

Deswell Industries, Inc.

Audit Committee Charter

1. PURPOSE

The Audit Committee (the “Committee”) is appointed by the Board of Directors of Deswell Industries, Inc. primarily for the purpose of assisting the board of directors in fulfilling its oversight responsibilities for the financial reporting process and the audit process.

2. COMMITTEE COMPOSITION

- 2.1 The Committee shall consist of at least three independent directors.
- 2.2 Each member of the Committee shall satisfy the independence requirements under the listing standards of the NASDAQ Stock Market, Inc. (the “Nasdaq”) and shall meet the criteria for independence under the Sarbanes-Oxley Act of 2002 and the rules adopted by the Securities and Exchange Commission (the “SEC”); and have not participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years..
- 2.3 Members of the Committee and the chairperson shall be appointed by, and shall serve at the discretion of, the Board. The Board may remove or replace the chairperson and any other member of the Committee at any time, with or without cause, by a majority vote.
- 2.4 Members of the Committee shall be generally financially literate. At least one member shall be designated as the “financial expert”, as defined under the rules of the SEC and the Nasdaq.

Financial literacy refers to the ability to read and understand fundamental financial statements and generally accepted accounting principles, including a company’s balance sheet, income statement and cash flow statement.

3. MEETINGS

- 3.1 The Committee shall meet at least four times per year, before each time the Company proposes to issue a press release with its quarterly or annual earnings information. Committee members can attend each meeting, in person or via telecommunication tools.

- 3.2 Resolutions of the committee should be by majority vote. The Chairman of the committee shall be the Chairman of a meeting and have a casting vote.
- 3.3 The Committee will report its activities to the Board.
- 3.4 A quorum for a Committee meeting shall be two members, of which at least one shall be the Chairman.

4. AUTHORITY

The audit committee is empowered to:

- 4.1 Appoint, compensate, retain and oversee the work of independent auditors employed by the Company.
- 4.2 Pre-approve all auditing and non-audit services provided by the independent auditors before the services are rendered.
- 4.3 Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- 4.4 Seek any information it requires from employees or external parties.
- 4.5 Meet with company officers, external auditors, or outside counsel, as necessary.
- 4.6 Review and concur in the appointment, replacement, reassignment, or dismissal of the CAE.
- 4.7 Engage independent outside counsel or other consultants as it deems necessary.
- 4.8 Ensuring receipt from the outside auditors of a written statement regarding the independence of the outside auditors, and to oversee the independence of the outside auditors.

5. RESPONSIBILITIES

The committee will carry out the following responsibilities:

5.1 Financial Statements and External Audit

- 5.1.1 Review with management and the independent auditors:

- a) the Company's annual financial statements and related footnotes;
 - b) the independent auditors' audit of the financial statements and their report thereon;
- 5.1.2 Review with management, the independent auditors and the CAE, the annual and quarterly financial reports before it is filed with SEC or other regulators.
- 5.1.3 Review and approve all related party transactions.

5.2 **Internal Control and Internal Audit**

- 5.2.1 Review with the independent auditors and the CAE the adequacy of the Company's internal control system.
- 5.2.2 Review with management and the CAE:
- a) significant findings on internal audits during the year and management's responses thereto;
 - b) procedures to monitor the effectiveness of the system of accounting and internal control.

5.3 **Others**

- 5.3.1 Establish procedures for the receipt, retention and treatment of complaints relating to accounting, internal controls or auditing matters that may be submitted by any party internal or external to the organization.
- 5.3.2 Establish procedures for the confidential, anonymous submissions by employees of Company of concerns regarding questionable accounting or auditing matters. Review any submissions that have been received, the current status, and the resolution if one has been received.

6. **FUNDING**

The company will provide appropriate funding to the Committee for the payment of outside auditors and advisors engaged by the Audit committee.