VIEWPOINT CORP
Form 10-Q
November 14, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

or

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

For the transition period from ____ to ____

Commission file number: 0-27168

VIEWPOINT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**95-4102687**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

498 Seventh Avenue, Suite 1810, New York, NY 10018
(Address of principal executive offices and zip code)

(212) 201-0800
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes [X] No [ ]

As of November 11, 2003, 49,123,007 shares of $0.001 par value common stock were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

VIEWPOINT CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 746	$ 10,678
Marketable securities	1,017	890
Accounts receivable, net	1,218	2,925
Related party accounts receivable, net	286	838
Notes receivable, net		750
Prepaid expenses and other current assets	633	599
Total current assets	3,900	16,680
Restricted cash	455	987
Property and equipment, net	2,111	3,591
Goodwill, net	31,276	31,276
Intangible assets, net	187	165
Other assets	294	653
Total assets	$ 38,223	$ 53,352
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,994	$ 2,962
Accrued expenses	1,520	759
Due to related parties, net	2,928	2,920
Deferred revenues	379	334
Related party deferred revenues	687	249
Accrued incentive compensation	545	545
Current liabilities related to discontinued operations	231	231
Total current liabilities	8,284	8,000
Convertible notes	3,001	6,712
Warrants to purchase common stock	130	288
Subordinated notes	1,685	
Commitments and contingencies (Note 7)		
Stockholders equity:		
Preferred stock, $.001 par value; 5,000 shares authorized no shares issued and outstanding at September 30, 2003 and December 31, 2002		
Common stock, $.001 par value; 75,000 shares authorized 46,158 shares issued and 45,998 shares outstanding at September 30, 2003 and 41,179 shares issued and 41,019 shares outstanding at December 31, 2002	46	41
Paid-in capital	269,119	267,569
Deferred compensation	(586)	(4,130)

Treasury stock at cost; 160 shares at September 30, 2003 and December 31, 2002	(1,015)	(1,015)
Accumulated other comprehensive loss	(56)	(36)
Accumulated deficit	(242,385)	(224,077)
Total stockholders equity	25,123	38,352
Total liabilities and stockholders equity	$ 38,223	$ 53,352

The accompanying notes are an integral part of these consolidated financial statements.

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VIEWPOINT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues:				
Licenses	$ 317	$ 1,633	$ 2,166	$ 4,129
Related party licenses		2,024	1,060	6,929
Services	1,508	605	3,705	2,673
Related party services	693	1,064	4,086	1,757
Total revenues	2,518	5,326	11,017	15,488
Cost of revenues:				
Licenses	21	6	96	251
Services	1,419	1,125	4,967	2,947
Total cost of revenues	1,440	1,131	5,063	3,198
Gross profit	1,078	4,195	5,954	12,290
Operating expenses:				
Sales and marketing (including non-cash stock-based compensation charges totaling $88 and $552 for the three months ended September 30, 2003 and 2002, respectively, and $467 and $1,992 for the nine months ended September 30, 2003 and 2002, respectively)	1,637	4,068	7,625	11,234
Research and development (including non-cash stock-based compensation charges totaling $138 and $366 for the three months ended September 30, 2003 and 2002, respectively, and $803 and $1,071 for the nine months ended September 30, 2003 and 2002, respectively)	1,201	1,439	4,125	4,619
General and administrative (including non-cash stock-based compensation charges totaling $294 and $282 for the three months ended September 30, 2003 and 2002, respectively, and $1,118 and $1,110 for the nine months ended September 30, 2003 and 2002, respectively)	3,133	2,247	8,058	6,846
Depreciation	383	493	1,305	1,463
Amortization of intangible assets	1	1	9	664
Restructuring and impairment charges	674		1,885	
Impairment of goodwill and other intangible assets				6,275
Total operating expenses	7,029	8,248	23,007	31,101
Loss from operations	(5,951)	(4,053)	(17,053)	(18,811)
Other income (expense):				
Interest and other income, net	8	44	42	133
Interest expense	(257)		(743)	

Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	667		1,010	
Loss on early extinguishment of debt			(1,682)	
Total other income (expense)	418	44	(1,373)	133
Loss before provision for income taxes	(5,533)	(4,009)	(18,426)	(18,678)
Provision for income taxes	26		39	
Net loss from continuing operations	(5,559)	(4,009)	(18,465)	(18,678)
Adjustment to net loss on disposal of discontinued operations	41	9	157	102
Net loss	$ (5,518)	$ (4,000)	$ (18,308)	$ (18,576)
Basic and diluted net loss per common share:				
Net loss per common share from continuing operations	$ (0.12)	$ (0.10)	$ (0.41)	$ (0.46)
Net loss per common share	$ (0.12)	$ (0.10)	$ (0.41)	$ (0.46)
Weighted average number of shares outstanding basic and diluted	45,987	40,987	44,463	40,677

The accompanying notes are an integral part of these consolidated financial statements.

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VIEWPOINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2003	**2002**
Cash flows from operating activities:		
Net loss	$(18,308)	$(18,576)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustment to net loss on disposal of discontinued operations		(102)
Non-cash stock-based compensation charges	2,388	4,173
Restructuring and impairment charges	1,885	
Depreciation and amortization	1,314	2,127
Provision for bad debt	745	570
Impairment of goodwill and other intangible assets		6,275
Loss on write-off of notes receivable	750	
Loss on sale or disposal of equipment	226	45
Accrued interest income		(17)
Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	(1,010)	
Loss on early extinguishment of debt	1,682	
Amortization of debt discount and issuance costs	320	
Changes in operating assets and liabilities:		
Accounts receivable	962	(731)
Related party accounts receivable	552	960
Prepaid expenses and other assets	(339)	312
Accounts payable	(215)	264
Accrued expenses	(763)	(37)
Due to related parties, net	8	(72)
Deferred revenues	45	(434)
Related party deferred revenues	438	187
Net cash provided by discontinued operations		128
Net cash used in operating activities	(9,320)	(4,928)
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	1,525	8,725
Purchases of marketable securities	(1,652)	(3,507)
Net (increase) decrease in restricted cash	499	(2)
Purchases of property and equipment	(419)	(712)
Proceeds from sale of property and equipment	7	
Purchases of patents and trademarks	(31)	(47)
Net cash provided by (used in) investing activities	(71)	4,457
Cash flows from financing activities:		
Payment of issuance costs on convertible notes	(576)	
Proceeds from issuance of subordinated notes and common stock net of issuance costs paid of $189	3,311	
Repayment of convertible notes	(3,300)	
Restricted cash used to pay interest on convertible notes	33	
Proceeds from exercise of stock options	11	1,370
Net cash provided by (used in) financing activities	(521)	1,370

Effect of exchange rate changes on cash and cash equivalents	(20)	(6)
Net increase (decrease) in cash and cash equivalents	(9,932)	893
Cash and cash equivalents at beginning of period	10,678	8,054
Cash and cash equivalents at end of period	$ 746	$ 8,947

The accompanying notes are an integral part of these consolidated financial statements.

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VIEWPOINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2003	2002
Supplemental disclosure of cash flow activities:		
Cash paid during the period for income taxes	$ 79	$ 151
Cash paid during the period for interest	161	
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized gains on marketable securities	$	$ 27
Issuance costs on convertible notes and subordinated notes accrued and not yet paid	12	
Issuance of 1,351,351 shares of common stock as partial repayment of convertible notes	1,000	
Consideration not yet issued in connection with the acquisition of Viewpoint Digital		2,928

The accompanying notes are an integral part of these consolidated financial statements.

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in our Annual Report on Form 10-K/A for the year ended December 31, 2002. The interim financial information is unaudited, but reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of Viewpoint Corporation s (Viewpoint or the Company) financial position and operating results for the interim periods.

These unaudited consolidated financial statements have been prepared in accordance with the instructions to Rule 10-01 of Regulation S-X and, therefore, do not include all of the information and footnotes normally provided in annual financial statements. As a result, these unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations, contained in Viewpoint s Annual Report on Form 10-K/A for the year ended December 31, 2002. The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003 or other future periods.

Certain reclassifications have been made to the 2002 consolidated financial statements to conform to the 2003 presentation.

Liquidity

The Company had cash, cash equivalents and marketable securities of $1,763,000 at September 30, 2003. During the nine months ended September 30, 2003 net cash used in operations amounted to $9,320,000. Viewpoint has had significant quarterly and annual operating losses since its inception, and as of September 30, 2003, had an accumulated deficit of $242,385,000. There can be no assurance that Viewpoint will achieve or sustain cash flows from operations or profitability.

The Company believes that its current cash, cash equivalents, and marketable securities balances, cash obtained through a private equity financing and $10,000,000 in cash to be paid by AOL in the fourth quarter will be sufficient to meet its operating cash flow needs and anticipated capital expenditure requirements through at least the next twelve months.

In October 2003, the Company entered into an amended license agreement with AOL which provides for payments by AOL of $10,000,000, all due in the fourth quarter of 2003. The agreement contains multiple elements consisting of a perpetual broadcast license, a perpetual source code license to certain source code, quarterly updates to the source code through December 2005, and maintenance and consulting services.

In November 2003, the Company sold 3,125,000 shares of common stock in a private placement to Federal Partners, L.P., an affiliate of The Clarke Estates, Inc. for $2,500,000 or $0.80 per share. Under the terms of the investment, the Company is obliged to file a registration statement covering the resale of the shares within 45 days of the closing date, which occurred on November 12, 2003.

Holders of the Company s convertible notes (see Note 3 for specific terms and conditions) which were issued on March 25, 2003, may redeem notes in an amount up to 20% of the $2,500,000 received by the Company in the November 12, 2003 private placement. To exercise this right, the noteholders must notify the Company within 10 days of the Company s public announcement of the closing of the private placement. Additionally, the Company s convertible notes contain provisions that permit the holders to redeem notes on or after June 30, 2004 if the Company s common stock trades below the conversion price for 25 consecutive trading days, subject to the terms and conditions of the notes described in Footnote 3.

VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has contingency plans for the fourth quarter of 2003 and 2004 if expected revenue targets are not achieved. These plans include further workforce reductions as well as reductions in overhead and capital expenditures. The Company may seek additional funds when necessary through public or private equity financing or from other sources to fund our operations and pursue our growth.

We currently have no commitment for additional financing, and we may experience difficulty in obtaining additional financing on favorable terms, if at all. Any financing we obtain may contain covenants that restrict our freedom to operate our business or may have rights, preferences or privileges senior to our common stock and may dilute our current shareholders ownership interest in Viewpoint.

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended, and Staff Accounting Bulletin (SAB) No. 101 Revenue Recognition in Financial Statements. Per SOP 97-2 and SAB No. 101, the Company recognizes revenue when the following criteria are met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred or services have been rendered, (c) the Company s fee is fixed or determinable, and (d) collectibility is reasonably assured.

Viewpoint generates revenues through two sources: (a) software licenses and (b) services. License revenues are generated from licensing the rights to use our products directly to customers and indirectly through Value Added Resellers (VARs). Service revenues are generated from fee-based professional services, customer support services (maintenance arrangements), and training services performed for customers that license our products.

License revenues from direct customers include sales of perpetual and term based licenses for broadcasting digital content in the Viewpoint format. License revenues are recognized up-front provided no further significant obligations exist and the resulting receivable is deemed collectible by management. Arrangements with VARs require (i) an up-front, non-refundable payment, (ii) a percentage royalty based on sell through, or (iii) both as consideration for the right to resell our technology. Up-front, non-refundable payments are recognized as license revenues when the VAR s right to resell our technology begins and the technology has been delivered to the VAR, which is upon contract signing, provided all other revenue recognition criteria are met and no further significant obligations exist. For arrangements that do not call for an up-front, non-refundable payment, revenues are recognized as the royalties are earned, which is upon notification of sell through by the VAR, provided all other revenue recognition criteria are met and no further significant obligations exist.

Fee-based professional services for customized software development are performed on a fixed-fee or time-and-materials basis under separate service arrangements. Revenues for fixed-fee arrangements are recognized over the pattern of performance in accordance with the provisions of SAB No. 101. The pattern of performance for service arrangements is measured principally by the percentage of costs incurred and accrued to date for each contract, which principally consist of direct labor costs, cost of outsourcing, and overhead, to the estimated total cost for each contract at completion. Revenues from customer support services are recognized ratably over the term of the contract. Revenues from training services are recognized as services are performed.

Fees from licenses sold together with fee-based professional services are generally recognized upon delivery of the software, provided that the payment of the license fees are not dependent upon the performance of the services, and the services are not essential to the functionality of the licensed software. If the services are essential to the functionality of the software, or payment of the license fees are dependent upon the performance of the services, both the software license and service fees are recognized in accordance with SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. The percentage of competition method is used for those arrangements in which reasonably dependable estimates are available.

For arrangements involving multiple elements, the Company defers revenue for the undelivered elements based on their relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For maintenance and technical support elements, we use renewal rates to determine the price when sold separately. The Company

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

accounts for multiple element arrangements which involve only fee-based professional services in accordance with EITF 00-21.

Standard terms for license arrangements require payment within 90 days of the contract date, which typically coincides with delivery. Standard terms for service arrangements, which are typically billed and collected on an installment basis, require final payment within 90 days of completion of the services. Probability of collection is based upon the assessment of the customer s financial condition through the review of their current financial statements and/or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. Our arrangements with customers do not contain product return rights. If the fee is not fixed or determinable, revenue is recognized as payments become due or as cash is received from the customer. If a nonstandard acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

The Company periodically enters into nonmonetary arrangements whereby the Company s licenses or services are exchanged for services of its customers. Nonmonetary revenues are recognized at the estimated fair value of the services received. Generally, nonmonetary revenues equal nonmonetary expenses, however, due to timing, nonmonetary accounts receivable and accounts payable may result.

Notes Receivable

During 2000, the Company loaned $1,500,000 to a former officer of the Company. The loan was non-interest bearing, and was collateralized by 200,000 shares of restricted Company stock, as well as options to purchase 790,000 shares of Company stock. The loan, which was originally due on May 1, 2004, became due 30 days after the officer ceased to be an employee of the Company, which occurred on January 5, 2001. At that date, the Company recorded a reserve against the loan in the amount of $750,000. The Company had commercial litigation to pursue recovery, however, notification of a court judgment in favor of the former officer was received in September 2003. As a result of this unfavorable outcome, a loss of $750,000 was charged to operations to write off the remaining balance of the note.

Stock-Based Compensation

The Company accounts for stock option grants in accordance with Accounting Principals Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , Financial Accounting Standards Board (FASB) issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25 (FIN 44), and complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure. Under APB Opinion No. 25, compensation expense is recognized over the vesting period based on the difference, if any, at the date of grant between the fair value of the Company s stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, as amended by SFAS No. 148, and has been determined as if the Company has accounted for its employee stock option grants under the fair value method of SFAS No. 123. The fair value of options issued to employees was estimated at the date of grant using the Black-Scholes option-pricing model. For purposes of pro forma disclosures, the estimated fair value of the Company s employee options is amortized to expense over the options vesting period. If the Company elected to record stock-based compensation charges in accordance with SFAS 123, the pro forma non-cash stock-based employee compensation charges, net loss and net loss per common share would approximate the following (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss, as reported	$(5,518)	$(4,000)	$(18,308)	$(18,576)
Add: Non-cash stock-based employee compensation charges included in reported net loss, net of related tax effects	520	1,184	2,388	3,899
Deduct: Non-cash stock-based employee compensation charges determined under fair value based method for all awards, net of related tax effects	(1,196)	(2,460)	(4,990)	(8,312)
Pro forma net loss	$(6,194)	$(5,276)	$(20,910)	$(22,989)
Net loss per share:				
Basic and diluted as reported	$ (0.12)	$ (0.10)	$ (0.41)	$ (0.46)
Basic and diluted pro forma	$ (0.13)	$ (0.13)	$ (0.47)	$ (0.57)

The effects of applying SFAS No. 123, as amended by SFAS No. 148, in this pro forma disclosure are not indicative of future amounts. The Company anticipates grants of additional awards in the future.

On April 14, 2003, the Company granted 2,300,000 nonstatutory stock options to acquire Company common stock, to certain executives of the Company at an exercise price equal to the fair market value of the Company s common stock on the date of grant. Twenty-five percent of the options vest on the first anniversary of the date of grant and the remaining options vest at the rate of 1/36th per month thereafter. On July 1, 2003, the Company modified the terms to accelerate the vesting of a grant to one executive. In accordance with FIN 44, no compensation charge has been recorded through September 30, 2003 since the Company believes that this executive will not derive any benefit from the acceleration. If the executive s employment ends during the original vesting period (prior to modification) then the modification to accelerate vesting would be determined to be beneficial to the executive and a non-cash compensation charge of up to $360,000 would be charged to operations.

In November 2003, the Company will modify the terms of five stock option grants to certain employees and officers to reduce the vesting period from four years to two years. The Company will record a non-cash stock-based compensation charge based upon the difference between the closing price on the day of the modification and the closing price on the date of the grant for any of the 1,125,000 options modified. The weighted average grant price for these options is $0.76. Such charge would be recorded if the executives are expected to derive a benefit from the acceleration. If any executive ceased employment during the original vesting period then the modification to accelerate would be determined to be beneficial.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding and diluted net loss per common share is computed using the weighted average number of common shares and common equivalent shares outstanding. Common equivalent shares related to stock options and warrants totaling 5,175,000 and 4,491,000 for the three months ended September 30, 2003 and 2002, respectively, and 5,175,000 and 7,540,000 for the nine months ending September 30, 2003 and 2002, respectively, are excluded from the computation of diluted net loss per common share because their effect was antidilutive.

Derivatives

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounts for the fair values of the warrants to purchase common stock and conversion options of its convertible notes in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, which requires the Company to bifurcate and separately account for its embedded derivatives contained in the Company s convertible notes. The Company is required to carry these embedded derivatives on its balance sheet at fair value and the unrealized changes in the value of these embedded derivatives are reflected in net income as changes in fair values of warrants to purchase common stock and conversion options of convertible notes.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46 Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). FIN 46 provides a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. FIN 46 was effective immediately for VIEs created after January 31, 2003. In October 2003, the FASB directed the FASB staff to issue FASB Staff Position No. FIN 46-6 (FSP FIN 46-6). FSP FIN 46-6 defers the effective date of FIN 46 for interests held by public entities in VIEs or potential VIEs dating from before February 1, 2003. The consolidation requirements of FIN 46 for these interests are now scheduled to be effective on December 31, 2003. The consolidation requirements of FIN 46 remain applicable to VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. The adoption of FIN 46 is not expected to have a material effect on the Company s financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the Company s financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company s existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company adopted the provisions of SFAS No. 150, which became effective on June 1, 2003. The adoption of this statement did not have a material effect on the Company s financial statements. On November 7, 2003, the FASB issued a FASB Staff Position No. FAS 150-3, Effective Date for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FAS 150, which deferred the effective date of certain provisions of FAS 150 related to Mandatorily Redeemable Noncontrolling Interests. The deferral did not effect the Company s financial statements.

In November 2002, the Emerging Issues Task Force (EITF) issued EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, which addresses revenue recognition accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 does not apply to deliverables in arrangements to the extent the accounting for such deliverables is within the scope of other existing higher-level authoritative literature including SOP 97-2. EITF 00-21 is effective for revenue arrangements entered into beginning on July 1, 2003. The adoption of EITF 00-21 did not have an impact on our financial statements.

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VIEWPOINT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Goodwill and Intangible Assets

Effective January 1, 2002, the Company completed the adoption of SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. As required by SFAS No. 142, the Company discontinued amortizing the remaining balances of goodwill as of January 1, 2002. All remaining and future acquired goodwill will be subject to impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. When evaluating goodwill for potential impairment, the Company first compares the fair value of the reporting unit, based on market values of the reporting unit or on the present value of estimated future cash flows, with its carrying amount. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. All other intangible assets will continue to be amortized over their estimated useful lives and assessed for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

In conjunction with the implementation of SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2002 and found no impairment on that date. The fair value of the Viewpoint Digital reporting unit was determined to exceed its carrying value using the expected present value of future cash flows, a discount rate of 15% and a terminal value based on a multiple of EBITDA. The fair value of the Company was determined to exceed its carrying value by comparison to its market capitalization on that date, less the fair value of the Viewpoint Digital reporting unit.

The Company recorded $2,928,000 of additional goodwill during the first quarter of 2002 in connection with a contingent promissory note due Computer Associates on April 30, 2002 for the acquisition of Viewpoint Digital. As of March 31, 2002, due to the persistence of unfavorable economic conditions along with lower-than-expected revenues generated to date and reduced estimates of future performance of the Viewpoint Digital reporting unit, the Company performed an additional impairment analysis on the goodwill and other intangible asset balances recorded upon the acquisition of Viewpoint Digital. In accordance with the provisions of SFAS No. 142 and SFAS No. 144, the Company recorded impairment charges totaling $6,275,000 for the three months ended March 31, 2002. The fair value of the Viewpoint Digital reporting unit was estimated using the expected present value of future cash flows. The assumptions supporting the cash flows, including the discount rate of 20%, were determined using the Company s best estimates as of the date the impairment was recorded.

In accordance with the provisions of SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2003 and found no impairment on that date. The fair value of the Company was determined to exceed its carrying value by comparison to its market capitalization on that date.

During the three months ended March 31, 2003, the market value of the Company s equity securities declined below the Company s carrying value indicating the existence of a potential goodwill impairment. In accordance with SFAS No. 142, the Company performed the first step of the goodwill impairment test as of March 31, 2003. The fair value of the Company was determined to exceed its carrying value using a market-based approach with selected multiples ranging from 1.5 to 2.0 times revenues and 1.8 to 2.5 times gross profit. In accordance with SFAS No. 142, the second step of the impairment test was unnecessary, and no goodwill impairment charges were recorded. Subsequent to March 31, 2003, the market value of the Company recovered and did not decline below the Company s carrying value, therefore, no impairment existed through September 30, 2003.

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The changes in the carrying amounts of goodwill and intangible assets during the nine months ended September 30, 2003, are as follows (in thousands):

	Goodwill	Intangible Assets	Total
Balance as of January 1, 2003	$31,276	$ 165	$31,441
Additions during period		11	11
Amortization		(1)	(1)
Balance as of March 31, 2003	31,276	175	31,451
Additions & adjustments during period		(8)	(8)
Amortization		(7)	(7)
Balance as of June 30, 2003	31,276	160	31,436
Additions during period		28	28
Amortization		(1)	(1)
Balance as of September 30, 2003	$31,276	$ 187	$31,463

The changes in the carrying amounts of goodwill and intangible assets for the nine months ended September 30, 2002, are as follows (in thousands):

	Goodwill	Intangible Assets	Total
Balance as of January 1, 2002	$33,042	$ 2,361	$35,403
Additions during period	2,928	24	2,952
Impairment losses	(4,694)	(1,581)	(6,275)
Amortization		(661)	(661)
Balance as of March 31, 2002	31,276	143	31,419
Additions during period		3	3
Amortization		(2)	(2)
Balance as of June 30, 2002	31,276	144	31,420
Additions during period		20	20
Amortization		(1)	(1)
Balance as of September 30, 2002	$31,276	$ 163	$31,439

As of September 30, 2003 and December 31, 2002, the Company s intangible assets and related accumulated amortization consisted of the following (in thousands):

	September 30, 2003	December 31, 2002
	Accumulated	Accumulated

	Gross	Amortization	Net	Gross	Amortization	Net
Patents and Trademarks	$199	$ (12)	$ 187	$168	$ (3)	$165
Total Intangible Assets	$199	$ (12)	$ 187	$168	$ (3)	$165

Amortization of patents and trademarks is estimated to be $3,000 a year for the next five years.

3. Long Term Debt

On December 31, 2002, the Company completed a private placement of convertible notes and warrants in which it issued to three institutional investors, 4.95% convertible notes having an aggregate principal amount of $7,000,000, and warrants to purchase 726,330 shares of Company common stock. Interest on the convertible notes was payable quarterly in arrears in cash or, at the option of the Company, in shares of Company common stock, provided the Company satisfied certain financial and other conditions. The convertible notes were to mature on December 31, 2007, unless earlier converted into shares of Company common stock at a price of $2.26 per share. The warrants expire on December 31, 2006, and are exercisable at a price of $2.26 per share.

The Company was required to provide registration rights under the Securities Act of 1933 for shares of Company common stock covering (i) the conversion of $7,000,000 in principal, (ii) 726,330 warrants, and (iii) any potential payment of interest in the form of common stock.

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The convertible notes defined several events of default, including but not limited to: (i) failure of the Company s registration statement to be declared effective by the Securities and Exchange Commission (SEC), (ii) delisting from The NASDAQ National Market or other national exchange, (iii) change in control, (iv) event of conversion default such as lack of authorized capital, (v) event of bankruptcy, (vi) failure to pay principal and interest on the convertible notes when payments become due, (vii) judgments against the Company in excess of $1,000,000 and (viii) material breach of any representation, warranty, covenant or other term. Upon an event of default, the convertible notes would immediately become due and payable, after a grace period to cure the default lapsed.

Pursuant to SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, the Company bifurcated the fair value of the conversion options from the convertible notes since the conversion options were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion options and warrants was an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of conversion options and warrants as long-term liabilities, as it was assumed that the Company will be required to net-cash settle the underlying securities. The fair values of the convertible notes, conversion options, and warrants of $5,535,000, $1,177,000, and $288,000, respectively, were determined by the Company using the following assumptions: a 20% discount on the Company s common stock price at December 31, 2002, a credit spread of 20% over LIBOR rates at December 31, 2002, and an annualized stock volatility of 46%. The aggregate value of the convertible notes and conversion options of $6,712,000, and the warrants of $288,000 are recorded as long-term liabilities in the Company s consolidated balance sheets at December 31, 2002. Debt issuance costs, which amounted to $668,000, were recorded as other assets in the Company s consolidated balance sheets, in accordance with APB Opinion No. 21 Interest on Receivables and Payables. The amortization of discount on the convertible notes and debt issue costs totaling $72,000 were accounted for in accordance with the provisions of APB Opinion No. 21, which requires amortization of the discount and debt issue costs using the interest method.

On February 28, 2003, the Company received notices of default from two of the three investors. The notices alleged that the Company was in default of the notes because it had breached certain representations and warranties in the Securities Purchase Agreement.

On March 25, 2003, the Company entered into Redemption, Amendment and Exchange Agreements with the three institutional investors with whom it had completed the private placement of convertible notes and warrants on December 31, 2002. Pursuant to these agreements, the notice of default was withdrawn and Viewpoint redeemed an aggregate of $3,300,000 principal amount of the outstanding convertible notes, exchanged an aggregate of $1,000,000 principal amount of the outstanding convertible notes for shares of Viewpoint common stock at $0.74 per share, and exchanged the remaining $2,700,000 principal amount of outstanding convertible notes for $2,700,000 principal amount of new convertible notes. The convertible notes were issued in three tranches of $900,000 each and are scheduled to mature December 31, 2007. The warrants to purchase 726,330 shares of Company common stock, which were issued to these investors on December 31, 2002, remain outstanding.

Based on the provisions of SFAS No. 133 and EITF Issue No. 00-19, the Company recorded income based on the change in the fair value of the conversion options of the original convertible notes as of March 24, 2003, which amounted to $1,122,000, in the Company s consolidated statements of operations for the three months ended March 31, 2003.

In accordance with the provisions of APB Opinion No. 26 Early Extinguishment of Debt, and EITF Issue No. 96-19 Debtor s Accounting for a Modification or Exchange of Debt Instruments , the Company recorded a loss on the early extinguishment of the original convertible notes in the amount of $1,682,000 of which $650,000 related to the write-off of deferred loan costs. The carrying value of the convertible notes at the time of the exchange was $5,643,000, inclusive of $55,000, which represented the fair value of the conversion options. In conjunction with the extinguishment, the Company paid $3,300,000, issued new convertible notes in the principal amount of $2,700,000 and issued 1,351,351 shares of its common stock with a market value of $675,000. The difference between (i) the carrying value of the outstanding convertible notes exchanged and (ii) cash paid and the fair value of the common stock and new convertible notes issued, amounted to $1,032,000 and was included in the loss on early extinguishment of debt.

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The Company charged the loss on early extinguishment of debt to operations as such loss did not qualify for classification as extraordinary based on the provisions of SFAS No. 145 Rescission of FASB Statements No. 4, 44, and 64, Amendment of , and Technical Corrections , and APB 30 Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.

Interest on the new convertible notes is payable quarterly in arrears in cash or, at the option of the Company, in shares of Company common stock, provided the Company satisfies certain financial and other conditions. If interest is paid in shares of Company common stock, the number of shares to be issued shall be calculated by dividing the interest payable by 95% of the arithmetic average of the dollar volume-weighted average price of Company common stock on each of the five consecutive trading days immediately preceding the interest payment date. The new convertible notes mature on December 31, 2007, unless earlier converted into shares of Company common stock. Each tranche of the new convertible notes were initially convertible into Company common stock at a price of $2.26 per share. However, pursuant to the Redemption, Amendment and Exchange Agreements, the conversion price of the first, second, and third tranche became adjustable on the basis of the arithmetic average of the dollar volume-weighted average price of Company common stock for the ten trading days following May 16, 2003, August 16, 2003, and November 16, 2003, respectively, in each case subject to a minimum conversion price of $1.00 and a maximum conversion price of $2.26. The conversion price of the first $900,000 tranche of notes is $1.10. The conversion price of the second $900,000 tranche of notes is $1.00.

At the noteholders option, up to 20% of the net proceeds from any new capital raises by the Company may be used to redeem outstanding notes at par plus accrued interest. On November 12, 2003, the Company sold 3,125,000 shares of common stock in a private placement to Federal Partners, L.P., an affiliate of The Clarke Estates, Inc. for $2,500,000, or $0.80 per share. To exercise their right to redeem their notes in an amount up to 20% of the $2,500,000 received by the Company, the noteholders must notify the Company within 10 days of the Company s public announcement of the closing of the private placement. The Company publicly announced the closing of the private placement on November 13, 2003 by way of a filing on SEC Form 8-K.

Each tranche of the notes is redeemable by the investors at any time on or after June 30, 2004 in cash at par plus accrued and unpaid interest if the dollar volume-weighted average price of Company common stock is less than the conversion price applicable to the notes for any 25 consecutive trading days. Each tranche of the notes is redeemable by the investors at any time after December 31, 2005, in cash at 83% of par plus accrued and unpaid interest if the dollar volume-weighted average price of Company common stock is less than the conversion price applicable to the notes for any 25 consecutive trading days following December 31, 2005. If the investors redeem their convertible notes, up to 20% of the amount to be redeemed may, at the Company s option, be paid in shares of Company common stock, and said payment would be at 95% of the dollar volume-weighted average price of Company common stock for the 20 consecutive trading days immediately preceding payment.

The Company has the right at any time to redeem up to all of the outstanding notes at par plus accrued and unpaid interest. Concurrently with any such redemption, the Company is required to deliver to the investors warrants, with an exercise price of $1.00 and a term equal to the remaining term of the notes being redeemed, to subscribe for a number of shares of common stock equal to 100% of the principal amount being redeemed divided by the conversion price of the notes then in effect.

Each tranche of the notes is convertible at the Company s election at any time after April 15, 2004 if the dollar volume-weighted average price of Company common stock exceeds 150% of the conversion price applicable to the notes for any 25 consecutive trading days following April 15, 2004.

The investors may require the Company to sell to the investors an additional 4.95% convertible notes having an aggregate principal amount of up to $2,800,000, and warrants to purchase up to 290,533 shares of Company common stock prior to January 14, 2004.

The Company had the right to sell additional 4.95% convertible notes having an aggregate principal amount of up to $7,000,000 and warrants to purchase up to 726,330 shares of Company common stock prior to June 30, 2003, if the dollar volume-weighted average price of Company common stock exceeded $3.25 on each of not less than 15 trading days in any 20 consecutive trading-day period. This right expired unexercised on June 30, 2003.

The Company was required to file a registration statement by April 14, 2003, covering the resale of the shares of common stock issued to the investors in exchange for the $1,000,000 principal of convertible notes, the shares of common stock issuable to the investors upon the conversion of the notes, the shares of common stock underlying the warrants issued and to be issued, and any shares of common stock that may be issued as payment of interest on the

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notes. The Company was required to pay cash penalties if the registration statement was not declared effective by June 30, 2003. The registration statement was declared effective July 14, 2003, and the Company was required to pay penalties of $183,000, of which $127,000 was charged to interest expense in the second quarter of 2003 and $56,000 was charged to interest expense in the third quarter of 2003.

Under the terms of the amended agreements, certain covenants and events of default were restructured as follows: the requirement to have its registration statement declared effective by the SEC and the requirement to remain listed on The NASDAQ National Market or other national exchange, were waived through March 2004, unless the Company receives a going concern or qualified opinion from its auditors. If such a report is received from the Company s auditors through March 2004, the original events of default remain effective.

Pursuant to SFAS No. 133, the Company bifurcated the fair value of the conversion options from the new convertible notes since the conversion options were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion options is an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of the conversion options as long-term liabilities, as it is assumed that the Company will be required to net-cash settle the underlying securities. The fair values of the new convertible notes and conversion options of $2,361,000 and $339,000, respectively, were determined by the Company using the following assumptions: the Company s Common stock price at March 25, 2003, a credit spread of 30% over LIBOR rates at March 25, 2003, and an annualized stock volatility of 65%. The value of the new convertible notes and conversion options of $2,392,000 and $609,000, respectively are recorded as long-term liabilities in the Company s consolidated balance sheets at September 30, 2003. Debt issuance costs, which amounted to $75,000, were recorded as other assets in the Company s consolidated balance sheets, in accordance with APB Opinion No. 21.

Based on the provisions of SFAS No. 133 and EITF Issue No. 00-19, the Company recorded income based on the changes in the fair values of the new conversion options and original warrants of $61,000 and $241,000, respectively, in the Company s consolidated statements of operations for the three months ended March 31, 2003, and a loss based on the changes in the fair values of the new conversion options and original warrants of $886,000 and $195,000, respectively, in the Company s consolidated statements of operations for the three months ended June 30, 2003. For the three months ended September 30, 2003, the Company recorded income based on the changes in the fair values of the new conversion options and original warrants of $555,000 and $112,000, respectively. The amortization of discount on the new convertible notes and debt issue costs totaling $37,000 were accounted for using the interest method, in accordance with the provisions of APB Opinion No. 21.

On March 26, 2003, Viewpoint Corporation entered into a Securities Purchase Agreement with three other accredited investors, pursuant to which it received $3,500,000 in exchange for an aggregate of $3,500,000 principal amount of 4.95% subordinated notes and 3,614,756 shares of Viewpoint common stock. The subordinated notes are scheduled to mature on March 31, 2006.

Interest on these notes is payable quarterly in arrears in cash. The notes contain certain events of default, including, but not limited to: (i) failure to pay principal and interest on the notes when payments become due, (ii) judgments against the Company in excess of $1,000,000, (iii) event of bankruptcy, and (iv) material breach of representations, covenants or other terms. Upon an event of default, the notes will become immediately due and payable.

The Company filed a registration statement covering the resale of the issued shares on May 9, 2003, which was declared effective by the SEC on July 30, 2003.

The Company has the right at any time to redeem up to all of the outstanding notes at par plus accrued and unpaid interest.

The $3,500,000 of proceeds was allocated to subordinated notes, common stock, and additional paid in capital based on the market value of the Company s common stock on March 26, 2003. In accordance with the provisions of APB Opinion No. 21, the Company recorded a debt discount of $2,024,000. Debt issuance costs, which amounted to $194,000, were recorded as other assets in the Company s consolidated balance sheets in accordance

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with APB Opinion No. 21. The amortization of the discount on the subordinated notes and debt issue costs totaling $211,000 were accounted for using the interest method, in accordance with the provisions of APB Opinion No. 21.

4. Related Party Transactions

During the three and nine months ended September 30, 2003, the Company recorded revenues totaling $693,000 and $5,146,000, respectively, related to agreements with America Online, Inc. (AOL). As of September 30, 2003, the Company has $286,000 in accounts receivable and $687,000 in deferred revenues relating to transactions entered into with AOL and Computer Associates, Inc. (Computer Associates), both of whom have representatives on the Company s Board of Directors. During the three and nine months ended September 30, 2002, the Company recorded revenues totaling $3,088,000 and $8,686,000, respectively, related to agreements, including reseller arrangements, with AOL and Computer Associates. At December 31, 2002 the Company had $838,000 in accounts receivable and $500,000 in deferred revenues relating to transactions entered into with AOL and Computer Associates.

5. Restructuring and Impairment Charges

In fiscal 2003, the Company implemented two restructuring plans. The first plan, implemented in February 2003, reduced operating expenses by closing the Company s Utah office and related to the termination of 28 employees in that office who were primarily engaged in sales and marketing activities. In accordance with SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities, the Company recorded restructuring charges of $1,211,000. The restructuring charges represent the fair value of remaining lease commitments reduced by estimated sublease rentals, employee severance and termination benefits, the write-off of the net book value of certain fixed assets used in the Utah office, and other miscellaneous charges. In September 2003, the Company re-evaluated market conditions surrounding its efforts to sub-lease the Utah office space and adjusted the restructuring charge by $211,000 related to the reduction of estimated sublease rentals as of September 30, 2003. The Company believes that it may be necessary to adjust our estimate of sublease income in the future as our ability to sublease the property in Utah is contingent upon real estate and other market conditions in Utah.

The restructuring reserve activity for the first plan for the three and nine months ended September 30, 2003 was as follows (in thousands):

	Lease Costs	Employee Severance and Termination Benefits	Asset Write-offs	Miscellaneous Charges	Restructuring Accrual
Restructuring and impairment charges	$ 459	$ 367	$ 361	$ 24	$ 1,211
Cash paid	(36)	(350)		(24)	(410)
Non-cash charges			(361)		(361)
Balance at March 31, 2003	423	17			440
Cash paid	(53)	(17)			(70)
Balance as of June 30, 2003	370				370
Restructuring charge	211				211
Cash paid	(56)				(56)
Balance as of September 30, 2003	$ 525	$	$	$	$ 525

The second plan was implemented in September 2003, and was designed to streamline the business. Under the plan the Company eliminated 24 sales and marketing, research and development, and general and administrative positions. The Company incurred a restructuring charge of $463,000 related to one-time severance arrangements. The charge is recorded on our income statement as a restructuring and impairment charge. The second restructuring plan was completed by September 30, 2003.

The restructuring activity for the second restructuring plan is as follows (in thousands):

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	Employee Severance and Termination Benefits	Restructuring Accrual
Restructuring charges	$ 463	$ 463
Cash paid	(256)	(256)
Balance as of September 30, 2003	$ 207	$ 207

6. Comprehensive Loss

Total comprehensive loss for the three and nine months ended September 30, 2003 and 2002 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss	$(5,518)	$(4,000)	$(18,308)	$(18,576)
Foreign currency translation adjustment	(6)	7	(14)	(1)
Unrealized gain (loss) on marketable securities		107		60
Comprehensive loss	$(5,524)	$(3,886)	$(18,322)	$(18,517)

7. Commitments and Contingencies

On May 5, 2003, the Company entered into termination protection agreements with certain executives of the Company. The agreements provide benefits following a change in control by the Company, and the termination of the executive s employment within 12 to 24 months following the change in control that occurs on or prior to December 31, 2006. The benefits include severance payments ranging from 2 to 2.99 times the executive s annual compensation and full vesting of all outstanding stock options granted to these executives.

These benefits replace the existing termination benefits in change of control agreements which provided for one times the executives annual compensation and full vesting of stock options that the executives were entitled to in the event of a change in control prior to the execution of the termination protection agreements.

On November 6, 2003, a former officer of the Company filed a claim against the Company in New York State Supreme Court alleging that the Company breached an employment agreement between the officer and Viewpoint. The suit claims $1,050,000 in damages. The Company believes it did not breach the employment agreement and that it has strong defenses against the officer s claims. In responding to the claims, the Company intends to assert its claims against the former officer in the amount of $425,000, plus attorney s fees.

8. Subsequent Events

In October 2003, the Company entered into an amended license agreement with AOL which provides for payments by AOL of $10,000,000, all due in the fourth quarter of 2003. The agreement contains multiple elements consisting of a perpetual broadcast license, a perpetual source code license, quarterly updates to the source code through December 2005, and maintenance and consulting services. The Company will recognize revenue from this agreement ratably, through December 31, 2005, which represents the duration of the Company s obligation for post-contract customer support including quarterly upgrades and maintenance requirements.

In November 2003, the Company sold 3,125,000 shares of common stock, in a private placement to Federal Partners, L.P., an affiliate of The Clarke Estates, Inc for $2,500,000 or $0.80 per share. Under the terms of the investment, the Company is obliged to file a registration statement covering the resale of the shares within 45 days of the closing date, which occurred on November 12, 2003.

In November 2003, the Company approved a grant of 2,375,000 non-statutory stock options to acquire Company common stock to certain employees of the Company at an exercise price equal to the fair market value of the Company s common stock on the date of grant, under the provisions of the Company s stock option plans. The options will vest over a period of up to two years. Additionally, the Company plans to reduce the vesting period of

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1,125,000 previously issued stock options by approximately 2 years. These options carry a weighted average grant price of $0.76. If the fair market value the day of the reduction exceeds the price on the original date of grant, the Company would incur an expense if the applicable employee terminates employment prior to the conclusion of the original vesting period.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from the results implied by the forward looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Factors That May Affect Future Results of Operations. You should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including any future reports to be filed in 2003 and our Annual Report on Form 10-K/A for 2002. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, targets, estimates, and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward looking statements or reflect events or circumstances after the date of this document.

Overview

Viewpoint Corporation (Viewpoint or the Company) provides interactive media technologies and digital content creation services for website marketing, online advertising, and embedded applications. Our graphics operating system has been licensed by Fortune 500 companies and others for use in online, offline and embedded applications serving a wide variety of needs, including: interactive marketing campaigns, rich media advertising and product presentations, and business process visualizations.

Until December 1999, the Company (which was then known as MetaCreations) was primarily engaged in the development, marketing, and sales of prepackaged software graphics products. Its principal products were computer graphics painting tools, photo editing software, and 3D graphics software. With its acquisition of Real Time Geometry Corporation in December 1996, the Company became involved, on a limited basis, in the development of technologies designed to make practical the efficient display and deployment of interactive media on the Internet. In June 1999, the Company increased its commitment to the development of interactive Internet technologies and formed Viewpoint (formerly Metastream Corporation) to increase the pace of development of an Internet-based product and a business model to exploit these technologies.

In December 1999, the Board of Directors of the Company approved a plan to focus exclusively on the Internet technologies of Viewpoint and to correspondingly divest the Company of all its prepackaged software business. Since then, our primary goal has been to establish the Viewpoint Media Player as the standard platform for the display of interactive media content, particularly on the Internet.

The Company s primary initiatives include:

- Licensing technology for website marketing and e-commerce visualization solutions;
- Licensing technology for Internet advertising purposes;
- Providing a full range of fee-based digital content creation and software engineering services for implementing visualization solutions for marketing;
- Forging technological alliances with leading interactive agencies, Web content providers, major portals, ISPs, tool companies and computer OEMs; and
- Maximizing market penetration of the Viewpoint Media Player.

Viewpoint believes that its success will depend largely on its ability to improve and enhance its interactive media technologies and the distribution of those technologies. Accordingly, Viewpoint has invested and intends to continue to invest in research and development and sales and marketing. Revenues from continuing operations primarily have been from the sale of technology licenses and fee-based professional services, including digital content creation services and engineering services to enhance and create new enterprise software applications.

Viewpoint has a limited operating history upon which an evaluation of the Company and its prospects can be based. Viewpoint has had significant quarterly and annual operating losses since its inception, and as of September 30, 2003, had an accumulated deficit of $242,385,000. Viewpoint s prospects must be considered in light of the risks and difficulties frequently encountered by early stage technology companies. There can be no assurance that Viewpoint will achieve or sustain profitability.

RESULTS OF OPERATIONS

The following table sets forth for the three and nine months ended September 30, 2003 and 2002, the Company s consolidated statements of operations expressed as a percentage of total revenues for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Statements of Operations Data				
Revenues:				
Licenses	13%	31%	20%	27%
Related party licenses		38	9	45
Services	60	11	34	17
Related party services	27	20	37	11
Total revenues	100	100	100	100
Cost of revenues:				
Licenses	1		1	2
Services	56	21	45	19
Total cost of revenues	57	21	46	21
Gross profit	43	79	54	79
Operating expenses:				
Sales and marketing (including non-cash stock-based compensation charges)	65	77	69	73
Research and development (including non-cash stock-based compensation charges)	48	27	37	30
General and administrative (including non-cash stock-based compensation charges)	124	42	73	44
Depreciation	15	9	12	9
Amortization of intangible assets				4
Restructuring and impairment charges related to office closure	27		17	
Impairment of goodwill and other intangible assets				41
Total operating expenses	279	155	208	201
Loss from operations	(236)	(76)	(154)	(122)
Other income (expense):				
Interest and other income, net		1		1

Interest expense	(10)		(7)	
Changes in fair values of warrants to purchase common stock and conversion options of convertible notes	26		9	
Loss on early extinguishment of debt			(15)	
Total other income (expenses)	16	1	(13)	1
Loss before provision for income taxes	(220)	(75)	(167)	(121)
Provision for income taxes	1			
Net loss from continuing operations	(221)	(75)	(167)	(121)
Adjustment to net loss on disposal of discontinued operations	2		1	1
Net loss	(219)%	(75)%	(166)%	(120)%

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Critical Accounting Policies And Estimates

Viewpoint s discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its critical accounting policies and estimates, including those related to revenue recognition and goodwill and other intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances though actual results may differ from these estimates under different assumptions or conditions. For a complete description of the Company s accounting policies, see Note 2 to the consolidated financial statements included in our 2002 Annual Report on Form 10-K/A.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended, and Staff Accounting Bulletin (SAB) No. 101 Revenue Recognition in Financial Statements. Per SOP 97-2 and SAB No. 101, the Company recognizes revenue when the following criteria are met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred or services have been rendered, (c) the Company s fee is fixed or determinable, and (d) collectibility is reasonably assured.

Viewpoint generates revenues through two sources: (a) software licenses and (b) services. License revenues are generated from licensing the rights to use our products directly to customers and indirectly through Value Added Resellers (VARs). Service revenues are generated from fee-based professional services, customer support services (maintenance arrangements), and training services performed for customers that license our products.

License revenues from direct customers include sales of perpetual and term based licenses for broadcasting digital content in the Viewpoint format. License revenues are recognized up-front provided no further significant obligations exist and the resulting receivable is deemed collectible by management. Arrangements with VARs require (i) an up-front, non-refundable payment, (ii) a percentage royalty based on sell through, or (iii) both as consideration for the right to resell our technology. Up-front, non-refundable payments are recognized as license revenues when the VAR s right to resell our technology begins and the technology has been delivered to the VAR, which is upon contract signing, provided all other revenue recognition criteria are met and no further significant obligations exist. For arrangements that do not call for an up-front, non-refundable payment, revenues are recognized as the royalties are earned, which is upon notification of sell through by the VAR, provided all other revenue recognition criteria are met and no further significant obligations exist.

Fee-based professional services for customized software development are performed on a fixed-fee or time-and-materials basis under separate service arrangements. Revenues for fixed-fee arrangements are recognized over the pattern of performance in accordance with the provisions of SAB No. 101. The pattern of performance for service arrangements is measured principally by the percentage of costs incurred and accrued to date for each contract, which principally consist of direct labor costs, cost of outsourcing, and overhead, to the estimated total cost for each contract at completion. Revenues from customer support services are recognized ratably over the term of the contract. Revenues from training services are recognized as services are performed.

Fees from licenses sold together with fee-based professional services are generally recognized upon delivery of the software, provided that the payment of the license fees are not dependent upon the performance of the services, and the services are not essential to the functionality of the licensed software. If the services are essential to the functionality of the software, or payment of the license fees are dependent upon the performance of the services,

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both the software license and service fees are recognized in accordance with SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. The percentage of competition method is used for those arrangements in which reasonably dependable estimates are available.

For arrangements involving multiple elements, the Company defers revenue for the undelivered elements based on their relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For maintenance and technical support elements, we use renewal rates to determine the price when sold separately. The Company accounts for multiple element arrangements which involve only fee-based professional services in accordance with EITF 00-21.

Standard terms for license arrangements require payment within 90 days of the contract date, which typically coincides with delivery. Standard terms for service arrangements, which are typically billed and collected on an installment basis, require final payment within 90 days of completion of the services. Probability of collection is based upon the assessment of the customer s financial condition through the review of their current financial statements and/or credit reports. For follow-on sales to existing customers, prior payment history is also used to evaluate probability of collection. Our arrangements with customers do not contain product return rights. If the fee is not fixed or determinable, revenue is recognized as payments become due or as cash is received from the customer. If a nonstandard acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

The Company periodically enters into nonmonetary arrangements whereby the Company s licenses or services are exchanged for services of its customers. Nonmonetary revenues are recognized at the estimated fair value of the services received. Generally, nonmonetary revenues equal nonmonetary expenses, however, due to timing, nonmonetary accounts receivable and accounts payable may result.

The Company loaned $1,500,000 to a former officer of the Company during 2000. The loan became due and was in default. The Company had commercial litigation to pursue recovery, however, notification of a court judgement in favor of the former officer was received in September 2003. As a result of this unfavorable outcome, a loss of $750,000 was charged to operations to write off the remaining balance of the note.

Goodwill and Intangible Assets

Effective January 1, 2002, the Company completed the adoption of SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. As required by SFAS No. 142, the Company discontinued amortizing the remaining balances of goodwill as of January 1, 2002. All remaining and future acquired goodwill will be subject to impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. When evaluating goodwill for potential impairment, the Company first compares the fair value of the reporting unit, based on market values of the reporting unit or on the present value of estimated future cash flows, with its carrying amount. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. All other intangible assets will continue to be amortized over their estimated useful lives and assessed for impairment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Derivatives

The Company accounts for the fair values of the warrants to purchase common stock and conversion options of its convertible notes in accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially

Settled in, a Company s Own Stock, which requires the Company to bifurcate and separately account for its embedded derivatives contained in the Company s convertible notes. The Company is required to carry these embedded derivatives on its balance sheet at fair value and the unrealized changes in the value of these embedded derivatives are reflected in net income as changes in fair values of warrants to purchase common stock and conversion options of convertible notes.

Revenues

	September 30, 2003	September 30, 2002	% Change
	(dollars in thousands)		
Three months ended:			
Licenses	$ 317	$ 1,633	(81)%
Related party licenses		2,024	(100)%
Services	1,508	605	149%
Related party services	693	1,064	(35)%
Total revenues	$ 2,518	$ 5,326	(53)%
Nine months ended:			
Licenses	$ 2,166	$ 4,129	(48)%
Related party licenses	1,060	6,929	(85)%
Services	3,705	2,673	39%
Related party services	4,086	1,757	133%
Total	$11,017	$15,488	(29)%

During 2003, the Company began to migrate its sales efforts toward larger customers. The customers the Company is currently targeting are contracting limited use of our software to understand its capabilities before they will commit to larger and longer license purchases. These limited use projects are generally for services as we develop content for the customers to use with our software. As we have begun migrating our sales efforts towards these larger customers with a longer license sales cycle, we are generally experiencing what we believe to be a short-term decline in the mix of license revenues relative to total revenues. We believe that this mix will change in the future as the customers who are currently using our software in these limited use projects purchase larger and longer use licenses, which will help increase the mix of license revenues relative to total revenues. Additionally we believe we may need to reduce our license pricing at the entry level of the market to successfully broaden our potential customer base. If we are not able to increase the number of sales we make at the entry level, or sell larger and longer licenses to our larger customers we may not be able to reverse our decline in License revenues.

License revenues decreased $1,316,000 or 81%, for the three months ended September 30, 2003, compared to the same period last year. This decrease is the result of a change in the mix of our business during the period from primarily license based to service based and an overall decline in the licensing of our technology to VARs. During the three months ended September 30, 2003, the Company only sold a few small project licenses and one international VAR sale. As a result, during the three months ended September 30, 2003, the number of pure license arrangements entered into as well as the average size of license arrangements decreased substantially when compared to the same period last year. During the three months ended September 30, 2002 the company entered into several VAR arrangements, as well as a substantial enterprise sale that is not yet up for renewal.

License revenues decreased $1,963,000, or 48% for the nine months ended September 30, 2003 compared to the same period last year. The decrease is primarily the result of a decrease in VAR arrangements in 2003 compared to 2002 which accounted for $1,360,000 of the decrease. The remainder of the decrease is due to our success at selling a larger enterprise license in 2002 that we have not successfully duplicated in 2003 due to a reduction in the salesforce and our customer s inclination to purchase smaller project licenses in 2003 instead of larger and longer enterprise licenses. We do not anticipate entering into significant VAR arrangements in the immediate future.

Related party license revenues decreased approximately $2,024,000, or 100%, and $5,869,000, or 85%, for the three and nine months ended September 30, 2003, respectively, compared to the same periods last year. The decrease in related party license revenues stems from the Company s main contract with America Online, Inc. (AOL), which was executed and amended in 2002 under which the Company had recognized license revenues

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when payments were due. This contract with AOL resulted in $5,825,000 of license revenue during the nine months ended September 30, 2002 as compared to $1,000,000 in the nine months ended September 30, 2003.

Service revenues increased approximately $903,000, or 149%, for the three months ended September 30, 2003 compared to the same period last year. The increase in service revenue compared to 2002 is largely attributable to project work performed for several larger clients, and the receipt of cash from certain clients who were considered credit risks in prior periods for which revenue was not previously recognized.

Service revenues increased approximately $1,032,000, or 39%, for the nine months ended September 30, 2003, compared to the same period last year. The increase is primarily attributable to our efforts to target larger customers for smaller limited use license contracts and content development services that will be followed by our efforts to sell larger licenses to these customers. While we have had a slight decrease in the total number of customers we bill for services, revenue from our average customer is 43% greater for the nine month period in 2003 compared to 2002.

Related party service revenues decreased approximately $371,000, or 35%, but increased $2,329,000 or 133%, for the three and nine months ended September 30, 2003, respectively, compared to the same periods last year. These changes were generally due to AOL s expanded use of the Company s engineering and creative services resources during 2003 to make fuller use of the license rights AOL has for Viewpoint technology. The reduction of services revenues in the three month period ended September 30, 2003 was affected by the timing of completion for certain AOL projects.

Cost of revenues

	September 30, 2003	September 30, 2002	% Change
	(dollars in thousands)		
Three months ended:			
Licenses	$ 21	$ 6	250%
Percentage of license revenues	7%	%	
Nine months ended:			
Licenses	$ 96	$ 251	(62)%
Percentage of license revenues	3%	2%	
Three months ended:			
Services	$1,419	$ 1,125	26%
Percentage of service revenues	65%	67%	
Nine months ended:			
Services	$4,967	$ 2,947	69%
Percentage of services revenues	64%	67%	

Cost of revenues consists primarily of salaries, consulting fees and overhead for those who provide fee-based content creation and engineering professional services. The increase in cost of revenues is directly attributable to an increase in service revenues. Services expenses as a percentage of services revenue decreased slightly for the three and nine month periods ended September 30, 2003 as the company relied more heavily in 2003 on outside labor to complete its projects and received more favorable pricing in its agreements with customers. The reduction in cost of revenues attributable to licenses was due to the reduction in sales made to VAR s during 2003.

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Sales and marketing (including non-cash stock-based compensation charges totaling $88 and $552 for the three months ended September 30, 2003 and 2002, respectively and $467 and $1,992 for the nine months ended September 30, 2003 and 2002, respectively)

	September 30, 2003	September 30, 2002	% Change
	(dollars in thousands)		
Three months ended:			
Sales and marketing	$1,637	$ 4,068	(60)%
Percentage of total revenues	65%	77%	
Nine months ended:			
Sales and marketing	$7,625	$11,234	(32)%
Percentage of total revenues	69%	73%	

Sales and marketing expenses include salaries and benefits, sales commissions, non-cash stock-based compensation charges, consulting fees, and travel and entertainment expenses for our sales and marketing personnel. Sales and marketing expenses also include the cost of programs aimed at increasing revenue, such as advertising, trade shows, and public relations.

Sales and marketing expenses decreased by $2,431,000, or 60%, for the three months ended September 30, 2003 compared to the same period last year primarily due to a decrease in salaries, commissions and benefits of $1,259,000 and non-cash stock-based compensation charges of $463,000. Salaries and benefits decreased due to the office closure in Utah and other reductions in 2003. Non-cash stock-based compensation charges decreased due to headcount reductions in marketing and creative service personnel who had received option grants in the past where the exercise price was lower than the market value of the Company s common stock on the date of grant. The Company expects non-cash stock-based compensation expense charges to continue to decrease in subsequent periods. However, since the remaining unamortized deferred compensation as of September 30, 2003 amounted to $586,000 and significant compensation cost is not expected to be recorded on future grants of stock options, the Company does not expect those decreases to be as significant as in previous quarters. Currently, the Company issues stock options to new personnel with an exercise price equal to the market value of the common stock on the date of grant. Other decreases in Sales and marketing included $251,000 in lower marketing expenditures due to the Company narrowing its focus on marketing efforts to certain industries in 2003.

Sales and marketing expenses decreased by $3,609,000, or 32%, for the nine months ended September 30, 2003 compared to the same period last year due, primarily due to decreases in non-cash stock-based compensation charges of $1,525,000 and salaries, commissions and benefits of $1,891,000. This was partially offset by an increase in consulting fees of $381,000. Non-cash stock-based compensation charges decreased due to headcount reductions in marketing and creative service personnel who had received option grants in the past where the exercise price was lower than the market value of the Company s common stock on the date of grant. Salaries and benefits decreased due to the office closure in Utah and other headcount reductions in the first and third quarters of 2003. Consulting expenses increased due to training related costs associated with the Company s plan to outsource certain content creation services to international partners, which the Company expects will increase its fee-based professional service margins over time.

Research and development (including non-cash stock-based compensation charges totaling $138 and $366 for the three months ended September 30, 2003 and 2002, respectively and $803 and $1,071 for the nine months ended September 30, 2003 and 2002, respectively)

	September 30, 2003	September 30, 2002	% Change
	(dollars in thousands)		
Three months ended:			
Research and development	$1,201	$1,439	(17)%
Percentage of total revenues	48%	27%	
Nine months ended:			
Research and development	$4,125	$4,619	(11)%
Percentage of total revenues	37%	30%	

Research and development expenses consist primarily of salaries and benefits for software developers, contracted development efforts, and non-cash stock-based compensation charges related to the Company s product development efforts. The Company expenses as incurred research and development costs necessary to establish the technological feasibility of its internally developed software products and technologies. To date, the establishment of technological feasibility of the Company s products and general release has substantially coincided. As a result, the Company has not capitalized any software development costs since costs qualifying for such capitalization have not been significant. Additionally, the Company capitalizes costs of software, consulting services, hardware and payroll-related costs incurred to purchase or develop internal-use software, when technological feasibility has been established, it is probable that the project will be completed and the software will be used as intended. The Company expenses costs incurred during preliminary project assessment, research and development, re-engineering, training and application maintenance.

The Company s research and development efforts are primarily directed at improving the overall quality of the Viewpoint Media Player and its proprietary software tools for creating digital content. In 2002, the Company: developed a color swapping feature of its graphics operating system that permits end users to change the colors of textures on static two-dimensional images; developed audio features for its graphics operating system; improved the quality of its ability to play back vector graphics animation files; and built an infrastructure for the delivery of online advertising products. Since December 2002, the Company has been developing significant enhancements to the video playback functionality of Viewpoint Media Player (which the company made available in June 2003), an authoring tool for clients publishing advertising content, Computer Aided Design (CAD) workflow solutions and technology for converting CAD data into Viewpoint content, expanded capability of the Video Media Player onto new platforms, developed new configuration capabilities for user interfaces, and enhancements to the Viewpoint Media Player that allow print quality images to be generated from interactive online content.

Research and development expenses decreased by $238,000, or 17%, and $494,000, or 11%, for the three and nine months ended September 30, 2003, respectively, compared to the same periods last year. The decrease is primarily attributable to a decrease in non-cash stock-based compensation for three and nine months ended September 30, 2003, of $228,000 and $268,000, respectively. The Company expects non-cash stock-based compensation expense charges to continue to decrease in subsequent periods. However, since the remaining unamortized deferred compensation as of September 30, 2003 amounted to $586,000 and significant compensation cost is not expected to be recorded on future grants of stock options, the Company does not expect those decreases to be as significant as in previous quarters. Salaries and benefits also decreased for three and nine months ended September 30, 2003 by $33,000 and $188,000, respectively, primarily due to specific engineering salaries and benefits which were charged to cost of revenues as compared to research and development, as a result of revenue generating customer-specific development work.

General and administrative (including non-cash stock-based compensation charges totaling $294 and $282 for the three months ended September 30, 2003 and 2002, respectively and $1,118 and $1,110 for the nine months ended September 30, 2003 and 2002, respectively)

	September 30, 2003		**September 30, 2002**	**% Change**
		(dollars in thousands)		
Three months ended:				
General and administrative	$3,133		$2,247	39%
Percentage of total revenues	124%		42%	
Nine months ended:				
General and administrative	$8,058	In addition, the Company entered into a rental agreement in June 2018 to rent out approximately 21,000 square feet of the factory building to another third party from June 2018 to June 2024. We receive a monthly rental income of approximately RMB 29,000, or approximately $4,000, under that rental agreement. The Company entered into a rental agreement in December 2016 to rent out 957 square feet of an apartment unit in Shenzhen to a third party from December 2016 to November 2018. We receive a monthly rental income of approximately RMB 2,800, or approximately $400, under that rental agreement, and we expect to renew this rental agreement with the same rent. 30		

Item 4A. Unresolved Staff Comments

Not Applicable to Bonso.

Item 5. Operating and Financial Review and Prospects

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

Overview

During the fiscal year ended March 31, 2018, the Company experienced decreased revenues from our scales and pet electronic products segments and increased revenues from our rental and management segment. Our overall sales or turnover decreased due to the loss of one of our major manufacturing customers as of June 2017.

We derive our revenues principally from the sale of sensor-based scales manufactured in China, which represent 68% of total revenue for the fiscal year ended March 31, 2018. As mentioned in Item 3. – “Key Information – Risk Factors,” we are dependent upon a limited number of major customers for a significant portion of our revenues. Our revenues and business operation are subject to fluctuation if there is a loss of orders from any of our largest customers. Further, the pricing of our scale products is becoming increasingly competitive, especially to our customers in the United States and Germany, who contributed approximately 73% of our revenue during the fiscal year ended March 31, 2018.

During the fiscal year ended March 31, 2018, we derived approximately $1,800,000 of rental and management income from leasing our facilities to third parties.

Net revenue, income from operations and net income were approximately $25,370,000, $3,302,000 and $2,871,000, respectively, for the fiscal year ended March 31, 2016, $18,952,000, $3,166,000 and $2,795,000, respectively, for the fiscal year ended March 31, 2017 and $11,523,000, $238,000 and $4,000, respectively, for the fiscal year ended March 31, 2018.

Labor costs per worker are increasing in China. In Xinxing, Guangdong, PRC, the minimum wage was RMB 1,010 (or approximately $164) per month beginning in May 1, 2013, RMB 1,210 (or approximately $181) per month beginning in May 1, 2015, and since July 1, 2018 it has been RMB 1,410 (or approximately $213). 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 13.2% of our total production costs in the fiscal year ended March 31, 2018, compared to 10.6% in the fiscal year ended March 31, 2017 and 12.1% in the fiscal year ended March 31, 2016. Total labor costs decreased from approximately $1,196,000 in the fiscal year ended March 31, 2017 to approximately $919,000 in the fiscal year ended March 31, 2018. The decrease in overall labor costs was the result of a lower production level required due to reduced revenue. There can be no assurance that labor costs will not increase in the future or that any additional 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. Prices of raw materials increased during the fiscal year ended March 31, 2011, but did not vary significantly during the fiscal years ended March 31, 2012, 2013 and 2014. The price of some of the raw materials utilized by the Company fluctuates directly with the price of oil, and the price of raw materials decreased slightly in the fiscal year ended March 31, 2015, compared to that in the fiscal year ended March 31, 2014, decreased in the fiscal year ended March 31, 2016 compared to 2015, increased in the fiscal year ended March 31, 2017 compared to 2016 and increased in the fiscal year ended March 31, 2018 compared to 2017. There can be no assurance that raw material costs will not fluctuate or that any additional increase in raw material costs will not have a material adverse effect upon our results of operations.

In 2014 we analyzed our product mix and concluded that it would be advisable to eliminate 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. With the decrease in the production and sale of lower margin products, the Company has increased its gross profit from 21.9% for the fiscal year ended March 31, 2015, to 39.6% for the fiscal year ended March 31, 2018.

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,					
	2016 [1]		2017 [1]		2018	
	$'000	%	$'000	%	$'000	%
Net revenue - scales	22,378	88.2	15,814	83.4	7,862	68.2
Net revenue - pet electronic products	1,514	6.0	1,662	8.8	1,861	16.2
Net revenue - rental and management	1,478	5.8	1,476	7.8	1,800	15.6
Net revenue - subtotal	25,370	100.0	18,952	100.0	11,523	100.0
Cost of revenue - scales	(15,270)	(60.1)	(9,428)	(49.7)	(4,809)	(41.7)
Cost of revenue - pet electronic products	(1,032)	(4.1)	(991)	(5.3)	(1,139)	(9.9)
Cost of revenue - rental and management	(779)	(3.1)	(855)	(4.5)	(1,010)	(8.8)
Cost of revenue - subtotal	(17,081)	(67.3)	(11,274)	(59.5)	(6,958)	(60.4)
Gross profit - scales	7,108	28.1	6,386	33.7	3,053	26.5
Gross profit - pet electronic products	482	1.9	671	3.5	722	6.3
Gross profit - rental and management	699	2.7	621	3.3	790	6.8
Gross profit - subtotal	8,289	32.7	7,678	40.5	4,565	39.6
Selling, general and administrative expenses	(6,948)	(27.4)	(5,066)	(26.7)	(4,669)	(40.5)
Other income, net	1,961	7.7	554	2.9	342	3.0
Income from operations	3,302	13.0	3,166	16.7	238	2.1
Non-operating (expenses) / income, net	(121)	(0.5)	229	1.2	(234)	(2.1)
Income before income taxes	3,181	12.5	3,395	17.9	4	0.0
Income tax expense	(310)	(1.2)	(600)	(3.2)	0	0.0
Net income	2,871	11.3	2,795	14.7	4	0.0

[1] Certain amounts in the statement of operations for the fiscal years ended March 31, 2016 and 2017 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2018.

Net Revenue. Our revenue decreased approximately $7,429,000, or 39.2%, from approximately $18,952,000 for the fiscal year ended March 31, 2017 to approximately $11,523,000 for the fiscal year ended March 31, 2018. The decrease was mainly related to a decrease in sales revenue of approximately $7,952,000 in our scales segment, offsetting increases of approximately $199,000 from the pet electronic products segment and approximately $324,000 from the rental and management segment.

The decrease in sales revenue from scales segment was primarily due to the loss of a major customer who stopped purchasing from the Company as of June 2017.

The revenue increase in the pet electronic products segment was due to increased demand for our products from customers selling into the U.S. and the PRC.

The revenue increase in the rental and management segment was due to an increase in factory floor area being leased out.

Gross Profit. Gross profit as a percentage of revenue decreased to approximately 39.6% during the fiscal year ended March 31, 2018, as compared to approximately 40.5% during the fiscal year ended March 31, 2017. The lower gross margin was primarily the result of an increase in labor costs and manufacturing costs as a percentage of revenue during the fiscal year ended March 31, 2018, as compared to that during the fiscal year ended March 31, 2017.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately $397,000, or 7.8%, from approximately $5,066,000 for the fiscal year ended March 31, 2017 to approximately $4,669,000 for the fiscal year ended March 31, 2018. The decrease was primarily the result of a decrease in selling expenses of approximately $43,000 due to fewer shipments made during the fiscal year ended March 31, 2018, a reduction of repair and maintenance expenses of approximately $66,000, a reduction in charitable donations of approximately $61,000 and a reduction of motor vehicle expenses of $41,000 during the fiscal year ended March 31, 2018, as compared to those during the fiscal year ended March 31, 2017. In addition, there was a loss from forward contracts of approximately $70,000 during the fiscal year ended March 31, 2017, whereas there was no such loss during the fiscal year ended March 31, 2018.

Other Income, Net. Other income, net decreased approximately $212,000 or 38.3% from approximately $554,000 for the fiscal year ended March 31, 2017 to approximately $342,000 for the fiscal year ended March 31, 2018. The decrease was primarily the result of a gain on disposal of intangible assets of approximately $79,000 and a gain from deregistration of subsidiaries of approximately $22,000 during the fiscal year ended March 31, 2017, whereas there were no such gains during the fiscal year ended March 31, 2018.

Income from Operations. As a result of the factors described above, income from operations decreased by 92.5% from a profit of approximately $3,166,000 for the fiscal year ended March 31, 2017 to a profit of approximately $238,000 for the fiscal year ended March 31, 2018.

Non-operating (Expenses) / Income, Net. Non-operating (expenses) / income, net decreased approximately $463,000 or 202.2% from a gain of approximately $229,000 for the fiscal year ended March 31, 2017 to a loss of approximately $234,000 for the fiscal year ended March 31, 2018. The decrease was primarily the result of an increase in foreign exchange loss of approximately $611,000 from a gain of approximately $258,000 during the fiscal year ended March 31, 2017 to a loss of approximately $353,000 during the fiscal year ended March 31, 2018, as a result of the appreciation of the Chinese Renminbi against the United States Dollar during the fiscal year ended March 31, 2018, which offset an increase in interest income of approximately $183,000 resulting from more deposits placed for earning interest income during the fiscal year ended March 31, 2018.

Income Tax Expense. Income tax expense was $nil during the fiscal year ended March 31, 2018, as compared to an income tax expense of $600,000 during the fiscal year ended March 31, 2017. The decrease in income tax expense was the result of reduced income from operations recorded during the fiscal year ended March 31, 2018 and the utilization of tax losses from prior years to offset taxable income.

Net Income. As a result of the factors described above, consolidated net income decreased from approximately $2,795,000 for the fiscal year ended March 31, 2017 to approximately $4,000 for the fiscal year ended March 31, 2018, a decrease in income of approximately $2,791,000, or 99.9%.

Foreign Currency Translation Adjustments, Net of Tax. Foreign currency translation adjustments, net of tax, increased from a loss of approximately $1,410,000 for the fiscal year ended March 31, 2017 to a gain of approximately $2,062,000 for the fiscal year ended March 31, 2018, an increase of approximately $3,472,000, or 246.2%. The increased foreign currency translation gain, net of tax, was primarily the result of the fluctuation of the Chinese Renminbi against the United States Dollar.

Comprehensive Income. As a result of the factors described above, comprehensive income increased from approximately $1,385,000 for the fiscal year ended March 31, 2017 to approximately $2,066,000 for the fiscal year ended March 31, 2018, an increase of approximately $681,000, or 49.2%.

Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016

Net Revenue. Our revenue decreased approximately $6,418,000, or 25.3%, from approximately $25,370,000 for the fiscal year ended March 31, 2016 to approximately $18,952,000 for the fiscal year ended March 31, 2017. The decrease was mainly related to a decrease in sales revenue of approximately $6,564,000 in our scales segment, and a decrease of approximately $2,000 from our rental and management segment, offsetting an increase of approximately $148,000 from the pet electronic products segment.

The decrease in sales revenue from our scales segment was primarily due to lower demand for our products, especially from one of our major customers. We had sales of approximately $8,472,000 to this customer during the fiscal year ended March 31, 2017, compared to approximately $14,145,000 during the fiscal year ended March 31, 2016.

The revenue increase in the pet electronic products segment was due to increased demand for those products.

The revenue in the rental and management segment during the fiscal year ended March 31, 2017 was approximately $2,000 less than that during the fiscal year ended March 31, 2016. The decrease was a result of the difference in foreign exchange rate between the Chinese Renminbi and the United States Dollar, as the revenue in rental and management denominated in Chinese Renminbi during the fiscal year ended March 31, 2017 exceeded the revenue denominated in Chinese Renminbi during the fiscal year ended March 31, 2016.

Gross Profit. Gross profit as a percentage of revenue increased to approximately 40.5% during the fiscal year ended March 31, 2017, as compared to approximately 32.7% during the fiscal year ended March 31, 2016. The higher gross margin was primarily the result of an increase in the portion of our product mix which consists of higher gross margin products such as laboratory scales and industrial scales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately $1,882,000, or 27.1%, from approximately $6,948,000 for the fiscal year ended March 31, 2016 to approximately $5,066,000 for the fiscal year ended March 31, 2017. The decrease was primarily the result of a decrease in salaries and related costs of approximately $388,000 due to a reduction in the number of employees resulting from lower sales revenue during the fiscal year ended March 31, 2017, and the result of a one-time compensation expense of approximately $801,000 due to stock options granted during the fiscal year ended March 31, 2016, whereas no such compensation expense was recorded during the fiscal year ended March 31, 2017.

Other Income, Net. Other income, net decreased approximately $1,407,000, or 71.7%, from approximately $1,961,000 for the fiscal year ended March 31, 2016 to approximately $554,000 for the fiscal year ended March 31, 2017. The decrease was the result of a gain on disposal of property, plant and equipment of approximately $718,000 during the fiscal year ended March 31, 2016 from the sale of a residential property in Shenzhen to a third party, and a gain on disposal of intangible assets of approximately $519,000 during the fiscal year ended March 31, 2016 from the sale of a land use right on part of the land at our Xinxing facility, whereas there were no such gains during the fiscal year ended March 31, 2017.

Income from Operations. As a result of the factors described above, income from operations decreased by 4.1% from a profit of approximately $3,302,000 for the fiscal year ended March 31, 2016 to a profit of approximately $3,166,000 for the fiscal year ended March 31, 2017.

Non-operating (Expenses) / Income, Net. Non-operating (expenses) / income, net increased approximately $350,000, or 289.3%, from a loss of approximately $121,000 for the fiscal year ended March 31, 2016 to a gain of approximately $229,000 for the fiscal year ended March 31, 2017. The increase was primarily the result of an increase in foreign exchange gain of approximately $281,000 from a loss of approximately $23,000 during the fiscal year ended March 31, 2016 to a gain of approximately $258,000 during the fiscal year ended March 31, 2017, and a decrease in interest expense of approximately $76,000 because of less utilization of banking facilities during the fiscal year ended March 31, 2017.

Income Tax Expense. Income tax expense was approximately $600,000 during the fiscal year ended March 31, 2017, as compared to an income tax expense of $310,000 during the fiscal year ended March 31, 2016. The increase in income tax expense was the result of increased taxable profits in our subsidiaries in China during the fiscal year ended March 31, 2017.

Net Income. As a result of the factors described above, net income decreased from approximately $2,871,000 for the fiscal year ended March 31, 2016 to approximately $2,795,000 for the fiscal year ended March 31, 2017, a decrease in income of approximately $76,000, or 2.6%.

Foreign Currency Translation Adjustments, Net of Tax. Foreign currency translation adjustments, net of tax, increased from a loss of approximately $850,000 for the fiscal year ended March 31, 2016 to a loss of approximately $1,410,000 for the fiscal year ended March 31, 2017, an increase of approximately $560,000, or 65.9%. The increased foreign currency translation loss, net of tax, was primarily the result of depreciation of assets denominated in Chinese Renminbi after translation to United States Dollars.

Comprehensive Income. As a result of the factors described above, comprehensive income decreased from approximately $2,021,000 for the fiscal year ended March 31, 2016 to approximately $1,385,000 for the fiscal year ended March 31, 2017, a decrease of approximately $636,000 or 31.5%.

Impact of Inflation

Although we believe that the impact of inflation on our business was minimal during the fiscal years ended March 31, 2016 and 2017 due to the lower price of oil, we believe that inflation has affected our business during the fiscal year ended March 31, 2018. The minimum wage in Xinxing, PRC was increased from RMB 1,010 per month (or approximately $160) to RMB 1,210 per month (or approximately $181) as of May 1, 2015, and then to RMB 1,410 per month (or approximately $213) as of July 1, 2018. We believe that inflation will continue to increase our operating costs and the cost of raw materials and that it will have a significant impact upon us in the future. We have generally been able to modify and improve our product designs so that we could either increase the prices of our products or lower the production costs in order to keep pace with inflation. Oil prices have been volatile in recent years. If oil prices increase, it will likely result in an increase in the cost of components to us, as well as an increase in our operating expenses, which will have a material adverse effect upon our business and results of operations. Further, the increase in labor costs and operating costs in the PRC has had a material impact on our profitability.

Taxation

The companies comprising the Group are subject to tax on an entity basis on income arising in, or derived from, Hong Kong and the PRC. The current rate of taxation of the subsidiary operating in Hong Kong is 16.5%. The Group is not subject to income taxes in the British Virgin Islands.

The tax rate for our subsidiary 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 70% dividends-received deduction allowed to United States corporations on dividends from a domestic corporation under Section 243 of the United States Internal Revenue Code of 1986, as amended (the

"Internal Revenue Code"). Various Internal Revenue Code provisions impose special taxes in certain circumstances on non-United States corporations and their shareholders. You are urged to consult your tax advisor with regard to such possibilities and your own tax situation.

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

Foreign Currency Exchange Rates

We sell most of our products to international customers. Our principal export markets are North America (mainly the United States), Europe (mainly Germany) and Asia. Other markets are other European countries (such as the United Kingdom), Australia and Africa. Sales to international customers are made directly by us to our customers. We sell all of our products in United States Dollars and 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 a devaluation in United States Dollars. For the reasons discussed in the paragraphs below, management believes that it may be possible that there will be some fluctuation in the coming year. During the fiscal year ended March 31, 2018, we experienced a foreign currency exchange loss of approximately $353,000.

A summary of our debts from our banking facilities utilized as at March 31, 2017 and 2018 which were subject to foreign currency risk is as follows:

	March 31, 2017 $ in thousands	March 31, 2018 $ in thousands
Hong Kong dollars and Chinese Renminbi	277	99

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 from December 31, 2015 through May 20, 2016, the value of the Renminbi further depreciated approximately 1.1% against the United States Dollar. From May 20, 2016 to July 14, 2017, the value of Renminbi further depreciated approximately 3.5% against the United States Dollar, and from July 2017 to July 14, 2018 it has appreciated by approximately 1.2% 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, 2018, the RMB was valued at 6.6926 per United States Dollar as compared to 6.7765 per United States Dollar as of July 14, 2017.

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 expansions and upgrades of our manufacturing facilities.

Operating activities generated approximately $2,786,000 of net cash for the fiscal year ended March 31, 2018, as compared to approximately $3,145,000 of net cash for the fiscal year ended March 31, 2017. This decrease in the amount of cash generated by operating activities was primarily attributable to the decrease in net income for the fiscal year ended March 31, 2018.

As of March 31, 2018, we had approximately $8,751,000 in cash and cash equivalents, as compared to approximately $3,745,000 in cash and cash equivalents as of March 31, 2017. Working capital at March 31, 2018 was approximately $7,016,000, as compared to approximately $2,499,000 at March 31, 2017. The increase in working capital was the result of the receipt of approximately $3,199,000 from Fangda as a deposit pursuant to the agreement regarding redevelopment of the Shenzhen manufacturing facility. 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, 2018, we had approximately $794,000 in net trade receivables, as compared to approximately $1,213,000 as of March 31, 2017. This decrease of approximately $419,000 was primarily attributable to reduced net sales.

As of March 31, 2018, we had approximately $1,012,000 in inventories, as compared to approximately $1,018,000 as of March 31, 2017. This decrease of approximately $6,000 was primarily attributable to the reduction in stock levels required for the manufacturing of our products.

As of March 31, 2018, we had a total of approximately $1,023,000 in notes and accounts payable, as compared to approximately $1,317,000 as of March 31, 2017. The decrease of approximately $294,000 was primarily attributable to lower net sales, less utilization of banking facilities and efforts to provide earlier repayments to suppliers.

As of March 31, 2018, we had in place general banking facilities with one financial institution with amounts available aggregating approximately $5,128,000 (2017: $5,306,000). 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 including forward contracts. As of March 31, 2018, we had utilized approximately $99,000 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, and the People's Bank of China's loan benchmark interest rate. The bank credit facility is collateralized by our bank guarantee and an investment property of the Company. Our bank credit facility is due for renewal annually. We anticipate that the banking facilities will be renewed on substantially the same terms and our utilization in the next year will remain at a similar level as that in the current year. During the fiscal years ended March 31, 2017 and 2018, we paid a total of approximately $37,000 and $10,000, respectively, in interest on indebtedness.

Our current ratio increased from 1.48 as of March 31, 2017 to 2.61 as of March 31, 2018. Our quick ratio increased from 1.28 as of March 31, 2017 to 2.37 as of March 31, 2018.

As of March 31, 2018, we expect to spend approximately $358,000 on additional construction, leasehold improvements, new machinery and tooling in our Xinxing manufacturing facility in the next twelve months.

Although we have experienced a decrease in sales as a result of a major customer ceasing to purchase from us as of June 2017, 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 further 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, 2018:

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	Total $ in thousands	Payments due by Period Within 1 year $ in thousands	2 to 3 years $ in thousands	4 to 5 years $ in thousands	More than 5 years $ in thousands
Notes payable and bank overdrafts and loans	99	99	-	-	-
Operating leases	29	29	-	-	-
Capital leases[1]	63	30	33	-	-
Construction in Xinxing, and mould	358	358	-	-	-
Income tax liabilities	-	-	-	-	-
Total	549	516	33	-	-

[1] Includes interest payment.

For a discussion of interest rates on our notes payable and bank loans, see Item 11. – "Qualitative and Quantitative Disclosures About Market Risk," below.

Critical Accounting Policies

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

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.

Valuation of Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined on a first-in, first-out basis. Net realizable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of completion and disposal. The Company continuously reviews slow-moving and obsolete inventory and assesses any inventory obsolescence based on inventory levels, material composition and expected usage as of that date.

Revenue Recognition

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

The Company provides to certain customers an additional one to two percent of certain products ordered in lieu of a warranty, which are recognized as cost of sales when these products are shipped to customers from our facilities. In addition, certain products sold by the Company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales if they are within the warranty period. All sales are based upon firm orders with fixed terms and conditions, which generally cannot be modified. Historically, we have not experienced material differences between our estimated amounts of quality returns, refunds, rebates and discounts and the actual results.

Rental income is recognized according to the rental agreements. Rental income for non-uniform rent payments is recognized on a straight-line basis throughout the lease term.

Impairment of Long-Lived Assets and 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.

Stock-based Compensation

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.

Trade Receivables

Allowance is made against trade receivables to the extent that collection is considered to be doubtful. This allowance is primarily determined from our monthly aging analysis. It also requires judgment regarding the collectability of certain receivables, as certain receivables may be identified as collectible that are subsequently uncollectible and which could result in a subsequent write-off of the related receivable to the statement of operations. Most of the Company's trade receivables are generally unsecured. To determine the necessity of a provision, the Company analyzes the age of the receivables and the customer's ability to pay based on past payment history, financial statements and various information of the customer. Any change in the collectability of accounts receivable that were not previously provided for could significantly change the calculation of such provision and the results of our operations.

Income and Deferred Income Taxes

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

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

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, 2018, our backlog of manufacturing orders was approximately

$1,641,000 as compared to approximately $2,891,000 as of March 31, 2017. We expect that the demand for our products in the fiscal year ending March 31, 2019 will be similar to that in the fiscal year ended March 31, 2018.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The objective of this Update is to remove inconsistencies and weaknesses in revenue requirements, and to simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new standard supersedes virtually all present U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the prior standards, as well as additional disclosures. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", deferring the effective date for one year to interim and annual periods beginning after December 15, 2017. Early adoption is also permitted as of the original effective date (interim and annual periods beginning after December 15, 2016) and retrospective application is required. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of April 1, 2018. The Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after April 1, 2018. For existing contracts that have remaining obligations as of April 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Our product revenues are generally recognized upon delivery to the customer, which is when the control transfers to the customer. The majority of the Company’s customer contracts, which may be in the form of purchase orders, contracts or purchase agreements, contain performance obligations for delivery of agreed upon products. Delivery of all performance obligations contained within a contract with a customer typically occurs at the same time. The Company has also determined that it will make accounting policy elections to 1) treat shipping and handling activities that occur after the customer obtains control of the goods as fulfillment costs and 2) exclude sales (and similar) taxes from the measurement of the transaction price. We have no open contracts as of March 31, 2018, therefore, there will be no cumulative effect of applying the new standards. We do not expect the adoption of these ASUs to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Subtopic 842)" ("ASU 2016-02"). This Update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which improves financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Forward-looking information will now be used to better inform credit loss estimates. This ASU is effective for interim and annual periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)" ("ASU 2016-15"). This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740)" ("ASU 2016-16"). This Update improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-16 to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)" ("ASU 2016-18"). This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements

In February 2017, the FASB issued ASU 2017-05, "Other Income—Gains and Losses from the De-recognition of Nonfinancial Assets (Subtopic 610-20)" ("ASU 2017-05"). This Update clarifies the Scope of Asset De-recognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the scope of the nonfinancial asset guidance in Subtopic 610-20. This ASU also clarifies that the de-recognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the de-recognition and deconsolidation guidance in Subtopic 810-10. The amendments in this ASU also provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other non-controlled investee. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We do not expect the adoption of ASU 2017-05 to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718) Scope of Modification Accounting" ("ASU 2017-09"). The requirement provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public business entities, this ASU should be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260) (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception" ("ASU 2017-11"). The amendments require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize the effect of the trigger within equity. For public business entities, this ASU should be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact the adoption of ASU 2017-11 will have on the Company’s consolidated financial statements.

In September 2017, the FASB issued ASU 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)" ("ASU 2017-13"): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendments in ASU 2017-13 amend the early adoption date option for certain companies related to the adoption of ASU 2014-09 and ASU 2016-02. The effective date is the same as the effective date and transition requirements for the amendments for ASU 2014-09 and ASU 2016-02.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)" ("ASU 2018-02"). The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. Public business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted. We are currently evaluating the impact of adopting ASU 2018-02 on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements" ("ASU 2018-11"). The ASU provides (1) an optional transition method that entities can use when adopting ASC 842 and (2) a “practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met.” The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

We believe there is no additional new accounting guidance adopted, but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

Item 6. Directors, Senior Management and Employees

Directors and Senior Management

Our Board of Directors and executive officers are listed below:

Name	Age	***Position with Bonso***
Anthony So	74	Chairman of the Board, Chief Executive Officer and Director
Andrew So	32	Deputy Chairman of the Board, President, Chief Operating Officer and Director
Albert So	40	Director, Chief Financial Officer, Treasurer, Financial Controller and Secretary
Kim Wah Chung	60	Director, Director of Engineering and Research and Development
Woo-Ping Fok	69	Director
Henry F. Schlueter	67	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. 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 Operating Officer and oversees the Company's daily operations, and has also held the positions of Deputy Chairman of the Board and President since March 20, 2015. 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 Operating 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, 2018 to all directors, former directors and officers as a group for services in all capacities was approximately $1,294,000. Total compensation for the benefit of Anthony So was approximately $643,000, for the benefit of Kim Wah Chung was approximately $170,000, for the benefit of Andrew So was approximately $259,000, for the benefit of Albert So was approximately $162,000 and for the benefit of Henry F. Schlueter was an aggregate of approximately $60,000. The approximately $60,000 listed as having been paid for the benefit of Mr. Schlueter was paid to his law firm, Schlueter & Associates, P.C., for legal services rendered. The amount for the year ended March 31, 2018, included unpaid vacation payments of approximately $43,000, $10,000, $10,000 and $10,000 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, 2018, other than contributions to our Provident Fund Plan, which aggregated $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 14, 2018.

Name	Number of Common Shares Subject to Stock Options	Exercise Price Per Share	Expiration Date
Anthony So	150,000	$ 1.50	March 31, 2020
	150,000	$ 1.50	March 31, 2025
Andrew So	125,000	$ 1.50	March 31, 2020
	125,000	$ 1.50	March 31, 2025
Albert So	60,000	$ 1.50	March 31, 2020
	60,000	$ 1.50	March 31, 2025
Kim Wah Chung	40,000	$ 1.50	March 31, 2020
	40,000	$ 1.50	March 31, 2025
Woo-Ping Fok	25,000	$ 1.50	March 31, 2020
	25,000	$ 1.50	March 31, 2025
Henry F. Schlueter	25,000	$ 1.50	March 31, 2020
	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

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

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

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

(b) The contributions to each of the above schemes are recognized as employee benefit expense when they are due and are charged to the consolidated statement of income (loss). The Group's total contributions to the above schemes for the years ended March 31, 2016, 2017 and 2018 amounted to approximately $293,000, $267,000 and $255,000, respectively. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

Board Practices

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

NASDAQ Exemptions and Home Country Practices

NASDAQ Marketplace Rule 4350 provides that foreign private issuers may elect to follow certain home country corporate governance practices so long as they provide NASDAQ with a letter from outside counsel in their home country certifying that the issuer 's corporate governance practices are not prohibited by home country law.

On July 19, 2005, we submitted a letter to NASDAQ certifying that certain of Bonso's corporate governance practices are not prohibited by the relevant laws of the British Virgin Islands. We will follow British Virgin Island law in respect to the following requirements:

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

Audit Committee

Mr. Woo-Ping Fok 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 Bonso's United States counsel.

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

Employees

At March 31, 2018, we employed a total of 266 persons, as compared to 286 persons at March 31, 2017, 415 persons at March 31, 2016 and 528 persons at March 31, 2015; 8 employees in Hong Kong (8 in 2017, 2016 and 2015) and 258 employees in China (278 in 2017, 407 in 2016 and 520 in 2015). Employees are not covered by collective bargaining agreements. We consider our global labor practices and employee relations to be good.

Share Ownership

The following table shows the number of shares of common stock beneficially owned by our directors and executive officers as of July 14, 2018:

Name	Shares of Common Stock Owned of Record	Options Held	Total Number of Shares of Common Stock Beneficially Owned	Percent of Beneficial Ownership[1]	
Anthony So	2,281,770 [2]	300,000 [3]	2,581,770	51.5	%
Andrew So	453,000	250,000 [4]	703,000	14.2	%
Albert So	250,000	120,000 [5]	370,000	7.7	%
Kim Wah Chung	93,700	80,000 [6]	173,700	3.6	%
Woo-Ping Fok	66,507	50,000 [7]	116,507	2.5	%
Henry F. Schlueter	0	50,000 [8]	50,000	1.0	%
All Directors and Officers as a group (6 persons)	3,144,977	850,000	3,994,977	71.8	%

(1) The number of shares outstanding is 4,712,300 shares, with 5,543,639 total number of shares issued, of which 831,339 shares are held in treasury. The calculations herein are based on the number of shares outstanding of 4,712,300.

(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, 2020 and 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, 2020 and, 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, 2020 and 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, 2020 and 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, 2020 and 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, 2020 and 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 1996 Stock Option Plan

In October 1996, our stockholders adopted the 1996 Stock Option Plan (the "Employees' Plan"), which provided for the grant of options to purchase an aggregate of not more than 400,000 shares of our common stock. In January 2000, our shareholders approved the proposal of the Board of Directors to increase from 400,000 to 900,000 in the aggregate the number of options to purchase common stock under the Employees' Plan. The purpose of the Employees' Plan is to make options available to management and employees in order to encourage them to secure or increase on reasonable terms their stock ownership and to encourage them to remain with the Company.

The Employees' Plan is administered by a committee appointed by the Board of Directors which determines the persons to be granted options under the Employees' Plan, the number of shares subject to each option, the exercise price of each option and the option period, subject to the requirement that no option may be exercisable more than ten years after the date of grant. The exercise price of an option may be less than the fair market value of the underlying shares of common stock. No options granted under the Employees' Plan are transferable by the optionee other than by will or the laws of descent and distribution, and each option will be exercisable during the lifetime of the optionee only by such optionee.

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

During the fiscal year ended March 31, 2018, no options were granted under the Employees' Plan and as of July 14, 2018, there were no options outstanding which were issued under that plan.

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 March 31, 2018, 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, all of which remained outstanding as of July 14, 2018.

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, 2018, no shares had been granted under the Stock Bonus Plan.

Item 7. Major Shareholders and Related Party Transactions

Major shareholders

We are not directly or indirectly owned or controlled by any foreign government or by another corporation. The following table sets forth, as of July 14, 2018, 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	2,281,770 (2)	300,000	51.5 %
Andrew So	453,000	250,000	14.2 %
Albert So	250,000	120,000	7.7 %
CAS Corporation	290,654 (3)	-	6.2 %

(1) The number of shares outstanding is 4,712,300 shares, with 5,543,639 total number of shares issued, of which 831,339 shares are held in treasury. The calculations above are based upon the number of shares outstanding of 4,712,300.

(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 which may at a subsequent date result in a change in control of the Company.

Related Party Transactions

During the fiscal years ended March 31, 2016, 2017 and 2018, we paid Schlueter & Associates, P.C. an aggregate of approximately $60,000, $62,000 and $60,000, respectively, for legal fees. Mr. Henry F. Schlueter, a director of the Company, is the Managing Director of Schlueter & Associates, P.C.
During the fiscal year ended March 31, 2015, Anthony So, our Chairman and Chief Executive Officer, made an interest-free loan to Bonso Advanced Technology Limited, a subsidiary of Bonso Electronics International Inc., in the principal amount of HK$4,200,000 (approximately US$538,000 as of the date of the loan). The loan is payable in 48 equal monthly installments of HK$87,500 each (approximately US$11,000), which commenced on October 31, 2014. As of March 31, 2018, the Company had repaid approximately $471,000 to Mr. Anthony So, and the balance of the loan due to Mr. Anthony So was approximately $67,000.
During the fiscal year ended March 31, 2015, one of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for three apartment units located in Shenzhen, PRC for office usage. Mr. Anthony So is the sole owner of these three apartment units. The monthly rental payment was approximately $2,000. Starting from August 1, 2016, rental of two of the apartment units was no longer required and the rental agreement was terminated; a new rental agreement for one apartment unit for staff quarters was executed, for a monthly rental payment of approximately $270. The total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2018 was approximately $3,000 (2017: $9,000; 2016: $24,000).
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 is approximately $450, and the total rental payment paid to Mr. Andrew So during the fiscal year ended March 31, 2018 was approximately $5,000 (2017: $5,000; 2016: $5,000).
During the fiscal year ended March 31, 2016, one of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for one apartment unit located in Shenzhen, PRC for staff quarters. Mr. Anthony So is the sole owner of this apartment unit. Starting from April 1, 2017, rental of this apartment unit was no longer required and the rental agreement was terminated. The monthly rental payment was approximately $330, and the total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2018 was $nil (2017: $4,000; 2016: $2,000) for this unit.

In February 2017, Henry F. Schlueter, a director of the Company, sold 24,000 shares of the Company's common stock to the Company at a purchase price of $2.39 per share, pursuant to the Company's repurchase program. In February 2018, Mr. Schlueter sold an additional 10,000 shares of the Company's common stock to the Company at a purchase price of $3.48 per share. See Item 16E. – "Purchases of Equity Securities by the Issuer and Affiliated Purchasers."
Interests of Experts and Counsel

Not Applicable to Bonso.
Legal Proceedings

Not Applicable to Bonso.

Item 8. Financial Information

Financial Statements

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

Item 9. The Offer and Listing

Offer and Listing Details

Our common stock is traded only in the United States over-the-counter market. It is quoted on the NASDAQ Capital Market under the trading symbol "BNSO." The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share reported by NASDAQ. The quotations represent prices between dealers and do not include retail markup, markdown or commissions and may not necessarily represent actual transactions.

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

Period	High	Low
April 1, 2013 to March 31, 2014	$2.94	$1.33
April 1, 2014 to March 31, 2015	$2.10	$1.11
April 1, 2015 to March 31, 2016	$3.25	$1.00
April 1, 2016 to March 31, 2017	$4.25	$1.23
April 1, 2017 to March 31, 2018	$4.10	$1.96

The following table sets forth the high and low sale prices during each of the quarters in the two-year period ended June 30, 2018.

Period	High	Low
July 1, 2016 to September 30, 2016	$3.35	$1.30
October 1, 2016 to December 31, 2016	$4.25	$1.32
January 1, 2017 to March 31, 2017	$3.34	$2.01
April 1, 2017 to June 30, 2017	$2.84	$2.30
July 1, 2017 to September 30, 2017	$3.02	$1.96
October 1, 2017 to December 31, 2017	$3.31	$2.06
January 1, 2018 to March 31, 2018	$ 4.10	$ 2.42
April 1, 2018 to June 30, 2018	$ 5.04	$ 2.73

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

Period	High	Low
January 2018	$3.68	$2.42
February 2018	$4.10	$3.10
March 2018	$4.10	$2.58
April 2018	$3.48	$2.78
May 2018	$3.42	$2.88
June 2018	$5.04	$3.19

On July 14, 2018, the closing price of our common stock was $3.60. Of the 5,543,639 shares of common stock issued as of July 14, 2018, 4,712,300 shares were outstanding, 1,873,589 shares were held in the United States by 143 holders of record and 831,339 shares were held by the Company as treasury stock. We have 156 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.

Item 10. Additional Information

Share Capital

Our authorized capital is $170,000, consisting of 23,333,334 shares of common stock, $0.003 par value per share, and 10,000,000 authorized shares of preferred stock, $0.01 par value, divided into 2,500,000 shares each of class A preferred stock, class B preferred stock, class C preferred stock and class D preferred stock. Information with respect to the number of shares of common stock outstanding at the beginning and at the end of the last three fiscal years is presented in the Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended March 31, 2016, 2017 and 2018 included herein in Item 18.

At July 14, 2018, there were 5,543,639 shares of our common stock issued, 4,712,300 shares were outstanding and 831,339 shares were held by the Company in treasury. All shares were fully paid. In addition, we had outstanding 850,000 options to purchase common stock as follows:

Number of Options	Exercise Price per Share	Expiration Date
425,000	$ 1.50	March 31, 2020
425,000	$ 1.50	March 31, 2025

At July 14, 2018, there were no shares of our preferred stock outstanding.

Memorandum and Articles of Association

We are registered in the British Virgin Islands and have been assigned company number 9032 in the register of companies. Our registered agent is HWR Services Limited 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).

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 February 27, 2018 with Hang Seng Bank for an approximately HK$40.0 million (or approximately US$5.1 million) letter of credit, trust receipt facility, export D/P bills, export trade loan, factoring, overdraft facility and financial instruments including forward contracts. A copy of this Banking Facilities Letter is attached to this Annual Report on Form 20-F as Exhibit 4.1 and is incorporated herein by this reference.

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. A summary of the November 2017 agreement was filed as Exhibit 99.1 to the Company's Current Report on Form 6-K which was filed with the United States Securities and Exchange Commission on March 27, 2018, and a summary of the supplementary agreement is attached to this Annual Report on Form 20-F as Exhibit 4.2. Both agreements are incorporated herein by this reference.

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 11% 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 70% 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 that 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.

Documents on Display

You may read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the 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 SEC filings by going to the SEC's website at http://www.sec.gov.

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

Item 11. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Our interest rate risk primarily arises from our bank borrowings and our general banking facilities. As at March 31, 2018, we had utilized approximately $99,000 of our total banking facilities of $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 as at March 31, 2018 which were subject to variable interest rates is as below:

	March 31, 2018	Interest Rate
Notes payable	$ 99,000	HIBOR(1) +2.50%
Short term loans (2)	$ nil	HIBOR(1) +2.25%
Long term loans (2)	$ nil	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 $2,000.

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.

Foreign Currency Exchange Rates

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

Item 12. Description of Securities Other Than Equity Securities

Not applicable to Bonso.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

Item 15. Controls and Procedures

The Company's management directed that an evaluation of our disclosure controls and procedures, as defined in paragraph (e) of Rule 13a-15 or 15d-15 under the Exchange Act, be conducted as of March 31, 2018. Our Company's internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer, the Chief Operating 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 Operating Officer and Chief Financial Officer, have concluded that, as of March 31, 2018, 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 Form 20-F 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, 2018, 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.

During the fiscal year ended March 31, 2014, we identified additional material weaknesses, relating to the conduct of our year-end inventory count, and the approval of loans to an officer and director in violation of Section 13(k) adopted under the Exchange Act as more particularly described below. We have taken certain remedial actions to address these matters and management does not believe that these material weaknesses exist as of March 31, 2018.

Notwithstanding the identified material weaknesses, management believes the consolidated financial statements included in this Annual Report on Form 20-F fairly present 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 unremediated material weaknesses could result in material post-closing adjustments in future financial statements. Furthermore, any such unremediated 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 Report that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 16. Reserved

Item 16A. 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" published by NASDAQ.

Item 16B. Code of Ethics

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

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

Item 16C. Principal Accountant Fees and Services

Audit Committee's Pre-approval Policies and Procedure

The Audit Committee must pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services does not impair the auditor's independence. Before the Company or 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 Moore Stephens CPA Limited for professional services rendered for the audit of the Company's annual consolidated financial statements for the fiscal year ended March 31, 2018 and 2017 were approximately $160,000 and $190,000, respectively.

Audit Related Fees

There were no fees billed by Moore Stephens CPA Limited 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 year ended March 31, 2018 or for the fiscal year ended March 31, 2017.

Tax Fees

The aggregate fees billed for professional services rendered for tax compliance for the fiscal years ended March 31, 2018 and 2017 were approximately $8,000 and $3,600, respectively.

Other Fees

The aggregate fees billed by Moore Stephens CPA Limited for agreed-upon procedures rendered during the fiscal years ended March 31, 2018 and 2017 were approximately $nil and $10,000, respectively.

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

Pursuant to NASDAQ Marketplace Rule 4350(a), a foreign private issuer may follow its home country practice in lieu of Rule 4350, which sets forth the qualitative Listing Requirements for NASDAQ listed companies. Rule 4350 requires, among other things, that a listed company have at least three members on its audit committee. The Company currently has an audit committee consisting of two directors, one of whom is deemed to be "independent" as defined in NASDAQ Marketplace Rule 4200. The Company has obtained a letter from independent counsel in the British Virgin Islands certifying that having a single member audit committee is not prohibited by British Virgin Island law. See Item 6. – "Directors, Senior Management and Advisors - NASDAQ Exemptions and Home Country Practices."

Item 16E. 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. On November 16, 2006 and on September 17, 2015, the Company's Board of Directors authorized an additional $1,000,000 and an additional $1,500,000, respectively, for the Company's repurchase of its common stock under the same repurchase program. On April 25, 2018, the Board of Directors approved the expenditure of an additional $3,000,000 to repurchase shares of the Company's common stock, bringing the aggregate amount available for repurchases to $6,000,000. As of March 31, 2018, the Company has repurchased 782,017 shares of its common stock and expended approximately $2,501,000 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. As of March 31, 2018, the Company had 4,795,622 shares of its common stock issued and outstanding.

The following table contains the Company's purchases of equity securities in the fiscal year ended March 31, 2018.

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, 2017 to April 30, 2017	17,300	$ 2.46	17,300	$ 1,025,000
May 1, 2017 to May 31, 2017	11,159	$ 2.51	11,159	$ 997,000
June 1, 2017 to June 30, 2017	2,000	$ 2.45	2,000	$ 992,000
July 1, 2017 to July 31, 2017	16,542	$ 2.47	16,542	$ 951,000
August 1, 2017 to August 31, 2017	28,711	$ 2.23	28,711	$ 887,000
September 1, 2017 to September 30, 2017	29,722	$ 2.27	29,722	$ 820,000
October 1, 2017 to October 31, 2017	7,335	$ 2.44	7,335	$ 802,000
November 1, 2017 to November 30, 2017	25,286	$ 2.53	25,286	$ 738,000
December 1, 2017 to December 31, 2017	21,413	$ 2.43	21,413	$ 686,000
January 1, 2018 to January 31, 2018	1,310	$ 3.36	1,310	$ 681,000
February 1, 2018 to February 29, 2018	48,422	$ 3.40	48,422	$ 516,000
March 1, 2018 to March 31, 2018	4,298	$ 4.00	4,298	$ 499,000
TOTAL	213,498	$ 2.66	213,498	$ 499,000

* From April 1, 2018 to July 14, 2018, the Company repurchased an additional 83,322 shares of its common stock for an aggregate purchase price of approximately $262,000.

As of July 14, 2018, 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 831,339 shares of its common stock. The Company may from time to time repurchase additional shares of its common stock under this program.

Item 16F. Changes in Registrant's Certifying Accountants.

Not applicable to Bonso.

Item 16G. Corporate Governance.

For a discussion of the ways in which the Company's corporate governance differs from those followed by domestic companies under the NASDAQ Marketplace listing requirements, see Item 6. – "Directors, Senior Management and Advisors - NASDAQ Exemptions and Home Country Practices," above.

Item 16H. Mine Safety Disclosure.

Not applicable to Bonso.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

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

Item 19. Exhibits

4.1	Banking Facilities Letter, dated February 27, 2018 between Bonso and the Hang Seng Bank Limited
4.2	Summary of Supplementary Agreement dated July 31, 2018, between Bonso and Shenzhen Fangda Property Development Company Limited
12.1	Certification of Officer Pursuant to Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Officer Pursuant to Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification Pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification Pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

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

BONSO ELECTRONICS INTERNATIONAL INC.

Dated: August 15, 2018 /s/ Anthony So
Anthony So, Chairman of the Board, Chief Executive Officer and Director

Dated: August 15, 2018 /s/ Albert So
Albert So, Chief Financial Officer, Treasurer and Secretary

Bonso Electronics International Inc.

(Incorporated in the British Virgin Islands)

Consolidated Financial Statements

March 31, 2018

Bonso Electronics International Inc.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Bonso Electronics International Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Bonso Electronics International Inc. and subsidiaries (the “Company”) as of March 31, 2017 and 2018, and the related consolidated statements of operations and comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2017 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moore Stephens CPA Limited
Moore Stephens CPA Limited
Certified Public Accountants

We have served as the Company's auditor since 2009.
Hong Kong
August 15, 2018

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

	Note	March 31, 2017	2018
		$ in thousands	$ in thousands
Assets			
Current assets			
Cash and cash equivalents		3,745	8,751
Trade receivables, net	2	1,213	794
Other receivables, deposits and prepayments		1,600	745
Inventories, net	3	1,018	1,012
Income tax recoverable	8	-	5
Financial instruments at fair value	9	167	78
Total current assets		7,743	11,385
Investment in life insurance contract	10	144	149
Property, plant and equipment, net	4	10,294	10,434
Intangible assets, net	6	2,785	2,787
Total assets		20,966	24,755
Liabilities and stockholders' equity			
Current liabilities			
Notes payable - secured	7	134	99
Bank loans - secured	7	143	-
Accounts payable		1,183	924
Accrued charges and deposits		3,018	3,178
Income tax liabilities	8	533	-
Payable to affiliated parties	15	54	73
Current portion of capital lease obligations	11(a)	44	28
Loan from affiliated party - current portion	15	135	67
Total current liabilities		5,244	4,369
Capital lease obligations - non current portion	11(a)	60	32
Loan from affiliated party - non current portion	15	67	-
Long-term loan	20	-	2,527
Long-term deposit received	20	-	738
Total liabilities		5,371	7,666
Commitments and contingent liabilities	12		
Stockholders' equity			
Common stock par value $0.003 per share - authorized shares - 23,333,334 - issued shares: March 31, 2017: 5,577,639; March 31, 2018: 5,543,639. - outstanding shares: March 31, 2017: 5,009,120; March 31, 2018: 4,795,622.		17	17

Additional paid-in capital	22,566	22,474
Treasury stock at cost: March 31, 2017: 568,519; March 31, 2018: 748,017.	(1,929)	(2,409)
Accumulated deficit	(6,033)	(6,029)
Accumulated other comprehensive income	974	3,036
	15,595	17,089
Total liabilities and stockholders' equity	20,966	24,755

See notes to these consolidated financial statements.

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

	Note	Years ended March 31, 2016 $ in thousands	2017 $ in thousands	2018 $ in thousands
Net revenue	19	25,370	18,952	11,523
Cost of revenue		(17,081)	(11,274)	(6,958)
Gross profit		8,289	7,678	4,565
Selling, general and administrative expenses		(6,948)	(5,066)	(4,669)
Other income, net	21	1,961	554	342
Income from operations	19	3,302	3,166	238
Non-operating (expenses) / income, net	22	(121)	229	(234)
Income before income taxes		3,181	3,395	4
Income tax expense	8	(310)	(600)	-
Net income		2,871	2,795	4
Other comprehensive (loss) / income, net of tax:				
Foreign currency translation adjustments, net of tax		(850)	(1,410)	2,062
Comprehensive income		2,021	1,385	2,066
Net income attributable to common shareholders		2,871	2,795	4
Net earnings per share				
- basic	18	$0.55	$0.54	$0.00
Weighted average number of shares outstanding in calculating net earnings per share				
- basic	18	5,173,431	5,143,648	4,910,357
Net earnings per share				
- diluted	18	$0.55	$0.53	$0.00
Weighted average number of shares outstanding in calculating net earnings per share				
- diluted	18	5,173,431	5,316,393	5,290,904

See notes to these consolidated financial statements.
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Bonso Electronics International Inc.
Consolidated Statements of Changes in Stockholders’ Equity
(Expressed in United States Dollars)

	Common stock			Treasury stock				
	Shares Issued	Amount outstanding $ in thousands	Additional paid-in capital $ in thousands	Treasury Shares held	Amount outstanding $ in thousands	Accumulated deficit $ in thousands	Accumulated other comprehensive income-foreign currency adjustments $ in thousands	Total stockholders’ equity $ in thousands
Balance, April 1, 2015	5,577,639	17	21,765	330,736	(1,462)	(11,699)	3,234	11,855
Net income	-	-	-	-	-	2,871	-	2,871
Share-based compensation (Note 14(f))	-	-	801	-	-	-	-	801
Shares repurchased (Note 13(a))	-	-	-	73,472	(99)	-	-	(99)
Foreign currency translation adjustments	-	-	-	-	-	-	(850)	(850)
Balance, March 31, 2016	5,577,639	17	22,566	404,208	(1,561)	(8,828)	2,384	14,578
Net income	-	-	-	-	-	2,795	-	2,795
Shares repurchased (Note 13(a))	-	-	-	164,311	(368)	-	-	(368)
Foreign currency translation adjustments	-	-	-	-	-	-	(1,410)	(1,410)
Balance, March 31, 2017	5,577,639	17	22,566	568,519	(1,929)	(6,033)	974	15,595
Net income	-	-	-	-	-	4	-	4
Shares repurchased (Note 13(a))	-	-	-	213,498	(572)	-	-	(572)
Removal of treasury shares from the total number of shares issued (Note 13(a))	(34,000)	-	(92)	(34,000)	92	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	2,062	2,062
Balance, March 31, 2018	5,543,639	17	22,474	748,017	(2,409)	(6,029)	3,036	17,089

See notes to these consolidated financial statements.

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

	Years Ended March 31,		
	2016	2017	2018
	$ in thousands	$ in thousands	$ in thousands
Cash flows from operating activities			
Net income	2,871	2,795	4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,047	1,046	1,099
Amortization	288	271	277
(Gain) / loss on disposal of property, plant and equipment	(718)	-	12
Gain on disposal of intangible assets	(519)	(79)	-
Write-down of inventories	30	156	569
Write off of property, plant and equipment	-	2	2
Gain from deregistration of subsidiaries	-	(22)	-
Change in cash surrender value of life insurance contract	(4)	(4)	(5)
Change in fair value of financial instruments	(46)	61	7
Dividend income from financial instruments at fair value	-	(1)	(4)
Gain from sale of financial instruments at fair value	-	(3)	(58)
Compensation expense for stock options granted	801	-	-
Interest expense	-	-	62
Changes in assets and liabilities:			
Trade receivables	294	(300)	498
Other receivables, deposits and prepayments	435	(163)	965
Inventories	1,268	649	(563)
Income tax recoverable	39	-	-
Accounts payable	(2,290)	(1,318)	(419)
Accrued charges and deposits	36	(136)	122
Payable to affiliated parties	13	(25)	19
Income tax liabilities	310	216	(539)
Long-term deposit received	-	-	738
Net cash provided by operating activities	3,855	3,145	2,786
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	805	-	4
Acquisition of property, plant and equipment	(823)	(289)	(364)
Proceeds from disposal of intangible assets	342	120	-
Acquisition of financial instruments at fair value	(134)	(163)	(517)
Payments made upon expiry of forward contracts	-	(225)	-
Proceeds from sale of financial instruments at fair value	391	146	657
Dividends received from financial instruments at fair value	-	1	4
Net cash generated from / (used in) investing activities	581	(410)	(216)
Cash flows from financing activities			
Capital lease payments	(31)	(49)	(44)
Advance from notes payable	4,370	1,721	467
Repayment of notes payable	(4,963)	(2,820)	(502)
Repayment of bank loans	(2,870)	(363)	(143)
Payment to affiliated party	(134)	(135)	(135)
Stock repurchase	(99)	(368)	(572)
Advance from long-term loan	-	-	2,465
Net cash used in financing activities	(3,727)	(2,014)	1,536

Net increase in cash and cash equivalents	709	721	4,106
Effect of exchange rate changes on cash and cash equivalents	(189)	(523)	900
Cash and cash equivalents, beginning of year	3,027	3,547	3,745
Cash and cash equivalents, end of year	3,547	3,745	8,751
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	113	37	10
Income tax	-	360	562
Income tax refund received	39	-	-
Non-cash investing activities:			
Property, plant and equipment acquired under capital lease	116	-	-
Non-cash financing activities:			
Compensation expense for stock options granted	801	-	-

See notes to these consolidated financial statements.

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

1 Description of business and significant accounting policies

Bonso Electronics International Inc. 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 electronics products and other products. Further, the Group also rents or leases both factory facilities and equipment not being currently used to third parties.

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

Certain figures for the years ended March 31, 2016 and 2017, have been reclassified to conform to the presentation for the year ended March 31, 2018.

The Company had operating income of approximately $3,302,000, $3,166,000 and $238,000 in the fiscal years ended March 31, 2016, 2017 and 2018, respectively. As of March 31, 2018, the Company had positive working capital of approximately $7,016,000 and the accompanying consolidated financial statements were prepared on a going concern basis. Management believes the Company will have sufficient working capital to meet its financing requirements based upon their experience and their assessment of the Company's projected performance, credit facilities and banking relationships.

The significant accounting policies are as follows:

(a) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries after elimination of inter-company accounts and transactions.

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

Acquisitions of companies are accounted for using the purchase method of accounting.

(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, 2017 and 2018.

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

1 Description of business and 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

Trade receivables are recorded at the invoiced amount, net of allowances for doubtful accounts and sales returns. 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 the administrative and general expenses.
The Company recognizes an allowance for doubtful receivables 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.

(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 "Income Taxes" 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 Company's income tax returns through the fiscal years ended March 31, 2017 have been assessed by the tax authorities.

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

1 Description of business and significant accounting policies (Continued)

(f) Lease prepayments and intangible assets

Lease prepayments represent the cost of land use rights in the People's Republic of China ("PRC"). 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, in accordance with the business licenses of 30 years.

(g) Property, plant and equipment, net

(i) Property, plant and equipment are stated at cost less accumulated depreciation. Leasehold land and buildings are depreciated on a straight-line basis over 15 to 50 years, representing the shorter of the remaining term of the lease or the expected useful life to the 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 to10 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.

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

1 Description of business and significant accounting policies (Continued)

(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. The Company lost a major customer during 2017, as a result, the Company performed an assessment of the value of the property, plant and equipment and intangible assets in Xinxing, PRC, and no provision for impairment was made by the Company (2017: $nil; 2016: $nil) based on the assessment.

(i) Capital and operating leases

Costs in respect of operating leases are charged against income on a straight-line basis over the lease term. Leasing agreements, which transfer to the Company substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in property, plant and equipment ("capital leases") and the capital element of the lease commitments is shown as an obligation under capital leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged against profit so as to give a consistent periodic rate of charge on the remaining balance outstanding at the end of each accounting period. Assets held under capital leases are depreciated over the useful lives of the equivalent owned assets or the lease term, whichever is shorter.

(j) Revenue recognition

No revenue is recognized unless there is persuasive evidence of an arrangement, the price to the buyer is fixed or determinable, delivery has occurred and collectibility of the sales price is reasonably assured. Revenue is recognized when title and risk of loss are transferred to customers, which is generally the point at which products are leaving the ports of Hong Kong, Shenzhen or Nansha (Guangzhou), as designated by our customers. Shipping costs billed to the Company's customers are included within revenue. Associated costs are classified as part of cost of sales.

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. In addition, certain products sold by the Company are subject to a limited product quality warranty. The Company accrues for estimated incurred but unidentified quality issues based upon historical activity and known quality issues if a loss is probable and can be reasonably estimated. During the fiscal year ended March 31, 2018, the Company recorded $nil for such accrual (2017: $nil, 2016: $nil). The standard limited warranty period is one to three years. Quality returns, refunds, rebates and discounts are recorded net of sales at the time of sale and estimated based on past history. All sales are based upon firm orders with fixed terms and conditions, which generally cannot be modified. Historically, the Company has not experienced material differences between its estimated amounts of quality returns, refunds, rebates and discounts and the actual results. In all contracts, there is no price protection or similar privilege in relation to the sale of goods.

Rental income is recognized according to the rental agreements. Rental income for non-uniform rent payments is recognized on a straight-line basis throughout the lease term.

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

1 Description of business and significant accounting policies (Continued)

(k) 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 of approximately $200,000, $158,000 and $152,000 for the years ended March 31, 2016, 2017 and 2018, respectively, are expensed in the financial period in which they are incurred.

(l) Advertising

Advertising costs are expensed as incurred and are included within selling, general and administrative expenses. Advertising costs were approximately $12,000, $10,000 and $18,000 for the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

(m) 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 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.

(n) Stock options and warrants

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.

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

1 Description of business and significant accounting policies (Continued)

(o) 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.

(p) 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, 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.

(q) Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” ("ASU 2014-09"). The objective of this Update is to remove inconsistencies and weaknesses in revenue requirements, and to simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new standard supersedes virtually all present U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the prior standards, as well as additional disclosures. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", deferring the effective date for one year to interim and annual periods beginning after December 15, 2017. Early adoption is also permitted as of the original effective date (interim and annual periods beginning after December 15, 2016) and retrospective application is required. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of April 1, 2018. The Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after April 1, 2018. For existing contracts that have remaining obligations as of April 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Our product revenues are generally recognized upon delivery to the customer, which is when the control transfers to the customer. The majority of the Company’s customer contracts, which may be in the form of purchase orders, contracts or purchase agreements, contain performance obligations for delivery of agreed upon products. Delivery of all performance obligations contained within a contract with a customer typically occurs at the same time. The Company has also determined that it will make accounting policy elections to 1) treat shipping and handling activities that occur after the customer obtains control of the goods as fulfillment costs and 2) exclude sales (and similar) taxes from the measurement of the transaction price. We have no open contracts as of March 31, 2018, therefore, there will be no cumulative effect of applying the new standards. We do not expect the adoption of these ASUs to have a material impact on our consolidated financial statements.

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

1 Description of business and significant accounting policies (Continued)

(q) Recent accounting pronouncements (Continued)

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Subtopic 842)" ("ASU 2016-02"). This Update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which improves financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Forward-looking information will now be used to better inform credit loss estimates. This ASU is effective for interim and annual periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)" ("ASU 2016-15"). This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

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

1 Description of business and significant accounting policies (Continued)

(q) Recent accounting pronouncements (Continued)

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740)" ("ASU 2016-16"). This Update improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-16 to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)" ("ASU 2016-18"). This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, "Other Income—Gains and Losses from the De-recognition of Nonfinancial Assets (Subtopic 610-20)" ("ASU 2017-05"). This Update clarifies the Scope of Asset De-recognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the scope of the nonfinancial asset guidance in Subtopic 610-20. This ASU also clarifies that the de-recognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the de-recognition and deconsolidation guidance in Subtopic 810-10. The amendments in this ASU also provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other non-controlled investee. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We do not expect the adoption of ASU 2017-05 to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718) Scope of Modification Accounting" ("ASU 2017-09"). The requirement provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public business entities, this ASU should be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

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

1 Description of business and significant accounting policies (Continued)

(q) Recent accounting pronouncements (Continued)

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260) (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception" ("ASU 2017-11"). The amendments require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize the effect of the trigger within equity. For public business entities, this ASU should be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact the adoption of ASU 2017-11 will have on the Company’s consolidated financial statements.
In September 2017, the FASB issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)” ("ASU 2017-13"): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendments in ASU 2017-13 amend the early adoption date option for certain companies related to the adoption of ASU 2014-09 and ASU 2016-02. The effective date is the same as the effective date and transition requirements for the amendments for ASU 2014-09 and ASU 2016-02.

In February 2018, the FASB issued ASU 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220)” ("ASU 2018-02"). The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. Public business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted. We are currently evaluating the impact of adopting ASU 2018-02 on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements” ("ASU 2018-11"). The ASU provides (1) an optional transition method that entities can use when adopting ASC 842 and (2) a “practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met.” The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For public business entities, this Update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the new pronouncement to determine the impact it may have on its consolidated financial statements.

We believe there is no additional new accounting guidance adopted, but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

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2 Allowance for doubtful accounts

Allowance for doubtful accounts amounted to $nil as of March 31, 2018 (2017: $nil). Most of the Company's trade receivables are generally unsecured.

3 Inventories, net

The components of inventories are as follows:

	March 31, 2017 $ in thousands	March 31, 2018 $ in thousands
Raw materials	442	275
Work in progress	317	237
Finished goods	259	500
	1,018	1,012

During the fiscal years ended March 31, 2016, 2017 and 2018, based upon material composition and expected usage, provisions for inventories of approximately $30,000, $156,000 and $569,000, respectively, were charged to the consolidated statements of operations under cost of revenue.

4 Property, plant and equipment, net

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

	March 31, 2017 $ in thousands	March 31, 2018 $ in thousands
Cost		
Buildings	16,285	17,863
Construction-in-progress	62	260
Plant and machinery	9,810	9,932
Furniture, fixtures and equipment	1,273	1,468
Motor vehicles	626	643
	28,056	30,166
Less: accumulated depreciation	(17,762)	(19,732)
	10,294	10,434

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Bonso Electronics International Inc.
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4 Property, plant and equipment, net (Continued)

During the fiscal years ended March 31, 2016, 2017 and 2018, depreciation expenses charged to the consolidated statements of operations amounted to approximately $1,047,000, $1,046,000 and $1,099,000, respectively. As at March 31, 2017 and 2018, fully depreciated assets that were still in use by the Company amounted to $8,761,000 and $9,853,000, respectively.

Property, plant and equipment in Xinxing were assessed for impairment according to the policy described in note 1(h). The Company concluded that no impairment to property, plant and equipment in Xinxing was required as at March 31, 2018.

5 Interests in subsidiaries

Particulars of principal subsidiaries as of March 31, 2017 and 2018 are as follows:

Name of company	Place of incorporation and kind of legal entity	Particulars of issued capital/ registered capital	Percentage of capital held by the Company		Principal activities
			2017	2018	
Bonso Electronics Limited * (“BEL”)	Hong Kong, limited liability company	HK5,000,000 (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	HK3,000,000 (US$384,615)	100%	100%	Investment holding and property investment
Bonso Electronics (Shenzhen) Company, Limited (“BESCL”)	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	HK1,000,000 (US$128,205)	100%	100%	Investment holding and trading of scales and pet electronics products
Bonso Advanced Technology (Xinxing) Company, Limited (“BATXXCL”)	PRC, limited liability company	US$10,000,000	100%	100%	Production of scales and pet electronics products and property rental
Bonso Technology (Shenzhen) Company, Limited (“BTL”)	PRC, limited liability company	HK$200,000	100%	100%	Product development

* Shares directly held by the Company
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Bonso Electronics International Inc.
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6 Intangible assets, net

Intangible assets are analyzed as follows:

	March 31, 2017 $ in thousands	March 31, 2018 $ in thousands
Cost	5,740	6,348
Less: accumulated amortization	(2,955)	(3,561)
	2,785	2,787

The components of intangible assets are as follows:

	March 31, 2017 $ in thousands	March 31, 2018 $ in thousands
Land use right of factory land in Shenzhen, Guangdong, PRC	1,326	1,274
Land use right of factory land in Xinxing, Guangdong, PRC	1,459	1,513
	2,785	2,787

Amortization expense in relation to intangible assets was approximately $288,000, $271,000 and $277,000 for each of the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

As of March 31, 2018, future minimum amortization expenses in respect of intangible assets are as follows:

Year ending March 31,	$ in thousands
2019	293
2020	293
2021	293
2022	293
2023	293
Thereafter	1,322
Total	2,787

In November 2017, the Company 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. The redevelopment will be on the factory land in Shenzhen.

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Bonso Electronics International Inc.
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7 Banking facilities

As of March 31, 2018, 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 $5,128,000 (2017: $5,306,000). The general banking facilities utilized by the Company are denominated in United States dollars, Hong Kong dollars and Chinese Yuan.

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

	Amount available March 31,		Amount utilized March 31,		Amount unutilized March 31,		Terms of banking facilities as of March 31, 2018	
	2017	2018	2017	2018	2017	2018	Interest rate	Repayment terms
	$ in thousands		$ in thousands		$ in thousands			
Import and export facilities								
Combined limit	2,564	2,564	134	99	2,430	2,465		
Including sub-limit of:								
Notes payable	2,308	2,308	134	99	2,174	2,209	HIBOR* +2.5%	Repayable in full within 120 days
Bank overdrafts	641	641	-	-	641	641	Prime rate + 1%	Repayable on demand
Other facilities								
Export Documentary Credits	641	641	-	-	641	641		
Short Term Loans	1,923	1,923	-	-	1,923	1,923	(Note A)	Revolving loan repayable in 30 days
Long Term Loans (1)	178	-	143	-	35	-	(Note B)	Term loans repayable monthly over 3 years.
	5,306	5,128	277	99	5,029	5,029		

Note A: HIBOR* +2.25% for revolving loans in Hong Kong.
Note B: HIBOR* +2% for term loans in Hong Kong.

(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. As of March 31, 2018, the long-term loans became current as they are repayable within one year in accordance with the repayment schedule.

* HIBOR is the Hong Kong Interbank Offer Rate

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Bonso Electronics International Inc.
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7 Banking facilities (Continued)

One of the properties of the Company located in Hong Kong with a net book value of approximately $953,000 as of March 31, 2018, the rental assignment over such property and the rights, interests and benefits of a life insurance contract with a book value of approximately $149,000 are arranged as securities to the banks for the banking facilities arrangement.

The Prime Rate and HIBOR were 5.00% and 0.98% per annum, respectively, as of March 31, 2018. The Prime Rate is determined by the Hong Kong Bankers Association 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 March 31,	
	2017	2018
Bank overdrafts	6.00%	6.00%
Notes payable	3.13%	3.42%
Term Loan in Hong Kong	2.59%	2.69%

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Bonso Electronics International Inc.
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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

The subsidiaries operating in Hong Kong are subject to the Hong Kong profits tax rate of 16.5% (2017 and 2016: 16.5%). BIL, BATL and BEL have no assessable profits for the year ended March 31, 2018.

PRC Tax

All subsidiaries registered in the PRC are subject to a tax rate of 25% (2017 and 2016: 25%).

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8 Income tax (Continued)

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

	2016 $ in thousands	2017 $ in thousands	2018 $ in thousands
Hong Kong	3,933	693	221
PRC	(167)	2,531	(406)
Others	(585)	171	189
Total	3,181	3,395	4

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

(c) Income tax expense comprises the following:

	2016 $ in thousands	2017 $ in thousands	2018 $ in thousands
Current income tax expense	(310)	(600)	-

The components of the income tax expense by geographical location are as follows:

	2016 $ in thousands	2017 $ in thousands	2018 $ in thousands
Hong Kong	(310)	(5)	-
PRC	-	(595)	-
Total	(310)	(600)	-

Bonso Electronics International Inc.
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8 Income tax (Continued)

At the end of the accounting periods, the income tax liabilities / (recoverable) are as follows:

	2017 $ in thousands	2018 $ in thousands
Current income tax liabilities / (recoverable)	533	(5)

(d) Deferred tax assets comprise the following:

	2017 $ in thousands	2018 $ in thousands
Tax loss carry forwards	4,270	4,607
Less: Valuation allowance	(4,270)	(4,607)
	-	-

As of March 31, 2017 and 2018, the Company had accumulated tax losses amounting to approximately $24,410,000 and $25,928,000 (the tax effect thereon is approximately $4,270,000 and $4,607,000), 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, 2018, the Company's accumulated tax losses of approximately $3,868,000 will expire from 2019 to 2023.

(e) Changes in valuation allowance are as follows:

	2016 $ in thousands	2017 $ in thousands	2018 $ in thousands
Balance, April 1	4,459	4,459	4,270
(Credited) / charged to income tax expense	-	(189)	337
Balance, March 31	4,459	4,270	4,607

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Bonso Electronics International Inc.
Notes to Consolidated Financial Statements
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8 Income tax (Continued)

(f) The actual income tax credit / (expense) attributable to earnings for the fiscal years ended March 31, 2016, 2017 and 2018 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:

	2016 $ in thousands	2017 $ in thousands	2018 $ in thousands
Income before income taxes	3,181	3,395	4
Income tax expense on pretax income at statutory rate	(525)	(560)	(1)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(95)	(52)	128
Profit not subject to income tax	387	472	61
Expenses not deductible for income tax purposes	(255)	(686)	(167)
(Decrease) / increase in valuation allowance	-	(189)	337
Under provision in prior year	-	5	-
Utilization of tax losses / (tax losses recognized)	178	410	(358)
Total income tax expense	(310)	(600)	-

The statutory rate of 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, 2018 and concluded that such prior year uncertain income tax liability was no longer required.

The Company's accounting policy is to treat interest and penalties as components of income taxes. As of March 31, 2018, the Company had no accrued penalties related to uncertain tax positions (2017: $nil).

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Bonso Electronics International Inc.
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9 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.

The Company entered into forward contracts with a bank, and the bank would pay the Company if the Chinese Yuan appreciated against the USD. If the Chinese Yuan depreciated against the USD, the Company would need to pay the bank, but would be able to buy more Chinese Yuan as a result. During the fiscal year ended March 31, 2017, the forward contracts matured and payments of approximately $225,000 have been made.

During the fiscal year ended March 31, 2018, the Company purchased listed shares in Hong Kong for trading purpose for approximately $517,000 (2017: $163,000). During the fiscal year ended March 31, 2018, a gain from disposal of financial assets at fair value of approximately $58,000 was recorded (2017: $3,000). A revaluation loss of approximately $7,000 was recorded during the fiscal year ended March, 31 2018 (2017: revaluation gain of $4,000).

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

$ in thousands	March 31, 2017				March 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity investments	167	-	-	167	78	-	-	78

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

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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, 2017 and March 31, 2018, with a carrying amount of approximately $144,000 and $149,000, 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, 2018, we recorded a gain of approximately $5,000 for the change in valuation (2017: $4,000).

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11 Leases

(a) Capital leases

During the year ended March 31, 2014, the Company entered into capital lease obligations amounting to approximately $123,000 for two motor vehicles. During the year ended March 31, 2016, the Company entered into an additional capital lease obligation amounting to approximately $116,000 for one motor vehicle. During the year ended March 31, 2018, one capital lease obligation amounting to approximately $69,000 for a motor vehicle was fully repaid.

Future minimum payments under capital leases as of March 31, 2018 with an initial term of more than one year are as follows:

Future minimum payments under capital leases for the years ending March 31,	Principal repayment $ in thousands	Interest payment $ in thousands	Total obligations $ in thousands
2019	28	2	30
2020	27	1	28
2021	5	0	5
	60	3	63

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Bonso Electronics International Inc.
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11 Leases (Continued)

(b) Operating leases

As of March 31, 2018, the Company leases a factory in Shenzhen, two commercial units in Beijing and 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 $90,000 if the Company decides to terminate all the rental agreements before their expiry.

The Shenzhen factory is rented out to a third party from August 1, 2013 to August 1, 2019. Part of the production facilities in Xinxing are rented out to various third parties up to February 13, 2026. Certain tenants have an option to early terminate their tenancy agreements. The expected future minimum rental payments to be received are as follows:

Year ending March 31,	$ in thousands
2019	1,436
2020	454
	1,890

As of March 31, 2018, the future minimum lease commitment payables in respect of non-cancellable operating leases for one office and two staff quarters in Shenzhen and a staff quarter in Xinxing are as follows:

Year ending March 31,	$ in thousands
2019	29
	29

Rental expenses for all operating leases of one office premise in Shenzhen, two staff quarters in Shenzhen and a staff quarter in Xinxing amounted to approximately $119,000, $100,000 and $95,000 for the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

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Bonso Electronics International Inc.
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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, 2017	March 31, 2018
	$ in thousands	$ in thousands
Construction in Xinxing, Guangdong, PRC	31	358
Mould	22	-
	48	358

As of March 31, 2018, the Company entered into contractor agreements on leasehold improvements on the manufacturing facility in Xinxing, the PRC for a total consideration of $604,000. As of March 31, 2018, $246,000 has been paid, and the remaining balance of $358,000 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.

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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. No stock had been repurchased when, on November 16, 2006, the Company's Board of Directors authorized another $1,000,000 for the Company to repurchase its common stock under the same repurchase program. This authorization to repurchase shares increased the amount authorized for repurchase from $500,000 to $1,500,000. On September 17, 2015, the Company's Board of Directors authorized an additional $1,500,000 to repurchase its common stock under the same repurchase program, bringing the amount authorized for repurchase to $3,000,000. On April 25, 2018, the Company's Board of Directors authorized an additional $3,000,000 to repurchase its common stock under the same repurchase program, bringing the amount authorized for repurchase 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 782,017 shares of its common stock, including 213,498 shares ($572,000) that were repurchased during the fiscal year ended March 31, 2018, 164,311 shares ($368,000) that were repurchased during the fiscal year ended March 31, 2017, and 73,472 shares ($99,000) that were repurchased during the fiscal year ended March 31, 2016. 34,000 shares ($92,000) repurchased were removed from the total number of shares issued during the fiscal year ended March 31, 2018 (2017: nil, 2016: 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, 2018.

(c) Dividends

No dividends were declared by the Company for each of the fiscal years ended March 31, 2016, 2017 and 2018, respectively.

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14 Stock option and bonus plans

(a) 1996 Stock Option Plan

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

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

In April 2003, the Company issued options to certain directors and non-employee directors of the Company to purchase an aggregate of 372,500 shares of common stock of the Company at an exercise price of $1.61. The exercise prices of these options were equal to the fair market value at the time of grant. The options expired on March 31, 2013. No such options were exercised during the ten year term ended March 31, 2013.

In March 2004, the Company issued options to certain non-employee directors of the Company to purchase an aggregate of 40,000 shares of common stock of the Company at an exercise price of $6.12. The exercise prices of these options were equal to the fair market value at the time of grant. The options expired on March 25, 2014. No such options were exercised during the ten year term ended March 31, 2014.

In September 2004, the Company issued options to certain non-employee directors of the Company to purchase an aggregate of 40,000 shares of common stock of the Company at an exercise price of $6.20. The exercise prices of these options were equal to the fair market value at the time of grant. The options expired on September 12, 2014. No such options were exercised up to September 12, 2014.

In December 2005, the Company issued options to certain non-employee directors of the Company to purchase an aggregate of 30,000 shares of common stock of the Company at an exercise price of $4.50. The exercise prices of these options were equal to the fair market value at the time of grant. The options expired on December 4, 2015. No such options were exercised up to December 4, 2015.

On November 16, 2006, the Board of Directors of the Company voted to rescind the Company's 1996 Non-Employee Directors' Stock Option Plan (the "Non-Employee Directors' Plan"). All options previously granted under the Non-Employee Directors' Plan have expired pursuant to their terms of grant.

During the fiscal years ended March 31, 2016, 2017 and 2018, no shares or share options were granted under the 1996 Stock Option Plan.

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14 Stock option and bonus plans (Continued)

(b) 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.

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14 Stock option and bonus plans (Continued)

(c) 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.

On 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, all of which remained outstanding as of March 31, 2018. The options for 425,000 shares will expire on March 31, 2020, and options for 425,000 shares 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.

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14 Stock option and bonus plans (Continued)

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

	Number of options	Weighted average exercise price
Balance, March 31, 2016, 2017 and 2018	850,000	$ 1.50

(e) The following table summarizes information about all stock options of the Company outstanding as at March 31, 2018:

Weighted average exercise price	Number outstanding at March 31, 2018	Weighted average remaining life (years)	Exercisable shares at March 31, 2018
$ 1.50	850,000	4.5	850,000

The intrinsic value of options outstanding and exercisable was $1.63 on March 31, 2018. 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, 2018.

New shares will be issued by the Company upon future exercise of stock options.
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14 Stock option and bonus plans (Continued)

(f) Stock-based compensation expense is recognized on a straight-line basis over the respective vesting periods, or at the time of option granting if there are no vesting periods. The fair value of the options granted was estimated on the date of granting using the Black-Scholes option-pricing model with the following assumptions used for grants during the applicable periods:

	For the Fiscal Year Ended March 31, 2016	2017	2018
Risk-free interest rate (1)	1.63% to 2.36%	N/A	N/A
Expected life (years) (2)	4.71 to 9.71	N/A	N/A
Expected dividend yield (3)	0%	N/A	N/A
Volatility (4)	73.63%	N/A	N/A
Fair value of options at grant date per share	$0.81 to $1.08	N/A	N/A

(1) Risk-free interest rate
Risk-free interest rate for periods within the contractual life of the option is based upon the interest rate on U.S. Treasury zero-coupon bonds issued with remaining terms similar to the expected term of the options granted.

(2) Expected life (years)
Assumption of the expected term was based on the vesting and contractual terms and employee demographics.

(3) Expected dividend yield
The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(4) Volatility
The volatility assumption was estimated based on historical volatility of the Company's share price applying the guidance provided by ASC 718.

The Company recorded the related compensation expense of approximately $801,000, $nil and $nil in selling, general and administrative expenses during the fiscal years ended March 31, 2016, 2017 and 2018.

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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:

Year ended March 31,	Mr. Anthony So	Mr. Kim Wah Chung	Mr. Woo-Ping Fok	Mr. Andrew So
	Director, Chief Executive Officer	Director	Director	Director and Chief Operating Officer
	$ in thousands	$ in thousands	$ in thousands	$ in thousands
2016	$857 (i), (iii)	$170 (iii)	Nil	$249
2017	$643 (i), (iii)	$171 (iii)	Nil	$249
2018	$643 (i), (iii)	$170 (iii)	Nil	$259 (iii)

	Mr. Henry Schlueter	Mr. Albert So
	Director and Assistant Secretary	Director, Chief Financial Officer and Secretary
	$ in thousands	$ in thousands
2016	$60 (ii)	$181(iii)
2017	$62 (ii)	$152
2018	$60 (ii)	$162 (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, 2016, 2017 and 2018 represented professional fees paid to Schlueter & Associates, P.C., the Company’s SEC counsel, in which Mr. Henry Schlueter is one of the principals.

(iii) The amount for the year ended March 31, 2016, included unpaid vacation payments of approximately $57,000, $10,000 and $12,000 for Mr. Anthony So, Mr. Kim Wah Chung and Mr. Albert So, respectively. The amount for the year ended March 31, 2017, included unpaid vacation payments of approximately $43,000 and $11,000 for Mr. Anthony So and Mr. Kim Wah Chung, respectively. The amount for the year ended March 31, 2018, included unpaid vacation payments of approximately $43,000, $10,000, $10,000 and $10,000 for Mr. Anthony So, Mr. Kim Wah Chung, Mr. Andrew So and Mr. Albert So, respectively.

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15 Related party transactions (Continued)

During the fiscal year ended March 31, 2015, one of the subsidiaries in Hong Kong borrowed an interest-free loan of approximately $538,000 from a director and stockholder, Mr. Anthony So, to provide working capital. This loan is to be repaid in 48 equal installments. As of March 31, 2018, the Company had repaid a total of approximately $471,000 to Mr. Anthony So, and the balance of loan due to Mr. Anthony so was approximately $67,000.

During the fiscal year ended March 31, 2015, one of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for three apartment units located in Shenzhen, PRC for office usage. Mr. Anthony So is the sole owner of these three apartment units. The monthly rental payment was approximately $2,000. Starting from August 1, 2016, rental of two of the apartment units was no longer required and the rental agreement was terminated, and a new rental agreement for one apartment unit for staff quarters was in place, for a monthly rental payment of $270. The total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2018 was approximately $3,000 (2017: $9,000; 2016: $24,000).

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 is approximately $450, and the total rental payment paid to Mr. Andrew So during the fiscal year ended March 31, 2018 was approximately $5,000 (2017: $5,000; 2016: $5,000).

During the fiscal year ended March 31, 2016, one of the subsidiaries in Shenzhen, PRC entered into a rental agreement with a director and stockholder, Mr. Anthony So, for one apartment unit located in Shenzhen, PRC for staff quarters. Mr. Anthony So is the sole owner of this apartment unit. Starting from April 1, 2017, rental of this apartment unit was no longer required and the rental agreement was terminated. The monthly rental payment was approximately $330, and the total rental payment paid to Mr. Anthony So during the fiscal year ended March 31, 2018 was $nil (2017: $4,000; 2016: $2,000) for this unit.

In February 2017, a non-employee director of the Company, Henry F. Schlueter, sold 24,000 shares of the Company's common stock to the Company at a purchase price of $2.39 per share, pursuant to the Company repurchase program. In February 2018, a non-employee director of the Company, Henry F. Schlueter, sold 10,000 shares of the Company's common stock to the Company at a purchase price of $3.48 per share, pursuant to the Company repurchase program.

Bonso Electronics International Inc.
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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.

At March 31, 2017 and 2018, the Company had credit risk exposure of uninsured cash and deposits with maturities of less than one year in banks of approximately $3,745,000 and $8,751,000, respectively.

A substantial portion, 56%, 45% and 31% of revenue, was generated from one customer for the years ended March 31, 2016, 2017 and 2018, respectively.

The net sales to customers representing at least 10% of net total sales are as follows:

	Year Ended March 31,					
	2016		2017		2018	
	$ in thousands	%	$ in thousands	%	$ in thousands	%
Customer A	3,874	15	2,729	14	3,579	31
Customer B	1,738	7	1,563	8	1,662	14
Customer C	1,969	8	2,435	13	1,599	14
Customer D *	14,145	56	8,472	45	1,115	10
	21,726	86	15,199	80	7,955	69

* That customer has stopped purchasing from us as of June 2017.

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,			
	2017		2018	
	$ in thousands	%	$ in thousands	%
Customer A	328	28	234	30
Customer C	455	39	200	25
Customer E	-	-	113	14
Customer B	162	14	-	-
		81		69

At March 31, 2017 and 2018, these customers accounted for 81% and 69%, respectively, of net trade receivables. The trade receivables have repayment terms of not more than twelve months.

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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, 2016, 2017 and 2018 amounted to $293,000, $267,000 and $255,000, 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 $396,000 as of March 31, 2018 for severance payments for staff in the PRC (2017: $297,000, 2016: $317,000). The accrued severance payment allowance is reviewed every year.

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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.

	Year Ended March 31,		
	2016	2017	2018
Income available to common stockholders ($ in thousands)	$2,871	$2,795	$4
Basic weighted average common shares outstanding	5,173,431	5,143,648	4,910,357
Basic net earnings per share	$0.55	$0.54	$0.00
Basic weighted average common shares outstanding	5,173,431	5,143,648	4,910,357
Effect of dilutive securities – Options	-	172,745	380,547
Diluted weighted average common and potential common shares outstanding	5,173,431	5,316,393	5,290,904
Diluted net earnings per share	$0.55	$0.53	$0.00

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19 Business segment information

(a) The Company has four business segments, Scales, Pet Electronics Products, Rental and Management and Others for the fiscal years ended March 31, 2017 and 2018. 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% (2017: 83%) of overall revenue of the Company for the fiscal year ended March 31, 2018, and the Company expects that the revenue will decrease for the next 12 months as one of our major customers has discontinued purchasing from us effective June 2017.

Pet Electronics Products principally involve development and production of pet-related electronics products that are used in consumer applications. Revenue from pet electronics products was 16% (2017: 9%) of overall revenue of the Company for the fiscal year ended March 31, 2018, and the Company expects that the revenue from pet electronics products will continue to contribute a similar level of revenue for the next 12 months.

Rental and Management involve leasing out part of our factories and machinery to third parties. The management decided to identify and expand the rental and management segment during the fiscal year ended March 31, 2018 with the signing of an agreement with Fangda, a property developer in Shenzhen, to cooperate in reconstructing and redeveloping the Shenzhen factory to generate more rental revenue in the future. Revenue from rental and management was 16% (2017: 8%) of overall revenue of the Company for the fiscal year ended March 31, 2018, and the Company expects that the revenue from rental and management will increase for the next 12 months with additional revenue from leasing out two new factory buildings in our Xinxing facility.

The “Others” segment is a residual, which principally includes the activities of (i) tooling and mould charges for scales and pet electronics products, and (ii) sales of scrap materials.

The segment information in the years ended March 31, 2016 and 2017 have been restated in order to conform with the change in segment reporting in the year ended March 31, 2018.

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, 2016, 2017, and 2018:

	Year ended March 31,		
Product Line	2016	2017	2018
Scales and Others	88 %	83 %	68 %
Pet Electronics Products	6 %	9 %	16 %
Rental and Management	6 %	8 %	16 %
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.

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19 Business segment information (Continued)

(a) (Continued)

Summarized financial information by business segment as of March 31, 2016, 2017 and 2018 is as follows:

	Net sales $ in thousands	Operating income / (loss) $ in thousands	Identifiable assets as of March 31 $ in thousands	Depreciation and amortization $ in thousands	Capital expenditure $ in thousands
2016					
Scales & Others	22,378	2,922	13,311	614	880
Pet Electronics Products	1,514	197	901	41	59
Rental and Management	1,478	183	4,714	680	-
Total operating segments	25,370	3,302	18,926	1,335	939
Corporate	-	-	4,095	-	-
Group	25,370	3,302	23,021	1,335	939
2017					
Scales & Others	15,814	2,916	10,355	515	262
Pet Electronics Products	1,662	307	1,089	54	27
Rental and Management	1,476	(57)	5,465	748	-
Total operating segments	18,952	3,166	16,909	1,317	289
Corporate	-	-	4,057	-	-
Group	18,952	3,166	20,966	1,317	289

2018

Scales & Others 7,862