 2022	\$	4.59	\$	3.05
April 1, 2022 to June 30, 2022	\$	3.67	\$	2.26
July 1, 2022 to September 30, 2022	\$	12.09	\$	2.92
October 1, 2022 to December 31, 2022	\$	4.29	\$	2.76
January 1, 2023 to March 31, 2023	\$	5.24	\$	2.77
April 1, 2023 to June 30, 2023	\$	5.71	\$	1.07

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

Period		High		Low
January 2023	\$	4.16	\$	2.77
February 2023	\$	5.24	\$	3.00
March 2023	\$	3.20	\$	3.00
April 2023	\$	3.37	\$	2.24
May 2023	\$	5.71	\$	2.71
June 2023*	\$	3.15	\$	1.07

* The Nasdaq delisting became effective on July 11, 2023, at which time trading on Nasdaq ceased. The common stock now is eligible for quotation on the Pink tier of OTC Markets Group.

On July 14, 2023, the closing price of our common stock was \$2.47. Of the 5,828,205 shares of common stock issued as of July 14, 2023, 4,857,187 shares were outstanding, 1,883,156 shares were held in the United States by 121 holders of record and 971,018 shares were held by the Company as treasury stock. We have 137 shareholders of record.

Transfer and Warrant Agent

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

Share Capital

Our authorized capital is \$170,000, consisting of 23,333,334 shares of common stock, \$0.003 par value per share, and 10,000,000 authorized shares of preferred stock, \$0.01 par value, divided into 2,500,000 shares each of class A preferred stock, class B preferred stock, class C preferred stock and class D preferred stock. Information with respect to the number of shares of common stock outstanding at the beginning and at the end of the last three fiscal years is presented in the Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended March 31, 2021, 2022 and 2023 included herein.

At July 15, 2023, there were 5,828,205 shares of our common stock issued, 4,857,187 shares were outstanding and 971,018 shares were held by the Company in treasury. All shares were fully paid. In addition, we had outstanding 425,000 options to purchase common stock as follows:

Number of Options		Exercise Price per Share		Expiration Date
425,000	\$	1.50		March 31, 2025

At July 15, 2023, there were no shares of our preferred stock outstanding.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In August of 2001, the Company's Board of Directors authorized a program for the Company to repurchase up to \$500,000 of its common stock. This repurchase program does not obligate the Company to acquire any specific number of shares or acquire shares over any specified period of time. From November 2006 through April 2018, the Board of Directors increased the amount of authorized repurchases to \$6,000,000.

As of March 31, 2022, the Company has repurchased 1,005,018 shares of its common stock and expended approximately \$3,174,000 to repurchase those shares. Effective April 25, 2018, with the adoption of the above-mentioned increase, the Company had up to approximately \$3,499,000 available to fund additional repurchases of the Company's common stock, \$2,826,000 of which remains available as of the date of this Annual Report to Shareholders. As of March 31, 2023, the Company had 5,828,205 shares of its common stock issued and outstanding.

The following table contains the Company's purchases of equity securities during the fiscal year ended March 31, 2023.

Issuer Purchases of Equity Securities				
Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2022 to April 30, 2022	-	\$ -	-	\$ 2,826,000
May 1, 2022 to May 31, 2022	-	\$ -	-	\$ 2,826,000
June 1, 2022 to June 30, 2022	-	\$ -	-	\$ 2,826,000
July 1, 2022 to July 31, 2022	-	\$ -	-	\$ 2,826,000
August 1, 2022 to August 31, 2022	-	\$ -	-	\$ 2,826,000
September 1, 2022 to September 30, 2022	-	\$ -	-	\$ 2,826,000
October 1, 2022 to October 31, 2022	-	\$ -	-	\$ 2,826,000
November 1, 2022 to November 30, 2022	-	\$ -	-	\$ 2,826,000
December 1, 2022 to December 31, 2022	-	\$ -	-	\$ 2,826,000
January 1, 2023 to January 31, 2023	-	\$ -	-	\$ 2,826,000
February 1, 2023 to February 28, 2023	-	\$ -	-	\$ 2,826,000
March 1, 2023 to March 31, 2023	-	\$ -	-	\$ 2,826,000
TOTAL	-	\$ -	-	\$ 2,826,000

The Company did not purchase any of its shares during March 31, 2023 to July 15, 2023. As of July 15, 2023, 34,000 repurchased shares had been removed from the total number of shares issued. The Company (through

its subsidiary) had repurchased and held an aggregate of 1,005,018 shares of its common stock. The Company may from time to time repurchase additional shares of its common stock under this program.

Memorandum and Articles of Association

We are registered in the British Virgin Islands and have been assigned company number 9032 in the register of companies. Our registered agent is Harneys Corporate Services Limited at Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands. The object or purpose of the Company is to engage in any act or activity that is not prohibited under British Virgin Islands law as set forth in Paragraph 4 of our Memorandum of Association. As an International Business Company, we are prohibited from doing business with persons resident in the British Virgin Islands, owning real estate in the British Virgin Islands or acting as a bank or insurance company. We do not believe that these restrictions materially affect our operations.

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

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

Paragraph 7 of the Memorandum of Association provides that without prejudice to any special rights previously conferred on the holders of any existing shares, any share may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the directors may from time to time determine.

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

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

Provisions in respect of the holding of general meetings and extraordinary general meetings are set out in Paragraphs 68 through 77 of the Articles and under the International Business Companies Act. The directors may convene meetings of the members at such times and in such manner and places as the directors consider necessary or

desirable, and they shall convene such a meeting upon the written request of members holding more than 30% of the votes of our outstanding voting shares.

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

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

Exchange Controls

There are no exchange control restrictions on payments of dividends on our common stock or on the conduct of our operations either in Hong Kong, where our principal executive offices are located, or the British Virgin Islands, where we are incorporated. Other jurisdictions in which we conduct operations may have various exchange controls. Taxation and repatriation of profits regarding our China operations are regulated by Chinese laws and regulations. With respect to our PRC subsidiaries, with the exception of a requirement that approximately 10% of profits be reserved for future developments and staff welfare, there are no restrictions on the payment of dividends and the removal of dividends from China once all taxes are paid and assessed and losses, if any, from previous years have been made good. To date, these controls have not had, and are not expected to have, a material impact on our financial results. There are no material British Virgin Islands laws that impose foreign exchange controls on us or that affect the payment of dividends, interest or other payments to holders of our securities who are not residents of the British Virgin Islands. British Virgin Islands law and our Memorandum and Articles of Association impose no limitations on the right of nonresident or foreign owners to hold or vote our securities.

Taxation

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

Dividends, if any, paid to any United States resident or citizen shareholder are treated as dividend income for United States federal income tax purposes. Such dividends are not eligible for the 50% dividends-received deduction allowed to United States corporations on dividends from a domestic corporation under Section 243 of the Internal Revenue Code. Various Internal Revenue Code provisions impose special taxes in certain circumstances on non-United States corporations and their shareholders. You are urged to consult your tax advisor with regard to such possibilities and your own tax situation.

A foreign corporation will be treated as a passive foreign investment company (“PFIC”) for United States federal income tax purposes if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, 75% or more of its gross income consists of certain types of passive income or 50% or more of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. We presently believe that we are not a PFIC and do not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. If we were to be classified as a PFIC in any taxable year, (i) U.S. holders would generally be required to treat any gain on sales of our shares held by them as ordinary income and to pay an interest charge on the value of the deferral of their United States federal income tax attributable to such gain; and (ii) distributions paid by us to our United States holders could also be subject to an interest charge. In addition, we would not provide information to our United States holders that would enable them to make a “qualified electing fund” election under which, generally, in lieu of the foregoing treatment, our earnings would be currently included in their United States federal income.

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

MATERIAL CONTRACTS

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

We signed a Banking Facilities Letter dated April 13, 2023 with Hang Seng Bank for an approximately HK\$15.0 million (or approximately US\$1.9 million) letter of credit, trust receipt facility, export D/P bills, export trade loan, factoring, overdraft facility and import trade loans.

In November 2017, we signed an agreement with a property developer in Shenzhen (Fangda) to cooperate in reconstructing and redeveloping the Shenzhen factory. Under the terms of the agreement, Fangda is responsible for applying for necessary government approvals and for financing and handling the redevelopment project. Under the agreement, both companies will share the redeveloped property after reconstruction/redevelopment is completed with Bonso holding a 45% interest in the total floor area. In July 2018, we signed a supplementary agreement with Fangda to modify our approach in obtaining government approvals. Summaries of the November 2017 agreement and the supplementary agreement were filed as Exhibit 99.1 to the Company's Current Report on Form 6-K which was filed with the SEC on March 27, 2018, and Exhibit 4.2 to the Company's Annual Report on Form 20-F for the fiscal year ended March 31, 2018 which was filed with the SEC on August 15, 2018, respectively. We signed a supplementary agreement with Fangda in March 2023, under which Fangda agreed to pay us RMB 6,000,000 (or approximately USD 879,000) per year, or RMB 10,000,000 (or approximately USD 1,465,000) per year after the construction commences, as rental compensation until the redevelopment project is completed.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our interest rate risk primarily arises from our bank borrowings and our general banking facilities. As at March 31, 2023, we had utilized approximately \$54,000 (2022: \$332,000) of our total banking facilities of approximately \$5,128,000 (2022: \$5,128,000). Based on the maturity profile and composition of our long-term debt and general banking facilities, including the fact that our banking facilities are at variable interest rates, we estimate that changes in interest rates will not have a material impact on our operating results or cash flows. We intend to manage our interest rate risk through appropriate borrowing strategies. We have not entered into interest rate swap or risk management agreements; however, it is possible that we may do so in the future.

A summary of our debts at March 31, 2023 that were subject to variable interest rates is below:

	March 31, 2023	Interest Rate
Notes payable	\$ 54,000	HIBOR ⁽¹⁾ +2.50%
Short term loans ⁽²⁾	\$ -	HIBOR ⁽¹⁾ +2.25%
Long term loans ⁽²⁾	\$ -	HIBOR ⁽¹⁾ +2.00%

⁽¹⁾ HIBOR is the Hong Kong Interbank Offer Rate.

⁽²⁾ A clause in the banking facility states that the term loans are subject to review any time and also subject to the bank's overriding right of repayment on demand, including the right to call for cash cover on demand for prospective and contingent liabilities. Therefore, all long-term loans were classified as current liabilities in the consolidated balance sheets.

A change in the interest rate of 1% will increase or decrease the interest expense of the Company by approximately \$1,000.

For further information concerning our banking facilities, the interest rates payable and repayment terms, please see Note 7 to our Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders.

Foreign Currency Exchange Rates

For a discussion of our Foreign Currency Exchange Risk, see Business Operations - “Operating and Financial Review and Prospects - Foreign Currency Exchange Rates.”

CONTROLS AND PROCEDURES

The Company’s management directed that an evaluation of our disclosure controls and procedures, be conducted as of March 31, 2023. Our Company’s internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our Company are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In making this assessment, management used the criteria established in 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, the Company’s management, including its Chief Executive Officer and Chief Financial Officer, have concluded that, as of March 31, 2023, there were certain material weaknesses in our internal controls over financial reporting related to our financial closing process, the lack of trained accounting personnel and the failure to enter certain transactions into the accounting records on a timely basis. All of these weaknesses were identified in the Annual Report on Form 20-F for fiscal year ended March 31, 2022 that we filed during the previous year. As a result of that evaluation and other assessments and observations, management concluded that both our internal controls over financial reporting and disclosure controls and procedures for the fiscal year ended March 31, 2023, were ineffective.

- We have not maintained effective internal control over the financial closing process to provide reasonable assurance that the financial statements (including our interim financial statements) are prepared in accordance with Generally Accepted Accounting Principles (GAAP).
- We did not have:

- a sufficient number of experienced personnel in our accounting and finance departments to provide reasonable assurance that transactions were being recorded, and adequate supervisory reviews and monitoring activities over financial reporting matters and controls performed, as necessary to permit the preparation of the financial statements (including our interim financial statements) in accordance with GAAP;
- timely and accurate preparation and review of period-end account analyses and timely disposition of any required adjustments; and
- adequate training of and communication to employees regarding their duties and control responsibilities within the accounting and finance organization to ensure that processes and control activities were being carried out appropriately.
- Due to the limitation of our inventory information system, we update all closing inventory costs with the latest purchase price periodically instead of the actual purchase price, which may lead to an incorrect inventory balance as of the year end and incorrect cost of goods sold during the year.

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

Remediation Efforts

In response to the material weaknesses described above, management intends to do the following:

- Provide further training and communication to its accounting staff with regard to the recording of transactions in the accounting records, and closing procedures and practices.
- Increase supervisory review and monitoring activities over financial reporting matters and controls.
- Consider hiring either an additional experienced accountant with U.S. GAAP experience or outside consultants to work with the Company and its accounting staff.

If the remedial measures described above are insufficient to address any of the identified material weaknesses or are not implemented effectively, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future. We are currently working to implement enhanced controls, as discussed above, to address the material weaknesses in our internal control over financial reporting and to remedy the ineffectiveness of our disclosure controls and procedures. A key element of our remediation effort is the ability to recruit and retain qualified individuals to support our remediation efforts. While our Audit Committee and Board of Directors have been supportive of our efforts by supporting the hiring of various individuals in finance, as well as funding efforts to improve our financial reporting system, improvement in internal control will be hampered if we cannot recruit and retain more qualified professionals. Among other things, any un-remediated material weaknesses could result in material post-closing adjustments in future financial statements. Furthermore, any such un-remediated material weaknesses could have the effects described above in the Risk Factor captioned “We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements.” Management believes that the remediation items listed above, if executed, will ensure that data and reports can be relied upon for the purpose of accurately and timely recording transactions in accordance with GAAP. However, we have experienced material weaknesses in our internal controls for several years and, to date, management has been unable to implement effective remediation measures.

Changes in Internal Controls

There were no changes in the Company’s internal controls during the period covered by this Annual Report to Shareholders that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

CORPORATE GOVERNANCE AND CODE OF ETHICS

Corporate Governance.

For a discussion of the Company's corporate governance see - "Directors, Senior Management and Advisors – Audit Committee" above.

We have adopted a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer. We intend to disclose any changes in, or waivers from, our code of ethics by posting to our website such disclosure. Stockholders may also request a free copy in print form from our Chief Financial Officer at:

Bonso Electronics International, Inc.
Unit 1404, 14/F, Cheuk Nang Centre
9 Hillwood Road, Tsimshatsui
Kowloon
Hong Kong

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Committee's Pre-approval Policies and Procedure

The Audit Committee must pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services does not impair the auditor's independence. Before the Company or any of its subsidiaries engage the independent auditor to render a service, the engagement must be either:

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

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

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

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

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

The Audit Committee may consider the amount or range of estimated fees as a factor in determining whether a proposed service would impair the auditor's independence. Where the Audit Committee has approved an estimated fee for a service, the pre-approval applies to all services described in the approval. However, in the event the invoice in respect of any such service is materially in excess of the estimated amount or range, the Audit

Committee must approve such excess amount prior to payment of the invoice. The Audit Committee expects that any requests to pay invoices in excess of the estimated amounts will include an explanation as to the reason for the overage. The Company's independent auditor will be informed of this policy.

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

All audit related services, tax services and other services indicated below were pre-approved by the Audit Committee.

Audit Fees

The aggregate fees billed by MSPC Certified Public Accountants and Advisors, A professional Corporation, for professional services rendered for the audit of the Company's annual consolidated financial statements for the fiscal years ended March 31, 2023 and 2022 were approximately \$184,000 and \$160,000, respectively.

Audit Related Fees

There were no fees billed by MSPC Certified Public Accountants and Advisors, A Professional Corporation for professional services rendered for assurance and related services that were reasonably related to the performance of the audit and are not reported above under "Audit Fees" for the fiscal years ended March 31, 2023 or 2022.

Tax Fees

The aggregate fees billed for professional services rendered for tax compliance for the fiscal years ended March 31, 2023 and 2022 were \$nil and \$nil, respectively.

Other Fees

No other fees were incurred or billed to us by our auditors for agreed-upon procedures rendered during the fiscal years ended March 31, 2023 or 2022.

Documents on Display

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

FINANCIAL STATEMENTS

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

Contents	Pages
Unaudited Consolidated Balance Sheets as of March 31, 2022 and 2023	F-1
Unaudited Consolidated Statements of Operations and Comprehensive Income for the years ended March 31, 2021, 2022 and 2023	F-2

Unaudited Consolidated Statements of Changes in Stockholders' Equity for the years ended
March 31, 2021, 2022 and 2023 F-3

Unaudited Consolidated Statements of Cash Flows for the years ended
March 31, 2021, 2022 and 2023 F-4

Notes to Unaudited Consolidated Financial Statements F-5 to F-40

SIGNATURE

Bonso Electronics International Inc. hereby certifies that it has duly caused and authorized the undersigned to sign this Annual Report to Shareholders on its behalf

Dated: August 15, 2023

BONSO ELECTRONICS INTERNATIONAL INC.

By: /s/ Andrew So

Andrew So, Chief Executive Officer and Director

Dated: August 15, 2023

By: /s/ Albert So

Albert So, Chief Financial Officer, Treasurer and
Secretary

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

Unaudited Consolidated Financial Statements

March 31, 2023

Bonso Electronics International Inc.
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Bonso Electronics International Inc.

Unaudited Consolidated Balance Sheets

(Expressed in United States Dollars)

	March 31,	
	2022	2023
	\$ in thousands	\$ in thousands
Assets		
Current assets		
Cash and cash equivalents	6,740	6,292
Trade receivables, net	1,493	306
Other receivables, deposits and prepayments	762	478
Inventories	2,127	948
Income tax recoverable	5	5
Financial instruments at fair value	395	441
	<u>11,522</u>	<u>8,470</u>
Investment in life insurance contract	167	172
Property, plant and equipment, net	9,995	8,814
Intangible assets, net	1,600	1,211
Right-of-use assets, net	133	272
Deferred tax asset	333	631
	<u>23,750</u>	<u>19,570</u>
Liabilities and stockholders' equity		
Current liabilities		
Notes payable – secured	74	54
Bank loans – secured	258	-
Accounts payable	531	320
Contract liabilities	320	264
Accrued charges and deposits	3,243	3,029
Refund liabilities	28	8
Payable to affiliated parties	80	59
Finance lease obligations –current	-	20
Lease liabilities – current	114	64
Short-term loan	-	2,835
Short-term deposit received	-	756
	<u>4,648</u>	<u>7,409</u>
Finance lease obligations – non-current	-	71
Lease liabilities – non-current	19	208
Long-term loan	2,922	-
Long-term deposit received	818	-
	<u>8,407</u>	<u>7,688</u>
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock par value \$0.03 per share - \$0.01 par value (authorized: 10,000,000 shares; no shares issued and outstanding as of March 31, 2022 and 2023)		
Common stock par value \$0.003 per share - authorized shares - - issued shares: March 31, 2022: 5,828,205; March 31, 2023: 5,828,205.	17	17
- outstanding shares: March 31, 2022: 4,857,187; March 31, 2023: 4,857,187.		
Additional paid-in capital	22,795	22,795
Treasury stock at cost: March 31, 2022: 971,018; March 31, 2023: 971,018.	(3,082)	(3,082)
Accumulated deficit	(7,083)	(9,475)
Accumulated other comprehensive income	2,696	1,627
	<u>15,343</u>	<u>11,882</u>
Total stockholders' equity		
Total liabilities and stockholders' equity	<u>23,750</u>	<u>19,570</u>

See notes to these unaudited consolidated financial statements.

Bonso Electronics International Inc.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Expressed in United States Dollars)

	Years ended March 31,		
	2021	2022	2023
	\$ in thousands	\$ in thousands	\$ in thousands
Net revenue	15,590	14,801	9,047
Cost of revenue	(5,940)	(7,679)	(5,542)
	<u>9,650</u>	<u>7,122</u>	<u>3,505</u>
Gross profit			
Selling, general and administrative expenses	(8,924)	(9,529)	(6,184)
	<u>726</u>	<u>(2,407)</u>	<u>(2,679)</u>
Income / (loss) from operations			
Non-operating income / (expenses), net	431	58	(11)
	<u>1,157</u>	<u>(2,349)</u>	<u>(2,690)</u>
Income / (loss) before income taxes			
Income tax benefit / (expense)	614	(411)	298
	<u>1,771</u>	<u>(2,760)</u>	<u>(2,392)</u>
Net income / (loss)			
Other comprehensive (loss) / income, net of tax:			
Foreign currency translation adjustments, net of tax	1,051	707	(1,069)
	<u>2,822</u>	<u>(2,053)</u>	<u>(3,461)</u>
Comprehensive income / (loss)			
Net income / (loss) attributable to common shareholders	<u>1,771</u>	<u>(2,760)</u>	<u>(2,392)</u>
Net earnings / (loss) per share			
- basic	<u>\$0.36</u>	<u>(\$0.57)</u>	<u>(\$0.49)</u>
Weighted average number of shares outstanding in calculating net earnings per share			
- basic	<u>4,880,422</u>	<u>4,857,187</u>	<u>4,857,187</u>
Net earnings / (loss) per share			
- diluted	<u>\$0.34</u>	<u>(\$0.57)</u>	<u>(\$0.49)</u>
Weighted average number of shares outstanding in calculating net earnings per share			
- diluted	<u>5,145,260</u>	<u>4,857,187</u>	<u>4,857,187</u>

See notes to these unaudited consolidated financial statements.

Bonso Electronics International Inc.

Unaudited Consolidated Statements of Changes in Stockholders' Equity

(Expressed in United States Dollars)

	<u>Common stock</u>			<u>Treasury stock</u>			Accumulated other comprehensive income-foreign currency adjustments	Total stockholders' equity
	Shares <u>Issued</u>	Amount <u>outstanding</u> \$ in thousands	Additional paid-in <u>capital</u> \$ in thousands	Treasury Shares <u>held</u>	Amount <u>outstanding</u> \$ in thousands	Accumulated <u>deficit</u> \$ in thousands		
Balance, March 31, 2020	5,828,205	17	22,795	921,739	(2,892)	(6,094)	938	14,764
Net income	-	-	-	-	-	1,771	-	1,771
Shares repurchased (Note 13(a))	-	-	-	49,279	(190)	-	-	(190)
Foreign currency translation adjustments	-	-	-	-	-	-	1,051	1,051
Balance, March 31, 2021	5,828,205	17	22,795	971,018	(3,082)	(4,323)	1,989	17,396
Net loss	-	-	-	-	-	(2,760)	-	(2,760)
Foreign currency translation adjustments	-	-	-	-	-	-	707	707
Balance, March 31, 2022	5,828,205	17	22,795	971,018	(3,082)	(7,083)	2,696	15,343
Net loss	-	-	-	-	-	(2,392)	-	(2,392)
Foreign currency translation adjustments	-	-	-	-	-	-	(1,069)	(1,069)
Balance, March 31, 2023	5,828,205	17	22,795	971,018	(3,082)	(9,475)	1,627	11,882

See notes to these unaudited consolidated financial statements.

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

	Years Ended March 31,		
	2021	2022	2023
	\$ in thousands	\$ in thousands	\$ in thousands
Cash flows from operating activities			
Net income / (loss)	1,771	(2,760)	(2,392)
Adjustments to reconcile net income / (loss) to net cash provided by / (used in) operating activities:			
Depreciation	812	856	854
Amortization	269	285	269
(Gain) / loss on disposal of property, plant and equipment	(237)	8	-
Write-down of inventories	108	284	175
Change in cash surrender value of life insurance contract	(5)	(4)	(5)
Change in fair value of financial instruments	(17)	12	149
Dividend income from financial instruments at fair value	(4)	(7)	(2)
Coupons received from financial instruments at amortized cost	(48)	(48)	-
(Gain) / loss from sale of financial instruments at fair value	(6)	107	(6)
Interest expense	125	118	133
Decrease / (increase) in deferred tax asset	(779)	446	(298)
Impairment on financial instruments at amortized cost	-	522	-
Impairment to a long-term investment	-	-	439
Changes in assets and liabilities:			
Trade receivables	(462)	(214)	1,187
Other receivables, deposits and prepayments	214	(296)	283
Inventories	62	(1,314)	1,004
Right-of-use assets	90	99	(139)
Accounts payable	(248)	(41)	(211)
Contract liabilities	305	3	(56)
Accrued charges and deposits	(28)	78	(214)
Refund liabilities	(40)	(1)	(19)
Payable to affiliated parties	(1)	1	(22)
Income tax liabilities	165	(165)	-
Lease liabilities	(90)	(99)	139
Net cash provided by / (used in) operating activities	<u>1,956</u>	<u>(2,130)</u>	<u>1,268</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	909	20	-
Acquisition of property, plant and equipment	(700)	(1,205)	(262)
Acquisition of financial instruments at fair value	(613)	(812)	(285)
Invest in a long-term investment	-	-	(439)
Coupons received from financial instruments at amortized cost	48	48	-
Proceeds from sale of financial instruments at fair value	188	801	96
Dividends received from financial instruments at fair value	4	7	2
Net cash used in investing activities	<u>(164)</u>	<u>(1,141)</u>	<u>(888)</u>
Cash flows from financing activities			
Finance lease payments	(5)	-	(8)
Advance from finance lease	-	-	99
Interest from finance lease	-	-	2
Interest paid	-	-	(2)
Advance from notes payable	52	228	155
Repayment of notes payable	(27)	(178)	(176)
Repayment of bank loans	(970)	(709)	(258)
Stock repurchase	(190)	-	-
Net cash used in financing activities	<u>(1,140)</u>	<u>(659)</u>	<u>(188)</u>
Net increase / (decrease) in cash and cash equivalents	652	(3,930)	192
Effect of exchange rate changes on cash and cash equivalents	297	610	(640)
Cash and cash equivalents, beginning of year	9,111	10,060	6,740
Cash and cash equivalents, end of year	<u>10,060</u>	<u>6,740</u>	<u>6,292</u>
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	33	16	7
Income tax	-	130	-

See notes to these unaudited consolidated financial statements.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

1 Description of business and organization

Bonso Electronics International Inc. and its subsidiaries (collectively, the “Company” or “Group”) are engaged in the designing, manufacturing and selling of a comprehensive line of electronic scales and weighing instruments, pet electronic products and other products. Further, the Group also rents or leases both factory facilities and equipment not being currently used to third parties.

Particulars of principal subsidiaries as of March 31, 2022 and 2023 are as follows:

<u>Name of company</u>	<u>Place of incorporation and kind of legal entity</u>	<u>Particulars of issued capital/ registered capital</u>	<u>Percentage of capital held by the Company</u>		<u>Principal activities</u>
			<u>2022</u>	<u>2023</u>	
Bonso Electronics Limited * ("BEL")	Hong Kong, limited liability company	HK\$5,000,000 (US\$641,026)	100%	100%	Investment holding, providing management and administrative support to the Group companies
Bonso Investment Limited ("BIL")	Hong Kong, limited liability company	HK\$3,000,000 (US\$384,615)	100%	100%	Investment holding and property investment
Bonso Electronics (Shenzhen) Company, Limited ("BESCL")	The People's Republic of China ("PRC"), limited liability company	US\$12,621,222	100%	100%	Investment holding and property rental
Bonso Advanced Technology Limited * ("BATL")	Hong Kong, limited liability company	HK\$1,000,000 (US\$128,205)	100%	100%	Investment holding and trading of scales and pet electronic products
Bonso Advanced Technology (Xinxing) Company, Limited ("BATXXCL")	PRC, limited liability company	US\$10,000,000	100%	100%	Production of scales and pet electronic products and property rental
Bonso Technology (Shenzhen) Company, Limited ("BTL")	PRC, limited liability company	HK\$200,000 (US\$25,641)	100%	100%	Product development and trading of pet electronic products

* Shares directly held by the Company

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies

The significant accounting policies are as follows:

(a) Basis of presentation

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") and presents our financial statements in United States Dollars. The consolidated financial statements include the financial statements of the Company and its subsidiaries after elimination of inter-company accounts and transactions.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and accompanying disclosures. These estimates and assumptions are based on management's best knowledge of current events, historical experience and other information available when the financial statements are prepared. These estimates include, but are not limited to, long-live assets and intangible assets impairment review, deferred tax asset valuation allowance, stock-based compensation expense and loss contingencies. Actual results could differ from those estimates and assumptions.

(b) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments. The Company has no cash equivalents as of March 31, 2022 and 2023.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies (Continued)

(c) Inventories

Inventories are stated at the lower of cost, as determined on a first-in, first-out basis, or net realizable value. Costs of inventories include purchase and related costs incurred in bringing the products to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventory carrying values are higher than net realizable value. Some of the significant factors the Company considers in estimating the net realizable value of its inventories include the likelihood of changes in market and customer demand and expected changes in market prices for its inventories.

(d) Trade receivables and allowance for expected credit losses

Trade receivables primarily represent amounts due from customers, that are typically non-interest bearing and are recorded at the invoiced amount, net of allowances for doubtful accounts and sales returns, if any. Trade receivables are considered overdue when settlement does not occur within the payment terms. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing trade receivables. Bad debt expense is included in administrative and general expenses.

The Company recognizes an allowance for expected credit losses to ensure accounts and other receivables are not overstated due to uncollectibility. Allowance for doubtful receivables is maintained for all customers based on a variety of factors, including the length of time the receivables are past due, significant one-time events and historical experience. An additional allowance for individual accounts is recorded when the Company becomes aware of customers' or other debtors' inability to meet their financial obligations, such as bankruptcy filings or deterioration in the customer's or other debtor's operating results or financial position. If circumstances related to customers or debtors change, estimates of the recoverability of receivables will be further adjusted. Trade receivable balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(e) Income taxes and deferred income taxes

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

The Company complies with ASC 740 for uncertainty in income taxes recognized in financial statements. ASC 740 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company's accounting policy is to treat interest and penalties as components of income taxes. The income tax returns of some of the Company's subsidiaries through the fiscal year ended March 31, 2022 have been assessed by the tax authorities. The tax returns of the Company's PRC subsidiaries for 2022, 2021 and 2020 are subject to examination by the PRC taxing authorities.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies (Continued)

(f) Intangible assets

Land use rights held by the Company are included in intangible assets. The granted useful life of the land use rights is 50 years. They are stated at cost and amortized on a straight-line basis over a maximum period of 30 years.

(g) Property, plants and equipment, net

(i) Property, plant and equipment are stated at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over 20 to 66 years, representing the shorter of the remaining term of the lease or the expected useful life to the Company.

(ii) Other categories of property, plant and equipment are carried at cost and depreciated using the straight-line method over their expected useful lives to the Company. The principal estimated useful lives for depreciation are:

Plant and machinery - 10 years

Furniture, fixtures and equipment - 5 to 10 years

Motor vehicles - 5 years

(iii) Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use.

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

(v) Any gain or loss on disposal is included in the consolidated statements of operations and comprehensive income.

(h) Impairment of long-lived assets including intangible assets

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

(i) Financial instrument at amortized cost

Held-to-maturity debt securities are purchased from a financial institution and pledged as collateral for certain secured bank loans, which are stated at amortized cost. Interest income, including amortization of the premium and discount arising at acquisition, are included in earnings.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies (Continued)

(j) Financial instruments at fair value

The Company complies with ASC 820, "*Fair Value Measurements*" ("ASC 820"). ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

(k) Leases

The Company determines if an arrangement is a lease at inception of the contract. Leases are recorded in "right-of-use (ROU) assets" and "lease liabilities" in the Company's consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. For leases in which the rate implicit in the lease is not readily determinable, the Company uses its incremental borrowing rate based on the information available at commencement date for determining the present value of lease payments. Lease term includes the effects of options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating lease arrangements is recognized on a straight-line basis over the lease term.

The Company elected the practical expedient permitted under the transition guidance under "*Leases*" (Topic 842), which amongst other matters, allowed the Company (i) not to apply the recognition requirements to short-term leases (leases with a lease term of 12 months or less), (ii) not to reassess whether any expired or existing contracts are or contain leases, (iii) not to reassess the lease classification for any expired or existing leases, (iv) not to reassess initial direct costs for any existing leases, and (v) not to separate lease and non-lease components for the allocation of lease costs.

The Company reviews ROU assets for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies (Continued)

(I) Revenue recognition

The Company follows ASC Topic 606, “*Revenue from Contracts with Customers (Topic 606)*”. Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company applies the following steps to recognize revenues: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation.

Product sales

The Company's revenue from contracts with customers is derived from product revenue principally from the sales of electronic scales and pet electronic products directly to customers. The Company sells goods to customers based on purchase orders received from the customers. The Company has determined there is one performance obligation for each model included in the purchase orders. The performance obligation is considered to be met and revenue is recognized when the customer obtains control of the goods, which is generally the point at which products are leaving the ports of Hong Kong, Shenzhen or Nansha (Guangzhou), or when risks and rewards are transferred to the customer. The Company did not recognize any revenue from contracts with customers for performance obligations satisfied over time during the years ended March 31, 2023, 2022 and 2021.

The transaction price is generally in the form of a fixed price which is agreed with the customer at contract inception. The transaction price is recorded net of any sales return, surcharges and value-added taxes on gross sales. The Company allocates the transaction price to each performance obligation based on the purchase orders. Customers are required to pay over an agreed-upon credit period, usually between 15 to 119 days. In certain circumstances, the Company will request a deposit from a customer. Customers' deposits are settled as part of the outstanding bill upon receiving an acknowledgement from customers. For the remaining balance of the outstanding bill, the customer is required to pay over an agreed-upon credit period, usually between 0 to 15 days.

Return rights

The Company does not generally provide its customers with a right of return or production protection. Each customer is required to perform a product quality check before accepting delivery of goods. The Company provides to certain customers an additional one to two percent of the quantity of certain products ordered in lieu of a warranty, which is recognized as cost of sales when these products are shipped to customers from the Company's facilities.

The Company sells its products through Amazon's online platform. Customers purchasing products through Amazon have a 30-day right of return from the date of receipt of the product. The Company recorded a refund liability of approximately \$8,000 at March 31, 2023 (2022: \$28,000; 2021: \$29,000) for these expected returns, which was based on the average monthly returns received for Amazon sales.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies (Continued)

(l) Revenue recognition (Continued)

Value-added taxes and surcharges

The Company presents revenue net of value-added taxes ("VAT") and surcharges incurred. Surcharges are sales related taxes representing the City Maintenance and Construction Tax and Education Surtax. VAT, business taxes and surcharges collected from customers, net of VAT paid for purchases, are recorded as a liability in the consolidated balance sheets until these are paid to the tax authorities.

Outbound freight and handling costs

The Company accounts for product outbound freight and handling costs as fulfillment activities and presents the associated costs in selling, general and administrative expenses in the period in which it sells the product.

Disaggregation of revenue

The Company disaggregates its revenue from different types of contracts with customers by principal product categories, as the Company believes it best depicts the nature, amount, timing and uncertainty of its revenue and cash flows. See Note 19 for product revenues by segment.

Contract balances

The Company did not recognize any contract asset as of March 31, 2022 and March 31, 2023. The timing between the recognition of revenue and receipt of payment is not significant. The Company's contract liabilities consist of deposits received from customers. As of March 31, 2022 and 2023, the balances of the contract liabilities are approximately \$320,000 and \$264,000, respectively. All contract liabilities at the beginning of the year ended March 31, 2023 were recognized as revenue during the year ended March 31, 2023 and all contract liabilities as of the end of the year ended March 31, 2023 are expected to be realized in the following year.

(m) Lease revenue

Lease income includes minimum rents which are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Lease revenue recognition commences when the lessee is given possession of the leased space and there are no contingencies offsetting the lessee's obligation to pay rent.

(n) Research and development costs

Research and development costs include salaries, utilities and contractor fees that are directly attributable to the conduct of research and development progress primarily related to the development of new design of products. Research and development costs are expensed as incurred. Research and development costs of approximately \$229,000, \$237,000 and \$220,000 were charged to operations for the years ended March 31, 2021, 2022 and 2023, respectively.

(o) Advertising

Advertising costs are expensed as incurred and are included within selling, general and administrative expenses. Advertising costs were approximately \$30,000, \$15,000 and \$11,000 for the fiscal years ended March 31, 2021, 2022 and 2023, respectively.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies (Continued)

(p) Foreign currency translations

- (i) The Company's functional currency is the United States dollar. Transactions denominated in non-United States dollar currencies of foreign subsidiaries where the United States dollar is the functional currency are translated into United States dollars at the exchange rates existing at date of transaction. The translation of local currencies into United States dollars at the balance sheet date creates transaction adjustments which are included in net income. Exchange differences are recorded in the statements of operations and comprehensive income.
- (ii) The financial statements of foreign subsidiaries, where non-United States dollar currencies are the functional currencies, are translated into United States dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates during each reporting period for the statement of operations. Adjustments resulting from translation of these financial statements are reflected as a separate component of stockholders' equity in accumulated other comprehensive income.

(q) Stock options

Stock options have been granted to employees, directors and non-employee directors. Upon exercise of the options, a holder can acquire shares of common stock of the Company at an exercise price determined by the board of directors. The options are exercisable based on the vesting terms stipulated in the option agreements or plan.

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

(r) Fair value of financial instruments

The carrying amounts of financial instruments including cash and cash equivalents, trade receivables, net, other receivables, deposits and prepayments, other current assets, accounts payable and accrued charges and deposits, and other current liabilities approximate fair value due to the relatively short-term maturity of these instruments. The carrying value of long-term debt approximates fair value based on prevailing borrowing rates currently available for loans with similar terms and maturities.

(s) Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed based on the weighted average number of common shares outstanding during the year plus the dilutive effect of potential common shares. In computing the dilutive effect of potential common shares, the average stock price for the period is used in determining the number of treasury shares assumed to be purchased with the proceeds from the exercise of options. When there is a loss, the potential common shares are not included in the diluted net earnings per share since the effect would be anti-dilutive.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

2 Summary of significant accounting policies

(t) Treasury stock

The Company periodically retires treasury shares that it acquires through share repurchases and returns those shares to the status of authorized but unissued. The Company accounts for treasury stock transactions under the cost method. For each reacquisition of common stock, the number of shares and the acquisition price for those shares is added to the existing treasury stock count and total value, respectively, and recognized as a deduction from equity. When treasury shares are retired, the Company's policy is to allocate the excess of the repurchase price over the par value of shares acquired to additional paid-in capital, with any remaining amount being charged to retained earnings.

(u) Long-term investment and impairment assessment

The Company invested in an equity investment without a readily determinable fair value. The Company elected to use the measurement alternative at cost, less any impairment, with subsequent adjustments for observable price changes resulting from orderly transactions for identical or similar investments of the same issuer, if any. The Company's annual impairment review considers both qualitative and quantitative factors that may have a significant effect on the fair value of these equity securities, and requires significant use of estimates and assumptions.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

3 Allowance for credit losses

Allowance for credit losses amounted to \$nil as of March 31, 2023 (2022: \$nil). Most of the Company's trade receivables are generally unsecured.

4 Inventories

The components of inventories are as follows:

	March 31, 2022	2023
	\$ in thousands	\$ in thousands
Raw materials	504	319
Work in progress	546	334
Finished goods	1,077	295
	2,127	948
Total	2,127	948

During the fiscal years ended March 31, 2021, 2022 and 2023, based upon material composition and expected usage, provisions for inventories of approximately \$108,000, \$284,000 and \$175,000, respectively, were charged to the consolidated statements of operations under cost of revenue.

5 Property, plant and equipment, net

Property, plant and equipment, net, consisted of the following:

	March 31, 2022	2023
	\$ in thousands	\$ in thousands
Cost		
Buildings	18,383	17,231
Construction-in-progress	1,437	1,283
Plant and machinery	9,848	9,741
Furniture, fixtures and equipment	2,059	2,065
Motor vehicles	668	699
	32,395	31,019
Less: accumulated depreciation	(22,400)	(22,205)
	9,995	8,814

During the fiscal years ended March 31, 2021, 2022 and 2023, depreciation expenses charged to the consolidated statements of operations under cost of revenue amounted to approximately \$659,000, \$635,000 and \$584,000, respectively, and charged to the consolidated statements of operations under selling, general and administrative expense amount to approximately \$155,000, \$221,000, \$270,000, respectively. As at March 31, 2022 and 2023 fully depreciated assets that were still in use by the Company amounted to approximately \$16,927,000 and \$16,478,000, respectively. As at March 31, 2022 and 2023, property, plant and equipment, net that were leased out amounted to approximately \$3,766,000 and \$3,239,000, respectively.

Property, plant and equipment in Xinxing were assessed for impairment according to the policy described in note 2(h), and no impairment was recognized as at March 31, 2023 (2022: \$nil).

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

6 Intangible assets, net

Intangible assets are analyzed as follows:

	Amount \$ in thousands
Cost at March 31, 2021	6,034
Addition	-
Effect of exchange rate	253
Cost at March 31, 2022	<u>6,287</u>
Addition	-
Effect of exchange rate	(473)
Cost at March 31, 2023	<u><u>5,814</u></u>
Accumulated Amortization at March 31, 2021	(4,221)
Amortization	(285)
Effect of exchange rate	(181)
Accumulated Amortization at March 31, 2022	<u>(4,687)</u>
Amortization	(269)
Effect of exchange rate	353
Accumulated Amortization at March 31, 2023	<u><u>(4,603)</u></u>
Net book value at March 31, 2022	<u><u>1,600</u></u>
Net book value at March 31, 2023	<u><u>1,211</u></u>

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

6 Intangible assets, net (Continued)

The components of intangible assets are as follows:

	March 31,	
	2022	2023
	\$ in thousands	\$ in thousands
Land use right of factory land in Shenzhen, Guangdong, PRC	500	287
Land use right of factory land in Xinxing, Guangdong, PRC	1,100	924
	<u> </u>	<u> </u>
Total	1,600	1,211
	<u> </u>	<u> </u>

Amortization expense in relation to intangible assets was approximately \$269,000, \$285,000 and \$269,000 for each of the fiscal years ended March 31, 2021, 2022 and 2023, respectively.

As of March 31, 2023, future minimum amortization expenses in respect of intangible assets are as follows:

Year ending	\$ in thousands
2024	269
2025	203
2026	92
2027	92
2028	92
Thereafter	463
	<u> </u>
Total	1,211
	<u> </u>

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

7 Banking facilities

As of March 31, 2023, the Company had general banking facilities for bank overdrafts, letters of credit, notes payable and term loans. The facilities are interchangeable with total amounts available of approximately \$5,128,000 (2022: \$5,128,000), with approximately \$54,000 lines of credit utilized (2022: \$332,000) and approximately \$5,074,000 unutilized (2022: \$4,796,000). The general banking facilities utilized by the Company are denominated in United States dollars and Hong Kong dollars.

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

	<u>Amount available</u>		<u>Amount utilized</u>		<u>Amount unutilized</u>		<u>Terms of banking</u>	
	March 31,		March 31,		March 31,		March 31, 2023	
	2022	2023	2022	2023	2022	2023	Interest	Repayment
	\$ in thousands		\$ in thousands		\$ in thousands		rate	Terms
Combined limit	2,564	2,564	266	54	2,298	2,510		
Including sub-limit of:								
Notes payable	2,308	2,308	74	54	2,234	2,254	HIBOR* +2.5%	Repayable in full within 120 days
Bank overdrafts	641	641	-	-	641	651	Prime rate +1%	Repayable on demand
Long term loans	1,214	1,214	192	-	1,022	1,214	HIBOR* +2%	Term loans repayable
Other facilities								
Export documentary credits								
	641	641	-	-	641	641		
Revolving loan	1,923	1,923	66	-	1,857	1,923	HIBOR* +2.25%	Repayable until redemption of a listed debt instrument
	<u>5,128</u>	<u>5,128</u>	<u>332</u>	<u>54</u>	<u>4,796</u>	<u>5,074</u>		

(1) A clause in the banking facilities states that the term loans are subject to review any time and also subject to the bank's overriding right to repayment on demand, including the right to call for cash cover on demand for prospective and contingent liabilities. Therefore, all long-term loans were classified as current liabilities in the consolidated balance sheets.

* HIBOR is the Hong Kong Interbank Offer Rate

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

7 Banking facilities (Continued)

One of the properties of the Company located in Hong Kong with a net book value of approximately \$625,000 as of March 31, 2023, the rental assignment over such property, the rights, interests and benefits of a life insurance contract with a book value of approximately \$172,000 are arranged as securities to the banks for the banking facilities arrangement.

The Prime Rate and HIBOR were 5.625% and 3.150% per annum, respectively, as of March 31, 2023. The Prime Rate is determined by the Hong Kong Association of Banks and is subject to revision from time to time. Interest rates are subject to change if the Company defaults on the amount due under the facility or draws in excess of the facility amounts, or at the discretion of the banks.

The weighted average interest rates of borrowings of the Company are as follows:

	During the fiscal year ended	
	2022	2023
Bank overdrafts	6.00%	6.00%
Notes payable	2.77%	5.90%
Term loans	2.26%	2.53%
Revolving loan	2.36%	2.71%

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

8 Income tax

- (a) The subsidiaries comprising the Group are subject to tax on an entity basis on income arising in or derived from Hong Kong and the PRC. The Company is not subject to income taxes in the British Virgin Islands.

Hong Kong Tax

BIL and BEL operating in Hong Kong are subject to the Hong Kong profits tax rate of 16.5% (2022 and 2021: 16.5%). BATL operating in Hong Kong is subject to the Hong Kong profits tax rate of 8.25% (2022: 8.25%; 2021: 8.25%) on the first HKD 2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HKD 2 million. BIL has no assessable profits while BATL and BEL have tax losses brought forward which are available for set-off against the assessable profits for the year ended March 31, 2023.

PRC Tax

All subsidiaries registered in the PRC are subject to a tax rate of 25% (2022 and 2021: 25%).

- (b) Income is subject to taxation in the various countries in which the Company and its subsidiaries operate. The income / (loss) before income taxes by geographical location is analyzed as follows:

	2021	2022	2023
	\$ in thousands	\$ in thousands	\$ in thousands
Hong Kong	2,360	(2,054)	(582)
PRC	(1,072)	(180)	(2,026)
Others	(131)	(115)	(82)
	<u> </u>	<u> </u>	<u> </u>
Total	1,157	(2,349)	(2,690)
	<u> </u>	<u> </u>	<u> </u>

Others mainly include the income / (loss) from BVI.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

8 Income tax (Continued)

(c) Income tax benefit / (expense) comprises the following:

	2021	2022	2023
	\$ in thousands	\$ in thousands	\$ in thousands
Current income tax (expense) / benefit	(165)	35	-
Deferred income tax benefit / (expense)	779	(446)	298
	<u> </u>	<u> </u>	<u> </u>
Total	614	(411)	298
	<u> </u>	<u> </u>	<u> </u>

The components of the income tax benefit / (expense) by geographical location are as follows:

	2021	2022	2023
	\$ in thousands	\$ in thousands	\$ in thousands
Hong Kong	(12)	215	157
PRC	626	(626)	141
	<u> </u>	<u> </u>	<u> </u>
Total	614	(411)	298
	<u> </u>	<u> </u>	<u> </u>

At the end of the accounting periods, the income tax recoverable is as follows:

	2022	2023
	\$ in thousands	\$ in thousands
Current income tax	5	5
	<u> </u>	<u> </u>

(d) Deferred tax assets comprise the following:

	2022	2023
	\$ in thousands	\$ in thousands
Tax loss carry forwards	3,976	4,478
(Decrease) / increase in tax loss	502	37
Less: Valuation allowance	(4,145)	(3,884)
	<u> </u>	<u> </u>
	333	631
	<u> </u>	<u> </u>

As of March 31, 2022 and 2023, the Company had accumulated tax losses amounting to approximately \$24,990,000 and \$25,111,000 (the tax effect thereon is approximately \$4,478,000 and \$4,515,000), respectively, subject to the final agreement by the relevant tax authorities, which may be carried forward and applied to reduce future taxable income which is earned in or derived from Hong Kong and other jurisdictions. Realization of deferred tax assets associated with tax loss carry forwards is dependent upon generating sufficient taxable income prior to their expiration. A valuation allowance is established against such tax losses when management believes it is more likely than not that a portion may not be utilized. As of March 31, 2023, the Company's accumulated tax losses of approximately \$4,381,000 will expire from 2024 to 2028.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

8 Income tax (Continued)

(e) Changes in valuation allowance are as follows:

	2021 \$ in thousands	2022 \$ in thousands	2023 \$ in thousands
Balance, April 1	4,235	3,197	4,145
Income tax (benefit) / expense	(1,038)	948	(261)
	<u> </u>	<u> </u>	<u> </u>
Balance, March 31	<u>3,197</u>	<u>4,145</u>	<u>3,884</u>

(f) The actual income tax benefit / (expense) attributable to earnings for the fiscal years ended March 31, 2021, 2022 and 2023 differed from the amounts computed by applying the Hong Kong statutory tax rate in accordance with the relevant income tax law as a result of the following:

	2021 \$ in thousands	2022 \$ in thousands	2023 \$ in thousands
Income / (loss) before income taxes	1,157	(2,349)	(2,690)
	<u> </u>	<u> </u>	<u> </u>
Income tax (expense) / benefit on pretax income at statutory rate	(170)	388	444
Effect of different tax rates of subsidiaries operating in other jurisdictions	89	71	(195)
Profit not subject to income tax	44	10	-
Expenses not deductible for income tax purposes	(18)	(10)	(25)
Decrease / (increase) in valuation allowance	(286)	(459)	(258)
Utilization of tax losses	176	35	34
	<u> </u>	<u> </u>	<u> </u>
Total income tax (expense) / benefit	<u>(165)</u>	<u>35</u>	<u>-</u>

The statutory rate of 8.25% or 16.5% used above is that of Hong Kong, where the Company's main business is located.

(g) The Company complies with ASC 740 and assessed the tax position during the fiscal year ended March 31, 2023 and concluded that the Company had no accrued penalties related to uncertain tax positions under accrued charges and deposits (2022: \$nil).

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

9 Financial instruments at fair value

During the fiscal year ended March 31, 2023, the Company purchased listed shares in Hong Kong and the United States for trading purposes for approximately \$285,000 (2022: \$812,000). During the fiscal year ended March 31, 2023, a gain of disposal of financial assets at fair value of approximately \$6,000 was recorded (2022: loss of \$107,000). A revaluation loss of approximately \$149,000 was recorded during the fiscal year ended March 31, 2023 (2022: revaluation loss of \$12,000).

At the end of the accounting period, the fair value of the following assets was as follows:

\$ in thousands	March 31, 2022				March 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity investments	395	-	-	395	441	-	-	441

The fair value of equity investments is determined based on quoted prices in active markets.

10 Investment in life insurance contract

Investment in life insurance contract represents the carrying amount (surrender value) of the contract if it is to be terminated by the Company. There is one life insurance contract as of March 31, 2022 and March 31, 2023, with a carrying amount of approximately \$167,000 and \$172,000, respectively. All premiums of this contract have already been paid during the fiscal year ended March 31, 2012. The face amount (death benefit) of this contract is \$1,000,000. During the fiscal year ended March 31, 2023, we recorded a gain of approximately \$5,000 for the change in valuation (2022: \$4,000).

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

11 Leases

Operating leases

As of March 31, 2023, the Company leases part of production facilities and machines in Xinxing under rental agreements to third parties. The Company will need to pay a cancellation fee of approximately \$75,000 if the Company decides to terminate all the rental agreements before their expiry.

The Shenzhen factory is rented out to a third party since April 1, 2021. Part of the production facilities in Xinxing is rented out to various third parties up to February 13, 2026. Certain tenants have an option to early terminate their tenancy agreements, and the future minimum rental payments to be received are as follows:

Year ending March 31,	\$ in thousands
2024	75
	<u>75</u>
	<u><u>75</u></u>

The Company leases one office and one staff quarters in Shenzhen. Operating lease assets and obligations are reflected within right-of-use asset, and lease liability, respectively, on the consolidated balance sheets.

The discount rate implicit within the leases is generally not determinable and therefore the Company determines the discount rate based on its incremental borrowing rate. The incremental borrowing rate for the leases is determined based on lease term and currency in which lease payments are made, adjusted for impacts of collateral. The weighted average discount rate used to measure the operating lease liabilities as of March 31, 2023 was 6.75%.

Year ended March 31, 2023	\$ in thousands
Assets	
Right-of-use assets	272
	<u><u>272</u></u>
Liabilities	
Current portion of operating lease liabilities	64
Non-current portion of operating lease liabilities	208
	<u>272</u>
Total	<u><u>272</u></u>

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

11 Leases (Continued)

Operating leases (Continued)

Maturities of lease liabilities are as follows:

Year ending March 31,	\$ in thousands
2024	80
2025	82
2026	87
2027	58
	<hr/>
	307
Less: imputed interest	(35)
	<hr/>
Total lease cost	<u>272</u>

Recognized rent expense associated with our leases are as follows:

Operating lease cost:	Year ending March 31, 2021	Year ending March 31, 2022	Year ending March 31, 2023
	\$ in thousands	\$ in thousands	\$ in thousands
Fixed rent expense	<hr/> 100	<hr/> 112	<hr/> 97
	<hr/> 100	<hr/> 112	<hr/> 97

Supplemental cash flow and other information related to leases is as follows:

March 31, 2023	\$ in thousands
Total lease liabilities	272
Cash payment for amount included in the measurement of lease liabilities	333
Weighted average remaining lease term (months)	44
Weighted average discount rate	6.75%

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

12 Commitments and contingent liabilities

(a) Commitments

Capital expenditures contracted at the balance sheet date but not yet provided for are as follows:

	March 31,	
	2022	2023
	\$ in thousands	\$ in thousands
Construction in Xinxing,	87	40
Total construction cost	<u>87</u>	<u>40</u>

As of March 31, 2023, the Company entered into contractor agreements on buildings and leasehold improvements on the manufacturing facility in Xinxing, the PRC for a total consideration of approximately \$1,337,000. As of March 31, 2023, approximately \$1,297,000 has been paid, and the remaining balance of approximately \$40,000 is to be paid in accordance with the progress of the construction.

(b) Contingent liabilities

The Company has entered into an employment agreement with a director, Anthony So. Mr. So's employment agreement provides for a maximum yearly salary of approximately \$800,000 plus bonus. The initial term of the employment agreement expired on March 31, 2013 ("Initial Term"); however, the employment agreement has been renewed under a provision in the agreement that provides for automatic renewal for successive one year periods, unless at least 90 days prior to the expiration of the Initial Term or any renewal term, either party gives written notice to the other party specifically electing to terminate the agreement. Mr. So's employment agreement contains a provision under which the Company will be obligated to pay Mr. So all compensation for the remainder of his employment agreement and five times his annual salary and bonus compensation if a change of control, as defined in his employment agreement, occurs. Bonuses shall be determined by the Board of Directors in their sole discretion.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

13 Stockholders' equity

(a) Repurchase of common stock

In August of 2001, the Company's Board of Directors authorized a program for the Company to repurchase up to \$500,000 of its common stock. This repurchase program does not obligate the Company to acquire any specific number of shares or acquire shares over any specified period of time. From November 2006 through April 2018, the Board of Directors increased the amount of authorized repurchases to \$6,000,000. The Board of Directors believed that the common stock was undervalued and that the repurchase of common stock would be beneficial to the Company's stockholders. The Company (through its subsidiary) has repurchased an aggregate of 1,005,018 shares of its common stock, including 49,279 shares (\$190,000) that were repurchased during the fiscal year ended March 31, 2021. No repurchased shares were removed from the total number of shares issued during the fiscal year ended March 31, 2023 (2022: nil, 2021: nil). The Company may from time to time repurchase shares of its common stock under this program.

(b) Preferred stock

The Company has authorized share capital of \$100,000 for 10,000,000 shares of preferred stock, with par value of \$0.01 each, divided into 2,500,000 shares each of class A preferred stock, class B preferred stock, class C preferred stock and class D preferred stock. Shares may be issued within each class from time to time by the Company's Board of Directors in its sole discretion without the approval of the stockholders, with such designations, power preferences, rights, qualifications, limitations and restrictions as the Board of Directors shall fix and as have not been fixed in the Company's Memorandum of Association. The Company has not issued any shares of preferred stock as of March 31, 2022 and 2023.

(c) Dividends

No dividends were declared by the Company for each of the fiscal years ended March 31, 2021, 2022 and 2023, respectively.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

14 Stock option and bonus plans

(a) 2004 Stock Bonus Plan

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

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

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

As of March 31, 2023, no shares had been granted under the Stock Bonus Plan.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

14 Stock option and bonus plans (Continued)

(b) 2004 Stock Option Plan

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

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

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

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

As of July 15, 2015, 850,000 options, all with an exercise price of \$1.50 per share, had been granted to officers and directors of the Company under the 2004 Plan. Options for 425,000 shares were exercised during the fiscal year ended March 31, 2020. The options for 425,000 shares that were outstanding as of March 31, 2023 will expire on March 31, 2025. Options granted under the 2004 Plan vest immediately and may contain such other terms as the Board of Directors or a committee appointed to administer the plan may determine.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

14 Stock option and bonus plans (Continued)

(c) A summary of the stock options activity is as follows:

	Number of options	Weighted price
Outstanding at March 31, 2021	425,000	\$1.50
Outstanding at March 31, 2022	425,000	\$1.50
Outstanding at March 31, 2023	425,000	\$1.50

(d) The following table summarizes information about all stock options of the Company outstanding as at March 31, 2023:

Weighted <u>exercise price</u>	Number outstanding at <u>March 31, 2023</u>	Weighted average remaining life <u>(years)</u>	Exercisable shares at <u>March 31, 2023</u>
\$1.50	425,000	2.0	425,000

The intrinsic value of options outstanding and exercisable was approximately \$710,000 on March 31, 2023. The intrinsic value represents the pre-tax intrinsic value (the difference between the closing stock price of the Company's common stock on the balance sheet date and the exercise price for both the outstanding and exercisable options) that would have been received by the option holders if all options had been exercised on March 31, 2023.

New shares will be issued by the Company upon future exercise of stock options.

Bonso Electronics International Inc.

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15 Related party transactions

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

Related party group Year ended March 31,	Mr. Anthony So Director	Mr. Kim Wah Chung Director	Mr. Woo-Ping Fok Director	Mr. Andrew So Director and Chief Executive Officer
	\$ in thousands	\$ in thousands	\$ in thousands	\$ in thousands
2021	\$643 (i), (iii)	\$171 (iii)	\$1 (iv)	\$370 (iii)
2022	\$643 (i), (iii)	\$171 (iii)	Nil	\$383 (iii)
2023	\$496 (i), (iii)	\$153 (iii)	Nil	\$272 (iii)
			Mr. Henry Schlueter Director and Assistant Secretary	Mr. Albert So Director, Chief Financial Officer and Secretary
			\$ in thousands	\$ in thousands
2021			\$60 (ii)	\$232 (iii)
2022			\$60 (ii)	\$184 (iii)
2023			\$60 (ii)	\$177 (iii)

The emoluments paid to the Company's directors and officers were included in the salaries and related costs, while the consultancy fees or professional fees paid to Schlueter & Associates, P.C., were included in the administration and general expenses.

- (i) Apart from the emoluments paid by the Company as shown above, one of the properties of the Company in Hong Kong is also provided to Mr. Anthony So for his accommodation.
- (ii) The amounts for the years ended March 31, 2021, 2022 and 2023 represented professional fees paid to Schlueter & Associates, P.C., the Company's counsel, in which Mr. Henry Schlueter is one of the principals.
- (iii) The amount for the year ended March 31, 2021, included unpaid vacation payments of approximately \$43,000, \$11,000, \$14,000 and \$11,000 for Mr. Anthony So, Mr. Kim Wah Chung, Mr. Andrew So and Mr. Albert So, respectively. The amount for the year ended March 31, 2022, included unpaid vacation payments of approximately \$43,000, \$11,000, \$15,000 and \$12,000 for Mr. Anthony So, Mr. Kim Wah Chung, Mr. Andrew So and Mr. Albert So, respectively. The amount for the year ended March 31, 2023, included unpaid vacation payments of approximately \$24,000, \$10,000, \$14,000 and \$11,000 for Mr. Anthony So, Mr. Kim Wah Chung, Mr. Andrew So and Mr. Albert So, respectively.
- (iv) The amounts for the year ended March 31, 2021 represented professional fees paid to C. K. Mok & Co. For professional services provided by Mr. Fok.

Bonso Electronics International Inc.

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15 Related party transactions (Continued)

One of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for one apartment unit for staff quarters, for a monthly rental payment of approximately \$293. The total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2023 was approximately \$4,000 (2022: \$4,000; 2021: \$4,000).

During the fiscal year ended March 31, 2015, one of the subsidiaries in Xinxing, PRC entered into a rental agreement with a director and stockholder, Mr. Andrew So, for an apartment unit located in Xinxing, PRC for staff quarters. Mr. Andrew So is the sole owner of this apartment unit. The monthly rental payment was approximately \$450. Starting from December 1, 2018, the monthly rental payment was approximately \$600. The agreement ended on July 31, 2020, and the total rental payment paid to Mr. Andrew So during the fiscal year ended March 31, 2023 was \$nil (2022: \$nil; 2021: \$2,000).

Bonso Electronics International Inc.
Notes to Unaudited Consolidated Financial Statements
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16 Concentrations and credit risk

The Company operates principally in the PRC (including Hong Kong) and grants credit to its customers in this geographic region. Although the PRC is economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and trade receivables. The Company does not require collateral to support financial instruments that are subject to credit risk.

On March 31, 2022 and 2023, the Company had credit risk exposure of uninsured cash and deposits with maturities of less than one year in banks of approximately \$6,740,000 and \$6,292,000, respectively.

A substantial portion, 23%, 30% and 42% of revenue, was generated from one customer for the years ended March 31, 2021, 2022 and 2023, respectively.

The net revenue representing at least 10% of total net revenue are as follows:

	Year Ended March 31,					
	2021		2022		2023	
	\$ in thousands	%	\$ in thousands	%	\$ in thousands	%
Customer A	3,633	23	4,511	30	3,814	42
Customer C	1,386	9	1,703	12	1,034	11
	5,019	32	6,214	42	4,848	53
	5,019	32	6,214	42	4,848	53

The following customers had balances of at least 10% of the total trade receivables at the respective balance sheet dates set forth below:

	March 31,			
	2022		2023	
	\$ in thousands	%	\$ in thousands	%
Customer A	379	25	16	5
Customer B	303	20	50	17
Customer C	300	20	152	50
Customer F	109	7	10	3
Customer G	240	16	15	5
		88		80
		88		80

At March 31, 2022 and 2023, these customers accounted for 88% and 80%, respectively, of net trade receivables. The trade receivables have repayment terms of not more than twelve months.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

17 Employee retirement benefits and severance payment allowance

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

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

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

- (b) The contributions to each of the above schemes are recognized as employee benefit expenses when they are due and are charged to the consolidated statement of operations. The Company's total contributions to the above schemes for the years ended March 31, 2021, 2022 and 2023 amounted to \$149,000, \$345,000 and \$343,000, respectively. The Company has no other obligation to make payments in respect of retirement benefits of the employees.
- (c) According to the New Labor Law in the PRC which was effective on January 1, 2008, a company is required to provide one month's salary for each year of service as a severance payment. The Company recognized a total provision of \$672,000 as of March 31, 2023 for severance payments for staff in the PRC (2022: \$693,000, 2021: \$568,000). The accrued severance payment allowance is reviewed every year.

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Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

18 Net earnings per share

Basic net earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share gives effect to all dilutive potential common shares outstanding during the period. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In computing the dilutive effect of potential common shares, the average stock price for the period is used in determining the number of treasury shares assumed to be purchased with the proceeds from the exercise of options. When there is a loss, the potential common shares are not included in the diluted net earnings per share since the effect would be anti-dilutive.

	Year Ended March 31,		
	2021	2022	2023
Income / (loss) available to common stockholders (\$ in thousands)	\$1,771	\$ (2,760)	\$ (2,392)
Basic weighted average common shares outstanding	4,880,422	4,857,187	4,857,187
Basic net earnings / (loss) per share	\$0.36	\$ (0.57)	\$ (0.49)
	<u> </u>	<u> </u>	<u> </u>
Basic weighted average common shares outstanding	4,880,422	4,857,187	4,857,187
Effect of dilutive securities – Options	264,838	-	-
	<u> </u>	<u> </u>	<u> </u>
Diluted weighted average common and potential common shares outstanding	5,145,260	4,857,187	4,857,187
Diluted net earnings / (loss) per share	\$0.34	\$ (0.57)	\$ (0.49)
	<u> </u>	<u> </u>	<u> </u>

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

19 Business segment information

- (a) The Company has four business segments, Scales, Pet Electronic Products, Rental and Management and Others for the fiscal years ended March 31, 2021, 2022 and 2023. The Chief Operating Decision Maker, identified as the Chief Executive Officer and Chief Financial Officer, reviews these segment results when making decisions about allocating revenues and assessing the performance of the Company.

Scales operations principally involve production and marketing of sensor-based scales products. These include bathroom, kitchen, office, jewelry, laboratory, postal and industrial scales that are used in consumer, commercial and industrial applications. Revenue from scale products was 68% (2022: 60%; 2021: 42%) of overall revenue of the Company for the fiscal year ended March 31, 2023, and the Company expects that the revenue will continue to contribute a similar level of revenue for the next 12 months.

Pet Electronic Products principally involve development and production of pet-related electronic products that are used in consumer applications. Revenue from pet electronic products was 22% (2022: 32%; 2021: 51%) of overall revenue of the Company for the fiscal year ended March 31, 2023, and the Company expects that the revenue from pet electronic products will continue to contribute a similar level of revenue for the next 12 months.

The "Others" segment is a residual, which principally includes the activities of (i) tooling and mould charges for scales and pet electronic products, (ii) sales of scrap materials and (iii) home appliances including cordless leaf blower, food vacuum sealer and hydroponics growing system.

Rental and Management involve leasing out part of our factories and machinery to third parties. Revenue from rental and management was 10% (2022: 8%; 2021: 7%) of overall revenue of the Company for the fiscal year ended March 31, 2023. The Company expects that the revenue from rental and management will continue to contribute a similar level of revenue for the next 12 months.

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, 2021, 2022, and 2023:

Product Line	Year ended March 31,		
	2021	2022	2023
Scales	41%	60%	68%
Pet Electronic Products and Others	52%	32%	22%
Rental and Management	7%	8%	10%
Total	100%	100%	100%

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

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

19 Business segment information (Continued)

- (a) Summarized financial information by business segment as of and for the fiscal years ended March 31, 2021, 2022 and 2023 is as follows:

	<u>Net revenue</u>	<u>Cost of revenue</u>	<u>Operating income/ (loss)</u>	Identifiable assets as of <u>March 31</u>	Depreciation and <u>amortization</u>	Capital <u>expenditure</u>
	\$ in thousands	\$ in thousands	\$ in thousands	\$ in thousands	\$ in thousands	\$ in thousands
<u>2021</u>						
Scales	6,494	2,283	949	4,591	285	142
Pet Electronic Products and Others	8,063	2,834	1,179	5,700	354	176
Rental and Management	1,033	823	(922)	4,096	442	382
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating segments	15,590	5,940	1,206	14,387	1,081	700
Corporate	-	-	-	11,255	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Group	15,590	5,940	1,206	25,642	1,081	700
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>2022</u>						
Scales	8,811	4,472	(842)	7,597	439	162
Pet Electronic Products and Others	4,765	2,418	(455)	4,109	238	88
Rental and Management	1,225	789	(921)	4,736	464	955
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating segments	14,801	7,679	(2,218)	16,442	1,141	1,205
Corporate	-	-	-	7,308	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Group	14,801	7,679	(2,218)	23,750	1,141	1,205
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>2023</u>						
Scales	6,141	3,665	(1,338)	6,581	500	199
Pet Electronic Products and Others	1,956	1,167	(426)	2,096	159	63
Rental and Management	950	710	(917)	3,983	464	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating segments	9,047	5,542	(2,681)	12,660	1,123	262
Corporate	-	-	-	6,910	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Group	9,047	5,542	(2,681)	19,570	1,123	262
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Operating income by segment equals total operating revenues less expenses directly attributable to the generation of the segment's operating revenues. Identifiable assets by segment are those assets that are used in the operation of that segment. Corporate assets consist principally of cash and cash equivalents, investment in life insurance contracts, intangible assets and other identifiable assets not related specifically to individual segments.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

19 Business segment information (Continued)

- (b) The Company primarily operates in Hong Kong and the PRC. The manufacture of components and their assembly into finished products and research and development is carried out in the PRC. As the operations are integrated, it is not practicable to distinguish the net income derived among the activities in Hong Kong and the PRC.

Property, plant and equipment, net by geographical areas are as follows:

	March 31, 2022	March 31, 2023
	\$ in thousands	\$ in thousands
Hong Kong	702	654
The PRC	9,293	8,160
	<hr/>	<hr/>
Property, plant and equipment,	9,995	8,814
	<hr/> <hr/>	<hr/> <hr/>

- (c) The following is a summary of net revenue by geographical areas constituting 10% or more of total revenue of the Company for the years ended March 31, 2021, 2022 and 2023:

	Year ended March 31,					
	2021		2022		2023	
	\$ in thousands	%	\$ in thousands	%	\$ in thousands	%
United States	9,732	62	8,340	56	3,574	40
Germany	3,666	24	4,602	31	3,814	42
The PRC	1,403	9	1,322	9	984	11
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	14,801	95	14,264	96	8,372	93
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

19 Business segment information (Continued)

(d) The following is a summary of net revenue by customers constituting 10% or more of total revenue of the Company for the years ended March 31, 2021, 2022 and 2023:

		Year Ended March 31,					
		2021		2022		2023	
Customers	Segment	\$ in thousands	%	\$ in thousands	%	\$ in thousands	%
Customer A	Scales	3,633	23	4,511	30	3,814	42
Customer C	Scales	1,386	9	1,703	12	1,034	11
		<u>5,019</u>	<u>32</u>	<u>6,214</u>	<u>42</u>	<u>4,848</u>	<u>53</u>

20 Loan and deposit received

In November 2017, the Company signed an agreement with a property developer in Shenzhen -- Fangda -- to cooperate in reconstructing and redeveloping the Shenzhen factory. Fangda is a wholly owned subsidiary of Fangda Group Co., Ltd. ("Fangda Group"), which is listed on the Shenzhen Stock Exchange. During the year ended March 31, 2018, the Company received approximately \$3,199,000 from Fangda as a deposit according to the agreement. The Company will return this deposit in full (without interest) to Fangda when the redeveloped property is completed and the Company's share of the redeveloped property is transferred to the Company, which is expected to take place in or after December 2023. The Company has treated this deposit as a loan and discounted it up to December 2023. This liability is presented as a short-term loan of approximately \$2,835,000 (2022: long-term loan of \$2,922,000) and short-term deposit received of approximately \$756,000 (2022: long-term deposit received \$818,000) in our consolidated balance sheet as of March 31, 2023. In March 2023, the Company signed a supplementary agreement with Fangda, under which Fangda agreed to pay Bonso RMB 6 million (or approximately \$879,000) per year, or RMB 10 million (or approximately \$1,465,000) per year after the construction commences, as a compensation for lost rental revenue until the redevelopment is completed.

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

21 Non-operating income / (expenses), net

Non-operating income / (expenses), net comprises the following:

	Year Ended March 31,		
	2021	2022	2023
	\$ in thousands	\$ in thousands	\$ in thousands
Interest income	140	82	43
Gain on disposal of property, plant and equipment #	237	-	-
Government subsidies	75	104	29
Gain from investment in financial instruments	75	47	2
Other gains	93	38	33
Interest expense	(158)	(134)	(140)
Foreign exchange gain / (loss)	(31)	(79)	22
	<u> </u>	<u> </u>	<u> </u>
Non-operating income / (expenses), net	431	58	(11)
	<u> </u>	<u> </u>	<u> </u>

Land appreciation tax is calculated from the appreciation of the value of the land occupied by the property. During the fiscal year ended March 31, 2021, land appreciation tax of approximately \$205,000 was charged for the disposal of properties, and the gain on disposal of property was net of this land appreciation tax. There is no such gain on disposal of property, plant and equipment during the fiscal years ended March 31, 2022 and 2023.

22 Financial instruments at amortized cost

For the year ended March 31, 2020, the Company purchased held-to-maturity debt securities with maturities of one year and three years. As of March 31, 2023, the carrying value of long-term held-to-maturity debt security was approximately \$522,000. The long term held-to-maturity debt security matured in April 2022 but since no payment was received and none is expected to be received, the Company recognized a full impairment of the financial instrument for approximately \$522,000 for the fiscal year ended March 31, 2022. The gross unrealized holding loss of the held-to-maturity debt securities was approximately \$522,000 as of March 31, 2023 (2022: \$522,000).

23 Long-term investment

For the year ended March 31, 2023, the Company invested RMB 3 million (or approximately \$439,000) with the intention to earn long-term investment gain. The \$439,000 is invested in an investment pool which is managed by a third party, that invests in startup companies and will withdraw its investment after five to seven years. Due to lack of audit and access to the status of the investment, the Company recognized an impairment charge to this long-term investment of \$439,000 during the fiscal year ended March 31, 2023 (2022: \$nil).

Bonso Electronics International Inc.

Notes to Unaudited Consolidated Financial Statements

(Expressed in United States Dollars)

24 Accrued charges and deposits

Accrued charges and deposits consisted of the following:

	March 31,	
	2022	2023
	\$ in thousands	\$ in thousands
Provision for individual income tax underpaid penalty	1,893	1,893
Accrued provision for severance payment	693	672
Accrued audit fee	160	184
Accrued salary and wages	152	114
Other	345	166
	<u>3,243</u>	<u>3,029</u>

25 Risks and uncertainties

COVID-19 Considerations

For the month after the outbreak of COVID-19 in December 2019, domestic business activities in China were disrupted by a series of emergency quarantine measures taken by the government. In February 2020, the Company's plant and offices in People's Republic of China ("PRC") were temporarily suspended for two weeks according to the instruction of the local government, related to COVID-19. Emergency quarantine measures and travel restrictions caused business disruptions across China. The evolution of quarantine measures and travel restrictions resulted in negative consequences for our business operations including, but not limited to, the temporary closure of the Company's factory and operations beginning in early February, limited support from the Company's employees, delayed access to raw material supplies and inability to deliver products to customers on a timely basis.

The travel restrictions imposed as a result of the COVID-19 pandemic had a material negative impact on the Company's operations. The Company is not able to send its sales and marketing teams to visit our overseas customers and potential customers. And the Company's promotion events like trade exhibitions are limited due to travel restrictions in China. Under normal circumstances, the Company's management regularly travels from Hong Kong to the Shenzhen office and Xinxing factory. Our staff are required to be quarantined in designated hotels for 14 to 21 days when they travel from Hong Kong to the PRC cities. (Effective from June 29, 2022, the length of the quarantine was reduced to seven days and three days home health monitoring.) The inability to travel regularly has affected the Company's operations.

Starting from January 2023, the Chinese government has gradually lifted restrictions and quarantines that were imposed in response to the pandemic. The Company believes that this has substantively reduced the risk of delay and other uncertainty to the Company's business operations, except that it may be more difficult for the Company to recruit foreign talent going forward, because such foreign talent may have returned to their home country during the pandemic. It is also possible that if future outbreak occurs, the Chinese government will take similar actions which would adversely impact the Company's business.

The Company did not record any asset impairments, inventory charges or bad debt provision related to COVID-19 during the year ended March 31, 2023 (2022: \$nil).

26 Subsequent events

The Company voluntarily delisted from Nasdaq and the Company's shares started trading on the OTC Pink Market since July 3, 2023. In addition, the Company filed a Form 15 to voluntarily deregister its shares as governed by the Securities Exchange Act of 1934, on July 11, 2023.