



**Contact:**

John G. Nesbett  
Lippert/Heilshorn & Associates  
212-838-3777, ext. 6631  
e-mail: jnesbett@lhai.com

**DESWELL INDUSTRIES, INC. ANNOUNCES  
FOURTH QUARTER AND YEAR-END RESULTS**

**-Net Income Increases 29 Percent-**

**-Company also Announces Dividend of \$0.57 per Share-**

HONG KONG (June 12, 2001) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its results for the fourth quarter and year ended March 31, 2001.

Net sales for the fourth quarter increased 13% to \$16.9 million compared to sales of \$15.0 million in the fourth quarter ended March 31, 2000. Operating income decreased 25% to \$1.6 million for the most recent quarter, compared to \$2.2 million for the year-ago quarter. Net income for the fourth quarter increased 29% to \$2.5 million compared to \$1.9 million for the year-ago quarter. Basic earnings per share and diluted earnings per share increased to \$0.45 and \$0.45 respectively (based on 5,451,000 and 5,465,000 weighted average shares outstanding, respectively), compared to \$0.36 and \$0.35 respectively (based on 5,348,000 and 5,424,000 weighted average shares outstanding, respectively), in the fourth quarter ended March 31, 2000.

Net sales for the year ended March 31, 2001 were \$80.8 million, an increase of 33% compared to sales of \$61.0 million for the year ended March 31, 2000. Operating income increased 20% to 12.8 million, compared to \$10.7 million in the previous year, and net income increased 24% to \$12.8 million, compared to \$10.3 million in the previous year. Basic earnings per share and diluted earnings per share increased to \$2.38 and \$2.36 respectively (based on 5,376,000 and 5,435,000 weighted average shares outstanding, respectively), compared to \$1.90 and \$1.89 respectively (based on 5,412,000 and 5,449,000 weighted average shares outstanding, respectively), for the year ended March 31, 2000.

The Company reported cash and cash equivalents of \$25.3 million at March 31, 2001 compared to \$27.2 million as of March 31, 2000. Working capital was \$47.3 million as of March 31, 2001, versus \$44.7 million as of March 31, 2000. The Company has no short-term and long-term debt.

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The Company also announced that on June 6, 2001 its board of directors declared a dividend of \$0.57 per share (compared to \$0.55 per share in 2000). The dividend will be payable on July 6 to shareholders of record as of June 22, 2001.

In addition, the Company announced that it will pay dividends on a quarterly basis, beginning in the first quarter of fiscal year 2002. The dividend payout will account for approximately 30% to 40% of the net earnings.

Mr. Richard Lau, chief executive officer, commented, "We are very pleased with our continued growth in revenue and net income. Jetcrown, our plastics division achieved an increase in net revenue of 26% and 29% for the quarter and the year compared to the same period last year. Gross margins, however, were impacted by a 6% decrease in the combined quarterly revenue at Kwanasia and Kwanta, our electronics and metallics divisions. Additionally, SG&A increased as a percentage of revenues due to expansion at our new Dongguan facility. We expect improvement in our operating margins as volume increases over the course of 2001."

"Kwanasia and Kwanta, our electronics and metallics divisions, collectively recorded a 39% increase in net revenue for the year. Although the combined quarterly net revenues decreased 6%, the fourth quarter has been traditionally a slow season for these divisions. Beginning with the second quarter in July 2001, we anticipate strong performance in our electronics and metallics divisions as orders from new customers gradually increase. Going forward, our focus is to continue manufacturing high-end, high quality products for our existing customers, developing new customer relationships, while focusing on cost controls to maximize profitability."

"Construction on our recently leased 1.3 million square feet of land in Dongguan will consist of three to four phases. The pace of its development depends on the Company's financial situation and future operating results. The Company will invest \$11 million for the first phase of construction, which will begin in September or October and is expected to complete in eight months. The new plant is targeting to commence operation in 12 months' time after all renovations and installation of machinery," concluded Mr. Lau.

Deswell manufactures injection-molded plastic parts and components, electronic products and subassemblies, and metallic products for original equipment manufacturers ("OEMs") and contract manufacturers at its factories in the People's Republic of China. The Company produces a wide variety of plastic parts and components used in the manufacture of consumer and industrial products; printed circuit board assemblies using surface mount ("SMT"), and pin-through hole ("PHT") interconnection technologies; and finished products such as telephones, telephone answering machines, sophisticated studio-quality audio equipment and computer peripherals. The Company's

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customers include Kyocera Mita Industrial Co. (H.K.) Limited, Epson Precision (H.K.) Ltd., Namtai Electronics (Shenzhen) Co. Ltd., Inter-Tel Incorporated, Vtech Communications Ltd., Peavey Electronics Corporation and Emerson.

To learn more about Deswell Industries, Inc., please visit the Company's web site at [www.deswell.com](http://www.deswell.com).

*tables follow*

**CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
**( U.S. dollars in thousands, except per share data )**

	Quarter ended		Year ended	
	March 31,		March 31,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	(Unaudited)		(Unaudited)	(Audited)
Net sales	\$ 16,876	\$ 14,958	\$ 80,847	\$ 60,958
Cost of sales	11,654	9,836	52,596	38,262
Gross profit	<u>5,222</u>	<u>5,122</u>	<u>28,251</u>	<u>22,696</u>
Selling, general and administrative expenses	3,613	2,972	15,414	11,970
Operating income	<u>1,609</u>	<u>2,150</u>	<u>12,837</u>	<u>10,726</u>
Interest expense	(1)	(3)	(6)	(3)
Other income, net	305	(28)	915	898
Income before income taxes	<u>1,913</u>	<u>2,119</u>	<u>13,746</u>	<u>11,621</u>
Income taxes	(245)	192	315	890
Income before minority interests	<u>2,158</u>	<u>1,927</u>	<u>13,431</u>	<u>10,731</u>
Minority interests	(295)	22	621	433
Net income	<u>\$ 2,453</u>	<u>\$ 1,905</u>	<u>\$ 12,810</u>	<u>\$ 10,298</u>
Basic earnings per share (note 3)	<u>\$ 0.45</u>	<u>\$ 0.36</u>	<u>\$ 2.38</u>	<u>\$ 1.90</u>
Weighted average number of shares outstanding (in thousands)	<u>5,451</u>	<u>5,348</u>	<u>5,376</u>	<u>5,412</u>
Diluted earnings per share (note 3)	<u>\$ 0.45</u>	<u>\$ 0.35</u>	<u>\$ 2.36</u>	<u>\$ 1.89</u>
Diluted weighted average number of shares outstanding (in thousands)	<u>5,465</u>	<u>5,424</u>	<u>5,435</u>	<u>5,449</u>

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**DESWELL INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEET**  
**( U.S. dollars in thousands)**

	March 31, <u>2001</u> (Unaudited)	March 31, <u>2000</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 25,330	\$ 27,156
Restricted cash	1,988	2,129
Marketable securities	-	1,308
Accounts receivable, net	15,777	10,607
Inventories	12,034	10,932
Prepaid expenses and other current assets	1,833	2,295
Income taxes receivable	339	164
Total current assets	<u>57,301</u>	<u>54,591</u>
Property, plant and equipment – net	25,563	16,701
Goodwill	513	549
Total assets	<u>\$ 83,377</u>	<u>\$ 71,841</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,274	\$ 5,401
Customer deposits and accrued expenses	5,531	4,362
Income taxes payable	208	101
Total current liabilities	<u>10,013</u>	<u>9,864</u>
Minority interests	<u>9,540</u>	<u>8,931</u>
Deferred income tax	<u>15</u>	<u>15</u>
Shareholders' equity		
Common stock		
- authorized 20,000,000 shares; issued and outstanding		
5,597,931 shares at March 31, 2001 and		
5,347,931 shares at March 31, 2000	56	53
Additional paid-in capital	26,812	24,100
Retained earnings	36,941	28,878
Total shareholders' equity	<u>63,809</u>	<u>53,031</u>
Total liabilities and shareholders' equity	<u>\$ 83,377</u>	<u>\$ 71,841</u>

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**DESWELL INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**  
**( U.S. dollars in thousands )**

	Year ended March 31, <u>2001</u>	Year ended March 31, <u>2000</u>
Cash flows from operating activities :		
Net income	\$ 12,810	\$ 10,298
Adjustments to reconcile net income to net cash Provided by operating activities :		
Depreciation and amortization	5,017	4,784
(Gain) loss on disposal of property, plant and equipment	(52)	35
Minority interests	621	433
Changes in current assets and liabilities :		
Accounts receivable	(5,184)	(2,811)
Marketable securities	1,306	(1,174)
Inventories	(1,116)	(5,030)
Prepaid expenses and other current assets	459	1,815
Income taxes receivable	(175)	233
Accounts payable	(1,120)	2,528
Customer deposits and accrued expenses	1,175	224
Income taxes payable	107	(99)
Net cash provided by operating activities	<u>13,848</u>	<u>11,236</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(13,926)	(6,019)
Proceeds from disposal of property, plant and Equipment	113	176
Additional interest in a subsidiary	-	(6)
Decrease in restricted cash	138	247
Net cash used in investing activities	<u>(13,675)</u>	<u>(5,602)</u>
Cash flows from financing activities		
Repurchase of Common Stock	-	(1,257)
Common Stock issued	2,746	-
Exchange difference on translation	(35)	-
Dividends paid	(4,710)	(4,777)
Net cash used in financing activities	<u>(1,999)</u>	<u>(6,034)</u>
Net decrease in cash and cash equivalents	(1,826)	(400)
Cash and cash equivalents, at beginning of year	<u>27,156</u>	<u>27,556</u>
Cash and cash equivalents, at end of year	<u><u>25,330</u></u>	<u><u>27,156</u></u>

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Supplementary disclosures of cash flow information :

Cash paid during the year for :

Interest	\$ 6	\$ 3
Income taxes	544	756
	<u>550</u>	<u>759</u>

Additional interest in a subsidiary:

Goodwill	\$ -	\$ 224
Minority Interests	-	(218)
Cash paid	-	6
	<u>-</u>	<u>6</u>

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**DESWELL INDUSTRIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(U.S. dollars in thousands except per share data)**

**1. Management's Statement**

In the opinion of Management, the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Deswell Industries, Inc. (the Company) at March 31, 2001 and March 31, 2000, the results of operations for the quarters and year ended March 31, 2001 and March 31, 2000, and the cash flows for the year ended March 31, 2001 and March 31, 2000. The notes to the Consolidated Financial Statements that are contained in the Form 20-F Annual Report filed on July 6, 2000 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

**2. Inventories**

	March 31, <u>2001</u>	March 31, <u>2000</u>
Inventories by major categories :		
Raw materials	\$ 6,129	\$ 6,924
Work in progress	2,947	1,553
Finished goods	<u>2,958</u>	<u>2,455</u>
	<u>\$ 12,034</u>	<u>\$ 10,932</u>
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**3. Earnings Per Share**

The basic net income per share and diluted net income per share are computed in accordance with the Statement of Financial Accounting Standards No.128 "Earnings Per Share".

The basic net income per share is computed by dividing income available to common holders by the weighted average number of common shares outstanding during the period. Diluted net income 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 exercise of options.

The net income for the quarters and year ended March 31, 2001 and 2000 were both from the Company's continuing operations.

## **DESWELL INDUSTRIES, INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Results of Operations**

##### General

The Company's revenues are derived from the manufacture and sale of (i) injection-molded plastic parts and components, (ii) electronic products and subassemblies and (iii) metallic parts and components. The Company carries out all of its manufacturing operations in southern China, where it is able to take advantage of the lower overhead costs and inexpensive labor rates as compared to Hong Kong.

##### Quarter Ended March 31, 2001 Compared to Quarter Ended March 31, 2000

The Company's net sales for the quarter ended March 31, 2001 were \$16,876,000, an increase of \$1,918,000 or 12.8% as compared to corresponding period in 2000. The increase in sales was mainly related to an increase in sales of injection-molded plastic products of \$2,277,000 offset by a decrease in sales of electronic and metallic products of \$359,000. This represented an increase of 25.7% and a decrease of 5.9% respectively, as compared with the net sales in the corresponding period in the prior year.

The increase in net sales in the plastic injection division was mainly due to increase in orders from its existing strong customer base together with the new orders from new customers as a result of the improving economic environment faced by our customers in the Asian Market.

The gross profit for the quarter ended March 31, 2001 was \$5,222,000, representing a gross profit margin of 30.9%. This compares with the overall gross profit and gross profit margin of \$5,122,000 or 34.2% for the quarter ended March 31, 2000.

Selling, general and administrative expenses for the quarter ended March 31, 2001 were \$3,613,000, amounting to 21.4% of total net sales, as compared to \$2,972,000 or 19.9% of total net sales for the quarter ended March 31, 2000. The increase in selling, general and administrative expenses of \$641,000 over the corresponding period was mainly attributed to the increase in general and administrative expenses resulted from improved business over last year.

As a result of the increase in net sales, operating income was \$1,609,000 for the quarter ended March 31, 2001, a decrease of \$541,000 or 25.2% as compared with the corresponding quarter in the prior year.

Minority interests represent the 49% minority interest in both the electronics and metallic subsidiaries. The decrease in minority interest to a deficiency of \$295,000 for the quarter ended March 31, 2001 from a surplus of \$22,000 for the corresponding quarter in the prior year reflects a deficit incurred by the electronic and metallic business.

As a result of the above factors, net income was \$2,453,000 for the quarter ended March 31, 2001, an increase of \$548,000 or 28.8%, as compared to the quarter ended March 31, 2000 and net income as a percentage of net sales increased to 14.5% from 12.7%.

**DESWELL INDUSTRIES, INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (Continued)**

Year Ended March 31, 2001 Compared to Year Ended March 31, 2000

The Company's net sales for the year ended March 31, 2001 were \$80,847,000, an increase of \$19,889,000 or 32.6% as compared to year ended March 31, 2000. The increase in sales was mainly related to increases in sales of injection-molded plastic products and electronic and metallic products of \$10,996,000 and \$8,893,000, respectively. This represented increases of 28.7% and 39.3%, respectively, as compared with the net sales in prior year.

The increase in net sales in both operations was attributed to the substantial increase in orders from existing strong customer base together with the new orders from new customers.

The gross profit for the year ended March 31, 2001 was \$28,251,000, representing a gross profit margin of 34.9%. This compares with the overall gross profit and gross profit margin of \$22,696,000 or 37.2% for the year ended March 31, 2000. The decrease in the overall gross profit margin of 2.3% was mainly attributed to the combined effect of the increase in resin costs and electronics component costs in the plastic and electronic division respectively.

Selling, general and administrative expenses for the year ended March 31, 2001 were \$15,414,000, amounting to 19.1% of total net sales, as compared to \$11,970,000 or 19.6% of total net sales for the year ended March 31, 2000. The increase in selling, general and administrative expenses of \$3,444,000 over prior year was the increase in general and administrative expenses resulted from improved business over last year.

As a result, operating income was \$12,837,000 for the year ended March 31, 2001, an increase of \$2,111,000 or 19.7% as compared with the prior year.

During the year ended March 31, 2001, the Company acquired an additional 17.9% equity interest in the metal subsidiary. As a result, minority interests represent the 49% minority interest in both the electronics and metallic subsidiaries. The increase in minority interest to \$621,000 for the year ended March 31, 2001 from \$433,000 for the year ended March 31, 2000 reflects the fact that the electronic and metallic business generated more profits in the current year as compared to the prior year.

As a result of the above factors, net income was \$12,810,000 for the year ended March 31, 2001, an increase of \$2,512,000 or 24.4%, as compared to the year ended March 31, 2000 and net income as a percentage of net sales decreased slightly to 15.8% from 16.9%.

**DESWELL INDUSTRIES, INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (Continued)**

**Liquidity and Capital Resources**

During the past five years, the Company has relied primarily upon internally generated funds and short-term borrowings (including trade finance facilities) to finance its operations and expansion.

As of March 31, 2001, the Company had a working capital surplus of \$47,288,000. This compares with a working capital surplus of \$44,727,000 at March 31, 2000. The increase in working capital was mainly attributed to net cash generated from its operating activities and the fund from exercise of stock options of \$2,746,000 during the year offset by the cash dividend distributed of \$4,710,000 in June and December 2000.

The Company has generated sufficient funds from its operating activities to finance its operations and there is little need for external financing other than short-term borrowings that are used to finance accounts receivable and are generally paid with cash generated from operations. The Company has no outstanding short-term borrowings and no long-term debt as of March 31, 2001.

As of March 31, 2001, the Company had in place general banking facilities with two financial institutions aggregating approximately \$17,097,000. Such facilities, which are subject to annual review, include overdrafts, letters of credit, import facilities, trust receipt financing, inward bills financing as well as fixed loans. As of March 31, 2001, the Company had ( i ) unused credit facilities of \$17,097,000 ( ii ) cash and cash equivalents of \$25,330,000 and ( iii ) restricted cash of \$1,988,000, which has been pledged as collateral for those credit facilities. The restricted cash of \$1,826,000 and leasehold land and buildings of \$1,378,000 have been pledged as collateral for those credit facilities. The Company also had \$162,000 pledged as deposit for customs duty in Dongguan, China.

The Company expects that working capital requirements and capital additions will be funded through a combination of internally generated funds and existing facilities.

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