



# DESWELL INDUSTRIES, INC.

Nasdaq NM Symbol: DSWL

As of June 1, 1999:

Trailing 12 Months P/E Ratio (6/1/99): .....	5.7x
Shares Outstanding: .....	5,476,131
Insider Ownership: .....	64%
Fiscal Year End: .....	March 31
52 Week Price Range (6/1/99): .....	\$26.13 - \$9.81
Recent Price of Common Stock (6/1/99): .....	\$10.00
Market Capitalization: .....	\$55 million
Book Value Per Share: .....	\$8.9
Cash Per Share: .....	\$5.03

## THE COMPANY:

**Deswell Industries, Inc.** is a manufacturer of injection-molded plastic parts and components and electronic products and sub-assemblies for original equipment manufacturers (“OEMs”) and contract manufacturers. The Company conducts all of its manufacturing activities at separate plastics and electronics factories located in the People’s Republic of China. The Company produces a wide variety of plastic parts and components used in the manufacturing of consumer and industrial products; printed circuit board assemblies using surface mount (“SMT”) and other technologies; metallic molds and accessory parts for use in audio equipment and copying and fax machines, and finished products such as telephones, telephone answering machines and sophisticated studio-quality audio equipment and computer peripherals.

## COMPANY HIGHLIGHTS:

**Attractive Valuation** -- At \$10.00, Deswell is trading at approximately 5.7x trailing 12 months EPS, \$1.12x book value, and approximately 2x cash.

**Significant Benefit From China’s Growth and Available Labor Pool** -- The location of the Company’s factories in Shenzhen and Dongguan, Southern China, less than 50 miles from Hong Kong, allows the Company to take advantage of the lower overhead costs and inexpensive labor rates available in China (approximately 85% less than Hong Kong), and permits the Company to easily manage manufacturing operations from administrative and sales offices in economically vibrant Hong Kong. Deswell provides investors with the opportunity to invest in the growth of this region with reduced vulnerability to political and economic uncertainties related to investing in state-owned Chinese companies.

**Strong Customer Base** -- Deswell’s customers include Mita Industries (H.K.) Limited, Nam Tai Electronics (Shenzhen) Co. Limited, Inter-Tel Inc., Vtech Holdings Limited, Behringer spezeiller studytechnik GmBH, Prod-Art Co. Limited and Shakespeare (H.K.) Limited.

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Financial Communciations Contact:  
John G. Nesbett

LIPPERT/HEILSHORN & ASSOCIATES, INC. 212-838-3777

**COMPANY HIGHLIGHTS CONT'D:**

**Industry Trends** -- The injection molding industry has benefited in recent years from a trend among major users of injection molded components to outsource an increasing portion of their component requirements and to select a small number of suppliers or a sole supplier to provide those components. Similarly, as a result of the recognition by OEMs in the electronics industry of the rising costs of operating a manufacturing site and the need to add more sophisticated and expensive manufacturing processes and equipment, OEMs have turned increasingly to outside contract manufacturers.

**Location, Location, Location** -- The Company's location facilitates transportation of the Company's products out of China to customers in Hong Kong and beyond through the port of Hong Kong and provides the Company's plastic manufacturing operations with access to electricity from Hong Kong and to nearby water, both of which resources are needed in abundance to manufacture plastic parts and are often inadequate elsewhere in China.

**Expanded Capacity** -- The Company continues to aggressively expand its production facilities, ensuring capacity to meet the increasing demands of its customers. The company has announced that it has expanded the production capacity of its Kwanasia electronics assembly operations by over 120%. The newly based factory is an independent premise comprising 200,000 square feet of manufacturing space.

**Strong Balance Sheet** -- As of March 31, 1999, the Company had \$27.6 million in cash and cash equivalents with no long term debt.

**High Yield** -- Over the 1999 fiscal year, Deswell paid two cash dividends totaling \$0.88 per common share, an approximate 8.8% annual yield.

**Selected Consolidated Statements of Operations Data**

(In thousands, except per share data)

	Quarter Ended		Year Ended	
	3/31/99	3/31/98	3/31/99	3/31/98
	(audited)		(audited)	
Net sales	\$ 9,585	\$ 14,509	\$ 53,439	\$ 66,169
Total cost of sales	<u>6,247</u>	<u>8,605</u>	<u>32,179</u>	<u>36,246</u>
Gross profit	3,338	5,904	21,260	29,923
Selling, general and admin. expenses	<u>2,312</u>	<u>2,531</u>	<u>10,364</u>	<u>14,067</u>
Operating income	1,026	3,373	10,896	15,856
Interest expense	-	-	(306)	(2)
Other income, net	<u>(431)</u>	<u>394</u>	<u>888</u>	<u>1,094</u>
Income before taxes	595	3,767	11,478	16,948
Income taxes	<u>(431)</u>	<u>366</u>	<u>204</u>	<u>688</u>
Income before minority interest	1,026	3,401	11,274	16,260
Minority interests	<u>(33)</u>	<u>533</u>	<u>1,575</u>	<u>3,289</u>
Net income	<u>\$ 1,059</u>	<u>\$ 2,868</u>	<u>\$ 9,699</u>	<u>\$ 12,971</u>
Diluted earnings per share	\$ 0.19	\$ 0.52	\$ 1.76	\$ 2.40
Diluted weighted average	5,476	5,504	5,524	5,394

**Selected Balance Sheet Data**

	March 31, 1999	March 31, 1998
	(audited)	(audited)
Cash and cash equivalents	\$ 27,556	\$ 21,902
Inventories	5,902	6,415
Total assets	64,331	59,144
Total current liabilities	7,062	7,213
Long Term Debt	-	-
Shareholders' equity	\$ 48,974	\$ 45,211