

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

FORM 20-F

(Mark one)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2025
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report
For the transition period from _____ to _____

Commission File Number: 001-33900



DESWELL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

10B, Edificio Associacao Industrial De Macau
32 Rua do Comandante Mata e Oliveria, Macao
Special Administrative Region, PRC

(Address of Principal Executive Offices)

Herman Wong, Chief Financial Officer,

Telephone: 853-28-322096; Fax: 853-28-323265

E-mail: hermanwong@jetcrown.net

10B, Edificio Associacao Industrial De macau
32 Rua do Comandante Mata e Oliveira, Macao
Special Administrative Region, PRC

(Name, Telephone, E-mail and/or Facsimile number and Address
of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange a on which registered
Common shares, no par value	DSWL	NASDAQ

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

As of March 31, 2025, there were 15,935,239 common shares of the registrant outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes No

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Accelerated filer Non-accelerated filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 USC. 762(b)) by the registered public accounting firm that prepared or issues its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

TABLE OF CONTENTS

	Page
PART I	1
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	1
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	1
ITEM 3. KEY INFORMATION	1
ITEM 4. INFORMATION ON THE COMPANY	31
ITEM 4A. UNRESOLVED STAFF COMMENTS	41
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	41
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	51
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	54
ITEM 8. FINANCIAL INFORMATION	55
ITEM 9. THE OFFER AND LISTING	57
ITEM 10. ADDITIONAL INFORMATION	58
ITEM 10J. ANNUAL REPORT TO SECURITY HOLDERS	66
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	66
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	66
PART II	67
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	67
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	67
ITEM 15. CONTROLS AND PROCEDURES	67
ITEM 16. [RESERVED]	68
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	68
ITEM 16B. CODE OF ETHICS	68
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	69
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR THE AUDIT COMMITTEE	69
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATE PURCHASERS	69
ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT	69
ITEM 16G. CORPORATE GOVERNANCE	69
ITEM 16H. MINE SAFETY DISCLOSURE	69
ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS	70
ITEM 16J. INSIDER TRADING POLICIES	70
ITEM 16K. CYBERSECURITY	70
PART III	71
ITEM 17. FINANCIAL STATEMENTS	71
ITEM 18. FINANCIAL STATEMENTS	71
ITEM 19. EXHIBITS	72
SIGNATURES	73
CERTIFICATION OF CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934	Exhibit 12.1
CERTIFICATION OF CHIEF FINANCIAL OFFICER REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934	Exhibit 12.2
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	Exhibit 13.1
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM — BDO China Shu Lun Pan Certified Public Accountants LLP	Exhibit 15.1

INTRODUCTION

This Annual Report on Form 20-F contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in the section entitled Risk Factors under ITEM 3 “Key Information.”

Readers should not place undue reliance on forward-looking statements, which reflect management’s view only as of the date of this Annual Report. The Company undertakes no obligation to revise these forward-looking statements to reflect subsequent events or circumstances. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Except where the context otherwise requires and for purposes of this Report only:

- “we,” “us,” “our Company,” “our,” the “Company” or “Deswell” refers to Deswell Industries, Inc. and, in the context of describing our operations, also include our operating subsidiaries;
- “shares” refer to our common shares, no par value;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report only, Taiwan, Hong Kong and Macao;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the People’s Republic of China;
- “Macao” refers to the Macao Special Administrative Region of the People’s Republic of China;
- “BVI” refers to the British Virgin Islands;
- all references to:
 - “renminbi,” “RMB” or “yuan” are to the legal currency of China, of which the yuan is the base unit;
 - “HK dollars” or “HK\$” are to the legal currency of Hong Kong;
 - “MOP\$” are to the legal currency of Macao;
 - “U.S. dollars,” “dollars,” “\$” or “U.S.\$” are to the legal currency of the United States; and
 - “fiscal year,” e.g., “fiscal 2025,” are to our year ended March 31 of the year(s) indicated.

FINANCIAL STATEMENTS AND CURRENCY PRESENTATION

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America and publishes such statements in United States dollars. See “Report of Independent Registered Public Accounting Firm” included elsewhere herein. The Company publishes its financial statements in United States dollars. The functional currency of the Company and its subsidiaries is the U.S. dollar.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

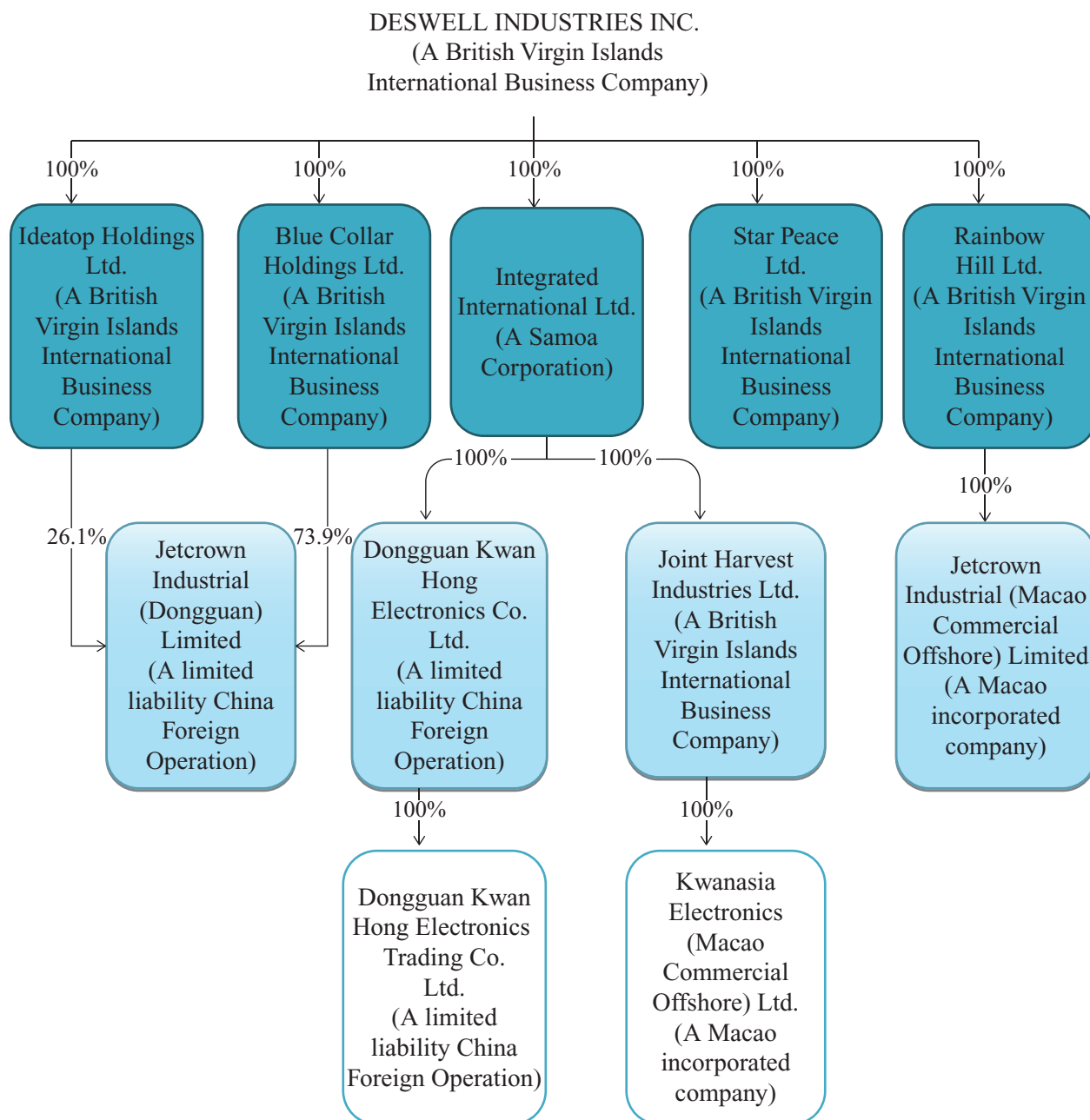
ITEM 3. KEY INFORMATION

Our Holding Company Structure

Deswell was incorporated in the British Virgin Islands on December 2, 1993. Deswell is not an operating company but rather a holding company conducting its operations through Deswell's subsidiaries, primarily in Macao and mainland China. This structure involves unique risks to investors and you may never directly hold equity interests in Deswell's operating entities. You are specifically cautioned that there are significant legal and operational risks associated with being based in or having the majority of operations in China. The legal and operational risks associated with being based in and having operations in mainland China also apply to our operations in Macao and our holdings in Hong Kong. Recently, the PRC government initiated a series of regulatory actions and made a number of public statements on the regulation of business operations in China, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas using a Variable Interest Entity structure, adopting new measures to extend the scope of cybersecurity reviews, and expanding efforts in anti-monopoly enforcement. We do not believe that our subsidiaries in Macao or mainland China are directly subject to these regulatory actions or statements, as we have not carried out any monopolistic behavior and our business does not involve the collection of personal information or implicate national security. However, since these statements and regulatory actions by the PRC government are newly published and detailed official guidance and related implementation rules have not been issued or taken effect, uncertainties exist as to how soon the regulatory bodies in China will finalize implementation measures, and the impacts the modified or new laws and regulations will have on our daily business operation, the ability to accept foreign investments and list the Company's securities on an U.S. or other foreign exchange. For a detailed description of risks relating to doing business in China, see "ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China."

Deswell is a holding company and its principal administrative office is located in Macao. Our primary manufacturing operations are conducted in China through our subsidiaries, Jetcrown Industrial (Dongguan) Limited, and Dongguan Kwan Hong Electronics Co. Ltd., both of which are located in Dongguan, China. We conduct trading operations in Macao through our subsidiaries, Kwanasia Electronics (Macao Commercial Offshore) Ltd. and Jetcrown Industrial (Macao Commercial Offshore) Limited. Our operating subsidiaries are directly owned by intermediate holding companies located in the BVI and Samoa. Our intermediate holding companies in the BVI include Ideatop Holdings Ltd., Blue Collar Holdings Ltd., Joint Harvest Industries Ltd., Star Peace Ltd. and Rainbow Hill Ltd. Our intermediate holding company in Samoa is Integrated International Ltd.. We do not currently have operations in Hong Kong.

The following diagram illustrates the organizational structure of the Company and its active subsidiaries at March 31, 2025.



The Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act (the “HFCAA”) enacted in 2020, provides that if the auditor of a U.S. listed company’s financial statements is not subject to Public Company Accounting Oversight Board (the “PCAOB”) inspections for three consecutive “non-inspection” years, the Securities and Exchange Commission (the “SEC”) is required to prohibit the securities of such issuer from being traded on a U.S. national securities exchange, such as NYSE and Nasdaq, or in U.S. over-the-counter markets. On December 29, 2022, U.S. Congress passed and the President of the United States signed into law the Consolidated Appropriations Act, 2023, which, among other things, amended the HFCAA to shorten the timeframe from three consecutive “non-inspection” years to two consecutive “non-inspection” years. On December 16, 2021, the PCAOB issued a report to notify the SEC that it was unable to completely inspect or investigate registered public accounting firms headquartered in Mainland China, including our auditor, BDO China Shu Lun Pan Certified Public Accountants LLP, a registered public accounting firm headquartered in Shanghai, China. On August 29, 2022, we were conclusively listed by the SEC as a “Commission-Identified Issuer”

under the HFCAA as having filed audit reports issued by a registered public accounting firm that could not be inspected or investigated completely by the PCAOB in connection with the filing of our annual report on Form 20-F for the fiscal year ended March 31, 2022. On December 15, 2022, the PCAOB issued a report vacating its December 16, 2021 determination and removing Mainland China and Hong Kong from the list of jurisdictions where it is unable to completely inspect or investigate registered public accounting firms, and a statement released from the Chairman of the PCAOB stated that the PCAOB has secured complete access to inspect and investigate such registered public accounting firms headquartered in Mainland China and Hong Kong. For this reason, we do not expect to be identified as a “Commission-Identified Issuer” under the HFCAA after we file this annual report on Form 20-F for the fiscal year ended March 31, 2025.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year and the SEC could prohibit our shares from being traded on Nasdaq. The threat of being delisted, may materially and adversely affect the value of your investment. These risks could result in a material adverse change in our operations and the value of our shares, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline or become worthless. For more details, see “ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China — Our auditor, like other independent registered public accounting firms operating in China, is now permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors will no longer be deprived of the benefits of such inspection.” and “ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China — We could be delisted if the PCAOB becomes unable to completely inspect and investigate registered public accounting firms in Mainland China and Hong Kong again.”

Permissions and Licenses Required from the PRC government for Our Operations and Overseas Securities Offerings

We are required to obtain certain licenses and permits from relevant governmental authorities in China in order to operate our business, including business certificates, plants safety certificates and pollutant discharge permits. As of the date of this annual report, our subsidiaries in China have obtained business licenses from the PRC government authorities necessary for our business operations in China. We have not relied upon the opinion of PRC counsel in reaching these conclusions and have instead conducted our own analysis of the PRC laws as applied to our operations. We have not been asked to obtain any licenses or approvals from the Cyberspace Administration of China (the “CAC”) or the China Securities Regulatory Commission (the “CSRC”). We may be required to obtain additional licenses, permits, registrations, or approvals for our business operations in the future. We cannot assure you that we or our subsidiaries will be able to obtain, in a timely manner or at all, or maintain such licenses, permits or approvals, and we or our subsidiaries may also inadvertently conclude that such permissions or approvals are not required. Any lack of or failure to maintain requisite approvals, licenses or permits applicable to us or our subsidiaries may have a material adverse impact on our business, results of operations, financial condition and prospects and cause the value of any securities we offer to significantly decline or become worthless. If we fail to obtain or renew any of these approvals, licenses, permits or certifications, it could materially and adversely affect our business and results of operations.

On December 28, 2021, the CAC and other PRC regulatory authorities implemented the Measures for Cybersecurity Review, which became effective on February 15, 2022. According to the Measures for Cybersecurity Review, operators of critical information infrastructure purchasing network products and services, and data processors carrying out data processing activities that affect or may affect China’s national security, are required to conduct a cybersecurity review. Operators, including operators of critical information infrastructure and data processors, who control more than 1 million users’ personal information must report to the Cyber Security Review Office for a cybersecurity review if it intends to be listed in a foreign country. Companies seeking to list their securities on foreign exchanges may be subject to increased scrutiny by the CAC under the Measures for Cybersecurity Review.

We do not believe that our PRC subsidiaries are engaged in the operation of critical information infrastructure and data processors, and we do not control personal information for more than 1 million users. Accordingly, we do not believe that the Measures for Cybersecurity Review apply to us or our PRC subsidiaries. We cannot assure you that PRC regulatory agencies, including the CAC, would take the same view as we do, and we cannot assure you

that we can fully or timely comply with such legal or regulatory requirements. If we become subject to cybersecurity inspection and/or review by the CAC or other PRC authorities or are required by them to take any specific actions, it could cause disruptions to our operations, result in negative publicity regarding our company, and divert our managerial and financial resources. We may also be subject to significant fines or other penalties, which could materially and adversely affect our business, financial condition and results of operations.

On February 17, 2023, the CSRC promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (the “Overseas Listing Trial Measures”), which became effective on March 31, 2023. According to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, directly or indirectly, are required to comply with CSRC filing procedures.

Deswell is incorporated under the laws of the BVI, but our PRC subsidiaries are incorporated under the laws of China. The Overseas Listing Trial Measures, as currently written, will deem an offering by Deswell of its securities as an indirect offering by our PRC subsidiaries if: (1) 50% or more of our operating revenue, total profit, total assets or net assets, as documented in our audited consolidated financial statements for the most recent fiscal year, are accounted for by the PRC subsidiaries; and (2) our main business activities are conducted in China, or our main place of business is located in China, or the majority of senior management staff in charge of our business operations and management are PRC citizens or have their usual place of residence located in China.

The CSRC clarified at a press conference that existing domestic companies that have completed overseas offerings before March 31, 2023, such as us, shall not be required to perform filing procedures for the completed overseas securities issuance and listing. However, any of our subsequent securities offering in the same overseas market or subsequent securities offering and listing in other overseas markets may be subject to the filing requirement with the CSRC. We cannot predict whether the Overseas Listing Trial Measures will apply to any follow-on offerings that we may conduct in the future or that we will be able to obtain the required approval or accomplish the required filings or other regulatory procedures in a timely manner. If we fail to comply with the Overseas Listing Trial Measures, the CSRC may subject us to significant fines or other penalties, which could materially and adversely affect our business, financial condition and results of operations. See “ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China — Permissions required from the PRC authorities for our operations could change requiring us to obtain additional licenses or abide by new regulations.”

Cash Flows through Our Organization

Deswell, the British Virgin Islands entity listed in the U.S., controls its operating subsidiaries in Macao and mainland China, through a number of British Virgin Islands subsidiaries and a Samoa subsidiary of Deswell (the “Intermediate Holding Companies”). See ITEM 4. “Information of the Company — Organizational Structure” for more details.

The funds of Deswell, the Intermediate Holding Companies and Macao subsidiaries are deposited in banks located in Hong Kong and Macao. The intercompany fund transfer between Deswell, the Intermediate Holding Companies and Macao subsidiaries is not limited by the laws of Hong Kong and Macao.

For the three years ended March 31, 2023, March 31, 2024 and March 31, 2025, Deswell paid dividends of \$3.19 million, \$3.19 million and \$3.19 million respectively to its investors. Deswell expects to pay cash dividends on a semi-annual basis based on the Company’s six-month results. Whether future dividends will be declared will depend upon the Company’s future growth and earnings, of which there can be no assurance. See ITEM 8. “Dividend Policy” for more details. See ITEM 10. “Additional Information — Taxation” for information regarding the tax consequences of the dividends that Deswell pays to its investors.

The dividend of \$3.19 million paid in the year ended March 31, 2023 was paid by Deswell from its reserve. The dividends of \$3.19 million and \$3.19 million paid by Deswell for the two years ended March 31, 2024 and March 31, 2025 were funded by the subsidiary, Kwanasia Electronics (Macao Commercial Offshore) Ltd (“KEMCO”). KEMCO declared dividends to its immediate holding company, Joint Harvest Industries Ltd. (“Joint Harvest”), in the amounts of \$3.19 million and \$3.19 million for the two years ended March 31, 2024 and March 31, 2025, respectively. KEMCO is subject to Macao Profits Tax (currently at 12%) on its taxable income. The dividends distributed were paid out of after-tax profits, and no additional withholding tax applies under Macao law for dividends paid to non-resident entities (such as Joint Harvest).

Joint Harvest then declared dividends to its immediate holding company, Integrated International Ltd (“Integrated”), in the amounts of \$3.19 million, and \$3.19 million for the two years ended March 31, 2024 and March 31, 2025, respectively. Joint Harvest, as a holding company incorporated in the BVI, does not incur corporate income tax or withholding tax on dividend distributions.

Integrated then declared dividends to its holding company, Deswell, in the amounts of \$3.19 million, and \$3.19 million for the two years ended March 31, 2024 and March 31, 2025, respectively. Integrated is an International Company incorporated in Samoa. Under current Samoa law, Integrated is not subject to corporate income tax and withholding taxes on dividend distribution as it has no business operations in Samoa.

For operational efficiency, the physical transfer of funds was executed directly from KEMCO to Deswell, bypassing the intermediate holding companies, Joint Harvest and Integrated. However, the documentation and accounting records properly reflected the dividend declarations and approvals at each entity level, maintaining compliance with corporate governance requirements.

The cross-border transfer of funds from the Intermediate Holding Companies to its Chinese subsidiaries is legal and compliant with the laws and regulations of China. The Intermediate Holding Companies are permitted to provide funding to their subsidiaries in mainland China in the form of shareholder loans or capital contributions, subject to satisfaction of applicable government registration, approval and filing requirements of the respective jurisdiction. There are no quantity limits on capital contributions by the Intermediate Holding Company to the subsidiaries in mainland China under the PRC regulations. Historically, cash proceeds raised from overseas financing activities by Deswell have been first transferred to the Intermediate Holding Companies. Whenever we need to make capital contributions to the PRC subsidiaries by contributing any of such net proceeds, and convert the contributed proceeds into RMB, we will need to increase the PRC subsidiary’s registered capital by registering and/or filing the increase with the Ministry of Commerce or one of its local branches, the State Administration of Foreign Exchange (“SAFE”) or one of its local branches, or an authorized bank.

Current PRC regulations permit our PRC subsidiaries to pay dividends to their holding companies only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits after making up previous years’ accumulated losses each year, if any, to fund certain statutory reserve funds until the total amount set aside reaches 50% of its registered capital. In addition, it may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds at its discretion. These reserves are not distributable as cash dividends. In addition, if any of our operating subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends. For more details, see “ITEM 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources — Restricted net assets” To the best of our knowledge, current PRC regulations do not prohibit or limit using cash generated from one subsidiary to fund another subsidiary’s operations. We currently do not have our own cash management policy and procedures that dictate how funds are transferred.

For the years ended March 31, 2023, 2024 and 2025, no dividend or distribution was made to Deswell or the Intermediate Holding Companies by our PRC subsidiaries. Accordingly, no withholding tax was recorded in the corresponding period.

For more details, see “ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China — Due to restrictions under PRC law on distributions of dividends by our subsidiaries in the PRC, we may be forced to reduce the amount of, or not be able to pay, dividends to our shareholders.”, “ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China — PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.” and “ITEM 3. Key Information — Risk Factors — Risks Related to Doing Business in China — Restrictions on the convertibility of RMB into foreign currency may limit our ability to transfer excess funds or dividends to the Company’s subsidiaries outside China.”

Enforceability of Civil Liabilities

We are incorporated under the laws of the BVI. As a result, it may be difficult or impossible to effect service of process on Deswell within the United States or to recover on judgments rendered by United States courts against us. There is currently no arrangement providing for the reciprocal enforcement of judgements between the BVI and the United States. A judgment obtained in United States federal or state courts under which a definite sum of money is payable as compensatory damages may be brought as a separate cause of action to collect a debt in the BVI. The judgment for which enforcement is sought must be final and conclusive and from a foreign court of competent jurisdiction. This means enforcing a judgment rendered by United States courts in the BVI will require a separate cause of action in the BVI, which will lead to additional expenses and delays for the party seeking to enforcement a judgment against us. As a result, there is uncertainty as to the enforceability in the BVI of judgments rendered against us by United States courts.

There is currently no arrangement providing for the reciprocal enforcement of judgements between Hong Kong and the United States. Judgements of United States courts, or any other foreign jurisdiction without a treaty of reciprocity, will not be directly enforced in Hong Kong. However, under common law, a foreign judgment (including one from United States courts) may generally be treated by the courts of Hong Kong as a cause of action in itself and sued upon as a debt between the parties. In a common law action for enforcement of a foreign judgment, the judgment creditor has to prove that (i) the judgment is in personam; (ii) the judgment is in the nature of a monetary award; (iii) the judgment is final and conclusive on the merits and has not been stayed or satisfied in full; and (iv) the judgement is from a court of competent jurisdiction. The defenses available to the defendant in a common law action for enforcement of a foreign judgment include breach of natural justice, fraud and enforcement would be contrary to the public policy of Hong Kong. Enforcing a judgment from United States Courts in Hong Kong will require a separate cause of action in Hong Kong, which will cause both parties to incur additional expenses and lead to additional delays in any recovery on the part of a plaintiff. As a result, there is uncertainty as to the enforceability in Hong Kong of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any State or territory within the United States.

Likewise, there is currently no arrangement providing for the reciprocal enforcement of judgements between China and the United States. There is uncertainty as to whether Chinese courts would enforce judgements of United States Courts against us or our officers and directors located in China.

According to the PRC Civil Procedures Law, courts in China will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or any other foreign jurisdiction without a treaty of reciprocity. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law against us in China if they can establish sufficient connection to China for a PRC court to have jurisdiction, and meet other procedural requirements. However, it may be difficult for foreign shareholders to establish a sufficient connection to China for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.

The funds of Deswell, the Intermediate Holding Companies and Macao subsidiaries are deposited in banks located in Hong Kong and Macao. The funds of the PRC subsidiaries are deposited in banks located in China. Additionally, all of our officers and directors are located in, or are citizens of, Hong Kong. As a result, it may be difficult for investors to effect service of process within the United States upon or our officers and directors located in Hong Kong, or to enforce judgments obtained in U.S. courts against us or them, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It will also be costlier and time-consuming for investors to effect service of process outside the United States.

Risk Factors

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in this document and other documents filed with the Securities and Exchange Commission, in press releases, in reports to shareholders, on our website, and other documents. The Private Securities Litigation Reform Act of 1995 contains a safe harbor for forward-looking statements on which we rely in making such disclosures. In connection with this “safe harbor,” we are hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf. Any such statement is qualified by reference to the cautionary statements provided in this ITEM 3.

Summary of Risk Factors

- We are, and have been, dependent on a few major customers, the loss of, or substantial reduction in orders from, which would substantially harm our business and operating results.
- Our gross margins fluctuate from year to year and may be adversely affected by a number of factors.
- If we were a passive foreign investment company in fiscal 2025, or are in later years, U.S. investors could suffer adverse U.S. federal income tax consequences in such years.
- Changes in currency exchange rates have and could continue to influence our financial results significantly.
- If OEMs stop or reduce their manufacturing outsourcing, our business could suffer.
- We could experience credit problems with our customers, which could adversely impact our operating results and financial condition and could adversely reduce our future revenues.
- The failure of any bank in which we deposit our funds could result in a loss of those funds to the extent exceeding the amounts protected and could affect our ability to continue in business.
- Our industry is extremely competitive, with aggressive pricing dynamics, and if we are not able to continue to provide competitive products and services, we may lose business.
- We have no long-term contracts to obtain plastic resins and our profit margins and operating results could suffer from an increase in resin prices.
- Shortages of components and materials used in our production of electronics products may delay or reduce our sales and increase our costs.
- We face inventory risks of obsolescence and impairment charges by providing turnkey manufacturing of electronic products.
- Our insurance coverage may not adequately cover losses related to major accidents, forces of nature or product liability risks.
- Our customers are dependent on shipping companies for delivery of our products and interruptions to shipping could materially and adversely affect our business and operating results.
- Protecting, seeking licenses for, or asserting claims over, intellectual property could be costly.
- We are dependent on customers operating in highly competitive markets and the inability of our customers to succeed in their markets can adversely impact our business, operating results and financial condition.
- Compliance with environmental regulations may be costly and could impact our future operating results.
- We may be required to write down long-lived assets, adversely affecting our future operating results.
- Potential new accounting pronouncements or changes in interpretation by NASDAQ may adversely impact our future financial position and results of operations in the future.
- Our exemptions from certain of the reporting requirements under the Exchange Act limits the protections and information afforded to investors.
- We have identified material weaknesses in our control over financial reporting. We are taking steps to remediate such weakness, but failure to do so, or the development of new material weaknesses in our internal control over financial reporting could result in material misstatements of our financial statements.
- The Chinese government could intervene in or influence our operations at any time and could change its policies toward or even nationalize private enterprise, which could result in the total loss of our investment in that country.
- The Chinese government could intervene in or influence the conduct of our directors or officers with ties to Hong Kong at any time, which could materially impact our results of operations.

- Recent developments in Chinese law related to overseas securities offerings by China-based issuers may hinder our ability to offer or continue to offer our securities to investors and cause the value of our securities to significantly decline or be worthless.
- The enforcement of laws and rules and regulations in China can change quickly with little advance notice. Additionally, the PRC laws and regulations and the enforcement of those that apply or are to be applied to Hong Kong or Macao can change quickly with little or no advance notice.
- The Chinese government may exert more oversight and/or control over our operations in China and Macao, or our holdings in Hong Kong, and in offerings conducted overseas by, and/or foreign investment in, China-based issuers like us.
- Adverse changes in political and economic policies of the PRC government could effect the overall economic growth of China, which could reduce the demand for our services and affect our competitive position.
- There may be a lack of remedies and impartiality under the Chinese legal system that prevents us from enforcing the agreements under which we operate our factories.
- You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in the PRC against the Company, or our officers and our directors based on foreign laws.
- Our financial results, competitiveness and market position could be impaired if our business licenses in China are not renewed.
- The performance and reliability of the internet infrastructure and fixed telecommunication in China may affect our business operations.
- Due to restrictions under PRC law on distributions of dividends by our subsidiaries in the PRC, we may be forced to reduce the amount of, or not be able to pay, dividends to our shareholders.
- PRC regulations may delay or prevent us from making loans to our PRC subsidiaries or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which would leave our PRC subsidiaries without the necessary liquidity to continue operations.
- Permissions required from the PRC authorities for our operations could change, requiring us to obtain additional licenses or abide by new regulations.
- If classified as a “resident enterprise” under China’s EIT Law, we may be subject to PRC enterprise income tax and income tax withholding for dividends we receive from our subsidiaries or pay to our stockholders.
- A finding by PRC tax authorities that any of our China subsidiaries owe additional taxes, late payment interest or other penalties could adversely affect our operating results materially.
- Controversies affecting China’s trade with the United States, including the policies of the new Trump administration, could harm our operations or depress our stock price.
- Heightened tensions in international relations, including trade relations between the United States and China, the Russia-Ukraine war and the Israel-Hamas conflict, may adversely impact our business, financial condition, and results of operations.
- The PRC’s national labor law restricts our ability to reduce our workforce, and increases in labor costs of workers in the PRC, and in the Province where our manufacturing facilities are located, have and can be expected to continue to have a material and adverse effect on our operating results.
- Future relocation of certain manufacturing lines may not be successful.
- Restrictions on the convertibility of RMB into foreign currency may limit our ability to transfer excess funds or dividends to the Company’s subsidiaries outside China.
- Political and economic instability of Hong Kong and Macao could harm our operations.

- Power shortages in China could affect our business.
- China's U.S. stock market issues may raise investors' concerns.
- Our auditor is now permitted to be inspected by the PCAOB, and as such, investors will no longer be deprived of the benefits of such inspection.
- We could be delisted if the PCAOB becomes unable to completely inspect and investigate registered public accounting firms in Mainland China and Hong Kong again.
- We depend on our Board of Directors, executive officers, senior managers and skilled personnel.
- The concentration of share ownership in our senior management allows them to control the outcome of matters requiring shareholder approval.
- Our board's ability to amend our charter without shareholder approval could have anti-takeover effects.
- Legislation enacted in the BVI as to Economic Substance may affect our operations.
- Because our operations are international, we are subject to significant worldwide political, economic, legal and other uncertainties.
- Uncertainty and adverse changes in the economy and financial markets have had, and could continue to have, an adverse impact on our business and operating results.
- We could suffer losses from corrupt or fraudulent business practices.
- We have established processes to safeguard our information technology systems from cybersecurity threats, but if those measures are insufficient to protect our IT systems, our IT systems and daily operations could be adversely affected.

Risks Relating to Our Business and Industry

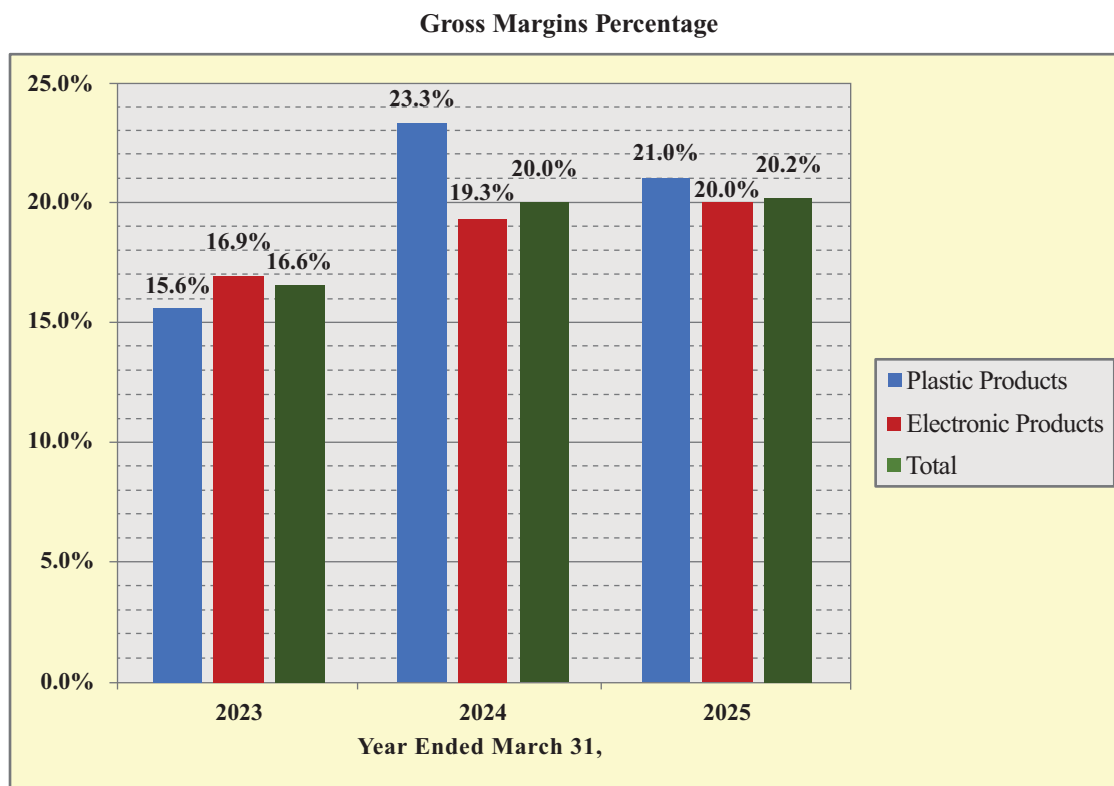
We are, and have been, dependent on a few major customers, the loss of, or substantial reduction in orders from, which would substantially harm our business and operating results.

Historically, we have depended, currently depend, and expect to continue to depend, on a small number of customers for a significant percentage of our net sales. During the year ended March 31, 2025, we had two major customers, each accounting for more than 10% of our net sales and together for 33.8% of our net sales. If our major customers experience a decline in the demand for their products as a result of the prevailing economic environment or other factors, the products or services that we provide to them could be reduced or even terminated. The loss of any of our major customers or a substantial reduction in orders from any of them would adversely impact our sales and operating results unless and until we were able to increase sales from other existing customers or add sales from new customers.

Our sales are based on purchase orders and we have no long-term contracts with any of our customers and the percentage of sales to any of our customers has fluctuated in the past and may fluctuate in future. We cannot assure you that present or future customers will not cease using us as the source of the injection-molded plastic parts and components we manufacture, for electronic manufacturing services of electrical products and subassemblies or significantly change, reduce or delay the amount of products and services ordered from us.

Our gross margins fluctuate from year to year and may be adversely affected by a number of factors.

The following chart shows, for the years indicated, our gross margins from our two principal operating segments and for our Company as a whole:



We expect gross margins generally and for specific products to continue to fluctuate from year to year. Fluctuations in our margins have been affected, often adversely, and may continue to be affected, by numerous factors, including:

- our cost of raw materials, especially our cost of electronic components due to changes in the prices, availability and long lead time of components and parts needed for the manufacturing of electronic products;
- costs of labor, particularly in recent years, when the costs have increased substantially as a consequence of increasing governmental regulation directed at labor practices and policies;
- the appreciation of the exchange rate of the RMB, in which we pay our labor and manufacturing costs, against the U.S. dollar, in which we present our financial statements;
- changes in our customer mix or the mix of higher and lower margin products, or a combination of both in any year;
- price increases for products which, for competitive reasons, we choose to allow as concessions in an effort to maintain our customer base;
- increases in value-added taxes as result of changes in the value-added tax policy of the Chinese government for various categories of export products;
- increased costs to conform our products to consumer and product safety laws and regulations of the various countries in which our products are sold; and
- rising costs due to disrupted global supply resources as a result of the US-China trade tariffs will have pressures on gross margins of our plastic and electronic operations.

If we cannot maintain stability in our gross margins, our operating results could suffer, dividend payments to shareholders may be decreased or eliminated, our financial position may be harmed and our stock price may fall.

We believe we were a passive foreign investment company, or “PFIC,” for our fiscal year ended March 31, 2025 under U.S. income tax laws and may be a PFIC for years after fiscal 2025. If we were a PFIC in fiscal 2025, or are a PFIC in later years, U.S. investors could suffer adverse U.S. federal income tax consequences in such years.

The determination of whether we are a passive foreign investment company, or PFIC, in any taxable year is made on an annual basis after the close of that year and depends on the composition of our income and the nature and value of our assets. Specifically, we will be classified as a PFIC if, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either (i) 75% or more of our gross income for such taxable year is passive income, or (ii) 50% or more of the value of our assets (based on an average of the quarterly values of the assets during such year) is attributable to assets that either produce passive income or are held for the production of passive income (the “PFIC asset test”).

We believe that we were a PFIC for our year ended on March 31, 2025 and may also be a PFIC in subsequent tax years. If we are a PFIC for any year during a U.S. Holder’s holding period of our common shares, then such U.S. Holder generally could be subject to adverse U.S. tax consequences including the requirement to treat any “excess distribution” received on our common shares, or any gain realized upon a disposition of such common shares, as ordinary income and to pay an interest charge on a portion of such distributions or gain.

Because of the complexity of the issues regarding our classification as a PFIC, U.S. investors are urged to consult their own tax advisors for guidance as to our PFIC status. For further discussion of the adverse U.S. federal income tax consequences arising from the classification as a PFIC, please see “United States Federal Income Tax — Passive Foreign Investment Company (PFIC)” in ITEM 10 Additional Information beginning on page 58 of this Report.

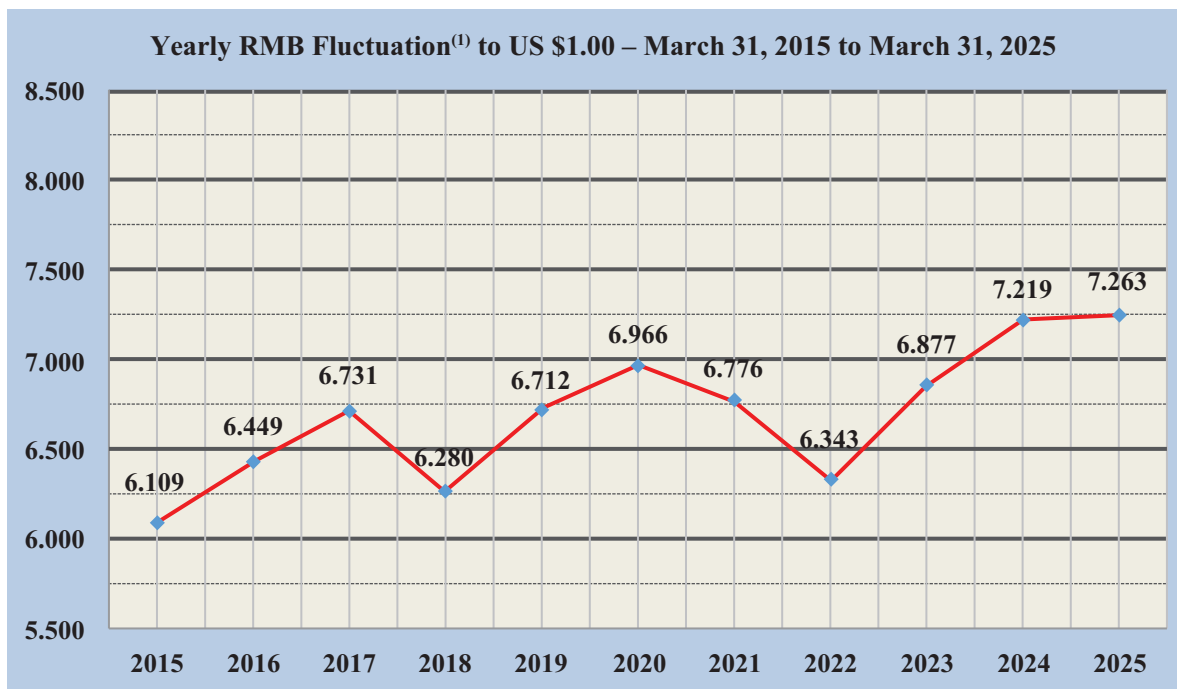
Changes in currency exchange rates have and could continue to influence our financial results significantly.

Our sales are mainly in United States dollars and Hong Kong dollars and our expenses are mainly in United States dollars, Hong Kong dollars and Chinese RMB.

The Hong Kong dollar has been pegged to the U.S. dollar at a range between 7.75 and 7.85, and which is relatively stable. The Hong Kong government may not continue to maintain the present currency exchange mechanism, which fixes the Hong Kong dollar at approximately 7.850 to each United States dollar (based on the average exchange rate for June 30, 2025 reported at <http://www.oanda.com/currency-converter>) and has not in the past presented a material currency exchange risk. Although announcements by Hong Kong’s central bank indicate its intention to maintain the currency peg between the Hong Kong dollar and the U.S. dollar, if Hong Kong changes its policy and follows China to a floating currency system or otherwise changes the exchange rate system of Hong Kong dollars to U.S. dollars, our margins and financial results could be adversely affected.

Between 1994 and July 2005, the market and official RMB rates were unified and the value of the RMB was essentially pegged to the U.S. dollar and was relatively stable. On July 21, 2005, the People’s Bank of China adjusted the exchange rate of RMB to the U.S. dollar by linking the RMB to a basket of currencies and simultaneously setting the exchange rate of RMB to U.S. dollars, from 1:8.27, to a narrow band of around 1:8.11.

The chart below illustrates the fluctuations in the exchange ratio of the RMB to the U.S. dollar at the end of each of Deswell’s fiscal years from March 31, 2015 to March 31, 2025. Because most of the Company’s labor costs are incurred in China and therefore paid in RMB, the adverse effect on Deswell’s business and financial results from increasing labor costs has in previous years been exacerbated by the appreciation in the exchange rate to the U.S. dollar, especially during 2013 to 2015.



(1) RMB (yuan) to U.S. dollar data presented in this chart are the average exchange rate on March 31 of the year indicated as reported at <http://www.oanda.com/currency-converter>.

The appreciation and depreciation in the exchange ratio of the RMB to the U.S. dollar increases and decreases, respectively, our costs and expenses to the extent paid in RMB. Of all of the costs and expenses for the PRC entities, which accounted for 94.1% of the Company total, about 29.6%, 29.9% and 31.8% were in RMB during the years ended March 31, 2023, 2024 and 2025, respectively.

With the PRC government’s enacted reform of its RMB exchange rate regime, the RMB appreciated against the U.S. dollar between 2007 and 2015, resulting in an adverse effect on the Company’s financial results. However, this trend became unstable between 2015 and 2018. The RMB then became depreciated against the U.S. dollar from 2018 to early 2020. The Company’s financial results have benefited from this depreciation trend. Nonetheless, there was the onset of U.S.-China trade war and the outbreak of the COVID-19 virus in 2020. As the virus spread to the rest of the world, China was able to get the situation under control. The COVID-19 outbreak led to global demand for goods, which made China the leader of global exports, resulting in a softening of the depreciation of RMB. However, with the Omicron variant and China’s three-year fight of zero-COVID tolerance policy which led to lockdowns in major Chinese cities, China’s economic activity significantly reduced. This slower growth in China will push down Chinese yields, leading to depreciation of RMB. Additionally, even though China’s exports appear to have rebounded in early 2024, it appears that it is still experiencing weak export orders and its manufacturing sector is struggling. With the recent trade war imposed on Chinese goods and export control restrictions to China by the United States during President Trump’s 2nd administration, there is further depreciation of the RMB. However, China’s main policy is the stability of the Yuan currency to boost consumer confidence and local purchasing power.

In addition, the war in Ukraine has increased sanctions risks on China and further deteriorated the U.S.-China relationship leading to an abrupt slowdown for foreign inflows to China, which further reduced demand for RMB. It is difficult to predict how the situation between the United States and Chinese government will develop, especially in light of the recent escalation of trade tensions between the United States and China, which in turn affects the exchange rate between the dollar and RMB.

If OEMs stop or reduce their manufacturing outsourcing, our business could suffer.

Our revenues depend on outsourcing by OEMs to us and to other contract manufacturers for which we manufacture end-products or parts and components. Current and prospective customers continuously evaluate our capabilities against other providers as well as against the merits of manufacturing products themselves. Our business would be adversely affected if OEMs decide to perform these functions internally. Similarly, we depend on new outsourcing opportunities to militate against lost revenues arising from the decline in demand for our customers' products as a consequence of prevailing global economic conditions, and our business would be adversely affected if we are not successful in gaining additional business from these opportunities or if OEMs do not outsource additional manufacturing business.

We could experience credit problems with our customers, which could adversely impact our operating results and financial condition and could adversely reduce our future revenues.

We manufacture and sell injection-molded plastic parts and components and provide manufacturing services for electrical products and subassemblies to companies and industries that have in the past, and may in the future, experience financial difficulty, particularly in light of recent conditions in the credit markets and the overall worldwide economy. For information on the concentration of our credit risk, see Note 15 of Notes to Consolidated Financial Statements included later in this Report.

If our customers experience financial difficulty, we could have problems recovering amounts owed to us from these customers, or demand for our products and services from these customers could decline. If one or more of our customers, particularly customers to which we have extended substantial credit and which have become material account debtors on our accounts receivables, were to become insolvent or otherwise were unable to pay for the products or services provided by us on a timely basis, or at all, our operating results and financial condition could be adversely affected. Such adverse effects could include one or more of the following:

- provision or increased provision for credit losses,
- a charge for inventory write-offs,
- a reduction in revenue,
- decreases in cash, and
- increases in working capital requirements.

Because material amounts of our funds are held in banks where only limited protection on deposit accounts is required, the failure of any bank in which we deposit our funds could result in a loss of those funds to the extent exceeding the amounts protected and could, depending on the amount involved, affect our ability to continue in business.

At March 31, 2025, we had cash on hand of \$28.1 million and time deposits with original maturity over three months of \$19.4 million, and time deposits with original maturities over twelve months of \$2.8 million, which were invested in interest bearing investments at banks or other financial institutions. Of that amount, approximately \$12.6 million was held in banks and other financial institutions in Hong Kong, \$18.6 million in Macao and \$19.1 million in the PRC. The Hong Kong government provides deposit protection up to a maximum amount of HK\$800,000 (approximately U.S. \$101,915 based on the average exchange rate for June 30, 2025 reported at <http://www.oanda.com/currency-converter>) for each depositor in any individual bank in Hong Kong, and the Macao government provides deposit protection up to a maximum amount of MOP\$800,000 (approximately U.S. \$98,947 based on the average exchange rate for June 30, 2025 reported at <http://www.oanda.com/currency-converter>) for each depositor with any individual bank in Macao. We understand that in the event of a bank failure of a bank in the PRC, a PRC-government agency is to provide some, unspecified, protections of deposit accounts to individual depositors. After three interest rate hikes in 2011, there were recommendations in early 2012 from China's economists that a formal insurance system from China's central bank is necessary to protect depositors' assets. The "Deposit Insurance Regulations" in the PRC provide that the maximum protection is up to RMB500,000 (approximately U.S.\$69,715 based on the average exchange rate for June 30, 2025 reported at <http://www.oanda.com/currency-converter>) (including principal and interest) per depositor per insured financial institution. Depending upon the amounts of funds we have on deposit in a

Hong Kong, Macao or PRC financial institution that fails, our inability to have immediate access to our cash, and the lack of deposit protection in excess of applicable protection limits, could impair our operations, and, if we are not able to access needed funds to pay our suppliers, employees and other creditors, we may be unable to continue in business.

Our industry is extremely competitive, with aggressive pricing dynamics, and if we are not able to continue to provide competitive products and services, we may lose business.

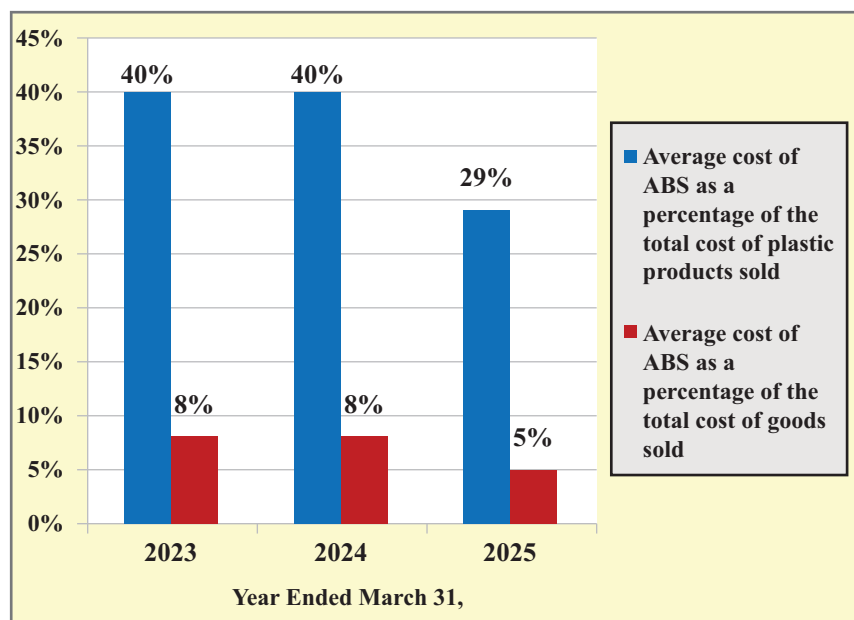
We compete with a number of different companies in production of injection-molded plastic parts and components, electrical products and subassemblies and metallic molds and accessories. For example, we compete with Asian-based manufacturers and/or suppliers of injection-molded plastic parts and components, major global electronic manufacturing services (“EMS”) providers, other smaller EMS companies that have a regional or product-specific focus, and original design manufacturers with respect to some of the services that we provide. We also compete with our current and prospective customers, who evaluate our capabilities in light of their own capabilities and cost structures. Our market segments are extremely competitive, many of our competitors have achieved substantial market share and many have lower cost structures and greater manufacturing, financial or other resources than we do. We face particular competition from Asian-based competitors, including Taiwanese EMS providers which compete in our end markets. If we are unable to provide comparable manufacturing services and improved products at lower cost than the other companies in our market, our net sales could decline.

Uncertainty and adverse changes in the economy and financial markets may also increase the competitive environment in our market segments which could also impact our operating results. In addition, the EMS industry is currently experiencing excess manufacturing capacity and has seen increased competition. To stay technologically competitive, we have replaced some of our existing manufacturing machineries with up to date and advanced ones in order to enhance efficiency, precision, quality as well as productivity.

Nonetheless, the above factors have exerted and will continue to exert additional pressures on pricing for injection-molded plastic parts and components and for our electronic manufacturing services, thereby increasing the competitive pressures in our market segments generally. We may not be able to compete successfully against our current and future competitors, and the competitive pressures we face may have a material adverse effect on us.

We have no long-term contracts to obtain plastic resins and our profit margins and operating results could suffer from an increase in resin prices.

The primary materials used by us in the manufacture of our plastic injection molded products are various plastic resins. The following table shows our cost of plastic resins as a percentage of our cost of plastic products sold and as a percentage of our total costs of goods sold for the years ended March 31, 2023, 2024 and 2025:



We have no long-term contracts with our resin suppliers. Accordingly, our financial performance is dependent to a significant extent on resin markets and the ability to pass through price increases to our customers. The capacity, supply and demand for plastic resins and the petrochemical intermediates from which they are produced are subject to cyclical price fluctuations, including those arising from supply shortages. Consequently, resin prices may fluctuate as a result of changes in natural gas and crude oil prices and the capacity, supply and demand for resin and petrochemical intermediates from which they are produced. Over the past several years, oil prices have experienced significant volatility. In addition, we have found that increases in resin prices are difficult to pass on to our customers. In the past, increases in resin prices have increased our costs of goods sold and adversely affected our operating margins. A significant increase in resin prices in the future could likewise adversely affect our operating margins and results of operations.

Shortages of components and materials used in our production of electronics products may delay or reduce our sales and increase our costs.

From time to time, we have experienced shortages of some of the electronic components that we need and use in our electronics manufacturing market segment. These shortages can result from strong demand for those components or from problems experienced by suppliers. These unanticipated component shortages could result in curtailed production or delays in production, which may prevent us from making scheduled shipments to customers. Our inability to make scheduled shipments could cause us to experience a reduction in sales, increase in inventory levels and costs, and could adversely affect relationships with existing and prospective customers. Component shortages may also increase our cost of goods sold because we may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components. As a result, component shortages could adversely affect our operating results. Our performance depends, in part, on our ability to incorporate changes in component costs into the selling prices for our products.

The US-China trade dispute has, in addition to trade tariffs, extended to non-tariff barriers, such as China's export controls in critical minerals and the US's restrictions on the export of advanced technology products. The latter has exerted pressures to our electronic operations in sourcing, purchasing and inventory management of certain critical electronic component parts.

Certain of the electronic products we manufacture, particularly those for customers whose orders are widely spaced at irregular intervals for small lots of customized products, require components from single-source or customer-designated suppliers. Shortages of specific components often result in the suppliers allocating available quantities among their customers based on volume and purchasing history. Generally, we lack sufficient bargaining power with these suppliers to assure a stable supply of needed components. Delays in our obtaining, or our inability to obtain, these materials could slow production, delay shipments to our customers, increase our costs and hamper our operating results.

We face inventory risks of obsolescence and impairment charges by providing turnkey manufacturing of electronic products.

We conduct most of the manufacturing of electronic products for our customers on a "turnkey" basis, where we mainly take care of materials procurement, as well as product design and development for customers' selection and collaboration. Turnkey manufacturing involves greater resource investment and inventory risk management than consignment manufacturing, where the customer provides the components and materials needed to manufacture the products it orders. If we fail to manage our inventory effectively, we may bear the risk of fluctuations in materials costs, scrap and excess inventory, all of which can have an adverse impact on our business, financial condition and results of operations. In addition, delays, cancellations or reductions of orders by our customers could result in an excess of materials. An excess of components and materials would increase our costs of maintaining inventory and may increase the risk of inventory obsolescence and impairment charges, which may increase our costs and decrease operating margins and otherwise harm our operating results.

Periods in which we receive rapid increases in orders with the lengthening of lead times by suppliers could cause a shortage of materials needed for us to fulfill orders received from customers expecting normal or accelerated delivery. A shortage of materials could lengthen production schedules and costs substantially, particularly for orders from our customers placed for short-term or rapid delivery and could force us to seek and purchase needed components at premium prices, which would increase our costs of goods sold and reduce our operating margins.

Our insurance coverage may not be adequate to cover losses related to major accidents, forces of nature or product liability risks.

Risks associated with our business include risk of damage to our stock in trade, goods and merchandise, furniture and equipment and factory buildings in China. At March 31, 2025, we maintained fire, casualty and theft insurance aggregating approximately \$126.0 million covering damages to fixed and movable assets, equipment, manufacturing facilities in China and furniture and fixtures at our facilities. The proceeds of this insurance may not be sufficient to cover material damage to, or the loss of, any of our factories due to fire, severe weather, flood, forces of nature, such as major earthquakes, which are common in China, or other natural disasters. We may experience difficulty or delays in receiving compensation from the insurance companies and may not receive insurance proceeds adequate to compensate us fully for a potential loss. Although we maintain insurance addressing damage to and destruction to our facilities and equipment, we do not have business interruption insurance.

Despite quality assurance measures, there remains a risk that defects may occur in our products. The occurrence of any defects in our products could give rise to liability for damages caused by such defects. They could, moreover, impair the market's acceptance of our products. At March 31, 2025, we had only limited product liability insurance. Although we have not experienced any product quality claims from significant customers, if future claims do arise, costs to defend, adverse judgments or amounts we may be forced to pay in settlement would increase our expenses. If we incur losses which are not covered under our insurance, or the amount of compensation that we receive from the insurer is significantly less than the actual loss, our financial condition and results of operations could be materially and adversely affected.

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

Some of our products are sold via F.O.B. Hong Kong or F.O.B. China and our customers are responsible for the transportation of products from Hong Kong or China to their final destinations. Our customers rely on a variety of carriers for product transportation through various world ports. A work stoppage, strike or shutdown of one or more major ports or airports could result in shipping delays materially and adversely affecting our customers, which in turn could have a material adverse effect on our business and operating results. Similarly, an increase in freight surcharges due to rising fuel costs or general price increases could materially and adversely affect our business and operating results.

Protecting, seeking licenses for, or asserting claims over, intellectual property could be costly.

We usually rely on trade secrets, industry expertise and the sharing with us by our customers of their intellectual property. However, there can be no assurance that intellectual property that we use in our business does not violate rights in such property belonging to others. We may be notified that we are infringing patents, copyright or other intellectual property rights owned by other parties. In the event of an infringement claim, we may be required to spend a significant amount of money to develop a non-infringing alternative or to obtain licenses. We may not be successful in developing alternatives or in obtaining licenses on reasonable terms, if at all. Any litigation, even without merit, could result in substantial costs and could adversely affect our business and operating results.

Our strategy has been to evaluate trade names and trademarks, and to consider seeking patents, where we believe that such trade names, trademarks or patents would be available and adequate to protect our rights to products or processes that we consider material to our business. To the extent we do seek to obtain trade names, trademarks or patents, we may be required to institute litigation in order to enforce them or other intellectual property rights to protect our business interests. Such litigation could result in substantial costs and could adversely affect sales, financial results and growth.

We are dependent on customers operating in highly competitive markets and the inability of our customers to succeed in their markets can adversely impact our business, operating results and financial condition.

The end markets we serve can experience major swings in demand which, in turn, can significantly impact our operations. Our financial performance depends on our customers' ability to compete and succeed in their markets, which have been, and could continue to be, affected directly by prevailing global economic conditions. The majority of our customers' products are characterized by rapid changes in technologies, increased standardization of technologies and shortening of product lifecycles. In many instances, our customers have experienced severe revenue erosion, pricing and margin pressures, and excess inventories during recent years.

Compliance with current and future environmental regulations may be costly and could impact our future operating results adversely.

The laws and regulations related to environmental protection have been tightening in recent years in China and in our end markets, requiring production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. When an entity fails to adopt preventative measures or control facilities that meet the requirements of environmental protection standards, it is subject to suspension of production or operations and for payment of fines. Compliance with relevant laws and regulations can be costly and disrupt operations.

Our operations create some environmentally sensitive waste that may increase in the future depending on the nature of our manufacturing operations. The general issue of the disposal of hazardous waste has received increasing attention from Chinese national and local governments and foreign governments and agencies and has been subject to increasing regulation. Currently, relevant Chinese environmental protection laws and regulations impose fines on discharge of waste materials and empower certain environmental authorities to close any facility which causes serious environmental problems. Although it has not been alleged that we have violated any current environmental regulations by China government officials, the Chinese government could amend its current environmental protection laws and regulations. Our business and operating results could be materially and adversely affected if we were to increase expenditures to comply with environmental regulations affecting our operations.

In addition, we could face significant costs and liabilities in connection with product take-back legislation, which enables customers to return a product at the end of its useful life and charge us with financial and other responsibility for environmentally safe collection, recycling, treatment and disposal. We also face increasing complexity in our product design and procurement operations as we adjust to requirements relating to the materials composition of electronic products. If our products are not compatible with such requirements, we could experience the loss of revenue, damages to our reputation, diversion of resources, monetary penalties, and legal action. Other environmental regulations may require us to reengineer our products to utilize components that are more environmentally compatible. Such reengineering and component substitution may result in additional costs to us. Although we currently do not anticipate any material adverse effects based on the nature of our operations and the effect of such laws, there is no assurance that such existing laws or future laws will not have a material adverse effect on us.

In the future, we may be required to write down long-lived assets and these impairment charges would adversely affect our future operating results.

As of March 31, 2025, our balance sheet included approximately \$23.4 million in long-lived assets. Under applicable accounting rules, we review long-lived assets, such as property, plant, and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Valuation of our long-lived assets requires us to make various assumptions and these assumptions are used to forecast future, undiscounted cash flows. If actual market conditions differ or our forecasts change, we may be required to reassess long-lived assets and could record an impairment charge. If we are required to take substantial impairment charges in future periods, our earnings would be decreased or our losses would be increased in the period or periods in which the charges occur.

Potential new accounting pronouncements or changes in interpretation by NASDAQ may adversely impact our future financial position and results of operations in the future.

We prepare our financial statements in conformity with the generally accepted accounting principles of the United States of America “U.S. GAAP.” A change in these accounting principles and policies, especially as interpreted by the Securities and Exchange Commission and The NASDAQ Stock Market, may have an impact on our future financial position and results of operations. Historically, regulatory changes, such as the requirement of the Financial Accounting Standards Board to expense stock options grants, and other legislative initiatives have increased our general and administrative costs and future changes could have a similar adverse impact on our financial results.

Our exemptions from certain of the reporting requirements under the Exchange Act limits the protections and information afforded to investors.

We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As a foreign private issuer, we are exempt or excluded from certain provisions applicable to United States public companies including:

- the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect to a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any “short-swing” trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer’s equity securities within less than six months); and
- Regulation FD, the SEC’s rules regulating disclosure of information by publicly traded companies and other issuers and requiring that when an issuer discloses material nonpublic information to certain individuals or entities such as stock analysts, or holders of the issuer’s securities who may trade on the basis of the information, the issuer must make public disclosure of that information.

In addition, because we are a “controlled company” under the NASDAQ Marketplace Rules, certain of the corporate governance standards of The NASDAQ Stock Market that are applied to domestic companies having securities included on The NASDAQ Stock Market are not applicable to us. For example, as a controlled company we are exempt from certain corporate governance provisions of sections 5600 et seq. of NASDAQ’s Marketplace Rules. We rely on exemptions from the following NASDAQ Marketplace Rules:

- *Rule 5605(b)(1)*: Our board is not comprised of a majority of independent directors.
- *Rule 5605(d)*: Our board does not have a compensation committee and compensation of our Chief Executive Officer and other executive officers is neither determined nor recommended to the board by a majority of our independent directors. For information regarding why we do not have an independent compensation committee, see the discussion under “Other Committees; NASDAQ Compliance” in ITEM 6 “Directors and Senior Management” of this Report.
- *Rule 5605(e)*: Nominees for appointment as our directors are not selected or recommended by either a majority of our independent directors, or a nominating committee composed solely of independent directors, and we do not have a formal written charter addressing the nominations process.

Because of these exemptions or exclusions, investors are not afforded the same protections or information generally available to investors in public companies organized in the United States and having securities included on the NASDAQ Stock Market.

We have identified a material weakness in our disclosure controls and procedures and internal control over financial reporting. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements or a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common shares.

We have identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The identified material weakness related to the design and maintenance of effective controls over certain information technology general controls for an information system that is relevant to the preparation of our financial statements. Specifically, we did not design and maintain (i) program change management controls to ensure that program and data changes are identified, tested, authorized and implemented appropriately, and (ii) user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to appropriate personnel.

The material weaknesses did not result in any misstatements to the consolidated financial statements. However, these material weaknesses could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected in the future.

The Company is committed to remediating this material weakness as promptly as possible. To do so, the Company intends to take the following measures:

- Engage a third party to assist in designing and implementing controls related to segregation of duties and information technology general controls.
- Design and implement controls to formalize roles and review responsibilities in order to formalize and implement controls over segregation of duties.
- Design and implement information technology general controls, including controls over program change management, the review and update of user access rights and privileges.

There can be no assurance as to when these material weaknesses will be remediated or that additional material weaknesses may not arise in the future. Any failure to remediate the material weaknesses or the development of new material weaknesses in our internal control over financial reporting could result in material misstatements of our financial statements, which in turn could have a material adverse effect on our financial condition and the trading price of our common shares.

Risks Related to Doing Business in China

The Chinese government may intervene in or influence our operations at any time and could change its policies toward or even nationalize private enterprise, which could result in the total loss of our investment in that country and materially and adversely affect the value of our securities.

Our manufacturing facilities are located in China. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. The Chinese government may intervene or influence the operations of our PRC subsidiaries at any time with little or no advance notice to us. As a result, our operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in China. Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. The Chinese government may not continue to pursue these policies or may significantly alter them to our detriment from time to time without notice. Changes in policies by the Chinese government resulting in changes in laws, regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion or imports and sources of supply could materially and adversely affect us. The nationalization or other expropriation of private enterprises by the Chinese government, including our PRC subsidiaries, could result in the total loss of our investment in that country, which could occur quickly and without advance notice to us and would materially and adversely affect our manufacturing capabilities and cause the value of our securities to significantly decline or be worthless.

All of our directors and officers have ties to Hong Kong. The Chinese government may intervene in or influence their conduct or may exert more control over them, which could result in a material adverse change in our operations.

Because all of our directors and officers have ties to Hong Kong, the Chinese government may intervene in or influence or may exert control over them and their conduct as it relates to our business. The Chinese government may interfere with our operations at any time through our directors and officers who have ties to Hong Kong, which could result in a material change in our results of operation. Changes in the policies, regulations, rules, and the enforcement of laws of the PRC government may be adopted quickly with little advance notice and could have a significant impact upon our ability to operate and on the value of our securities.

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and materially and adversely affect our competitive position.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, the level of development, the growth rate, the control of foreign exchange and allocation of resources. Although the Chinese economy is no longer a planned economy, the PRC government continues

to exercise significant control over China's economic growth through direct allocation of resources, monetary and tax policies, and a host of other government policies such as those that encourage or restrict investment in certain industries by foreign investors, control the exchange between RMB and foreign currencies, and regulate the growth of the general or specific market. Some of the government measures while benefiting the overall Chinese economy, may have a negative effect on and materially and adversely affect our financial conditions, results of operation and our overall competitive position.

While the PRC economy has grown significantly over the past several decades, the growth has been uneven across different periods, regions and among various economic sectors of China, and the rate of growth has been slowing. Any slowdown in the economic growth of China could lead to reduced demand, which could materially and adversely affect our business's financial condition and results of operations.

There may be a lack of remedies and impartiality under the Chinese legal system that prevents us from enforcing the agreements under which we operate our factories.

We do not own the land on which our factories in China are located. We occupy our manufacturing facilities under land use agreements or under tenancy agreements with the local Chinese government. These agreements may be difficult to enforce in China, which could force us to accept terms that may not be as favorable as those provided in our agreements. Unlike the U.S., China has a civil law system based on written statutes in which judicial decisions have little precedential value. The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. These matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in the PRC against the Company, or our officers and our directors based on foreign laws.

We are incorporated in the BVI and have subsidiaries incorporated in the BVI, Macao, Hong Kong, Samoa and China. We conduct substantially all of our operations in China and a substantial portion of our assets are located in China. In addition, many of our executive officers and directors do not reside in the U.S. Some or all of the assets of these persons are not located in the U.S. As a result, it may not be possible for you to effect service of process within the U.S. or elsewhere outside of China upon us or our directors and executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

It may also be difficult or impossible for you to bring an action against us or against our directors and executive officers in the BVI or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. There is uncertainty as to whether the courts of the BVI or China would (i) recognize or enforce judgments of U.S. courts against us or our executive officers and directors that are predicated upon the civil liability provisions of the securities laws of the U.S. or the securities laws of any state in the U.S., or (ii) entertain original actions brought in the BVI or China against us or our executive officers and directors that are predicated upon the federal securities laws of the U.S. or the securities laws of any state in the U.S. Even if you are successful in bringing an action of this kind, the laws of the BVI and of China may render you unable to enforce a judgment against our assets or the assets of our directors and executive officers.

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

As a result of all of the above, our shareholders may have more difficulty in protecting their interests through actions against our management, officers, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the U.S.

If our business licenses in China were not renewed, we would be required to move our operations out of China, which would impair our financial results, competitiveness and market position and jeopardize our ability to continue operations.

Our activities in China require business licenses, the scope of which is limited to our present activities, and require review and approval of our activities by various national and local agencies of Chinese government. The Chinese government may not continue to approve our activities, grant or renew our licenses or grant or renew licenses to expand our existing activities. Our inability to obtain needed approvals or licenses could prevent us from continuing to conduct operations in China. If for any reason we were required to move our manufacturing operations outside of China, our financial results would be substantially impaired, our competitiveness and market position would be materially jeopardized and we may not be able to continue operations.

The performance and reliability of the internet infrastructure and fixed telecommunication in China may affect our business operations.

Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. Our business operations depend on the performance and reliability of the internet infrastructure and the fixed telecommunication service provided in China. The internet infrastructure in China may not support the demands associated with continued growth in internet usage generally or for our business purposes and we may not have access to alternative networks in the event of disruptions, failures or other problems.

Due to restrictions under PRC law on distributions of dividends by our subsidiaries in the PRC, we may be forced to reduce the amount of, or not be able to pay, dividends to our shareholders.

Under the PRC Income Tax Law and the implementation rules, only distributable profits earned by PRC entities can be distributed. The calculation of distributable profits under accounting principles and financial regulations applicable to PRC enterprises differs in many ways from U.S. GAAP. Our subsidiaries in the PRC are also required to reserve 10% of their profits for future development and staff welfare, which amounts are not distributable as dividends. These rules and possible changes to them could restrict our PRC subsidiaries from repatriating funds ultimately to us and our stockholders as dividends.

Under the unified enterprise income tax law (“EIT Law”), profits of the PRC entities earned on or after January 1, 2008 and distributed to the Company are subject to withholding tax at a rate of 10%, unless the Company is deemed a resident enterprise for tax purposes, or is incorporated in a country which has a tax treaty with PRC that provides for a different withholding arrangement. As a result of this PRC withholding tax, amounts available to us in earnings distributions from our PRC enterprises have been reduced. Since we derive the funds distributed to shareholders from our subsidiaries in the PRC, the reduction in amounts available for distribution from our PRC enterprises could, depending on the income generated by our PRC subsidiaries, force us to reduce, or possibly eliminate, the dividends we have paid to our shareholders historically. For this reason, or other factors, we may decide not to declare dividends in the future. If we do pay dividends, we will determine the amounts when they are declared and even if we do declare dividends in the future, we may not continue them in any future period.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Our manufacturing operations are located in China through our PRC subsidiaries. If we plan to expand the operations in China, we may need to make loans to our PRC subsidiaries subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by the Company to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits, i.e., the difference between its total amount of investment and its registered capital, or certain amount calculated based on elements including capital or net assets, the cross-border financing leverage ratio and the macro prudential coefficient under relevant PRC laws and the loans must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system.

If we choose to finance our wholly foreign-owned subsidiaries in China by means of capital contributions, the capital contributions must through record-filing procedures from competent administration for market regulation. SAFE issued the Circular on the Management Concerning the Reform of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which took effect on June 1, 2015. SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC provided that such usage shall fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment on October 23, 2019, or SAFE Circular 28, pursuant to which all foreign-invested enterprises can make equity investments in the PRC with their capital funds in accordance with the law. The Circular Regarding Further Optimizing the Cross-border RMB Policy to Support the Stabilization of Foreign Trade and Foreign Investment jointly promulgated by the PBOC, NDRC, the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission of the State Council, the China Banking and Insurance Regulatory Commission and SAFE on December 31, 2020 and effective on February 4, 2021 allows the non-investment foreign-invested enterprises to make domestic reinvestment with RMB capital in accordance with the law on the premise that they comply with prevailing regulations and the invested projects in China are authentic and compliant. In addition, if a foreign-invested enterprise uses RMB income under capital accounts to conduct domestic reinvestment, the invested enterprise is not required to open a special deposit account for RMB capital.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we may not be able to make such loans to the subsidiaries of our wholly foreign-owned subsidiaries in China.

Because of these restrictions and requirements, we cannot assure you that we will be able to complete the necessary government registrations or record-filings on a timely basis, with respect to any regulated future loans to our PRC subsidiaries or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries. If we fail to complete such registrations or record-filings, our ability to use foreign currency to finance our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

The enforcement and extent of oversight of laws and rules and regulations in China, and those that apply or are to be applied to Hong Kong or Macao, or in offerings conducted overseas by, and/or foreign investment in, China-based issuers like us, can change quickly with little or no advance notice.

Our manufacturing operations are located in China through our PRC subsidiaries. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. The PRC legal system is evolving rapidly, and the interpretation of many laws, regulations and rules may contain inconsistencies and enforcement of these laws, regulations and rules involves uncertainties.

When our PRC subsidiaries encounter business disputes with other parties, we may have to resort to administrative and court proceedings to enforce our legal rights. If our administrative and court proceedings in China are protracted, it may result substantial costs and diversion of management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at

all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property and procedural rights could adversely affect our operations.

Permissions required from the PRC authorities for our operations could change requiring us to obtain additional licenses or abide by new regulations.

We conduct our business primarily through our PRC subsidiaries in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries have obtained the required licenses and permits from the PRC government authorities that are material for the business operations in China, including business certificates, plants safety certificates and pollutant discharge permits. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for our operations in China in the future. We may be adversely affected by the complexity, uncertainties and changes in PRC regulations.

On the other hand, under current PRC laws, regulations and regulatory rules, as of the date of this annual report, Deswell and our PRC subsidiaries (i) are not required to obtain permissions from the CSRC, (ii) are not required to go through cybersecurity review by the CAC, and (iii) have not been asked to obtain or were denied such permissions by any PRC authority.

However, in 2023, the PRC government indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers with the passage of the Overseas Listing Trial Measures. The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing. If we (i) do not receive or maintain such permissions or approvals or timely make such filings, (ii) inadvertently conclude that such permissions, approvals or filings are not required, or (iii) applicable laws, regulations, or interpretations change and we are required to obtain such permissions or approvals or make such filings in the future, then we may be subject to monetary fines and increased regulatory scrutiny, any follow-on offerings we conduct may be unexpectedly delayed and we may be able to continue to offer our securities to investors, all of which could have a materially adverse effect on our operations and the value of our securities.

Under China’s EIT Law, we may be classified as a “resident enterprise” for PRC tax purposes, which may subject us to PRC enterprise income tax for any dividends we receive from our Chinese subsidiaries and to PRC income tax withholding for any dividends we pay to our non-PRC stockholders.

Under the PRC’s EIT Law, an enterprise established outside of China whose “de facto management bodies” are located in China is considered a “resident enterprise” and is subject to the 25% enterprise income tax rate on its worldwide income.

All of our manufacturing operations are conducted and managed in the PRC. Our corporate structure, illustrating our incorporation in BVI and our ownership of companies inside and outside of China, is set forth on page 2 of this Report. If the PRC tax authorities determine that our holding company structure utilizing companies outside of China is a “resident enterprise” for PRC enterprise income tax purposes, we may be subject to an enterprise income tax rate of 25% on our worldwide taxable income. The “resident enterprise” classification also could subject us to a 10% withholding tax on any dividends we pay to our non-PRC stockholders if the relevant PRC authorities determine that such income is PRC-sourced income. If we are classified as a “resident enterprise” and we incur these tax liabilities, our financial results would be negatively impacted accordingly.

Transactions between our subsidiaries may be subject to scrutiny by the PRC tax authorities. A finding that any of our China subsidiaries owe additional taxes, late payment interest or other penalties could adversely affect our operating results materially.

The PRC’s EIT Law emphasizes the requirement of an arm’s-length basis for transfer pricing transactions between related parties. It requires enterprises with transactions between related parties, such as transactions between our subsidiaries located inside and outside of China, to prepare transfer pricing documentation that includes the basis for determining pricing, the computation methodology and detailed explanations. We could face material and adverse consequences if the PRC tax authorities determine that transactions between our subsidiaries do not represent

arm's-length pricing and are thereby deemed tax avoidance, or determine that related documentation does not meet the requirements of the EIT Law. Such determinations could result in increased tax liabilities of the affected subsidiaries and potentially subject them to late payment interest and other penalties.

Controversies affecting China's trade with the United States, including the policies of the new Trump administration, could harm our operations or depress our stock price.

Historically, the United States has been the major or significant geographical area of our product sales in terms of shipping destinations. The United States remains as our fifth largest market in the fiscal year ending March 31, 2025, following the same rank for the fiscal year ended March 31, 2024. See ITEM 4 "Information on the Company — Customers and Marketing" on page 38 of this Report for information regarding our net sales as a percentage of total sales to customers by geographic area. The United States fell out of the top three significant geographical markets of the Company's products in fiscal year 2020 during the first Trump administration.

While China has been granted permanent most favored nation trade status in the United States, controversies between the United States and China have arisen that threaten the status quo involving trade between the United States and China. These controversies could adversely affect our business by, among other things, causing our products in the United States to become more expensive, which could result in a reduction in the demand for our products by customers in the United States. Recently, political and trade friction between the United States and China has escalated.

On February 1, 2025, President Trump imposed a tariff of 10% on Chinese goods imported into the United States. Then, on February 4, 2025, China's Ministry of Finance announced it would impose, effective February 10, 2025, a tariff as high as 15% on US goods imported into China.

Between February 1, 2025 and April 12, 2025, China imposed additional tariffs on US goods equal to 148%, while the United States imposed additional tariff rate on Chinese goods equal to 135%. On May 12, 2025, both countries had agreed to a temporary pause on reciprocal tariffs of starting on May 14, 2025. The effective tariff rate on Chinese imports was reduced to 30%, while the Chinese tariff rate on American goods was reduced to 10%.

The trade war has been extended to non-tariff barriers, such as export controls on critical minerals and restrictions on advance technological products or designs. This has created disruptions to global supply of resources leading to delays and higher prices. While the whole world is closely monitoring the status of the US China trade dispute. The two countries once again have come to another meeting and agreed on further pause by 90 days of higher tariffs.

A truce was reached between the United States and China on June 11, 2025. Currently, US tariffs are set at 55% on Chinese goods while China's tariffs remain at 10%.

The trade controversy between the United States and China is still evolving, and we cannot predict future trade policy. However, future tariffs could cover more or all of our products, resulting in an adverse effect on our operations, including customer demand, or on the prevailing market price of our common shares.

Heightened tensions in international relations, including between the United States and China, the Russia-Ukraine war and the Israel-Hamas conflict, may adversely impact our business, financial condition, and results of operations.

The United States and global markets are experiencing volatility and disruption from the escalation of geopolitical tensions. The Russia-Ukraine war, Israel-Hamas conflict, and other volatility in the Middle East and elsewhere have heightened geopolitical tensions across the world and have led to market disruptions, including significant instability in commodity prices, credit and capital markets, and supply chain disruptions, which has further fueled inflation. There have also been concerns about the relationship between China and other countries, which may have potential economic effects. Economic conditions in China are sensitive to global economic conditions, as well domestic economic and political policies and the expected or perceived overall economic growth rate in China. Sanctions imposed against third-party country suppliers and networks that materially support Russia's war in Ukraine may further affect potential impacts of the conflict.

Additionally, any future escalation of these conflicts or other volatile situations could affect both diplomatic and economic tensions among various nations. Heightened tensions could reduce levels of trade, investment, technological exchanges, and other economic activities between major economies. Existing tensions, and any future deterioration

in the relationship between the United States and China, may negatively impact the economic, political, and social conditions in both countries. Given our reliance on the Chinese market, this could adversely impact our business, financial condition, and results of operations.

Actual or threatened war, terrorist activities, political unrest, civil strife, and other geopolitical uncertainties could have similar adverse effects. Any one or more of these events may hinder our operations and affect our sales results, potentially for a prolonged period of time, which could materially and adversely affect our business, financial conditions, and results of operations.

The economy of China has been experiencing significant growth, leading to inflation and increased labor costs. Increases in labor costs of workers in the PRC generally, and in the Province where our manufacturing facilities are located particularly, have had and can be expected to continue to have a material and adverse effect on our operating results.

We generate all revenues from sales of products that we manufacture at our facilities located in Dongguan, Guangdong Province, in the PRC. The economy in China has grown significantly over the past 20 years, which has resulted in an increased inflation and the average cost of labor. In recent years, the PRC government has raised interest rates and adjusted deposit reserve ratios for commercial banks and implemented other measures designed to tighten credit and liquidity. These measures have contributed to a slowdown of the PRC economy. According to the National Bureau of Statistics of China, China's GDP growth rate was 8.1% year-on-year over 2000. Should this slowdown continue or become more expansive, such slowdown could significantly reduce domestic commerce in China.

According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2021 and 2022 were increases of 1.5% and 1.8% and in 2023 a decrease of 0.3%, the Company's actual cost of operations has significantly exceeded the overall inflation rate in China. The rapid growth of China's economy in the past few years has in general increased the Company's operating costs, including energy prices and labor costs. These increased costs have adversely affected the Company's cost of operations, caused the Company to increase its prices, and resulted in the loss of some customers.

There is no fixed minimum wage which is applicable to all of China; local governments in China adopt different amounts based on the situation in their area. China's Guangdong Province, where our manufacturing facilities are located, raised minimum wages by approximately 15% to RMB 1,510 per month effective May 1, 2015. The Provincial Government sets different tiers of minimum wages according to the developmental status of the Province's urban clusters. In the City of Dongguan, where our manufacturing facilities are located, the minimum wage was raised to RMB 1,720 per month in July 1, 2018. Again, effective December 2021, the Guangdong Provincial Government increased the Province's statutory minimum wage by around RMB180 per month to RMB 1,900 per month. Since March 1, 2025, the minimum wage in the City of Dongguan, where our manufacturing facilities are located, has been increased to RMB2,080 per month. Regions may want to freeze local wages in order to maintain their economic competitiveness amid the economic slowdown.

In China, regional governments are authorized to set their own minimum wages according to local conditions. Increases in wages also result in increases in our and other employer's contributions for various mandatory social welfare benefits for Chinese employees that are based on percentages of their salaries. Continuing material increases in our cost of labor will continue to increase our operating costs and will adversely affect our financial results unless we pass on such increases to our customers by increasing the prices of our products and services. The effect of increases in the prices of our products and services would make our products more expensive in global markets, such as the United States and the European Union. This could result in the loss of customers, who may seek, and be able to obtain, products and services comparable to those we offer in lower-cost regions of the world. If we do not increase our prices to pass on the effect of increases in our labor costs, our margins and financial results would suffer.

Future relocation of certain manufacturing lines may not be successful.

The outcome of the trade controversy between the United States and China is not predictable as of this time. In order to mitigate the uncertainties caused by the issue, we have been studying the feasibility of reallocating part of our production to Southeast Asian countries since 2018. In 2022, we engaged an internationally-recognized professional service firm to provide advice and assistance in the completion of required statutory procedures for the incorporation

of a wholly foreign invested enterprise in Vietnam (the “FIE”). However, we were advised that our proposed investment plan might not fulfil the requirement for the application of the certificate of origin in Vietnam, the incorporation procedures in Vietnam were suspended.

We are exploring the possibilities to reallocate part of our production to other Southeast Asian countries. We may face difficulties and possibly be unsuccessful in the future. We may fail to select appropriate manufacturing plants in other Southeast Asian countries. Some of our competent and experienced employees and management may not be willing to relocate and work in other Southeast Asian countries. The quality of the products manufactured and assembled in other Southeast Asian countries may not be accepted by our customers. A new manufacturing plant in other Southeast Asian countries could require significant management attention and could result in a diversion of resources away from our existing business. We may also need to obtain approvals and licenses from relevant government authorities to comply with applicable laws and regulations, which could result in increased costs and delays.

Restrictions on the convertibility of RMB into foreign currency may limit our ability to transfer excess funds or dividends to the Company’s subsidiaries outside China.

Our manufacturing operations are conducted by our subsidiaries located in China and funds are frequently transferred into our subsidiaries in China. Thus, any future restrictions on currency exchanges may limit our ability to transfer excess funds or dividends outside China. Although the PRC government introduced regulations in 1996 to allow greater convertibility of RMB for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. The Chinese regulatory authorities may impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

Political and economic instability of Hong Kong and Macao could harm our operations.

Our administration and accounting offices are located in Macao, formerly a Portuguese Colony, and some of our customers and suppliers are located in Hong Kong, formerly a British Crown Colony. Sovereignty over Macao and Hong Kong was transferred to China effective on December 20, 1999 and July 1, 1997, respectively. Since their transfers, Macao and Hong Kong have become Special Administrative Regions of China, enjoying a high degree of autonomy except for foreign and defense affairs. Moreover, China’s political system and policies are not practiced in Macao or Hong Kong. Under the principle of “one country, two systems,” Macao and Hong Kong maintain legal systems that are different from that of China. Macao’s legal system is based on the Basic Law of the Macao Special Administrative Region and, similarly, Hong Kong’s legal system is based on the Basic Law of the Hong Kong Special Administrative Region. It is generally acknowledged as an open question whether Hong Kong’s future prosperity in its role as a hub and gateway to China will be diminished. The continued stability of political, economic or commercial conditions in Macao and Hong Kong remain uncertain, and any instability could have an adverse impact on our business.

The PRC’s national labor law restricts our ability to reduce our workforce if we conclude that we need to make future reductions.

In June 2007, the National People’s Congress of the PRC enacted labor legislation, called the Labor Contract Law, and that law became effective on January 1, 2008. The law formalized workers’ rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, this law requires an employer to conclude an “open-ended employment contract” with any employee who either has worked for the employer for 10 years or more or has had two consecutive fixed-term contracts. An “open-ended employment contract” is in effect a lifetime, permanent contract, which is terminable only in specified circumstances, such as a material breach of the employer’s rules and regulations, or for a serious dereliction of duty. Such employment contracts with qualifying workers would not be terminable if, for example, we determined to downsize our workforce in the event of an economic downturn. Under the 2007 law, downsizing by 20% or more may occur only under specified circumstances, such as a restructuring undertaken pursuant to China’s Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations. Also, if we lay off more than 20 employees or 10% at one time, we have to communicate with the labor union of our Company and report to the District Labor Bureau. Deswell’s entire staff, who are employed to work exclusively within the PRC, is covered by the law. In response to prevailing business conditions, we decreased our workforce further by

127 in the fiscal year ended March 31, 2025 after decreasing our workforce by 20 and 47 in the fiscal years ended March 31, 2024 and 2023, respectively. However, we may incur much higher costs under China's Labor Contract Law if we are forced to downsize our workforce in the future. Accordingly, this law can be expected to exacerbate the adverse effect of unfavorable economic conditions on our results of operations and financial condition.

Power shortages in China could affect our business.

We consume substantial amounts of electricity in our manufacturing processes at our production facilities in China. In the past, we have experienced a number of power shortages at our production facilities in China, though we are sometimes given advance notice of such power shortages. In relation to these power shortages we have a backup power system. However, there can be no assurance that in the future our backup power system will be completely effective in the event of a power shortage, particularly if that power shortage is over a sustained period of time and/or we are not given advance notice of it. Any power shortage, brownout or blackout for a significant period of time may disrupt our manufacturing, and as a result, may have an adverse impact on our business.

China's U.S. stock market issues may raise investors' concerns.

Since 2017, a series of Chinese companies listed on the New York Stock Exchange and NASDAQ saw their share prices substantially drop after going public, as compared to non-Chinese companies. The difference in performance is thought to be due to heightened concerns over standards of corporate governance. The SEC made repeated mention of emerging markets, including China, in a warning to investors over the book-keeping standards of foreign companies listed in the U.S., that there could be substantially great risk that disclosures will be incomplete or misleading.

The recent escalation in trade tensions between the U.S. and China, including new tariffs imposed on Chinese imports by the Trump administration, has led to increased volatility in the share prices of Chinese companies listed on the New York Stock Exchange and NASDAQ.

These issues and the past performances of Chinese companies could make the U.S. stock markets less attractive to all sorts of companies from China or could lead to possible decreases in Chinese concept share valuations. As a result, investors may suffer losses as Deswell's main operations are located in China.

Our auditor, like other independent registered public accounting firms operating in China, is now permitted to be inspected by the PCAOB, and as such, investors will no longer be deprived of the benefits of such inspection; however, the PCAOB had historically been unable to inspect our auditor.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Our auditor is located in China, a jurisdiction where prior to December 2022, the PCAOB was unable to conduct inspections without the approval of the PRC authorities. The PRC authorities granted access to the PCAOB to completely inspect and investigate registered public accounting firms operating in China, including our auditor.

Inspections of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality.

We could be delisted if the PCAOB becomes unable to completely inspect and investigate registered public accounting firms in Mainland China and Hong Kong again.

The HFCAA, which was signed into law on December 18, 2020, states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA, pursuant to which the SEC will identify an issuer as a "Commission-Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate

completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. However, on December 29, 2022, U.S. Congress passed and the President of the United States signed into law the Consolidated Appropriations Act, 2023, which among other things, amends the HFCAA to shorten the timeframe of non-inspection and being identified as a Commission-Identified Issuer from three years to two years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in Mainland China and Hong Kong. At that time, the PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. On August 29, 2022, we were conclusively listed by the SEC as a Commission-Identified Issuer under the HFCAA as having filed audit reports issued by a registered public accounting firm that could not be inspected or investigated completely by the PCAOB in connection with the filing of our annual report on Form 20-F for the fiscal year ended March 31, 2022. On December 15, 2022, the PCAOB issued a report vacating its December 16, 2021 determinations and removing Mainland China and Hong Kong from the list of jurisdictions where it is unable to completely inspect or investigate registered public accounting firms and a statement released from the Chairman of the PCAOB stated that the PCAOB has secured complete access to inspect and investigate such registered public accounting firms headquartered in Mainland China and Hong Kong. Therefore, even though we are listed as a “Commission-Identified Issuer”, we are not at risk of having our shares subject to a trading prohibition under the HFCAA at this time because the jurisdiction of our auditor is no longer considered to be a “PCAOB-identified jurisdiction.”

If the PCAOB’s complete access to inspect and investigate public accounting firms in Mainland China and Hong Kong is obstructed in the future and the PCAOB determines at that time that it is again unable to completely inspect or investigate registered public accounting firms headquartered in Mainland China or Hong Kong and if under the HFCAA, if the SEC determines at that time that we have filed audit reports issued by a registered public accounting firm that have not been subject to inspection by the PCAOB then the two consecutive year count-down under the HFCAA would begin again and after two-years, the SEC could prohibit our shares from being traded on Nasdaq and other U.S. securities exchanges.

Whether the PCAOB will be able to continue to conduct inspections of our auditor before the issuance of our financial statements on the annual report on Form 20-F after this filing, is subject to substantial uncertainty and depends on a number of factors out of our and our auditor’s control. If our shares are prohibited from trading in the United States, there is no certainty that we will be able to list on additional non-U.S. exchange to facilitate the trading in our securities. Such a prohibition would substantially impair your ability to sell or purchase our shares when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our shares. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

Risks Relating to Our Corporate Structure

Because our operations are international, we are subject to significant worldwide political, economic, legal and other uncertainties.

We are incorporated in the BVI and have subsidiaries incorporated in the BVI, Macao, Hong Kong, Samoa and China. Our administrative and accounting office is located in Macao. We manufacture all of our products in China. As of March 31, 2025, approximately 46% of the net book value of our total identifiable assets was located in China. We sell our products to customers principally in China, the United States, Hong Kong, Europe (the United Kingdom, Norway and Holland) and Canada. Our international operations may be subject to significant political and economic risks and legal uncertainties, including:

- changes in economic and political conditions and in governmental policies,
- changes in international and domestic customs regulations,
- wars, civil unrest, acts of terrorism and other conflicts,
- changes in tariffs, trade restrictions, trade agreements and taxation,
- difficulties in managing or overseeing foreign operations, and
- limitations on the repatriation of funds because of foreign exchange controls.

The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region and negatively impact our operations in that region, or as a whole.

We depend on our Board of Directors, executive officers, senior managers and skilled personnel.

Our success depends largely upon the continued services of our Board of Directors, executive officers, as well as upon our ability to attract and retain qualified technical, manufacturing and marketing personnel. Generally, our executive officers and senior managers are not bound by employment or non-competition agreements, and we cannot assure you that we will be able to retain them. On June 12, 2023, Richard Pui Hon Lau, our former chairman of the Board of Directors and majority shareholder passed away, and Chin Pang Li, a longtime member of our Board of Directors and prior executive officer of the Company, was appointed as chairman of the Board of Directors and Ben Yiu Sing Poon was appointed as interim director on the Board of Directors until the Company's subsequent annual meeting. At the Company's annual meeting on February 6, 2024, Wai Ming Lau was elected to the Board of Directors to replace Mr. Poon, and the Board of Directors subsequently elected Ms. Lau as the Chairman of the Board of Directors on February 19, 2024. The loss of any of our officers or key management personnel could have a material adverse effect on our business and operating results. We do not have key person insurance on our executive officers or members of our Board of Directors. However, Mr. Lau and the Board had taken care over the years to ensure that the Company and its subsidiaries would be prepared to continue in his absence. There will be no changes in the operation of the Company, and at this time Mr. Lau's shares have been transferred to Ms. Lau. We believe that our future success will depend, in part, on our ability to attract and retain highly skilled executive, technical and management personnel and if we are not able to do so, our business and operating results could be harmed.

The concentration of share ownership in our senior management allows them to control the outcome of matters requiring shareholder approval.

As of June 30, 2025, Wai Ming Lau beneficially owned approximately 61.8% of our outstanding common shares, allowing Ms. Lau to control the outcome of all matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This ability may have the effect of delaying or preventing a change in control of Deswell, or causing a change in control of Deswell that may not be favored by our other shareholders. As of June 30, 2025, members of our senior management and Board of Directors as a group, including Ms. Lau, beneficially owned approximately 71.2% of our outstanding common shares. There are no agreements, understandings, or commitments among the members of our senior management and Board of Directors to vote their shares in any specific manner, or to vote collectively for or against any matter that may come before the shareholders.

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

As permitted by the law of the BVI, many provisions of our Memorandum and Articles of Association, which are the terms used in the BVI for a corporation's charter and bylaws, may be amended by our board of directors by resolution of directors without shareholder approval provided that a majority of our independent directors do not vote against the amendment. This includes amendments to increase or reduce the shares we are authorized to issue. Our board's ability to amend certain provisions of our charter documents without shareholder approval, including its ability to create and issue further common shares, could have the effect of delaying, deterring or preventing a change in control of Deswell, including a tender offer to purchase our common shares at a premium over the then current market price.

Legislation enacted in the BVI as to Economic Substance may affect our operations

The Economic Substance (Companies and Limited Partnership) Act 2018, as revised (the "Act") has been enacted in the BVI and came into force on January 1, 2019. The Act requires BVI companies and limited partnerships carrying on relevant activities to demonstrate adequate economic substance in the BVI.

BVI companies and limited partnerships are required to provide information to enable the International Tax Authority in the BVI to monitor whether the relevant entity is carrying on relevant activities and, if so, whether it is complying with the economic substance requirements. The information will be uploaded by the entity's registered agent and integrated into the BVI's existing Beneficial Ownership Secure Search (BOSS) system. Beginning on or after January 1, 2023, these economic substance requirements were amended and the amendments may affect reporting for companies and limited partnerships which carry on a relevant activity including an immediate parent or ultimate parent of the company.

Penalties will be imposed for failure to provide required information or for operating an entity in breach of the economic substance requirements, which may include substantial fines, imprisonment and eventually the entity may be wound up.

During the year ended March 31, 2025, we have provided the information requested by the BVI registered agent. No further information or follow-up action is requested by BVI registered agent or the International Tax Authority in the BVI as of the date of this Report. We will continue to submit the information requested by the BVI registered agent annually.

If any one of the BVI entities in our Group commences activities which may be considered to be a “relevant activity” under the Act, we will take appropriate advice to ensure that such entity complies with the relevant economic substance requirements with respect to that relevant activity.

General Risk Factors

Uncertainty and adverse changes in the economy and financial markets have had, and could continue to have, an adverse impact on our business and operating results.

With the lingering prolonged effects of the COVID-19 pandemic, inflation, trade conflicts, rising interest rates, and the worsened impact of climate change, the global growth outlook looks weak and is well below the average growth rate in the two decades before the pandemic. The global economy is projected to expand at 2.4% in 2025 and 2.5% in 2026, based on the World Economic Situation and Prospects as of Mid-2025, published by the United Nations on May 15, 2025, compared to the projected growth of 2.9% in 2024 and 2.7% in 2023.

According to the National Bureau of Statistics of China, currently the inflation rate is low and remains subdued. Producer prices have been experiencing deflation, with a 3.3% year-on-year decline in May. This was the fourth straight month of consumer deflation, highlighting challenges from ongoing trade risks with the United States, sluggish domestic demand and concerns over job stability. Although the Chinese government agencies have implemented stimulus measures to boost domestic consumption, their effectiveness in combating deflationary pressures is still being assessed.

The inflation rate for the United States in May was 2.4%, according to the Bureau of Labor Statistics of the United States. May 2025's inflation rate remains as positive, though with price growth increasing less than expected. With this steady inflation picture, it is expected that the United States Federal Reserve will hold interest rates steady to wait and see how the tariff rates will eventually impact consumer prices and the labor market. The outlook for U.S. inflation in 2025 remains uncertain with mixed forecasts. There are expectations that there is potential rise in inflation, peaking in the latter half of the year, while there is a possibility of a more moderate increase and subsequent slowdown. Either way, the key drivers for the impact are tariff rates and/or export control policy, labor shortages due to immigration restrictions, and the possibility of easing of supply chain disruptions.

China's consumer price index decreased to 103.00 in May, down by 0.1% year-on-year in May, marking the fourth consecutive month of decline. The decline in CPI was affected by falling energy prices and weak domestic demand. China's export growth slowed to a three-month low in May as US tariffs impacted shipments. Also, the producer price deflation had further deepened reaching the most significant drop in two years.

Global trade also remains under pressure due to geopolitical tensions, weakening global demand and tighter monetary and fiscal policies. While global inflation has decreased from 5.7% in 2023 to a projected 3.9% in 2024, the global economy is still experiencing local supply disruptions, high import costs, market imperfections, and domestic food inflation is still high in most developing countries, disproportionately affecting the poor. Most commodity prices declined to pre-Ukraine-war levels in 2023, however they remained considerably higher than pre-pandemic levels. Our customers that were affected by commodity exports, in turn, were more conservative in ordering our products and services. There are continuing concerns over price instability, geopolitical issues, availability and cost of credit, stability of financial markets and sovereign nations. Uncertainty or adverse changes in the economy could negatively impact:

- the demand for our customers' products,
- the amount, timing and stability of their orders to us,

- the financial strength of our customers and suppliers,
- our customers' and suppliers' ability or willingness to do business with us,
- our suppliers' and customers' ability to fulfill their obligations to us,
- the ability of our customers, our suppliers or us to obtain credit, secure funds or raise capital, or
- the prices at which we can sell our products and services, which, in turn, could adversely affect
- our ability to manage inventory levels effectively or collect receivables,
- our cash flow position,
- our net sales, gross margins and operating results; or
- otherwise adversely impact our results of operations, financial condition and liquidity.

We could suffer losses from corrupt or fraudulent business practices.

Corruption and other fraudulent practices remain a concern in China. We could suffer losses from fraudulent practices if we are not successful in implementing and maintaining preventative measures.

Cybersecurity risks

The Company has established processes for its information technology staff to take security measures to safeguard its IT systems. The Company has implemented procedures to assess, identify and manage threats to sensitive data and unauthorized access to its IT systems. Management has overall responsibility to oversee and periodically review such processes and any risks to the Company's IT systems, and would engage external IT professionals on an as-needed basis. There have not been any past cybersecurity events identified as threats to the Company's IT systems. If the Company's procedures and security measures are insufficient to protect its IT systems, the Company's IT systems and daily operations could be affected.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

Deswell Industries, Inc. was founded in 1987 in Hong Kong and moved its manufacturing operations to China in 1990 to take advantage of lower overhead cost, competitive labor rate and tax concessions available in Shenzhen, China as compared with Hong Kong.

We were incorporated in December 1993 as a limited liability International Business Company under the British Virgin Islands International Business Companies Act, 1984 (the "IBC Act"). Effective on January 1, 2007, the BVI repealed the IBC Act, and simultaneously with such repeal, we were automatically re-registered under the BVI's corporate law replacing the IBC Act, the BVI Business Companies Act, 2004 (the "BVI BC Act").

The Company's registered agent in the BVI is Harneys Corporate Services Limited, P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands. The Company's principal administrative office is located in 10B Edificio Associacao Industrial De Macau, 32 Rua do Comandante Mata e Oliveira, Macao, and its telephone number is (853) 2832-2096 and its facsimile number is (853) 2832-3265. Our principal manufacturing facilities and operations are currently based in Dongguan, Guangdong, China.

Organizational Structure

Deswell is not an operating company but rather a holding company conducting its operations through Deswell's subsidiaries, primarily in Macao and mainland China. For a detailed description of our organizational structure, see "ITEM 3. Key Information — Our Holding Company Structure."

Capital Expenditures

Principal capital expenditures and divestitures made by Deswell during the three year periods ended March 31, 2023, 2024 and 2025 included the following (dollar amounts in thousands):

	Year ended March 31,		
	2023	2024	2025
Purchase of property, plant and equipment	\$ 792	\$ 381	\$ 332
Proceeds from the sale of property, plant and equipment, net of transaction costs	\$ 67	\$ 232	\$ 69

Our major capital expenditures in fiscal 2025 included:

- \$24,000 for leasehold improvements;
- \$225,000 for plant and machinery for plastic and electronic products;
- \$37,000 for motor vehicles; and
- \$46,000 for furniture, fixtures and equipment.

Our major capital expenditures in fiscal 2024 included:

- \$111,000 for leasehold improvements;
- \$92,000 for plant and machinery for plastic and electronic products;
- \$36,000 for motor vehicles; and
- \$142,000 for furniture, fixtures and equipment.

Our major capital expenditures in fiscal 2023 included:

- \$231,000 for leasehold improvements;
- \$506,000 for plant and machinery for plastic and electronic products; and
- \$55,000 for furniture, fixtures and equipment.

All of the foregoing capital expenditures were financed principally from internally generated funds and our current plan is to continue to use internally generated funds principally to finance future capital expenditures.

The Company has constructed its own manufacturing plant and dormitory buildings in Houjie, Dongguan China with an aggregate of approximately 1.3 million square feet of land. Management believes that the current plant facility has sufficiently met the Company's existing requirements. Thus, the Company has postponed additional construction, consisting of previously planned additions of two dormitory units and two other buildings. We may choose to inaugurate this last phase of construction if additional production capacity is required in the future.

Availability of Additional Information.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Such information is available at <http://www.sec.gov>. The Company's website is <http://www.deswell.com>.

Business Overview

We are an independent manufacturer of injection-molded plastic parts and components, electronic products and subassemblies and metallic molds and accessory parts for original equipment manufacturers, or "OEMs" and contract manufacturers. We conduct all of our manufacturing activities at separate plastics, electronics and metallic operation factories located in the People's Republic of China.

We produce a wide variety of plastic parts and components that are used in the manufacture of consumer and industrial products, using different plastic injection technologies, such as film injection, integrated injection and insert injection. The products include:

- plastic components of electronic entertainment products;
- plastic components for power tools, accessories and outdoor equipment;
- cases for flashlights, telephones, printers, scanners;
- parts for industrial components;
- parts for indoor control switches;
- parts for audio equipment;
- cases and key tops for personal organizers and remote controls;
- double injection caps;
- parts for medical products such as apparatus for blood tests;
- laser key caps;
- automobile components; and
- plastic components of automatic robot (mop & vacuum).

Electronic products manufactured by the Company include:

- sophisticated professional audio equipment including digital and analogue audio mixers, amplifiers, signal processors, audio interfaces, network audio equipment and speaker enclosures;
- high performance consumer audio products, such as multi-channel receivers and amplifiers, wired and wireless audio streaming products, headphones;
- complex printed circuit board assemblies using surface mount technology (“SMT”), automatic insertion (“AI”) and pin-through-hole (“PTH”) interconnection technologies; and
- medical products.

Historically, metal products manufactured by the Company included metallic molds and necessary parts used in audio equipment, telephones, copying machines, pay telephones, multimedia stations, automatic teller machines, vending machines, and more. As manufacturing of metallic components is a production process that may emit pollutants, during the year ended March, 31, 2015 the Company gradually outsourced manufacturing of the metal components used in assembly of the Company’s audio products. Since March, 2015, all the metallic components used in assembly of the Company’s audio products were provided by third party suppliers.

As part of its manufacturing operations, the Company consults with its customers in the design of plastic parts and the design and production of the molds used to manufacture plastic parts, which are made by Deswell at its customers’ expense, and provides advice and assistance in the design and manufacturing of printed circuit boards. The Company believes that its ability to manufacture or assemble high-end plastic and metallic accessory parts of the quality required by OEMs and contract manufacturers which furnish products and services internationally, Deswell’s expertise in designing and manufacturing molds for its customers and the Company’s low production costs distinguish Deswell from most other manufacturers of plastic products and provide it with a competitive advantage. However, this advantage has been difficult to maintain as a result of increased competition and increased production overheads during the last three fiscal years.

Industry Overview

Management believes that the injection molding and parts manufacturing industries have each benefited in recent years from a trend among major users of injection molded and metal products to outsource an increasing portion of the parts requirements and to select a small number of suppliers or a sole supplier to provide those products. The Company is not aware of any empirical data defining the manufacturing industry in China, however, management believes that injection molding firms which are much smaller than the Company make up the largest segment of the industry in China. The Company's experience indicates that such smaller firms are often unable to react quickly and responsively to the diverse demands of many customers and are not capable of furnishing the level of quality that high-end plastic and metal products require. Management believes that this inability on the part of these smaller manufacturers has created opportunities for the Company to increase sales by catering to the outsourcing requirements of OEMs and contract manufacturers that manufacture such high-end products.

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. By doing so, OEMs are able to focus on research, product conception, design and development, marketing and distribution, and to rely on the production expertise of contract manufacturers. Other benefits to OEMs of using contract manufacturing include: access to manufacturers in regions with low labor and overhead costs, reduced time to market, reduced capital investment, improved inventory management, improved purchasing power and improved product quality. In addition, the use of contract manufacturers has helped OEMs manage production in view of increasingly shorter product life cycles.

Operations

Plastic Injection Molding

Plastic injection molding manufacturing accounted for 20.2%, 17.9% and 16.6% of the Company's total sales during the years ended March 31, 2023, 2024, and 2025, respectively. At March 31, 2025, the Company conducted its plastic manufacturing operations in approximately 1,070,000 square feet of factory space in its factory located in Dongguan, China.

The Company's plastic injection molding process consists of three phases: (1) mold design and production; (2) plastic injection; and (3) finishing.

Mold design and production

The plastic injection-molding process begins when a customer provides the Company with specifications for a product or part, which specifications are often created in consultation with the Company's technical staff. Next the Company designs and produces the mold, using great care in the design process and in the selection of materials to produce the mold in an effort to create a high quality appearance of the completed product by reducing or eliminating potential flaws such as the sinkage of materials and irregularities in the knit line of joints. The mold-making process ranges from 30 to 50 days, depending on the size and complexity of the mold. Mold making requires specialized machines and is capital intensive. At March 31, 2025, the Company used 10 EDMs (electrical discharge machines), 14 CNC (computer numerical control) milling machines and 10 NC (numerical control) milling machines in the mold-making process.

The customer generally bears the cost of producing the molds and, as is customary in the industry, the customer owns them. However, the Company maintains and stores the molds at its factory for use in production and it is Deswell's policy generally not to make molds for customers unless the customer undertakes to store its molds at the Company's factory and uses Deswell to manufacture the related parts. In that way, the Company seeks to use its mold-making expertise to create dependence on it for the customer's parts requirements. Through its Export Tooling Department, Deswell produces molds for export to customers and thus does not use those molds to manufacture related parts.

During the year ended March 31, 2025, the Company made an average of approximately 5 molds each month. The average weight of the molds produced by the Company is about 250 pounds costing an average of \$9,200 per set. Management believes that the Company's skills and expertise in mold-making, coupled with having its facilities and operations in China, allow the Company to produce molds at costs substantially less than molds of comparable quality made in Japan, Korea and Taiwan.

Plastic Injection

During the mold-making process, suitable plastic resin for the particular product is selected and purchased. See “Raw Materials, Component Parts and Suppliers,” below. The completed mold is mounted onto injection machines, which are classified according to the clamping force (the pressure per square inch required to hold a mold in place during the injection molding process). At March 31, 2025, the Company had approximately 130 injection molding machines, ranging from 86 to 380 tons of clamping force, with most machines in the range of from 50 to 1,600 tons. Each of the Company’s machines is capable of servicing a variety of applications and product configurations and the Company has machines which permit the Company to fabricate plastic parts as small as a button and as large as a 3 ft. x 2 ft. case for a copy machine.

Using separate shifts, injection molding can be conducted 24 hours a day, five to seven days per week, other than during normal down time for maintenance and changing of product molds. Molding of products requiring extra concerns for appearance, such as cases for calculators, personal organizers and telephones are conducted in an isolated and dust free section of the factory. In a continuous effort to assure quality, the Company’s quality control personnel inspect the products produced from each machine generally at hourly intervals during production. When defects are discovered, the Company’s maintenance personnel inspect the mold and the machine to determine which is responsible. If the mold is the cause of the defect, it will be immediately removed from the machine and serviced or repaired by one of a team of technicians employed to maintain molds. The mold will then be remounted on the machine and production will continue. If the machine is the source of the defect, the Company’s technicians and engineers service the machine immediately. Through this continuous vigilance to molds and machines, the Company has experienced what it believes to be a relatively low scrap rate and has been able to maintain a high level of productivity of its injection molding machines.

During the year ended March 31, 2023, the Company disposed of 12 old plastic injection molding machines and did not add any new machines.

During the year ended March 31, 2024, the Company disposed of 25 old plastic injection molding machines and added one new machine.

During the year ended March 31, 2025, the Company disposed of 4 old plastic injection molding machines and added two new machines.

Finishing

After injection molding, products are finished. Finishing consists of smoothing and polishing, imprinting letters, numbers and signs through silk screening process, pad printing or epoxy ultra violet cutting, and treating the product with an anti-fog coating for a lasting and attractive appearance. Most of these functions are conducted by hand.

Electronic Products and Assemblies

In an aggregate of approximately 223,000 square feet of factory space at March 31, 2025 located at facilities in Dongguan, China, the Company manufactures and assembles electronic products and electronic assemblies for OEMs. Finished products include consumer and sophisticated studio-quality audio equipment, IPBX and commercial telephone units, network education platforms, IP switches and routers. Assemblies consist of printed circuit boards (“PCBs”) with passive (e.g., resistors, capacitors, transformers, switches and wire) and active (e.g., semiconductors and memory chips) components mounted on them. During the years ended March 31, 2023, 2024, and 2025, manufacturing of electronic products accounted for approximately 79.8%, 82.1% and 83.4% respectively, of the Company’s total sales.

In assembling printed circuit boards the Company purchases printed circuit boards, surface mounted components and chips and uses automatic insertion and pin-through-hole interconnection technologies to assemble various components onto the PCBs. Before delivery, completed PCBs are checked by in-circuit testers and outgoing quality assurance inspections are performed.

PTH is a method of assembling printed circuit boards in which component leads are inserted and soldered into plated holes in the board. While this technology is several decades old and is labor intensive, it still has a significant market, particularly for consumer product applications.

BGA is a method of mounting an integrated circuit or other component to a PCB. Rather than using pins that consume a large area of the PCB, the component is attached to the circuit board with small balls of solder at each contact. This method allows for greater component density and is used in more complex PCBs.

SMT is the automatic process of printed circuit board assembly in which components are mounted directly to the surface of the board, rather than being inserted into holes. With this process, solder is accurately stenciled in paste form on pads located on the printed circuit board and the components are then placed onto the solder paste and fused to the melting point of the paste to establish a strong solder joint between components and the printed circuit board. The SMT process allows miniaturization of PCBs, cost savings and shorter lead paths between components (which results in faster signal speed and improved reliability). Additionally, it allows components to be placed on both sides of the printed circuit board, a major factor for the purpose of miniaturization.

Manufacturing operations include PCB assembly, wiring and testing. The process is completed by assembling the PCBs into a plastic or metal housing that comprises the finished product. Quality assurance is then conducted in accordance with the customers' requirements before the shipment.

Quality Control

The Company maintains strict quality control procedures for its products. At hourly intervals, the Company's quality control personnel monitor machines and molds to assure that plastic parts are free from defects.

For electronic operations, the Company's quality control personnel check all incoming components. Moreover, during the production stage, the Company's quality control personnel check all work in process at several points in the production process. Finally, after the final assembly and before shipment, the Company conducts quality assurance inspections in accordance with the customers' Acceptable Quality Level, or AQL, requirements.

In 1995, the Company earned ISO 9001 certifications for both its plastic and electronic products manufacturing operations. The "ISO" or International Organization for Standardization is a Geneva-based organization dedicated to the development of worldwide standards for quality management guidelines and quality assurance. ISO 9000, which is the first quality system standard to gain worldwide recognition, requires a company to gather, analyze, document and monitor and to make improvements where needed. ISO 9001 is the ISO level appropriate for manufacturers like the Company. The Company's receipt of ISO 9001 certification demonstrates that the Company's manufacturing operations meet the established world standards.

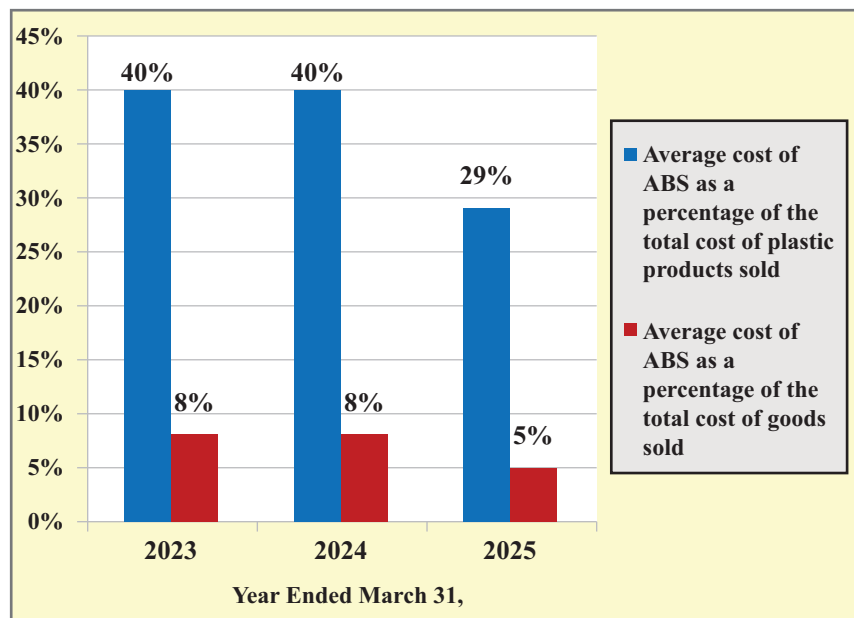
In August 2004, the Company's plastic injection manufacturing plant in Dongguan also obtained ISO 14001 certification, which evidences that the Company's environmental management standards meet established international standards. ISO 14000 is a series of international standards on environmental management. ISO 14001 is the most well-known of these standards and is often seen as the cornerstone standard of the ISO 14000 series. In January 2006, the Company's electronic manufacturing plant also obtained ISO 14001 certification.

In July 2006, Deswell obtained ISO/TS 16949 Certification for its plastic injection manufacturing plant. ISO/TS 16949 is an ISO Technical Specification aligning existing American (QS-9000), German (VDA6.1), French (EAQF) and Italian (AVSQ) automotive quality systems standards within the global automotive industry. Together with ISO 9001:2008, ISO/TS 16949 specifies the quality system requirements for the design/development, production, installation and servicing of automotive related products. ISO/TS 16949 has been accepted as an equivalent to QS-9000, VDA6.1, AVSQ, and EAQF. ISO/TS 16949 does not replace QS-9000; but is optional and eliminates the need for multiple certifications.

Raw Materials, Component Parts and Suppliers

Plastic Resins

The primary raw materials used by the Company in the manufacture of its plastic parts are various plastic resins, primarily ABS (acrylonitrile-butadiene-styrene). The chart below shows Deswell's average cost of ABS as a percentage of the total cost of plastic products sold and as a percentage of total cost of goods sold during its last three fiscal years.



Because plastic resins are commodity products, the Company has no long-term supply agreements for plastic resins. The Company selects its suppliers based on price, lead time, the brand name or those that are appointed by its customers. Most of its plastic resins are obtained from suppliers in Mainland China and Hong Kong. Deswell normally maintains a two to three month inventory supply.

The Company used in excess of 2,858,000 pounds of plastic resins during the year ended March 31, 2025. Management believes that the Company's large volume purchases of plastic resin have generally resulted in lower unit raw material costs and generally have enabled the Company to obtain adequate shipments of raw materials. While the Company is not generally bound by fixed price contracts with its customers, the Company has found that increases in resin prices can be difficult to pass on to its customers and, as a consequence, a significant increase in resin prices could have, and in the past has had, a material adverse effect on the Company's operations.

The primary plastic resins used by the Company are produced from petrochemical intermediates derived from products of the natural gas and crude oil refining processes. Natural gas and crude oil markets have in the past experienced substantially cyclical price fluctuations as well as other market disturbances including shortages of supply and crises in the oil producing regions of the world. The capacity, supply and demand for plastic resins and the petrochemical intermediates from which they are produced are also subject to cyclical and other market factors. Consequently, plastic resin prices may fluctuate as a result of natural gas and crude oil prices and the capacity, supply and demand for resin and petrochemical intermediates from which they are produced. Over the past several years, oil prices have experienced significant volatility and remain extremely uncertain. Sustained increases in oil prices could result in higher costs for plastic resins.

Although the plastics industry has from time to time experienced shortages of plastic resins, the Company has not experienced to date any such shortages. Management believes that there are adequate sources available to meet the Company's raw material needs.

Component Parts and Supplies for Electrical Products Manufacturing

The Company purchases a wide variety of component parts from numerous suppliers and is not dependent upon any single supplier for any essential component. The Company purchases from suppliers in China, Hong Kong, Taiwan, Singapore, the United Kingdom and the United States. At various times there have been shortages of parts in the electronics industry, and certain components, including integrated circuits, diodes, transistors and

other semiconductors, have been subject to allocations by their suppliers, particularly if they are complex and/or customized for a particular use. Although shortages of parts and allocations have not had a material adverse effect on the Company’s results of operations, there can be no assurance that any future shortages or allocations would not have such an effect.

For a discussion of various risks we face associated with obtaining needed components used in our manufacture of electronic products, please see “Shortages of components and materials used in our production of electronics products may delay or reduce our sales and increase our costs” and “We face inventory risks of obsolescence and impairment charges by providing turnkey manufacturing of electronic products” beginning on page 15 of the Risk Factor section of this Report.

Transportation

Transportation of components and finished products to customers in Shenzhen and to and from Hong Kong and Shenzhen and Dongguan is by truck. Some of our products are sold via F.O.B. China or F.O.B. Hong Kong. To date, the Company has not been materially affected by any transportation problems.

Customers and Marketing

The Company’s customers are OEMs and contract manufacturers. The Company sells its products principally in China, the United States, Hong Kong and Europe (the United Kingdom, Norway and Holland) and Canada. Net sales to customers by geographic area are determined by reference to shipping destinations as directed by the Company’s customers. For example, if the products are delivered to the customer in Hong Kong, the sales are recorded as generated in Hong Kong; if the customer directs the Company to ship its products to Europe, the sales are recorded as sold to Europe. See Note 16 of Notes to Consolidated Financial Statements for the dollar amounts of export sales by geographic area for each of the years ended March 31, 2023, 2024 and 2025. Net sales as a percentage of total sales to customers by geographic area consisted of the following for the years ended March 31, 2023, 2024 and 2025:

Geographical Area	Year ended March 31		
	2023	2024	2025
China	35.9%	31.9%	33.2%
United States	15.7	11.4	9.0
Europe	17.2	14.4	18.6
Hong Kong	8.4	11.9	10.2
United Kingdom	11.8	17.3	16.2
Canada	6.1	4.3	5.7
Others	4.9	8.8	7.1
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

We believe that our reported sales by geographic area do not necessarily reflect the final destinations of our products or the actual nationalities of our customers. For example, we have reported product sales in China amounting to 33.2% of our total net sales for the year ended March 31, 2025 because China is where our customers directed us to deliver the products. However, we believe that these sales were to offshore customers using local China shipping destinations, which in turn, transshipped our products offshore.

The Company markets its products and services to existing customers through direct contact with the Company’s management and direct sales personnel. The Company’s sales personnel attend trade shows, exhibitions and conventions. Collecting information from trade shows, as well as websites, Deswell’s marketing staff contacts existing and potential customers directly by telephone, mail, fax, e-mail via the Internet and in person, stressing Deswell’s capability as a complete solution provider for plastic injection mold design, tooling and molding as well as an electronics manufacturing services, or EMS, provider of advanced technology manufacturing processes and flexible logistic services.

The Company’s sales transactions with all of its customers are based on purchase orders received by the Company from time to time. Except for these purchase orders, the Company has no written agreements with its customers. Sales of plastic parts, electronic products and metallic products are primarily made on credit terms, with payment in United States dollars or Hong Kong dollars expected within 30 to 90 days of shipment. In certain cases, primarily new customers of electronic products, sales are supported by letters of credit and are payable

in United States dollars. To date, the Company has not experienced any significant difficulty in collecting accounts receivable on credit sales. Management communicates regularly with credit sale customers and closely monitors the status of payment and in this way believes it has kept the default rate low. Additionally, plastic parts deliveries are made in several installments over a lengthy period of time, which permits the Company to withhold delivery in the event of any delinquency in payment for past shipments. While the Company has not experienced any material difficulty in being paid by its customers, there can be no assurance that the Company's favorable collection experience will continue.

Customers

The Company's success depends to a significant extent on the success achieved by its customers in developing and marketing their products, some of which may be new. Many of the industry segments served by the Company's customers are subject to technological change, which can result in short product life cycles. The Company could be materially adversely affected if advances in technology or other factors reduce the marketability of essential products of its customers or if new products being developed by its customers do not attain desired levels of acceptance.

Historically, the Company has depended, currently depends, and expects to continue to depend, on a small number of customers for a significant percentage of its net sales. The following table sets forth Deswell's major customers which accounted for 10% or more of its net sales during fiscal 2023, 2024 and 2025:

	Year ended March 31		
	2023	2024	2025
Customer B	21.4%	14.5%	20.0%
Customer E	19.6%	19.5%	13.8%
Customer G	*%	11.4%	*%

* Less than 10% in the year indicated.

If the Company's major customers experience a decline in the demand for their products as a result of the prevailing economic environment or other factors, the products or services that we provide to them could be reduced or even terminated. The loss of any of our major customers or a substantial reduction in orders from any of them would adversely impact our sales and operating results unless and until we were able to replace the customer or order with one or more of comparable size.

The Company's sales are based on purchase orders and there are no long-term contracts with any of Deswell's customers. The percentage of sales to the Company's customers has fluctuated in the past and may fluctuate in future. Substantial decreases in sales to, or the loss of major customers, have adversely impacted Deswell's sales and financial performance.

Present or future customers could cease to use Deswell as the source of the injection-molded plastic parts and components it manufactures for electronic manufacturing services of electrical products and subassemblies or for metallic molds and accessories or significantly change, reduce or delay the amount of products and services ordered. The Company's sales may decline and its financial results will suffer if orders from its largest customers, or orders from other substantial customers, cease or are significantly reduced, unless Deswell can maintain strong relationships with longstanding customers or add sales from new customers.

Following the global trend to remove the travelling restrictions, the PRC government has uplifted the border entry and travelling restrictions as of early 2023. Now, the Company's management is free to travel between Hong Kong and the two principal manufacturing plants located in the city of Dongguan, in the Guangdong province.

Competition

We compete with a number of different companies in production of injection-molded plastic parts and components, electrical products and subassemblies and metallic molds and accessories. For example, we compete with major global EMS providers, other smaller EMS companies that have a regional or product-specific focus, and original design manufacturers with respect to some of the services that we provide. We also compete with our current and prospective customers, who can manufacture internally and who evaluate our capabilities in light of their own capabilities and cost structures. Our market segments are extremely competitive, many of our competitors

have achieved substantial market share and many have lower cost structures and greater manufacturing, financial or other resources than we do. We face particular competition from Asian-based competitors, including Taiwanese EMS providers who compete in our end markets.

The Company believes that competition for plastic injection molding, contract electronic manufacturing and parts manufacturing businesses are based on price, quality, service and the ability to deliver products in a timely and reliable basis.

Patents, Licenses and Trademarks

The Company has no patents, trademarks, licenses, franchises, concessions or royalty agreements that are material to its business.

Seasonality

For information concerning the seasonality of the Company's business, see "Seasonality" included under ITEM 5 "Operating and Financial Review and Prospects."

Property, Plants and Equipment

Macao

The Company leases Units 10B and 10C Edificio Associacao Industrial De Macau, No. 32-36 Rua do Comandante Mata e Oliveira, Macao from an unaffiliated party, each being for a term of two years to May 2024. The premises are used as trading, administrative and accounting offices for the Company's plastic injection business and electronic & metallic business, respectively. The monthly rent is approximately \$4,500.

Southern China

In January 2000, the Company acquired under a land-lease agreement with the local government an aggregate of approximately 1.3 million square feet of land to construct its own manufacturing plant and dormitory buildings in Houjie, Dongguan, China. Under the land-lease agreement, the Company has the right to use the land for 50 years. On this land, Deswell has through March 31, 2025 constructed approximately:

- 1,070,000 square feet of factory space,
- 91,000 square feet of amenity space,
- 133,000 square feet of office building space, and
- 470,000 square feet of dormitory space.

Deswell now uses this facility for its plastic manufacturing operations.

Manufacturing facilities and warehouses identified to be idle during the year were leased to third parties for rental income. Rental income, net of depreciation charges, of \$1,328,000, \$498,000 and \$386,000 was earned during the years ended March 31, 2023, 2024, and 2025, respectively.

In July 2003, the Company acquired under a land-lease agreement with a third party an aggregate of approximately 244,000 square feet of land and approximately 420,000 square feet of buildings, including six blocks of dormitory buildings, a canteen, a factory building, a car park and a guard room, at Chang An, Dongguan, China, which was previously named Kwan Hong Building. The land use period is for 50 years from February 1, 2003 to January 31, 2053. The Company uses the facilities for its electronic products manufacturing operations.

The Company believes that its existing offices and manufacturing space, and manufacturing space in close proximity to its existing facilities, which management believes will be available as needed for limited expansion, will be adequate for the operation of its business for at least the next two years.

Material Effects of Government Regulations

See discussion of increasing minimum wage levels in Guangdong Province and corresponding increases in employer contributions for mandatory social welfare benefits for Chinese employees on page 25 of this Report.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable to Deswell.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Except for statements of historical facts, this section contains forward-looking statements involving risks and uncertainties. You can identify these statements by forward looking words including “expect,” “anticipate,” “believe,” “seek,” and “estimate.” Forward looking statements are not guarantees of Deswell’s future performance or results and the Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the section of this Report entitled ITEM 3 “Key Information — Risk Factors.”

Operating Results

The following discussion should also be read in conjunction with the consolidated financial statements and notes thereto included following ITEM 18 of this Report. The Company prepares its financial statements in accordance with U.S. GAAP.

General

The Company’s revenues are derived from the manufacture and sale of injection-molded plastic parts and components, electrical products and subassemblies and metallic molds and accessories.

The manufacturing of the metallic components is a production process which may emit pollutants. During the year ended March 31, 2015, the Company gradually outsourced manufacturing of the metal components used in assembly of the Company’s audio products. As of March 31, 2015, all of the metallic components used in assembly of the Company’s audio products were provided by third party suppliers. The Company carries out all of its manufacturing operations in Southern China, where it has been able to take advantage of the lower overhead costs and labor rates as compared to Hong Kong. At the same time, the proximity of the Company’s factories in Southern China to Hong Kong permits the Company to easily manage its manufacturing operations from Macao, and facilitates transportation of its products through Hong Kong.

PRC Income Taxes

In accordance with the PRC Income Tax Law, the standard income tax rate for all subsidiaries operating in the PRC is 25%.

Business Segment Information

Deswell's operations are generally organized in two segments: plastic injection molding, which we sometimes refer to as the "plastics segment," and electronic products assembling. The Company's reportable segments are strategic business units that offer different products and services. See Note 16 of Notes to Consolidated Financial Statements. The following table sets forth selected consolidated financial information presented as a percentage of net sales by segment for each of the three years in the period ended March 31, 2025:

	Year ended March 31, 2023			Year ended March 31, 2024			Year ended March 31, 2025		
	Plastic Injection Molding Segment	Electronic Segment	Total	Plastic Injection Molding Segment	Electronic Segment	Total	Plastic Injection Molding Segment	Electronic Segment	Total
Net sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	84.4	83.1	83.4	76.7	80.7	80.0	79.0	80.0	79.8
Gross profit	15.6	16.9	16.6	23.3	19.3	20.0	21.0	20.0	20.2
Selling, general and administrative expenses	26.0	8.9	12.4	28.8	10.0	13.3	34.0	10.8	14.7
Corporate expense	—	—	1.8	—	—	1.8	—	—	2.0
Other income (expenses), net	(1.8)	2.1	1.3	(1.5)	1.0	0.6	1.4	1.4	1.4
Operating income (loss)	(12.3)	10.1	3.7	(7.0)	10.3	5.5	(11.7)	10.6	4.9
Non-operating Income (expense), net	(3.2)	(0.1)	(0.7)	25.7	1.5	5.8	56.5	2.9	11.8
Income (loss) before income taxes	(15.5)	10.0	3.0	18.7	11.8	11.3	44.8	13.5	16.7
Income taxes expenses (benefit)	(0.8)	0.6	0.3	0.6	0.1	0.2	(1.4)	0.5	0.2
Net income (loss)	(14.7)	9.4	2.7	18.0	11.7	11.1	46.2	13.0	16.5

The Company used to include corporate expenses, which mainly included directors' remuneration, legal and professional expenses and corporate insurance, in the segment of plastic injection. Commencing from fiscal year ended March 31, 2018, the corporate expenses are separately disclosed in the segment information for a more precise presentation of the financial performance of each segment.

Year Ended March 31, 2025 (Fiscal 2025) Compared to Year Ended March 31, 2024 (Fiscal 2024)

Net Sales — The Company's net sales for the year ended March 31, 2025, were \$67,610,000, a decrease of \$1,758,000 or 2.5% as compared to \$69,368,000 in the corresponding period in the fiscal year 2024. The decrease was related to decreases in sales revenues of \$1,185,000 in our plastic segment, and of \$573,000 in our electronic segment, as compared with respective net sales from these segments in the corresponding period of the prior fiscal year.

The revenue decrease in the plastic segment was mainly due to decreases in orders of \$579,000 from existing customers for printer and telephone equipment, as well as \$902,000 for robotic mops and vacuum cleaners, offsetting an increase in orders of \$260,000 for plastic and gardening tool boxes from other existing customers.

The revenue decrease in the electronic segment was mainly due to decreases in orders of \$6,020,000 from existing customers for vending machines, offsetting increases in orders of \$4,294,000 for home entertainment products, as well as \$1,156,000 for digital audio equipment from other existing customers.

Gross Profit — Gross profit for the year ended March 31, 2025, was \$13,643,000 representing a gross profit margin of 20.2%. This is compared with the overall gross profit and gross profit margin of 13,903,000 or 20.0% for the year ended March 31, 2024.

Gross profit in the plastic segment decreased by \$529,000 to \$2,353,000 or 21.0% of net sales in the segment for the year ended March 31, 2025, as compared to \$2,882,000 or 23.3% of net sales in the segment for the same period in the prior fiscal year. The decrease in gross profit for the plastic segment was mainly due to the relative increase in the cost of raw materials and labor resulting from decrease in sales revenues, when compared with the prior fiscal year, as well as the change of product mix.

Gross profit in the electronic segment increased by \$269,000 to \$11,290,000 or 20.0% of net sales in the segment for the year ended March 31, 2025, as compared to \$11,021,000 or 19.3% of net sales in the segment in the prior fiscal year. The increase in gross margin is attributable to relatively lower raw materials and labor costs, as well as a result of continuous cost control measures taken, when compared with last fiscal year.

Selling, General and Administrative Expenses — SG&A expenses for the year ended March 31, 2025 increased by \$779,000 to \$11,280,000 or 16.7% of total net sales, as compared to \$10,501,000 or 15.1% of total net sales for the year ended March 31, 2024.

Corporate expenses slightly increased by \$86,000 to \$1,348,000 for the year ended March 31, 2025, as compared to \$1,262,000 for the year ended March 31, 2024, related to an increase in director remunerations.

SG&A expenses in the plastic segment increased by \$252,000 to \$3,815,000 or 34.0% of net sales in the segment for the year ended March 31, 2025, compared to \$3,563,000 or 28.8% of net sales in the segment for fiscal 2024. The increase in total SG&A expenses was primarily related to increases of \$93,000 in staff costs and welfare, \$89,000 in audit fees, \$54,000 in local government taxes and charges, offsetting a decrease of \$30,000 in sundry expense, as compared with the same period in the prior fiscal year. The SG&A expense as a percentage of total sales revenues was relatively higher due to lower sales revenues during fiscal 2025 as compared with fiscal 2024.

SG&A expenses in the electronic segment increased by \$441,000 to \$6,117,000 or 10.8% of net sales in the segment for the year ended March 31, 2025, compared to \$5,676,000 or 10.0% of net sales in the segment for fiscal 2024. The increase in total SG&A expense was mainly due to increases of \$132,000 in staff costs and welfare, \$42,000 in office repair and maintenance, \$21,000 in local government taxes as well as \$106,000 in selling expense, when compared to the prior fiscal year.

Other Income, Net — Other income was \$951,000 for the year ended March 31, 2025, as compared to other income of \$383,000 in the prior fiscal year.

On a segment basis, other income attributable to the plastic segment for the year ended March 31, 2025, were \$152,000, as compared to other expense of \$190,000 for the prior fiscal year. Other income was higher in fiscal 2025 mainly due to increases of \$190,000 in exchange gain, \$114,000 from gain on disposal of fixed assets as well as \$44,000 from other income for the fiscal period ended March 31, 2025, when compared with fiscal year 2024.

Other income attributable to the electronic segment for the year ended March 31, 2025 was \$799,000, as compared with other income of \$573,000 for the prior fiscal year. The increase in other income was mainly due to increases of \$231,000 from product testing services income, of \$158,000 for reversal of doubtful debts, offsetting decreases of \$67,000 in exchange gain and \$130,000 from other income during the year ended March 31, 2025, when compared to the same period in the prior fiscal year.

Operating Income — Operating income was \$3,314,000 for the year ended March 31, 2025, as compared to operating income of \$3,785,000 in the prior fiscal year.

Corporate expenses of \$1,348,000 and \$1,262,000 were incurred during the 2025 and 2024 fiscal year, respectively.

On a segment basis, the operating loss in the plastic segment was \$1,310,000 in the year ended March 31, 2025, as compared to operating loss of \$871,000 in the 2024 fiscal year. The increase operating loss in the plastic segment was mainly due to a lower gross margin and higher SG&A expenses, as described above.

The electronic segment reported operating income of \$5,972,000 in the year ended March 31, 2025, compared to operating income of \$5,918,000 in the 2024 fiscal year. The slight increase in operating income was mainly due to the increase in gross margin and other income, as described above.

Non-Operating Income (Expense), Net — Non-operating income for the year ended March 31, 2025 was \$7,986,000, as compared to non-operating income of \$4,034,000 in the last fiscal year. The increase in non-operating income was primarily due to increases of \$2,211,000 in fair value of marketable securities held for sale, \$316,000 in dividend income, \$383,000 in interest income and \$1,470,000 in realized gain on the sale of marketable securities, offsetting decreases of \$112,000 from rental income and \$316,000 from other income during the fiscal year ended March 31, 2025, as compared to the 2024 fiscal year.

Income Taxes — Current tax expense for the year ended March 31, 2025 was \$182,000. The Company had a deferred tax benefit of \$20,000. This is compared to a current tax expense of \$269,000 and a deferred tax benefit of \$159,000 in the last fiscal year.

On a segment basis, there was a current income tax benefit of \$54,000 and a deferred tax benefit of \$99,000 in the plastic segment for the year ended March 31, 2025, as compared to a current income tax provision of \$68,000 and a deferred tax provision of \$7,000 during the last fiscal year. In the electronic segment, there was a current tax expense of \$236,000 and a deferred tax expense of \$79,000 for the year ended March 31, 2025, as compared to a current tax expense of \$202,000 and a deferred tax benefit of \$167,000 in the 2024 fiscal year.

Net Income — The Company had net income of \$11,138,000 for the year ended March 31, 2025, as compared to net income of \$7,709,000 for the year ended March 31, 2024. The increase in net income was mainly due to the increase in non-operating income, as described above.

Net income for the plastic segment for the year ended March 31, 2025 was \$5,177,000, as compared to net income of \$2,234,000 for the 2024 fiscal year. The increase in net income in the plastic segment was mainly due to an increase in non-operating income as described above.

Net income for the electronic segment for the year ended March 31, 2025 was \$7,309,000, as compared to net income of \$6,737,000 for the 2024 fiscal year. The increase in net income in the electronic segment was mainly attributable to increases in gross margin as well as in non-operating income as described above.

Year Ended March 31, 2024 (Fiscal 2024) Compared to Year Ended March 31, 2023 (Fiscal 2023)

Net Sales — The Company's net sales for the year ended March 31, 2024, were \$69,368,000, a decrease of \$7,969,000 or 10.3% as compared to \$77,337,000 in the corresponding period in the fiscal year 2023. The decrease was related to decreases in sales revenues of \$3,225,000 in our plastic segment, and of \$4,744,000 in our electronic segment, as compared with respective net sales from these segments in the corresponding period of the prior fiscal year.

The revenue decrease in the plastic segment was mainly due to decreases in orders of \$3,304,000 from existing customers for printer, telephone and office equipment, \$872,000 for plastic and gardening toolboxes, as well as \$1,319,000 for robotic mops and vacuum cleaners, offsetting increases in orders of \$2,192,000 for tooling and other plastic products from other existing customers.

The revenue decrease in the electronic segment was mainly due to decreases in orders of \$8,797,000 from existing customers for home entertainment products, offsetting increases in orders of \$4,053,000 for digital audio workstations from other existing customers.

Gross Profit — Gross profit for the year ended March 31, 2024, was \$13,903,000 representing a gross profit margin of 20.0%. This is compared with the overall gross profit and gross profit margin of 12,839,000 or 16.6% for the year ended March 31, 2023.

Gross profit in the plastic segment increased by \$449,000 to \$2,882,000 or 23.3% of net sales in the segment for the year ended March 31, 2024, as compared to \$2,433,000 or 15.6% of net sales in the segment for the same period in the prior fiscal year. The increase in gross profit for the plastic segment was mainly due to the decreases in the cost of raw materials resulting from the depreciation of the RMB, despite the decrease in demand from customers for certain products, when compared with the prior fiscal year, as well as the change of product mix.

Gross profit in the electronic segment increased by \$615,000 to \$11,021,000 or 19.3% of net sales in the segment for the year ended March 31, 2024, as compared to \$10,406,000 or 16.9% of net sales in the segment in the prior fiscal year. The increase in gross margin is attributable to relatively lower labor costs as a result of continuous cost control measures taken and the depreciation of the RMB when compared with the last fiscal year.

Selling, General and Administrative Expenses — SG&A expenses for the year ended March 31, 2024 slightly decreased by \$465,000 to \$10,501,000 or 15.1% of total net sales, as compared to \$10,966,000 or 14.2% of total net sales for the year that ended March 31, 2023.

Corporate expenses slightly decreased by \$150,000 to \$1,262,000 for the year ended March 31, 2024, as compared to \$1,412,000 for the year ended March 31, 2023, related to a decrease in director remunerations.

SG&A expenses in the plastic segment decreased by \$505,000 to \$3,563,000 or 28.8% of net sales in the segment for the year ended March 31, 2024, compared to \$4,068,000 or 26.0% of net sales in the segment for the 2023 fiscal year. The decrease in total SG&A expenses was primarily related to decreases of \$266,000 in staff costs, \$91,000 in selling expense and \$93,000 in depreciation, as compared with the same period in the prior fiscal year. The SG&A expense as a percentage of total sales revenues was relatively higher due to lower sales revenues during the 2024 fiscal year as compared with the 2023 fiscal year.

SG&A expenses in the electronic segment increased by \$190,000 to \$5,676,000 or 10.0% of net sales in the segment for the year ended March 31, 2024, compared to \$5,486,000 or 8.9% of net sales in the segment for the 2023 fiscal year. The slight increase in total SG&A expense was mainly due to increases of \$42,000 in local government taxes and charges, \$140,000 in professional fees when compared to the prior fiscal year.

Other Income, Net — Other income was \$383,000 for the year ended March 31, 2024, as compared to other income of \$1,014,000 in the prior fiscal year.

On a segment basis, other expenses attributable to the plastic segment for the year ended March 31, 2024 were \$190,000, as compared to other expense of \$285,000 for the prior fiscal year. Other expense was lower in the 2024 fiscal year mainly due to an exchange loss of \$178,000, and a loss of \$79,000 from disposal of fixed assets, offsetting a gain of \$57,000 on sales of materials during fiscal 2024, as compared to an exchange loss of \$570,000, offsetting a reversal of provisions of \$199,000 for doubtful receivables, and a gain of \$85,000 on sales of materials in fiscal year 2023.

Other income attributable to the electronic segment for the year ended March 31, 2024, was \$573,000, as compared with other income of \$1,299,000 for the prior fiscal year. The decrease in other income was mainly due to decreases of \$148,000 in exchange gain and of \$436,000 in other income, as well as an increase in credit losses expense of \$117,000, as compared to fiscal year 2023.

Operating Income — Operating income was \$3,785,000 for the year ended March 31, 2024, as compared to operating income of \$2,887,000 in the prior fiscal year.

Corporate expenses of \$1,262,000 and \$1,412,000 were incurred during the 2024 and 2023 fiscal year, respectively.

On a segment basis, the operating loss in the plastic segment was \$871,000 in the year ended March 31, 2024, as compared to operating loss of \$1,920,000 in the 2023 fiscal year. The decrease in operating loss in the plastic segment was mainly due to a higher gross margin and lower SG&A expenses, as a result of the depreciation of the RMB, as described above.

The electronic segment reported operating income of \$5,918,000 in the year ended March 31, 2024, compared to operating income of \$6,219,000 in the 2023 fiscal year. The decrease in operating income was mainly due to the decrease in other income despite the increase in gross margin, as described above.

Non-Operating Income (Expense), Net — Non-operating income for the year ended March 31, 2024 was \$4,034,000, as compared to a non-operating expense of \$573,000 in last fiscal year. The increase in non-operating income was primarily due to increases of \$4,925,000 in fair value of marketable securities held, \$413,000 in dividend income and \$387,000 in interest income and \$293,000 from other income, offsetting decreases of \$830,000 in rental income, and \$581,000 in realized gain on the sale of marketable securities during the fiscal year ended March 31, 2024, as compared to the 2023 fiscal year.

Income Taxes — Current tax expense for the year ended March 31, 2024 was \$269,000. The Company had a deferred tax benefit of \$159,000. This is compared to a current tax expense of \$410,000 and a deferred tax benefit of \$155,000 in the last fiscal year.

On a segment basis, there was a current income tax provision of \$68,000 and a deferred tax provision of \$7,000 in the plastic segment for the year ended March 31, 2024, as compared to a deferred tax benefit of \$133,000 during the last fiscal year. In the electronic segment, there was a current tax expense of \$202,000 and a deferred tax benefit of \$167,000 for the year ended March 31, 2024, as compared to a current tax expense of \$409,000 and a deferred tax benefit of \$22,000 in the 2023 fiscal year.

Net Income — The Company had net income of \$7,709,000 for the year ended March 31, 2024, as compared to net income of \$2,059,000 for the year ended March 31, 2023. The increase in net income was mainly due to the increase in non-operating income, as described above.

Net income for the plastic segment for the year ended March 31, 2024 was \$2,234,000, as compared to a net loss of \$2,290,000 for the 2023 fiscal year. The increase in net income in the plastic segment was mainly due to an increase in non-operating income as described above.

Net income for the electronic segment for the year ended March 31, 2024 was \$6,737,000, as compared to net income of \$5,761,000 for the 2023 fiscal year. The increase in net income in the electronic segment was mainly attributable to increases in gross margin as well as in non-operating income as described above.

Seasonality

The following table sets forth certain unaudited financial information sequentially on a semi-annual basis for the each of the years ending March 31, 2023, March 31, 2024, and March 31, 2025 (in thousands):

	Year ended March 31,					
	2023		2024		2025	
	H1	H2	H1	H2	H1	H2
Net sales	\$ 44,438	\$ 32,899	\$ 37,730	\$ 31,638	\$ 35,176	\$ 32,434
Gross profit	7,114	5,725	7,362	6,541	6,864	6,779
Operating income	2,040	847	2,302	1,483	1,820	1,494
Net income (loss)	(560)	2,619	3,557	4,152	6,185	4,953

Impact of Inflation

Historically, the Company focused upon increasing transaction volume in order to compensate for inflation in China, where virtually all of the Company’s assets and employees are located and inflation in China had little impact on Deswell. However, inflation in China has recently affected the Company significantly.

In May 2025, the monthly inflation rate in China is low and remains subdued. The Consumer Price Index has been falling year-on-year, with a 0.1% decrease in both April and May. According to the National Bureau of Statistics in China, during the January-May period, China’s Consumer Price Index averaged a 0.1% decline compared to the same period last year. However, the Company’s actual cost of operations has significantly exceeded the overall inflation rate in China. The rapid growth of China’s economy in general has in the past few years increased the Company’s operating costs, including energy prices and labor costs. These increased costs have adversely affected the Company’s cost of operations, caused the Company to increase its prices, and resulted in the loss of some customers.

There is no fixed minimum wage which is applicable to all of China; local governments in China adopt different amounts based on the situation in their area. China’s Guangdong Province, where our manufacturing facilities are located, raised minimum wages by approximately 10% in December 2021. Effective May 1, 2015, minimum wage levels across Guangdong Province, including Dongguan, where our manufacturing facilities are located, were increased by an average of 15.3%. Effective December 1, 2021, the Guangdong Provincial Government increased the Province’s statutory minimum wage by around RMB180 per month. The Provincial Government sets different tiers of minimum wages according to the developmental status of the Province’s urban clusters. In the City of Dongguan, where our manufacturing facilities are located, the minimum wage has been increased from RMB1,900 per month to RMB2,080 per month starting March 1, 2025. Regions may want to freeze local wages in order to maintain their economic competitiveness amid the economic slowdown.

Increases in wages also result in increases in our and other employer’s contributions for various mandatory social welfare benefits for Chinese employees that are based on percentages of their salaries. Continuing material increases in our cost of labor will continue to increase the Company’s operating costs and will adversely affect Deswell’s financial results unless it passes on such increases to customers by increasing the prices of products and services. The effect of increases in the prices of products and services would make the Company’s products more expensive in global markets, such as the United States and the European Union. This could result in the loss of customers, who may seek, and be able to obtain, products and services comparable to those Deswell offers in lower-cost regions of the world. If the Company does not increase prices to pass on the effect of increases in labor costs, Deswell’s margins and profitability would suffer.

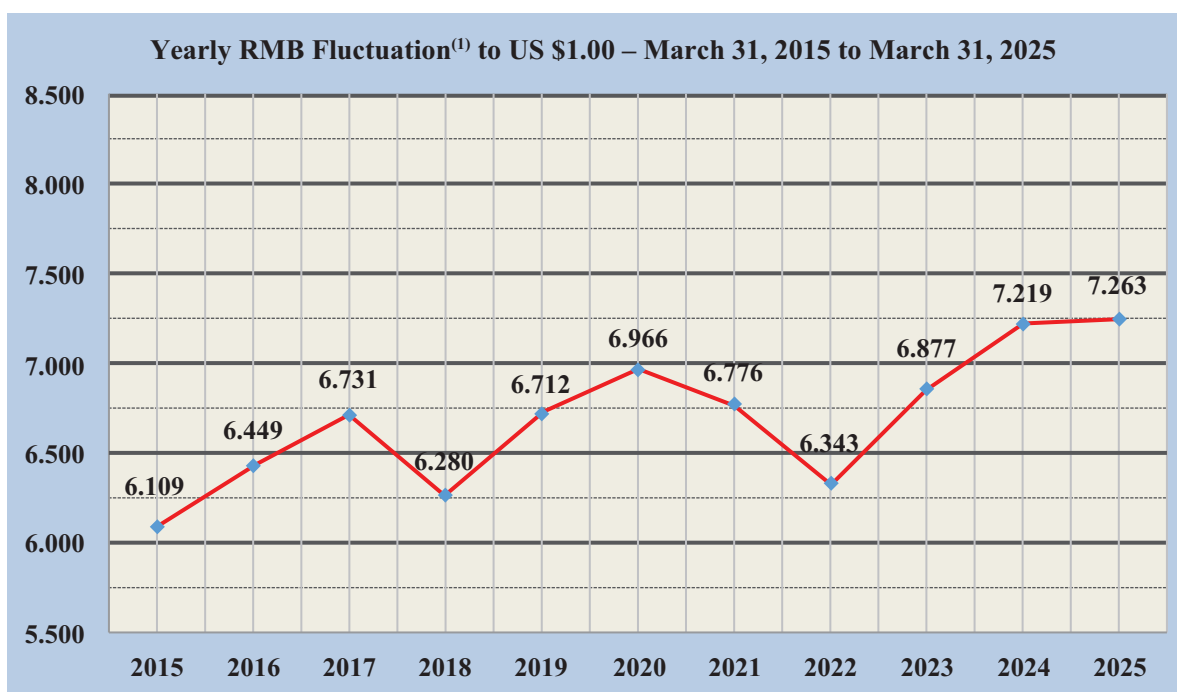
Because most of the Company’s labor costs are incurred in China and therefore paid in RMB, Deswell’s business and financial results will be affected by the exchange rate of RMB to the U.S. dollar, as is discussed in “Exchange Rates” immediately below.

Exchange Rates

The Company’s sales are mainly in United States dollars and Hong Kong dollars and its expenses are mainly in United States dollars, Hong Kong dollars and Chinese RMB.

The Hong Kong dollar has been pegged to the U.S. dollar at approximately 7.80 and relatively stable. The Hong Kong government may not continue to maintain the present currency exchange mechanism, which fixes the Hong Kong dollar at approximately 7.80 to each United States dollar and has not in the past presented a material currency exchange risk. Although announcements by Hong Kong’s central bank indicate its intention to maintain the currency peg between the Hong Kong dollar and the U.S. dollar, if Hong Kong does change and follows China to a floating currency system or otherwise changes the exchange rate system of Hong Kong dollars to U.S. dollars, our margins and financial results could be adversely affected.

Between 1994 and July 2005, the market and official RMB rates were unified and the value of the RMB was essentially pegged to the U.S. dollar and was relatively stable. On July 21, 2005, the People’s Bank of China adjusted the exchange rate of RMB to the U.S. dollar by linking the RMB to a basket of currencies and simultaneously setting the exchange rate of RMB to U.S. dollars, from 1:8.27, to a narrow band of around 1:8.11. The following chart illustrates the fluctuations in the exchange ratio of the RMB to the U.S. dollar at the end of each of Deswell’s fiscal years from March 31, 2015 to March 31, 2025.



(1) RMB (yuan) to U.S. dollar data presented in this chart are the average exchange rate on March 31 of the year indicated as reported at <http://www.oanda.com/currency-converter>.

Since 2018 the RMB has become depreciated against the U.S. dollar, the Company’s results have benefited from this depreciation rate. However, since then, the RMB has fallen against the U.S. dollar to its 18-month low of 6.7110 in May 2022 amid the COVID-19 lockdowns in key Chinese cities. Despite the global economy’s softening, the RMB has weakened more than 10% against the U.S. dollar since the Federal Reserve began raising rates in March 2022.

At the outset of the trade war during the US President Trump’s second administration in February 2025, the USD/RMB traded at 7.26 at the end of March 2025. The abrupt escalation of tariffs sent yuan depreciation pressure to a new peak, with the USD/RMB eclipsing 7.35 in mid-April 2025 when the US tariffs on Chinese goods was 135%. The People’s Bank of China realized that intentional devaluation of the RMB would have done little to offset 135%

tariffs, and would also have significant implications on purchasing power, confidence, and RMB internationalization goals. The Bank's solution was to maintain a policy of currency stability, which has sharply lowered the depreciation pressure. The Chinese government has also continued to maintain consumer confidence and domestic purchasing power to boost domestic demand. During the three-month period ending June 30, 2025, the USD/RMB traded at 7.17.

In addition, the war in Ukraine has increased sanctions risks on China and further deteriorated the U.S.-China relationship leading to an abrupt slowdown for foreign inflows to China, which further reduced demand for RMB. With the ongoing Russia-Ukraine war, capital investment into China has evolved as a complex issue. While some investors are reducing their exposure due to increased risk aversion and geopolitical concerns, others see opportunities in China's economic strength and potential to benefit from global shifts.

In conclusion, it is difficult to predict how the situation between the United States and Chinese government will develop, which in turn affects the exchange rate between the dollar and RMB.

We did not hedge our currency risk during the years ended March 31, 2023, 2024 and 2025 and at March 31, 2025, we had no open forward currency contracts. We continually review our hedging strategy and there can be no assurance that hedging techniques we may implement will be successful or will not result in charges to our results of operations.

Liquidity and Capital Resources

Capital resources

To date, we have financed our operations primarily through cash generated by operating activities and historical equity financing activities. As of March 31, 2023, 2024 and 2025, we had cash and cash equivalents of, \$22.2 million, \$15.8 million and \$28.1 million, respectively. Our cash and cash equivalents primarily consist of cash on hand and time certificates of deposit with a maturity of three months or less when purchased. We believe that our cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months.

Fiscal year 2025

For the year ended March 31, 2025, net cash provided by operating activities totaled \$13,534,000, including net income of \$11,138,000 and depreciation and amortization expenses of \$1,519,000. For the year ended March 31, 2024, net cash provided by operating activities totaled \$13,208,000, including net income of \$7,709,000 and depreciation and amortization expenses of \$1,523,000. Accounts receivable decreased by \$2,139,000 as compared to balances at March 31, 2024, primarily as a result of a decrease in sales during the fiscal year. Inventories decreased by \$2,488,000 over levels at March 31, 2024, mainly because of relatively lower levels of raw materials maintained during the fiscal year relating to decreased sales turnover. Accounts payable increased by \$530,000 over levels at March 31, 2024, primarily because of the lengthier settlement process in the last quarter of fiscal year 2025.

Net cash provided by investing activities amounted to \$2,037,000 for the year ended March 31, 2025 while net cash used in investing activities in fiscal year 2024 amounted to \$16,430,000. Capital expenditures during these periods totaled \$332,000 and \$381,000, in fiscal year 2025 and 2024 respectively.

In fiscal year 2025, there was an increase in fixed deposits with original maturity over three months of \$5,452,000 and a decrease in fixed deposits over twelve months of \$38,000. Also, during fiscal year 2025, we acquired marketable securities for \$3,090,000 and received \$5,647,000 in cash proceeds from the sale of marketable securities.

Net cash used in financing activities for the year ended March 31, 2025, was \$3,188,000, which was mainly used to fund dividend payments to shareholders. Net cash used in financing activities for the year ended March 31, 2024, was \$3,188,000, which was used to fund dividend payments to shareholders.

Fiscal year 2024

For the year ended March 31, 2024, net cash provided by operating activities totaled \$13,208,000, including net income of \$7,709,000 and depreciation and amortization expenses of \$1,523,000. For the year ended March 31, 2023, net cash provided by operating activities totaled \$12,998,000, including net income of \$2,059,000 and depreciation and amortization expenses of \$1,709,000. Accounts receivable decreased by \$3,642,000 as compared to balances at March 31, 2023, primarily as a result of a decrease in sales during the fiscal year. Inventories decreased by \$5,220,000

over levels at March 31, 2023, mainly because of relatively higher levels of raw materials maintained during the fiscal year relating to decreased sales turnover. Accounts payable decreased by \$1,739,000 over levels at March 31, 2023, primarily because of the decrease in materials purchases.

Net cash used in investing activities amounted to \$16,430,000 for the year ended March 31, 2024 while net cash used in investing activities in fiscal year 2023 amounted to \$1,115,000. Capital expenditures during these periods totaled \$381,000 and \$792,000, respectively.

In fiscal year 2024, there was an increase in fixed deposits with original maturity over three months of \$10,926,000 and a decrease in fixed deposits over twelve months of \$1,154,000. Also, during fiscal year 2024, we acquired marketable securities for \$1,352,000 but there was no sale of marketable securities.

Net cash used in financing activities for the year ended March 31, 2024, was \$3,188,000, which was mainly used to fund dividend payments to shareholders. Net cash used in financing activities for the year ended March 31, 2023, was \$3,188,000, which was used to fund dividend payments to shareholders.

Restricted net assets

Our cash and cash equivalents at March 31, 2025 were unrestricted and held for working capital purposes. Our direct PRC subsidiaries are, however, subject to PRC restrictions on distributions to equity holders. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments, and trade- and service-related foreign exchange transactions can be made in foreign currencies without prior the SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior the SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Each of our PRC subsidiary is required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain statutory reserve funds until the total amount set aside reaches 50% of its registered capital. In addition, it may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds at its discretion. These reserves are not distributable as cash dividends. Historically, our PRC subsidiaries have not paid dividends to us, and it will not be able to pay dividends until it generates accumulated profits. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with the SAFE, its local branches and certain local banks.

The restricted net assets of our PRC subsidiaries amounted to U.S.\$54.7 million, U.S. \$52.7 million and U.S. \$52.0 million as of March 31, 2023, 2024 and 2025, respectively.

At March 31, 2025, the Company had cash and cash equivalents of \$28,133,000. At that date, the Company had no committed credit facilities. The Company expects that working capital requirements and capital additions will continue to be funded through cash on hand and internally generated funds. However, the Company may choose to obtain additional debt or equity financing if it believes it to be appropriate and available on reasonable terms. The Company's working capital requirements are expected to increase in line with the growth in the Company's business.

At March 31, 2025, the Company had capital commitments totaling approximately \$82,000, mainly for leasehold improvements, plant and machineries, and computer packages, all of which are expected to be disbursed during the year ending March 31, 2026.

Future liquidity needs will depend on fluctuations in levels of inventory, accounts receivable and accounts payable, the timing of capital expenditures for new equipment, the extent to which we utilize operating leases for new facilities and equipment, and the levels of shipments and changes in the volumes of customer orders.

Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from April 1, 2024 to March 31, 2025 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The preparation of these consolidated financial statements requires the Company to make estimates, judgments, and assumptions that can have a meaningful effect on the reporting of consolidated financial statements. For more information on our significant accounting policies, refer to Note 2 of Notes to Consolidated Financial Statements included in Part III, Item 18, in this Report. Critical accounting estimates are defined as those reflective of significant judgments, estimates and uncertainties, which may result in materially different results under different assumptions and conditions. The Company believes the following are its critical accounting estimates:

Inventories

Our inventories are stated at the lower of cost or net realizable value. Cost is determined on the weighted average basis. Work-in-progress and finished goods inventories consist of raw materials, direct labor and overhead associated with the manufacturing process.

The Company periodically performs an analysis of inventory to determine obsolete or slow-moving inventory and determine if its cost exceeds the market value. The market value of the inventories are estimated based on the current market situation and historical experience on similar inventories.

Any changes in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down. The changes in the write-down would affect the Company's profit or loss during the year.

Impairment of long-lived assets

Our long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying value of these assets may not be recoverable. In accordance with ASC No. 360, "Property, Plant and Equipment," the Company assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology. The undiscounted and discounted cash flow analyses based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

Since the market value of the assets cannot be obtained reliably, we evaluate the impairment of the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition based on the historical trends and existing macroeconomic conditions.

Any changes in these estimates can have a significant impact on the assessment of fair value which could result in material impairment losses.

Allowance for credit losses

The Company estimated the expected credit losses for accounts receivable with similar risk characteristics on a pool basis. For each pool, the Company first estimated its recovery period based on relevant historical accounts receivable collection information. Then it estimated the credit allowances based on the recovery period and the historical distribution of each aging bucket.

If our customers fail to manage the demand, supply and operational challenges, their financial performance and position may be deteriorated, which would impact our financial performance. Accordingly, the Company expects these judgments and estimates may be subject to change, which could materially impact future periods.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The directors and executive officers of the Company at June 30, 2025 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position(s) with Company</u>
Edward So Kin Chung	52	Chief Executive Officer
Wai Ming Lau	46	Chairman of the Board of Directors
Chin Pang Li	80	Executive Director of Manufacturing and Administration for Plastic Operations
Hung-Hum Leung	79	Non-Executive Director and Member of Audit Committee
Allen Yau-Nam Cham	78	Non-Executive Director and Chairman of Audit Committee
Wing-Ki Hui	81	Non-Executive Director and Member of Audit Committee
Herman Wong Chi Wah	47	Chief Financial Officer

Edward So Kin Chung. Mr. So has been in the electronic manufacturing industry internationally and in China for more than 25 years and has been with Deswell for 19 years. He was previously appointed the Managing Director of the electronics division. Previously, Mr. So spent five years at Peavey Electronics in increasing roles of responsibility and prior to that was employed at HSBC. Mr. So holds a Bachelor's degree in Electrical and Electronic Engineering from the University of Hong Kong, and Master's in Business Administration from Royal Holloway, University of London.

Wai Ming Lau. Ms. Lau has served the Company as a member of the Board of Directors and as Chair of the Board of Directors since 2024. Prior to joining the Company, Ms. Lau was an Executive Director at PAG Consulting where she headed the firm's Global Human Capital operations. Prior to PAG Consulting, Ms. Lau worked at Goldman Sachs for over 13 years, including serving as an Executive Director in Goldman Sachs' Finance Division. Earlier in her career, Ms. Lau worked at Deloitte Touche Tohmatsu in its Assurance and Tax Advisory Services division for seven years, including as a Manager. Ms. Lau was accredited by The American Institute of Certified Public Accountants in 2003 and received her bachelor's degree in accountancy from The George Washington University in 2001.

Chin Pang Li. Mr. Li has served the Company as a Member of the Board of Directors and in various executive capacities with the Company and its predecessors since their inception in 1987. He became Secretary of the Company in February 1995 and Chief Financial Officer in May 1995, a position which he held until March 31, 2006. As Executive Director of Manufacturing and Administration for Plastic Operations, Mr. Li is in charge of the manufacturing and administrative operations for the Company's plastic products. Mr. Li received his Bachelor of Science degree from Chun Yan Institute College, Taiwan in 1967.

Hung-Hum Leung. Mr. Leung has been a non-executive director of the Company and member of the Audit Committee since December 1999. Mr. Leung has over 25 years of experience in the manufacture of electronic products. Mr. Leung was the founder of Sharp Brave Holdings Ltd. (since 2007 known as China Properties Investment Holdings Limited), a Hong Kong public company listed on the Hong Kong Stock Exchange, and from 1991 to 1995 served as the Chairman of Sharp Brave Holdings Ltd. Since 1995, Mr. Leung has been an independent consultant to the electronics industry. He received his Bachelor of Science degree in Physics from the National Taiwan University in 1971.

Allen Yau-Nam Cham. Mr. Cham has been a non-executive director of the Company and member of the Audit Committee since August 2003. He has over 20 years of experience in the securities industry. He obtained his Bachelor of Science degree from St. Mary's University, Halifax, Canada, Bachelor of Engineering (Electrical) degree from Nova Scotia Technical College, Halifax, Canada and Master of Business Administration degree from University of British Columbia, Canada.

Wing-Ki Hui. Mr. Hui has been a non-executive director of the Company and member of the Audit Committee since October 2004. Since 1995 he has been the Operation Director of the Electronic Products Division of Tomorrow International Holdings Limited, a company listed on the Hong Kong Stock Exchange engaged in manufacturing of consumer electronics and printed circuit boards. Prior to serving in this capacity, Mr. Hui was Executive Director of Sharp Brave International Holdings Limited from 1991 to 1995 and Director of Sharp Brave Electronics Co., Ltd. from 1984 to 1995. Mr. Hui possesses over 20 years of experience in the electronic manufacturing industry, and is a graduate of South East Electronic College in Hong Kong.

Herman Wong Chi Wah. Mr. Wong joined the Company as Chief Financial Officer effective on April 1, 2011. During the 10 years immediately before joining Deswell, Mr. Wong worked for Deloitte Touche Tohmatsu, an international public accounting and auditing firm, where he most recently served as senior manager. During his tenure at Deloitte Touch Tohmatsu, he worked in an auditing capacity with a variety of Hong Kong listed companies and multinational corporations as well as working on several initial public offerings for Hong Kong listed companies. Mr. Wong received his Bachelor of Business Administration in Accounting from Hong Kong Polytechnic University.

No family relationship exists among any of the named directors, executive officers or key employees. No arrangement or understanding exists between any director or officer and any other persons pursuant to which any director or executive officer was elected as a director or executive officer of the Company.

There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any member of the board of directors or senior management was selected as a director or member of senior management.

Compensation of Directors and Executive Officers

Executive Officers

The amount of compensation (cash benefits) paid by the Company and its subsidiaries was approximately \$2,078,000 during the year ended March 31, 2025, to all directors and to executive officers as a group for services in all service capacities. These amounts exclude amounts paid by the Company or its subsidiaries as dividends to directors and executive officers in their capacity as shareholders of the Company for the year ended March 31, 2025.

During the year ended March 31, 2025, no options to purchase shares of common stock were granted to the Company's directors and officers.

See the discussion under "We depend on our Board of Directors, executive officers, senior managers and skilled personnel." in ITEM 3 "Key Information — Risk Factors" on page 6 of this Report.

Directors

Our policy is to pay directors who are not employees of the Company or any of its subsidiaries \$2,000 per month for services as a director, and to reimburse directors for all reasonable expenses incurred in connection with their services as a director and member of Board committees.

The Board has determined that Messrs. Hung-Hum Leung, Allen Yau-Nam Cham and Wing-Ki Hui are each "independent" within the meaning of Rule 5605(a)(2) of the NASDAQ Marketplace Rules.

Board Practices

The directors of the Company are elected at its annual meeting of shareholders 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 of the Company.

Audit Committee

The Audit Committee meets from time to time to review the financial statements and matters relating to the audit and has full access to management and the Company's auditors in this regard. The Audit Committee recommends the engagement or discharge of the Company's independent accountants, consults on the adequacy of the Company's internal controls and accounting procedures, and reviews and approves financial statements and reports. Deswell's audit committee consists of Messrs. Hung-Hum Leung, Allen Yau-Nam Cham and Wing-Ki Hui, each of whom is an independent director within the meaning of that term under Rule 5605(a)(2) of the NASDAQ Marketplace Rules. Mr. Allen Yau-Nam Cham currently acts as the Chairman of the Audit Committee.

Other Committees; NASDAQ Compliance

Various corporate governance practices required of public companies with securities listed on The NASDAQ Stock Market are not required of “controlled companies” such as Deswell. Of the corporate governance practices required under NASDAQ’s MarketPlace Rules, Deswell does not have a compensation committee or a nominating committee consisting of independent directors; does not have a formal written charter addressing the nominations process; does not have nominees to its board selected or recommended by a majority of its independent directors; and does not have the compensation of its Chief Executive Officer and other executive officers determined or recommended to the board by a majority of its independent directors. See “Our exemptions from certain of the reporting requirements under the Exchange Act limits the protections and information afforded to investors” on page 18 in the Risk Factors section of this Report for a further discussion of how our SEC reporting and corporate governance practices differ from those applicable to U.S. domestic issuers and U.S. NASDAQ-listed companies. The reason that Deswell does not have a compensation committee or a nominating committee consisting of independent directors is that, as a “controlled company,” the Company is not required to have such committees, and nevertheless maintain the listing of its common shares on the NASDAQ Global Market.

Employees

At March 31, 2025, the Company employed 794 persons on a full-time basis, of which 8 were located in Macao and 786 were located in or travel to and from China. Of the Company’s employees in China, at March 31, 2025:

- 314 were engaged in plastic injection molding manufacturing, and
- 472 were engaged in contract electronic manufacturing.

The Company has not experienced significant labor stoppages. Management believes that relations with the Company’s employees are satisfactory.

Share and Option Ownership of Directors and Senior Management

For information concerning the beneficial ownership of the Company’s common shares, including options, by directors and senior management and major shareholders, see ITEM 7 of this Report.

Employee Stock Option Plans

On August 20, 2003, the Board approved the adoption of the 2003 Stock Option Plan permitting the Company to grant options to purchase up to an additional 900,000 common shares to employees, officers, directors, consultants and advisors of the Company. On September 30, 2003 shareholders approved the 2003 plan. On August 1, 2005, the Company’s Board of Directors, subject to shareholder approval, approved amendments to the 2003 Stock Option to increase by 500,000 shares in the number of shares that can be optioned and sold under the 2003 Stock Option Plan, bringing to a total of 1,400,000 shares the number of common shares that can be optioned and sold under the 2003 Stock Option Plan. The Company’s shareholders approved this amendment at the Company’s Annual Shareholders’ Meeting held on September 19, 2005.

On August 17, 2007, the Company’s Board of Directors, subject to shareholder approval, approved amendments to the 2003 Stock Option to increase by 400,000 shares in the number of shares that can be optioned and sold under the 2003 Stock Option Plan, bringing to a total of 1,800,000 shares the number of common shares that can be optioned and sold under the 2003 Stock Option Plan. The Company’s shareholders approved this amendment at the Company’s Annual Shareholders’ Meeting held on October 9, 2007.

On August 13, 2010, the Company’s Board of Directors, subject to shareholder approval, approved amendments to the 2003 Stock Option Plan to increase by 800,000 shares in the number of shares that can be optioned and sold under the 2003 Stock Option Plan, bringing to a total of 2,600,000 shares the number of common shares that can be optioned and sold under the 2003 Stock Option Plan. The Company’s shareholders approved this amendment at the Company’s Annual shareholders’ Meeting held on September 16, 2010.

On August 7, 2013, the Company's Board of Directors, subject to shareholder approval, approved amendments to the 2003 Stock Option Plan to increase by 900,000 shares the number of shares that can be optioned and sold under the 2003 Stock Option Plan, bringing to a total of 3,500,000 shares the number of common shares that can be optioned and sold under the 2003 Stock Option Plan. The Company's shareholders approved this amendment at the Company's Annual shareholders' Meeting held on September 11, 2013.

The Company's option plans are administered by the Board of Directors, which determines the terms of options granted, including the exercise price, the number of shares subject to the option and the option's exercisability. The exercise price of all options granted under the option plans must be at least equal to the fair market value of such shares on the date of grant. The maximum term of options granted under the option plans is 10 years.

Through June 30, 2025, options to purchase an aggregate of 5,669,000 shares had been granted under all of Deswell's option plans. At June 30, 2025, there were no outstanding options to purchase the Company's common shares, and 1,718,000 shares were available for future grant under Deswell's option plans.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The Company is not directly owned or controlled by another corporation or by any foreign government. The following table sets forth, as of June 30, 2025, the beneficial ownership of the Company's common shares by each person known by the Company to beneficially own 5% or more of the common shares of the Company and by each of the Directors and Senior Management of the Company who beneficially own in excess of one percent of the Company's common shares.

Name of beneficial owner or identity of group	Shares beneficially owned ⁽¹⁾	
	Amount	Percent
Wai Ming Lau	9,841,851 ⁽²⁾	61.8
Chin Pang Li	1,425,750 ⁽³⁾	8.9
Herman Wong Chi Wah	30,000 ⁽⁴⁾	*
Edward So Kin Chung	50,000 ⁽⁵⁾	*
Hung-Hum Leung	—	—
Allen Yau-Nam Cham	—	—
Wing-Ki Hui	—	—

* Less than 1%.

(1) Based on 15,935,239 shares outstanding on June 30, 2025. However, in accordance with Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, shares not outstanding but which are the subject of currently exercisable options have been considered outstanding for the purpose of computing the percentage of outstanding shares owned by the listed person holding such options, but are not considered outstanding for the purpose of computing the percentage of shares owned by any of the other listed persons.

(2) Consists of 9,841,851 shares held of record by Ms. Lau.

(3) Consists of 1,425,750 shares held of record by Mr. Li.

(4) Consists of 30,000 shares held of record by Mr. Wong.

(5) Consists of 50,000 shares held of record by Mr. So.

Change in the Percentage Ownership Held by Major Shareholders

The following table reflects the percentage of beneficial ownership of Deswell’s common shares by its major (five percent or more) shareholders during the past three years:

	Percentage Ownership at June 30, ⁽¹⁾		
	2023	2024	2025
Wai Ming Lau	—	61.8	61.8
Richard Pui Hon Lau	61.7 ⁽²⁾	— ⁽³⁾	— ⁽³⁾
Chin Pang Li	10.1	10.1	8.9

- (1) Based on 15,935,239 shares outstanding at June 30, 2023, 15,935,239 shares outstanding at June 30, 2024, and 15,935,239 shares outstanding at June 30, 2025: In accordance with Rule 13d-3(d) (1) under the Securities Exchange Act of 1934, common shares not outstanding at the specified date but which were the subject of options exercisable within 60 days of the specified date are considered outstanding for the purpose of computing the percentage of outstanding common shares owned by the listed person holding such options, but are not considered outstanding for the purpose of computing the percentage of common shares owned by any of the other listed persons.
- (2) Mr. Lau’s shares were held by the Lau family as of June 30, 2023.
- (3) Mr. Lau passed away on June 12, 2023. Upon settlement of his estate, Ms. Lau inherited all of the Common Shares owned by Mr. Lau.

All of the holders of the Company’s common shares (including Deswell’s major shareholders) have equal voting rights with respect to the common shares held. As of June 30, 2025, approximately 10 holders of record, who, management believes, held for more than 3,000 beneficial owners, held Deswell’s common shares. According to information supplied to the Company by its transfer agent, at June 30, 2025, 7 holders of record with addresses in the United States held approximately 12.8 million of our outstanding common shares.

Related Party Transactions

Deswell had no transactions of the kind specified in ITEM 7.B. of Form 20-F from April 1, 2020 through June 30, 2025, the latest practical date prior to filing of this Annual Report.

It is Deswell’s policy that all transactions between Deswell and any interested director or executive officer be approved by a majority of the disinterested directors and be on terms that are no more favorable than would be available from an independent third party.

ITEM 8. FINANCIAL INFORMATION

Financial Statements

Our Consolidated Financial Statements are set forth under ITEM 18 “Financial Statements.”

Legal Proceedings

The Company is not involved in any material legal proceedings.

Export Sales

Information regarding our export sales is provided in ITEM 4 “Information on the Company — Business Overview — Customers and Marketing.”

Dividend Policy

The Company declared and paid dividends during the year ended March 31,

- 2023 aggregating \$3,187,048, \$1,593,524 of which was based on results for the last six months of the year ended March 31, 2022; and \$1,593,524 of which was based on results of the first six months of the year ended March 31, 2023.
- 2024 aggregating \$3,187,048, \$1,593,524 of which was based on results for the last six months of the year ended March 31, 2023; and \$1,593,524 of which was based on results of the first six months of the year ended March 31, 2024.
- 2025 aggregating \$3,187,048, \$1,593,524 of which was based on results for the last six months of the year ended March 31, 2024; and \$1,593,524 of which was based on results of the first six months of the year ended March 31, 2025.

The Company declared a dividend of \$0.10 on June 16, 2022, which was based on the results of the last six months of the year ended March 31, 2022. The dividend was paid on July 15, 2022.

The Company declared a dividend of \$0.10 on November 17, 2022, which was based on the results of the first six months of the year ended March 31, 2023. The dividend was paid on December 22, 2022.

The Company declared a dividend of \$0.10 on June 20, 2023, which was based on the results of the last six months of the year ended March 31, 2023. The dividend was paid on July 20, 2023.

The Company declared a dividend of \$0.10 on November 17, 2023, which was based on the results of the first six months of the year ended March 31, 2024. The dividend was paid on December 21, 2023.

The Company declared a dividend of \$0.10 on June 20, 2024, which was based on the results of the last six months of the year ended March 31, 2024. The dividend was paid on July 19, 2024.

The Company declared a dividend of \$0.10 on November 15, 2024, which was based on the results of the first six months of the year ended March 31, 2025. The dividend was paid on December 23, 2024.

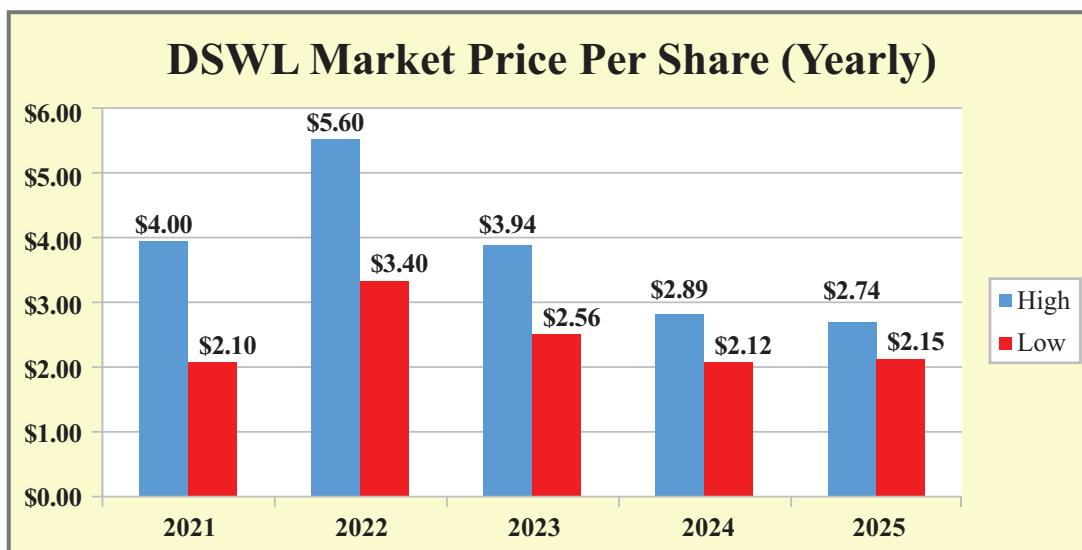
The Company declared a dividend of \$0.10 on June 18, 2025, which was based on the results of the last six months of the year ended March 31, 2025. The dividend was paid on July 17, 2025.

The Company's financial results are released semi-annually. The Company expects to pay cash dividends on a semi-annual basis based on the Company's six-month results. Whether future dividends will be declared will depend upon the Company's future growth and earnings, of which there can be no assurance, and the Company's cash flow needs for future development, which growth, earning or cash flow needs may be adversely affected by one or more of the factors discussed in ITEM 3 "Key Information — Risk Factors." Accordingly, there can be no assurance that future cash dividends on the Company's common shares will be declared, what the amounts of such dividends will be or whether such dividends, once declared for a specific period will continue for any future period or at all.

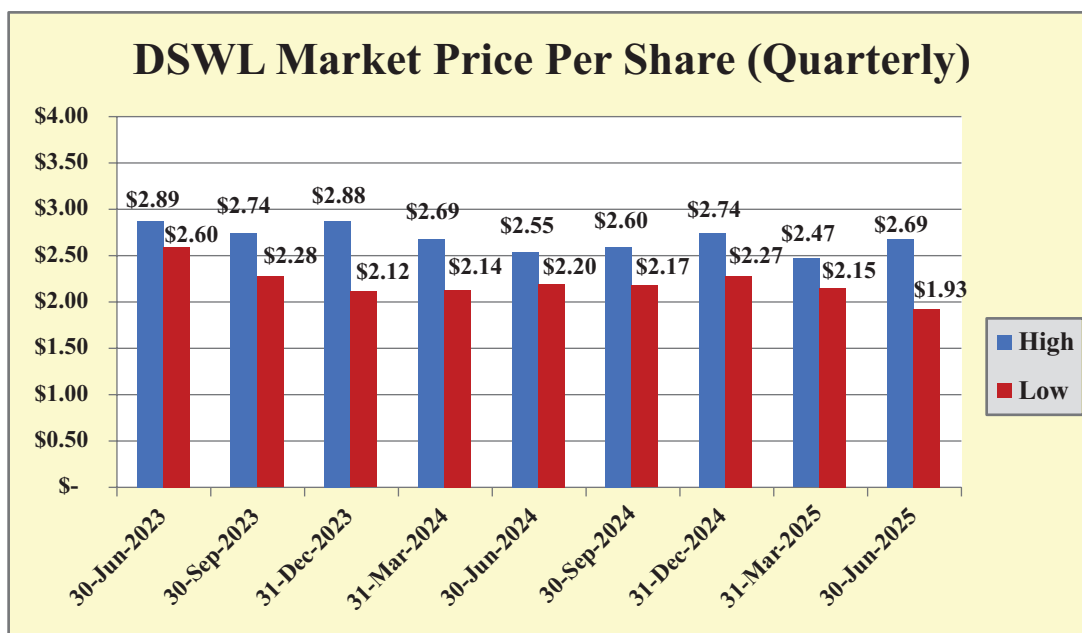
ITEM 9. THE OFFER AND LISTING

The Company’s shares are traded exclusively on the NASDAQ Global Market under the symbol “DSWL.”

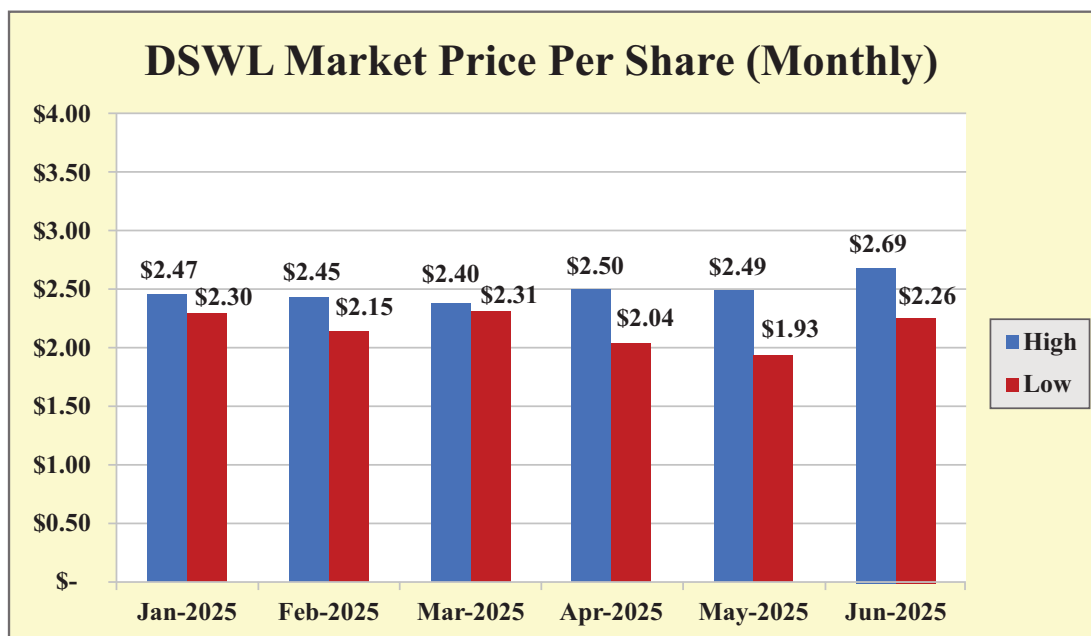
The following chart shows the annual high and low market prices as reported by The NASDAQ Global Market for each of Deswell’s fiscal years in the five-year period ended March 31, 2025:



The following chart shows the high and low market prices as reported by the NASDAQ Global Market for each of the quarters in the two-year period ended March 31, 2025 and for the quarter ended June 30, 2025:



The following chart shows the high and low market prices as reported by the NASDAQ Global Market during each of the months in the six-month period ended June 30, 2025:



ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

Effective December 13, 2007, we amended and restated our Memorandum and Articles of Association (collectively the “2007 Charter”), the instruments governing a company organized under the law of the BVI, which are comparable in purpose and effect to certificates or articles of incorporation and bylaws of corporations organized in a state of the United States.

Effective March 26, 2010, we amended Regulation 6.15 of our Articles of Association to reduce the number of our outstanding common shares that must be present in person or by proxy in order to hold any meeting of shareholders from no less than 50 percent to no less than 33⅓ percent and on March 30, 2010 an amended and restated Memorandum and Articles of Association was registered which incorporated the March 26, 2010 amendment into a restated Memorandum and Articles of Association.

Under our 2007 Charter, as amended on March 26, 2010 and applicable to the date of this Report (“our Charter”):

- our shares are eligible for a direct registration system operated by a securities depository in accordance with NASDAQ Marketplace Rule 5210(c) (formerly Rule 4350(1)).
- various consequential amendments were made to our Memorandum and Articles of Association in accordance with the advice from our U.S. and BVI counsel so as to (a) be consistent with the BVI BC Act, the BVI BC Act having come into force on January 1, 2004 superseding in certain respects the IBC Act, the relevant legislation which had previously governed us and (b) to make conforming changes resulting from the transition of the NASDAQ Stock Market’s operations on August 1, 2006 to that of a national securities exchange in the United States.
- certain special provisions of our Memorandum and Articles of Association that we adopted in preparation for our initial public offering of securities in the United States.
- provisions were added in recognition of, and to assure compliance with, certain laws, rules and regulations of the United States applicable to us, including the Sarbanes-Oxley Act of 2002, and the Marketplace Rules of the NASDAQ Stock Market.

- Holders of our shares:
 - are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors.
 - do not have cumulative voting rights in the election of directors.
 - are entitled to receive dividends if and when declared by our Board of Directors out of funds legally available under BVI law.
 - all of common shares are equal to each other with respect to liquidation and dividend rights.
 - in the event of our liquidation, all assets available for distribution to the holders of our common shares are distributable among them according to their respective holdings.

Objects and Purposes

Our objects and purposes are described in Clause 5 of our Memorandum of Association and are generally to engage in any act or activity that is not prohibited under the laws of the BVI.

Directors

Regulation 12.4 of our Articles of Association provides that except as otherwise provided in the BVI BC Act — the BVI corporate law that governs BVI companies like Deswell — no agreement or transaction between the Company and one or more of its directors or any person in which any director has a financial interest or to whom any director is related, including as a director of that other person, is void or voidable for this reason only or by reason only that the director is present at the meeting of directors or at the meeting of the committee of directors that approves the agreement or transaction or that the vote or consent of the director is counted for that purpose if the material facts of the interest of each director in the agreement or transaction and his interest in or relationship to any other party to the agreement or transaction are disclosed in good faith or are known by the other directors and such agreement or transaction has been approved by the irrevocable vote of a majority of the Company's directors, including at least one Independent Director. In addition, the favorable vote of a majority of the directors, including at least one Independent Director, shall be required to approve any transaction or agreement between the Company and any officer of the Company or any person or entity holding ten percent or more of the outstanding Shares.

Our Articles of Association (Regulation 7.11) provide that the directors may by a resolution of directors, fix the emoluments of directors with respect to services to be rendered in any capacity to the Company.

BVI law and our Articles of Association provide that the management of the business and the control of Deswell shall be vested in the directors, who in addition to the powers and authorities expressly conferred by the Articles of Association, may also exercise all such powers, and do all such acts and things, as may be done by Deswell and are not by the Articles of Association or BVI law expressly directed or required to be exercised or done by a meeting of shareholders. Our Articles of Association provide that the directors may by resolution exercise all the powers of Deswell 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 Deswell or of any third party.

BVI law and our Memorandum and Articles of Association do not contain an upper age limit requirement for our directors, although a person must have reached the age of eighteen years to be eligible to become one of our directors. Under our Articles of Association, no shares are required for director's qualification.

Rights, Preferences and Restrictions of Authorized and Outstanding Shares and Changes to Rights of Shareholders

Deswell has one class and series of shares authorized or outstanding: common shares, no par value per share. Our authorized capital consists of 30,000,000 common shares, no par value per share, of which 15,935,239 common shares were outstanding on June 30, 2025.

Holders of our common shares 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 shares 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 under BVI law. In the event of our liquidation, all assets available for distribution to the holders of our common shares are distributable among them according to their respective holdings. Holders of our common shares have no preemptive rights to purchase any additional, unissued common shares. There are no provisions of the Articles of Association or Memorandum that impose conditions with respect to changes in Deswell capital that are more stringent than is required by applicable law.

Calling Annual General Meetings and Extraordinary General Meetings of Shareholders

BVI law does not require a company, such as Deswell, to have an annual meeting. Our Articles of Association do, however, require an annual meeting of shareholders for the election of directors and for such other business as may come before the meeting (Regulation 6.3).

Under BVI law, unless otherwise provided by a company's Memorandum or Articles of Association, the directors may call meetings of shareholders at any time (Regulation 6.1). Under our Articles of Association, upon the written request of shareholders entitled to exercise ten percent or more of the voting rights in respect of the matter for which the meeting is requested, the directors shall convene a meeting of shareholders (Regulation 6.2).

BVI law and our Articles of Association state that the directors may fix the date that notice is given of a meeting of shareholders, whether extraordinary or annual, as the record date for determining those shares that are entitled to vote at the meeting. Under our Articles of Association, the date fixed for an extraordinary or annual meeting of shareholders shall not precede the date upon which the resolution fixing the record date is adopted by the directors, and which shall not be more than sixty days nor less than ten days before the date of such meeting (Regulation 6.5).

BVI law and our Articles of Association provide that notice of all meetings of shareholders, stating the time, place and purposes thereof, shall be given not fewer than seven days before the date of the proposed meeting to those persons whose names appear as shareholders in our share register on the date of the notice and are entitled to vote at the meeting (Regulation 6.8).

Limitations on Share Ownership

BVI law and our Memorandum and Articles of Association do not impose any limitations on the right of anyone to own, hold or exercise voting rights to our common shares.

Potential Anti-Takeover Deterrence

Neither our Memorandum nor Articles of Association contain provisions that would have an effect of delaying, deferring or preventing a change in control of Deswell and that would operate only with respect to a merger, acquisition or corporate restructuring involving Deswell or any of its subsidiaries. However, pursuant to our Memorandum and Articles of Association and pursuant to the laws of the BVI, our board of directors by resolution of directors without shareholder approval may amend our Memorandum and Articles of Association, which could have the effect of changing the rights of shareholders, provided that a majority of our independent directors do not vote against the amendment and provided further that our directors may not make an amendment:

- (a) to restrict the rights or powers of the shareholders to amend the Memorandum or the Articles;
- (b) to change the percentage of shareholders required to pass a Resolution of Shareholders to amend the Memorandum or the Articles;
- (c) where the Memorandum or the Articles cannot be amended by the Shareholders;
- (d) change Clause 7 of our Articles of Association conferring the rights of our shareholders to one vote per share, the right to equal share in dividend paid by the company, or to surplus assets on liquidation; or
- (e) change Clause 9 of our Articles of Association which sets forth rights of our shareholders and directors to amend our Memorandum and Articles of Association.

Our directors' ability to amend our Memorandum and Articles of Association, without shareholder approval in certain circumstances, could have the effect of delaying, deterring or preventing a change in control of Deswell, including a tender offer to purchase our common shares at a premium over the then current market price.

Ownership Information

Neither our Memorandum nor Articles of Association provide that information about our shareholders, even those owning significant percentages of our shares, must be disclosed publicly.

Differences from United States Law

The laws of the BVI governing the provisions of our Memorandum and Articles of Association discussed above are not significantly different than the laws governing similar provisions in the charter documents of Delaware companies, other than with respect to amending our Memorandum and Articles of Association without shareholder approval and with respect to potential anti-takeover deterrence. Delaware law requires shareholders to approve amendments to a corporation's Certificate of Incorporation, with limited exceptions, and contains provisions restricting the rights of a Delaware corporation with a class of voting stock listed on a national exchange or held of record by more than 2,000 stockholders to engage in a business combination with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder unless the business combination is approved in the manner prescribed under Delaware law.

Material Contracts

During the two years immediately preceding the filing of this Report, neither the Company nor any of its subsidiaries entered into any material contract, other than contracts in the ordinary course of business.

Taxation

United States Federal Income Tax Consequences

The discussion below is for general information only and is not, and should not be interpreted to be, tax advice to any holder of our common shares. Each holder or a prospective holder of our common shares is urged to consult his, her or its own tax advisor.

General

This section is a general summary of the material United States federal income tax consequences to U.S. Holders, as defined below, of the ownership and disposition of our common shares as of the date of this Report. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, the applicable Treasury regulations promulgated and proposed thereunder, judicial decisions and current administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis. The summary applies to you only if you hold our common shares as a capital asset within the meaning of Section 1221 of the Code. In addition, this summary generally addresses certain U.S. federal income tax consequences to U.S. Holders if we were to be classified as a PFIC. The United States Internal Revenue Service, or the IRS, may challenge the tax consequences described below, and we have not requested, nor will we request, a ruling from the IRS or an opinion of counsel with respect to the United States federal income tax consequences of acquiring, holding or disposing of our common shares. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of our common shares. In particular, the discussion below does not cover tax consequences that depend upon your particular tax circumstances nor does it cover any state, local or foreign law, or the possible application of non-income tax (such as the United States federal estate or gift tax). You are urged to consult your own tax advisors regarding the application of the United States federal income tax laws to your particular situation as well as any state, local, foreign and non-income tax consequences of the ownership and disposition of the common shares. In addition, this summary does not take into account any special United States federal income tax rules that apply to a particular U.S. or Non-U.S. holder of our common shares, including, without limitation, the following:

- a dealer in securities or currencies;
- a trader in securities that elects to use a market-to-market method of accounting for its securities holdings;
- a financial institution or a bank;
- an insurance company;

- real estate investment trust;
- regulated investment companies;
- a partnership or other pass-through entity for U.S. federal income tax purposes;
- a tax-exempt organization;
- a person that holds our common shares in a hedging transaction or as part of a straddle or a conversion transaction;
- a person whose functional currency for United States federal income tax purposes is not the U.S. dollar;
- a person liable for alternative minimum tax;
- a person that owns, or is treated as owning, 10% or more, by voting power or value, of our common shares;
- certain former U.S. citizens and residents who have expatriated; or
- a person who receives our shares pursuant to the exercise of employee stock options or otherwise as compensation.

U.S. Holders

For purposes of the discussion below, you are a “U.S. Holder” if you are a beneficial owner of our common shares who or which is:

- an individual United States citizen or resident alien of the United States (as specifically defined for United States federal income tax purposes);
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust (x) if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust or (y) if it was in existence on August 20, 1996, was treated as a United States person prior to that date and has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

If a partnership, or other entity treated as a partnership for United States federal income tax purposes holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding our common shares, you should consult your tax advisor.

Passive Foreign Investment Company (PFIC)

A U.S. Holder generally will be subject to a special tax regime if we are a PFIC at any time during which such Holder has held our shares.

A Non-U.S. corporation will be treated as a PFIC for United States federal income tax purposes if, after applying relevant look-through rules with respect to the income and assets of its subsidiaries, 75% or more of its gross income consists of certain types of passive income (the “income test”) or 50% or more of the gross value of its assets (based on an average of the quarterly values of the assets during such year) is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”). For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. An actual determination of PFIC status is factual in nature and cannot be made until the close of the applicable tax year.

The legislative history of the PFIC provisions states that Congress intended that “[i]n applying the PFIC asset test, the total value of a publicly-traded foreign corporation’s assets generally will be treated as equal to the sum of the aggregate value of its outstanding stock plus its liabilities.” We do not believe there are currently any rules that

provide further guidance on this issue. Therefore, based on the average ratio of our passive assets to our market cap plus our current liabilities (“Market Cap Value”) at the end of each quarter (“Testing Quarter”) of our fiscal year ended March 31, 2025, we believe that we are a PFIC for such year. We have not conducted an appraisal of the fair market value of all of our assets, including our plant and equipment. However, in the absence of specific guidance, it is at best unclear that such an appraisal, even if it resulted in a fair market value in excess of our market cap, would satisfy the IRS as to our PFIC status.

If we are treated as a PFIC, unless one of the elections described below is made, a special tax regime will apply to both (a) any “excess distribution” by us (generally, the U.S. Holder’s ratable share of distributions in any year that are greater than 125% of the average annual distributions received by such U.S. Holder in the three preceding years or its holding period, if shorter) and (b) any gain recognized on the sale or other disposition of your common shares. Under the PFIC regime, any excess distribution and recognized gain will be treated as ordinary income. The U.S. federal income tax on such ordinary income is determined under the following steps: (i) the amount of the excess distribution or gain is allocated ratably over the U.S. Holder’s holding period for our common shares; (ii) tax is determined for amounts allocated to the first year in the holding period in which we were classified as a PFIC and all subsequent years (except the year in which the excess distribution was received or the sale occurred) by applying the highest applicable tax rate in effect in the year to which the income was allocated; (iii) an interest charge is added to this tax calculated by applying the underpayment interest rate to the tax for each year determined under the preceding sentence from the due date of the income tax return for such year to the due date of the return for the year in which the excess distribution or sale occurs; and (iv) amounts allocated to a year prior to the first year in the U.S. Holder’s holding period in which we were classified as a PFIC or to the year in which the excess distribution or the disposition occurred are taxed as ordinary income and no interest charge applies.

Under certain attribution rules, if we are a PFIC, U.S. Holders will generally be deemed to own their proportionate share of our direct or indirect equity interest in any company that is also a PFIC (a “Subsidiary PFIC”), and will be subject to U.S. federal income tax on their proportionate share of (a) any “excess distributions,” as described above, on the stock of a Subsidiary PFIC and (b) a disposition or deemed disposition of the stock of a Subsidiary PFIC by us or another Subsidiary PFIC, both as if such U.S. Holders directly held the shares of such Subsidiary PFIC. In addition, U.S. Holders may be subject to U.S. federal income tax on any indirect gain realized on the stock of a Subsidiary PFIC on the sale or disposition of our common shares held by such U.S. Holders. Accordingly, U.S. Holders should be aware that they could be subject to tax even if no distributions are received and no redemptions or other dispositions of our common shares held by them are made.

A U.S. Holder may generally avoid the PFIC regime by making a “qualified electing fund” election which generally provides that, in lieu of the foregoing treatment, our earnings and net capital gains, on a pro rata basis, would be currently included in their gross income for U.S. federal income tax purposes. However, we may be unable or unwilling to provide information to our U.S. Holders that would enable them to make a “qualified electing fund” election; thus, such election may not be available.

In addition, U.S. Holders may generally avoid the PFIC regime by making the “mark-to-market” election with respect to our common shares as long as we are a PFIC and our common shares are considered to be readily tradable on an established securities market within the United States. “Mark-to-market,” in this context, means including in ordinary income each taxable year the excess, if any, of the fair market value of our common shares over your adjusted tax basis in such common shares as of the end of each year. This “mark-to-market” election generally enables a U.S. Holder to avoid the deferred tax amount or interest charge that would otherwise be imposed on them if we were to be classified as a PFIC. However, if we are a PFIC, a mark-to-market election would not be available with respect to stock of a Subsidiary PFIC. You should consult your tax advisors as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any Subsidiary PFIC.

If we are treated as a PFIC at any time that you hold our shares but cease to be classified as a PFIC in a later year, we will continue to be classified as a PFIC with respect to you unless you make a deemed sale election in a timely manner to be taxed as if you sold your shares at their fair market value. In this case, you would pay tax on the gain on the deemed sale treated as ordinary income and an interest charge, and no loss will be allowed to you. If we subsequently become a PFIC, you will again be subject to the general PFIC rules discussed herein.

If we are treated as a PFIC, each U.S. Holder will be required to make an annual return on IRS Form 8621 (unless an exception applies) or its successor, reporting, among other things, distributions received and gain realized with respect to each PFIC in which such holder holds a direct or indirect interest, and may be required to provide other information as specified by the IRS.

An actual determination of PFIC status is highly factual in nature. Given the complexity of the issues that may result if we are classified as or become a PFIC, you are urged to consult your own tax advisors with respect to the tax consequences to you, including any reporting obligations that may be imposed on you, in the event that this should occur, in view of your particular circumstances.

In addition, certain U.S. Holders that are individuals, estates and certain trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on “net investment income” including interest, dividends and capital gains. U.S. Holders should consult with their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our shares.

Non-U.S. Holders

If you are not a U.S. Holder, you are a “Non-U.S. Holder.”

Distributions on Our Common Shares

You generally will not be subject to U.S. federal income tax, including withholding tax, on distributions made on our common shares unless:

- you conduct a trade or business in the United States, and
- the distributions are effectively connected with the conduct of that trade or business (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of income from our common shares, such distributions are attributable to a permanent establishment that you maintain in the United States).

If you meet the two tests above, you generally will be subject to tax in respect of such dividends in the same manner as a U.S. Holder as described above (other than with respect to the Medicare tax described above). In addition, any effectively connected dividends received by a non-U.S. corporation may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30 percent rate or such lower rate as may be specified by an applicable income tax treaty.

Sale, Exchange or Other Disposition of Our Common Shares

Generally, you will not be subject to U.S. federal income tax, including withholding tax, in respect of gain recognized on a sale or other taxable disposition of our common shares unless:

- your gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax on a net income basis in respect of gain from the sale or other disposition of our common shares, such gain is attributable to a permanent establishment maintained by you in the United States), or
- you are an individual Non-U.S. Holder and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and certain other conditions exist.

You will be subject to tax in respect of any gain effectively connected with your conduct of a trade or business in the United States generally in the same manner as a U.S. Holder as described above (other than with respect to the Medicare tax described above). Effectively connected gains realized by a non-U.S. corporation may also, under certain circumstances, be subject to an additional “branch profits tax” at a rate of 30 percent or such lower rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

Payments, including dividends and proceeds of sales, in respect of our common shares that are made in the United States or by a United States related financial intermediary will be subject to United States information reporting rules. In addition, such payments may be subject to United States federal backup withholding tax. You will not be subject to backup withholding provided that:

- you are a corporation or other exempt recipient, or
- you provide your correct United States federal taxpayer identification number and certify, under penalties of perjury, that you are not subject to backup withholding.

Amounts withheld under the backup withholding rules may be credited against your United States federal income tax, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner.

British Virgin Islands Tax Consequences

Under the BVI BC Act of the BVI as currently in effect, a holder of common equity, such as our shares, who is not a resident of the BVI is exempt from BVI income tax on dividends paid with respect to the common equity and all holders of common equity are not liable to the BVI for income tax or capital gains tax on gains realized on sale or disposal of such shares. The BVI does not impose a withholding tax on dividends paid by a company incorporated under the BVI BC Act.

There are no capital gains, gift or inheritance taxes levied by the BVI on companies, like the Company, which were originally incorporated under the International Business Companies Act and were automatically re-registered under the BVI BC Act. In addition, our common shares are not subject to transfer taxes, stamp duties or similar charges. There is no income tax treaty or convention currently in effect between the United States and the BVI.

The above summary does not address all possible tax consequences relating to a holder of our common shares. As such, you are urged to consult your own tax advisors with respect to the tax consequences to you.

Documents on Display

Deswell is subject to the information requirements of the Securities and Exchange Act of 1934, and, in accordance with the Securities Exchange Act of 1934, Deswell files annual reports on Form 20-F within four months of its fiscal year end, and submits other reports and information under cover of Form 6-K with the SEC. You may read and copy this information at the SEC's public reference room at 100 F Street, NE, Washington DC, 20549. Recent filings and reports are also available free of charge through the EDGAR electronic filing system at <http://www.sec.gov>. You can also request copies of the documents, upon payment of a duplicating fee, by writing to the public reference section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room or accessing documents through EDGAR.

As a foreign private issuer, Deswell is exempt from the rules under the Securities Exchange Act of 1934 prescribing the furnishing and content of proxy statements to shareholders.

Exchange Controls

There are no exchange control restrictions on payments of dividends on the Company's common shares or on the conduct of the Company's operations either in Macao, where the Company's principal executive offices are located, or the BVI, where the Company is incorporated. Other jurisdictions in which the Company conducts operations may have various exchange controls. There are no material BVI laws which impose foreign exchange controls on the Company or that affect the payment of dividends, interest or other payments to non-resident holders of the Company's common shares. BVI law and the Company's Memorandum and Articles of Association impose no limitations on the right of non-resident or foreign owners to hold the Company's Securities or vote the Company's common shares.

To the extent that the Company may decide to pay cash dividends in the future, such dividends will be determined by resolution of the directors of the Company. The directors may authorize a distribution by way of a dividend at a time and of an amount they think fit if they are satisfied, on reasonable grounds, that, immediately after the distribution, the

value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due (i.e. a balance sheet and cash flow test). As the Company is a holding company, the amount available for distribution will be limited by the amount of dividends that can be declared and paid to it by its subsidiaries. Dividends declared by subsidiaries will be based on the profits reported in their statutory accounts prepared in accordance with generally accepted accounting principles in the relevant countries, primarily Macao and China, which differ from U.S. GAAP. To date these controls, with the exception of a requirement that 10% of profits to be reserved for future developments and staff welfare in China, have not had and are not expected to have a material impact on the Company's financial results.

ITEM 10J. ANNUAL REPORT TO SECURITY HOLDERS

Not Applicable to Deswell.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

At March 31, 2023, 2024 and 2025, the Company had no open forward exchange contracts or option contracts. Cash and cash equivalents on hand at March 31, 2025 of \$28,133,000 were held in the following currencies:

	Equivalent U.S. Dollar Holdings
	(in thousands)
United States dollars	\$ 7,417
Chinese RMB	11,018
Hong Kong dollars	9,496
Macao dollars	180
Japanese yen	18
Euro	2
Pound sterling	1
Other	1
	<u>\$ 28,133</u>

See discussion of Exchange Rate Fluctuation in ITEM 5 Operating and Financial Review and Prospects.

Interest Rate Risk

Our interest expenses and income are sensitive to changes in interest rates, as all of our cash reserves and borrowings are subject to interest rate changes. Cash on hand of \$19,431,000 as of March 31, 2025 was invested in short-term interest bearing investments. As such, interest income will fluctuate with changes in short term interest rates. As of March 31, 2025, we had neither long-term debt nor short-term bank loans outstanding on our credit facilities.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Disclosures under ITEMS 12A to 12D(2) of Form 20-F with respect to debt securities, warrants and rights, other securities, and American depository shares are not required when Form 20-F is used as an annual report and, in any event, are not applicable to Deswell. Disclosures under ITEMS 12D(3) and 12D(4) of Form 20-F are required even when Form 20-F is used as an annual report. Deswell has no American Depositary Receipts deposited or outstanding.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable to Deswell.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable to Deswell.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report, as required by Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our management has concluded that, as of March 31, 2025, our disclosure controls and procedures were ineffective because our internal controls over financial reporting were not adequate due to the material weaknesses described below under “— Management’s Annual Report on Internal Control Over Financial Reporting.” Notwithstanding these material weaknesses, management concluded that the audited financial statements contained in this Annual Report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”).

B. Management’s Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management, with the participation of the Chief Executive Officer and the Chief Financial Officer has assessed the effectiveness of internal control over financial reporting as of March 31, 2025. Management’s assessment was based on the framework in “Internal Control — Integrated Framework (2013)” (“2013 framework”), issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Based on that assessment, management concluded that, as of March 31, 2025, the Company’s internal control over financial reporting was ineffective due to the material weaknesses described below.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and can only provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. 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.

Material Weaknesses as of March 31, 2025

Under the standards established by the PCAOB, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual financial statements will not be prevented or detected on a timely basis.

We identified a material weakness in internal control related to ineffective information technology general controls (“ITGCs”) in the area of user restrictions and privileged access, and program change management over a key information technology (“IT”) system that supports our financial reporting processes. As a result, the related process-level IT dependent controls and application controls were also ineffective. The IT material weakness did not result in any material misstatements in our financial statements or disclosures.

We plan to take actions to remediate these material weaknesses, see “Remediation of the Material Weakness in Internal Control Over Financial Reporting” below under “— Changes in Internal Control Over Financial Reporting” for further information on the steps we are taking to remediate the material weaknesses. Until the relevant controls have been operating for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively, the material weaknesses described above will continue to exist.

C. Attestation Report of Independent Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of our independent registered public accounting firm on internal control over financial reporting because we qualified as a “non-accelerated filer” as of March 31, 2025.

D. Changes in Internal Control Over Financial Reporting

Other than as described below, there were no changes in our internal control over financing reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this Annual Report that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation of the Material Weakness in Internal Control Over Financial Reporting

Following the identification of the material weakness described above, and with the oversight of the Audit Committee, we plan to take the following actions:

- Engage a third party to assist in designing and implementing controls related to segregation of duties and information technology general controls.
- Strengthen our IT compliance oversight by adding additional personnel engaged in that function;
- Design and implement controls to formalize roles and review responsibilities in order to formalize and implement controls over segregation of duties.
- Design and implement information technology general controls, including controls over program change management and, the review and update of user access rights and privileges.

We believe the foregoing efforts, when fully implemented and operational, will effectively remediate the material weaknesses described above and strengthen our internal control over financial reporting. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address these control deficiencies or modify the remediation plans described above. We cannot assure you, however, when we will remediate such weaknesses, nor can we be certain of whether additional actions will be required.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Deswell’s Board of Directors has determined that at least one person serving on the Audit Committee is an “audit committee financial expert” as defined under ITEM 16A(b) of Form 20-F. Mr. Allen Yau-Nam Cham is an “audit committee financial expert.” Mr. Allen Yau-Nam Cham is independent, as that term is defined in 17 CFR 240.10A-3. There have been no amendments or waivers with respect to the code of ethics during the last fiscal year.

ITEM 16B. CODE OF ETHICS

The Company has adopted a Code of Ethics for its Chief Executive Officer and Senior Financial Officers (the “Code of Ethics”), which applies to the Company’s principal executive officer and to its principal financial and accounting officers. A copy of the Code of Ethics is included as Exhibit 11.1 to this Annual Report on Form 20-F. The Code of Ethics supplements the Company’s Code of Business Conduct and Ethics applicable to directors, officers and employees generally, which is included as Exhibit 11.2 to this Annual Report on Form 20-F.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deswell’s principal accountants for the audit of its financial statements for the years ended March 31, 2024 and March 31, 2025 were BDO China Shu Lun Pan Certified Public Accountants LLP (“BDO China”). The following table presents the aggregate fees for professional services and other services rendered to Deswell by BDO China for the years ended March 31, 2024 and 2025.

	Year ended March 31, (in thousands)	
	2024	2025
Audit fees ⁽¹⁾	\$ 420	\$ 428
Audit-related fees ⁽²⁾	—	—
Tax fees ⁽³⁾	—	—
All other fees ⁽⁴⁾	—	—
	<u>\$ 420</u>	<u>\$ 428</u>

- (1) Audit Fees consist of fees billed for the annual audit of our consolidated financial statements. They also include fees billed for other audit services, which are those services that only the external auditor reasonably can provide, and include the provision for consents relating to the review of documents filed with the SEC.
- (2) There were no other audit-related fees billed by the principal accountant during the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit not reported under “Audit Fees” above.
- (3) There were no tax fees billed by the principal accountant during the last two fiscal years for advice services.
- (4) There were no other fees billed by the principal accountant during the last two fiscal years for products and services provided.

Audit Committee Pre-approval Policies and Procedures

The Audit Committee’s policy is to pre-approve all audit and permissible non-audit related services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. Management will periodically report to the Audit Committee regarding the extent of services provided and the fees for the services performed by the independent auditors in accordance with this pre-approval policy. The Audit Committee may also pre-approve particular services on a case-by-case basis.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR THE AUDIT COMMITTEE.

As of the date of this Report, Deswell is not availing itself of an exemption from the independence standards contained in paragraph (b)(1)(iv) of Rule 10A-3 under the Securities Exchange Act of 1934 (except paragraph (b)(1)(iv)(B) of that Rule), the general exemption contained in paragraph (c)(3) of that Rule, or the last sentence of paragraph (a)(3) of that Rule.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATE PURCHASERS

Not applicable to Deswell.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable to Deswell.

ITEM 16G. CORPORATE GOVERNANCE

For information regarding whether our corporate governance standards differ from those applied to U.S. domestic issuers and the reason why we do not have an independent compensation committee, see the discussion under “Other Committees; NASDAQ Compliance” in ITEM 6 “Directors and Senior Management” of this Report.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable to Deswell.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable to Deswell.

ITEM 16J. INSIDER TRADING POLICIES

The Company's Code of Business Conduct and Ethics includes, among other things, a written insider trading policy that prohibits the purchase, sale or other disposition of the Company's securities when in the possession of material nonpublic information, and tipping others about material nonpublic information. The policy also applies to purchases and sales of securities of other publicly traded companies if a covered person learns material nonpublic information about such other companies in the course of his or her duties for the Company. The Code of Business Conduct and Ethics applies to directors, officers, employees and other representatives of the Company.

The Company has not otherwise adopted specific procedures related to compliance with insider trading. Given the existing size and structure of the Company, management believes it can effectively manage insider trading risk using the Company's current policies and procedures under the Code of Business Conduct and Ethics, which include obligations to report violations of the Code. Each year, memoranda are distributed to remind all employees of the Code of Business Conduct and Ethics. In addition, all employees, officers and directors are required to make declarations about any potential or actual conflicts of interest. The Company's management will evaluate the need for the adoption of formal insider trading procedures on an ongoing basis.

ITEM 16K. CYBERSECURITY

The Company's IT staff is tasked with assessing, identifying and managing risks related to cybersecurity threats and is responsible for: (1) monitoring threats to sensitive data and unauthorized access to our systems, (2) implementing access control measures for critical IT systems designed to prevent unauthorized users from accessing IT systems and data, and (3) cybersecurity incident investigations.

The Company's executive officers oversee the processes to safeguard data and comply with relevant regulations, and has overall responsibility for evaluating cybersecurity risks. The Company does not currently engage any consultants, auditors or other third parties in connection with such processes, given the size and scale of the Company, the resources available, the anticipated expenditures, and the risks that it faces related to cybersecurity. The Company's executive officers are responsible for overseeing, periodically reviewing, and identifying risks from cybersecurity threats associated with its use of any third-party service provided.

During the year ended March 31, 2025 and through the date of this Annual Report, the Company has not experienced any material cybersecurity incidents or identified any material cybersecurity threats that have affected or are reasonably likely to materially affect us, our business strategy, results of operations or financial condition.

The Company's board of directors is collectively responsible for oversight of risks from cybersecurity threats. As noted, the Company's executive officers oversee the overall processes to safeguard data and comply with relevant regulations, and will report any material cybersecurity incidents or material cybersecurity threats to the board. Where necessary in the view of the Company's executive officers, the Company will consult with external advisors to manage and remediate any cybersecurity incidents.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable to Deswell.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this Report:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm — BDO China Shu Lun Pan Certified Public Accountants LLP, Shenzhen, People’s Republic of China PCAOB ID #1818.....	F-1
Consolidated Balance Sheets	F-3
Consolidated Statements of Comprehensive Income	F-4
Consolidated Statements of Shareholders’ Equity	F-5
Consolidated Statements of Cash Flows.....	F-6
Notes to Consolidated Financial Statements.....	F-7

All other schedules for which provisions are made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Deswell Industries, Inc.
Tortola, British Virgin Islands

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Deswell Industries, Inc. and its subsidiaries (the “Company”) as of March 31, 2025 and 2024, the related consolidated statements of comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended March 31, 2025, 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 financial position of the Company at March 31, 2025 and 2024, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2025, 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for credit losses

As described in Note 2 to the consolidated financial statements, the management estimates the lifetime expected credit losses for accounts receivable with similar risk characteristics on a pool basis after considering the historical collection information and the historical distribution of each aging bucket of respective accounts receivable, and adjusted for the forward-looking information. The principal considerations for our determination that performing procedures relating to the accounts receivable allowances is a critical audit matter are (i) the significant judgment by management when determining the amount of current expected credit losses (“CECL”) of the Company’s accounts receivable at March 31, 2025; and (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management’s estimate and significant assumptions related to the CECL.

The primary procedures we performed to address this critical audit matter included:

- Obtaining and inspecting relevant underlying documentation, including customer correspondence, historical collection trends, age of trade receivables, and realization analyses to assess the Company's estimated allowance for credit losses;
- Evaluating the reasonableness of the Company's economic conditions analysis by pool including reasonableness of the forward-looking risk factors applied by the Company against industry data and historical performance; and
- Performing a retrospective review of accounts receivable by comparing subsequent actual credit losses with historical estimates to evaluate management's ability to reasonably estimate the allowance.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

We have served as the Company's auditor since 2012.

Shenzhen, People's Republic of China

July 29, 2025

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

	March 31,	
	2024	2025
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,750	\$ 28,133
Time deposits with original maturities over three months	13,979	19,431
Time deposit with original maturities over twelve months – current	—	2,761
Marketable securities (note 3)	23,026	25,175
Held-to-maturity investment	5,157	—
Accounts receivable, less allowances for credit losses of \$98 and \$24 at March 31, 2024 and 2025, respectively (note 2)	11,986	9,914
Inventories, net (note 4)	12,129	9,462
Prepaid expenses and other current assets (note 5)	1,228	1,612
Total current assets	83,255	96,488
Property, plant and equipment, net (note 6)	24,603	23,385
Deferred tax assets (note 8)	419	335
Time deposits with original maturities over twelve months	2,799	—
Total assets	\$ 111,076	\$ 120,208
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,210	\$ 5,740
Accrued payroll and employee benefits	7,159	7,779
Customer deposits	1,712	2,058
Other accrued liabilities (note 7)	1,236	1,014
Income taxes payable	1,113	1,126
Total current liabilities	\$ 16,430	\$ 17,717
Deferred income tax liabilities (note 8)	476	371
Total liabilities	\$ 16,906	\$ 18,088
Commitments and contingencies (note 10)		
Shareholders' equity:		
Common shares nil par value; authorized 30,000,000 shares as of March 31, 2024 and 2025; 17,081,810 shares issued as of March 31, 2024 and 2025; 15,935,239 shares outstanding as of March 31, 2024 and 2025	\$ 53,202	\$ 53,202
Treasury stock at cost; 1,146,571 shares as of March 31, 2024 and 2025	(2,821)	(2,821)
Additional paid-in capital	7,973	7,973
Accumulated other comprehensive income	5,316	5,316
Retained earnings	30,500	38,450
Total shareholders' equity	94,170	102,120
Total liabilities and shareholders' equity	\$ 111,076	\$ 120,208

See accompanying notes to consolidated financial statements.

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(U.S. dollars in thousands, except per share data)

	Year ended March 31,		
	2023	2024	2025
Net sales	\$ 77,337	\$ 69,368	\$ 67,610
Cost of sales	64,498	55,465	53,967
Gross profit	12,839	13,903	13,643
Selling, general and administrative expenses	10,966	10,501	11,280
Other income, net (note 13)	1,014	383	951
Operating income	2,887	3,785	3,314
Non-operating income (expenses), net (note 14)	(573)	4,034	7,986
Income before income taxes	2,314	7,819	11,300
Income tax expense (note 8)	255	110	162
Net income attribute to Deswell Industries, Inc.	2,059	7,709	11,138
Other comprehensive income	—	—	—
Total comprehensive income attributable to Deswell Industries, Inc.	<u>\$ 2,059</u>	<u>\$ 7,709</u>	<u>\$ 11,138</u>
Net income per share attributable to Deswell Industries, Inc. (note 2)			
Basic:			
Net income per share	<u>\$ 0.13</u>	<u>\$ 0.48</u>	<u>\$ 0.70</u>
Weighted average common shares outstanding (shares in thousands)	<u>15,935</u>	<u>15,935</u>	<u>15,935</u>
Diluted:			
Net income per share	<u>\$ 0.13</u>	<u>\$ 0.48</u>	<u>\$ 0.70</u>
Weighted average common shares outstanding (shares in thousands)	<u>16,072</u>	<u>15,999</u>	<u>15,953</u>

See accompanying notes to consolidated financial statements.

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(U.S. dollars in thousands, except per share data)

	Common stock		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
	Shares	Amount	Shares	Amount				
Balance at March 31, 2022.	17,081,810	\$ 53,202	(1,146,571)	\$ (2,821)	\$ 7,973	\$ 5,316	\$ 27,108	\$ 90,778
Net income	—	—	—	—	—	—	2,059	2,059
Dividends (\$0.2 per share).....	—	—	—	—	—	—	(3,188)	(3,188)
Balance at March 31, 2023.....	17,081,810	\$ 53,202	(1,146,571)	\$ (2,821)	\$ 7,973	\$ 5,316	\$ 25,979	\$ 89,649
Net income	—	—	—	—	—	—	7,709	7,709
Dividends (\$0.2 per share).....	—	—	—	—	—	—	(3,188)	(3,188)
Balance at March 31, 2024.....	17,081,810	\$ 53,202	(1,146,571)	\$ (2,821)	\$ 7,973	\$ 5,316	\$ 30,500	\$ 94,170
Net income	—	—	—	—	—	—	11,138	11,138
Dividends (\$0.2 per share).....	—	—	—	—	—	—	(3,188)	(3,188)
Balance at March 31, 2025.....	17,081,810	\$ 53,202	(1,146,571)	\$ (2,821)	\$ 7,973	\$ 5,316	38,450	102,120

See accompanying notes to consolidated financial statements.

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

	Year ended March 31,		
	2023	2024	2025
Cash flows from operating activities			
Net income	\$ 2,059	\$ 7,709	\$ 11,138
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,709	1,523	1,519
(Reversal of) provision for credit losses, net.	(229)	76	(67)
Allowance for obsolete inventories, net	116	(24)	(54)
(Gain) loss on disposal of property, plant and equipment	(18)	74	(38)
Unrealized holding loss (gain) on marketable securities	3,973	(952)	(3,163)
Gain on sales of marketable securities	(581)	—	(1,470)
Deferred income tax benefit	(178)	(165)	(21)
Scrip dividend received	—	—	(73)
Changes in operating assets and liabilities:			
Accounts receivable	2,720	3,642	2,139
Inventories	6,378	5,220	2,721
Prepaid expenses and other current assets	777	(79)	(384)
Accounts payable	(2,889)	(1,739)	530
Accrued payroll and employee benefits	332	(784)	620
Customer deposits	(127)	(504)	346
Other accrued liabilities	(961)	(753)	(222)
Income taxes payable	(83)	(36)	13
Net cash provided by operating activities	<u>12,998</u>	<u>13,208</u>	<u>13,534</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	(792)	(381)	(332)
Proceeds from sale of property, plant and equipment, net of transaction costs	67	232	69
Purchase of marketable securities	(3,469)	(1,352)	(3,090)
Proceeds from sales of marketable securities	3,854	—	5,647
Decrease (increase) of fixed deposits with original maturities over three months	1,301	(10,926)	(5,452)
(Increase) decrease of fixed deposits with original maturities over twelve months	(2,076)	1,154	38
(Increase) decrease in held-to-maturity investment	—	(5,157)	5,157
Net cash (used in) generated by investing activities	<u>(1,115)</u>	<u>(16,430)</u>	<u>2,037</u>
Cash flows from financing activities			
Dividends paid	(3,188)	(3,188)	(3,188)
Net cash used in financing activities	<u>(3,188)</u>	<u>(3,188)</u>	<u>(3,188)</u>
Net increase (decrease) in cash and cash equivalents	8,695	(6,410)	12,383
Cash and cash equivalents, beginning of year	13,465	22,160	15,750
Cash and cash equivalents, end of year	<u>\$ 22,160</u>	<u>\$ 15,750</u>	<u>\$ 28,133</u>
Supplementary disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ —	\$ —	\$ —
Income taxes	<u>\$ 418</u>	<u>\$ 227</u>	<u>\$ 156</u>

See accompanying notes to consolidated financial statements.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

1. Organization and Basis of Financial Statements

Deswell Industries, Inc. was incorporated in the British Virgin Islands on December 2, 1993.

The principal activities of the Company comprise the manufacturing and sales of injection-molded plastic parts and components and electronic products assembling. The manufacturing activities are subcontracted to subsidiaries operating in the People’s Republic of China (“PRC”). The selling and administrative activities were originally performed in the Hong Kong Special Administrative Region (“Hong Kong”) of the PRC. From August 2003, these activities were moved to the Macao Special Administrative Region (“Macao”) of the PRC.

As the Company is a holding company, the amount of any dividends to be declared by the Company will be dependent upon the amount which can be distributed from its subsidiaries. Dividends from subsidiaries are declared based on profits as reported in their statutory accounts.

2. Summary of Significant Accounting Policies

Principles of consolidation — The consolidated financial statements, prepared in accordance with generally accepted accounting principles in the United States of America, include the assets, liabilities, revenues, expenses and cash flows of all subsidiaries. Intercompany balances, transactions and cash flows are eliminated on consolidation.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time certificates of deposit with a maturity of three months or less when purchased.

Marketable securities — All marketable securities are classified as trading securities and are stated at fair market value. Market value is determined by the most recently traded price of the security at the balance sheet date. Net realized and unrealized gains and losses on trading securities are included in non-operating income (expenses), net. The cost of investments sold is based on the average cost method. Dividend income earned are included in non-operating income (expenses), net.

Held-to-maturity investment — Our investments in U.S. Treasury Bills are classified as held-to-maturity because we have the positive intent and ability to hold the securities to maturity. We invest in U.S. Treasury Bills with maturities less than one year. Gross unrealized gains and losses are not material for any period presented. During the years ended March 31, 2023, 2024 and 2025, we recognized interest income on the investments of \$nil, \$0.1 million and \$0.1 million, respectively, which is included in non-operating income (expenses), net.

Inventories — Inventories are stated at the lower of cost or net realizable value. Cost is determined on the weighted average basis. Work-in-progress and finished goods inventories consist of raw materials, direct labor and overhead associated with the manufacturing process. The Company periodically performs an analysis of inventory to determine obsolete or slow-moving inventory and determine if its cost exceeds the estimated market value. Write down of potentially obsolete or slow-moving inventory are recorded based on management’s analysis of inventory levels.

Property, plant and equipment — Property, plant and equipment is stated at cost including the cost of improvements and cost incurred to bring the asset at place of work. Maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided on the straight line method based on the estimated useful lives of the assets as follows:

Leasehold land and buildings	30 – 50 years
Plant and machinery	5 – 15 years
Furniture, fixtures and equipment	4 – 5 years
Motor vehicles	3 – 5 years
Leasehold improvements	Shorter of lease term or 2 – 5 years

Leases — The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, other current liabilities and operating lease liabilities in the consolidated balance sheets. ROU assets represent the Company’s right to use an underlying asset for the lease term, and lease

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. It uses the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company determines its land use rights contain operating leases of land under ASC 842. However, this determination does not result in any changes to the accounting for land use rights as the cost for land use rights are fully prepaid and no liabilities would be recorded.

When the Company is the lessor, minimum contractual rental from leases is recognized on a straight-line basis over the non-cancelable term of the lease. With respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue commences when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. If later, the billing amount exceeds the straight-line rental revenue, the variance will be credited to accrued straight-line rents receivable. Contingent rental revenue is accrued when the contingency is removed.

Impairment of long-lived assets — Long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying value of these assets may not be recoverable. In accordance with ASC No. 360, "Property, Plant and Equipment", the Company assesses the recoverability of the carrying value of long-lived assets by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quotations of market prices are unavailable, through the performance of internal analysis using a discounted cash flow methodology. The undiscounted and discounted cash flow analyses based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

Revenue recognition — Revenue from contracts with customers is recognized using the following five steps pursuant ASC Topic 606, Revenue from Contracts with Customers: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation.

Products sales

The Company recognizes revenue upon transfer of control of its products to the customer, which typically occurs upon delivery of products or when the customer accepts the injection molds. The Company's main performance obligation to its customers is the delivery of products in accordance with purchase orders. Each purchase order defines the transaction price for the products purchased under the arrangement. Acceptance of delivery of the products and molds is evidenced by goods receipt notes signed by the customer or the mold acceptance form. The Company has no remaining obligations after the customer's acceptance of the products.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

Under the terms of the contracts or purchase orders between the Company and the customer, the control of the products is transferred to the customer upon the signing of the goods receipt notes and the customer has no rights to return the products (other than for defective products). Some customers examine and pick up the products at our plant while some local customers instruct us to deliver the products to their plants nearby. Some overseas customers instruct us to deliver the products to the named port of shipment. Delivery of the products occurs at that point of time when the control of the products is transferred to the customer.

The selling price, which is specified in the purchase orders, is fixed. Under the terms of the purchase orders, upon the sale of the products to the customer and the signing of the good receipt notes, the Company has the legally enforceable right to receive full payment of the sales price. The customer's obligation to pay the Company is not dependent on the customer selling the products or collecting cash from their customers (or end customers). The customer is required to pay under normal sales terms. The Company's normal payment terms range from 30 days to 90 days and its sales arrangements do not have any material financing components. In addition, the Company's customer arrangements do not produce contract assets or liabilities that are material to its consolidated financial statements. The Company permits the return of damaged or defective products and accounts for these actual returns as deduction from sales. Product returns to the Company were insignificant during past years.

Incremental costs to fulfill the Company's customer arrangements are expensed as incurred, as the amortization period is less than one year.

The Company's sales are net of value added tax ("VAT") and business tax and surcharges collected on behalf of tax authorities in respect of product sales. VAT and business tax and surcharges collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheets until it is paid to the tax authorities.

Outbound freight and Handling costs:

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

Disaggregation of Revenues:

The following table disaggregates product sales by business segment and by geography, which provides information as to the major source of revenue. See Note 16 for additional description of our reportable business segments.

	Year ended March 31, 2023		
	Injection molded Plastic parts	Electronic Products	Total
Net sales			
United States of America	\$ 1,006	\$ 11,163	\$ 12,169
PRC	13,010	14,730	27,740
United Kingdom	2	9,106	9,108
Hong Kong	1,468	5,002	6,470
Europe	131	13,159	13,290
Canada	—	4,699	4,699
Others	—	3,861	3,861
Total net sales	<u>\$ 15,617</u>	<u>\$ 61,720</u>	<u>\$ 77,337</u>

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

	Year ended March 31, 2024		
	Injection molded Plastic parts	Electronic Products	Total
Net sales			
United States of America	\$ 1,083	\$ 6,842	\$ 7,925
PRC	8,202	13,919	22,121
United Kingdom	12	11,973	11,985
Hong Kong	3,031	5,194	8,225
Europe	53	9,963	10,016
Canada	—	2,988	2,988
Others	11	6,097	6,108
Total net sales	<u>\$ 12,392</u>	<u>\$ 56,976</u>	<u>\$ 69,368</u>

	Year ended March 31, 2025		
	Injection molded Plastic parts	Electronic Products	Total
Net sales			
United States of America	\$ 967	\$ 5,114	\$ 6,081
PRC	9,279	13,169	22,448
United Kingdom	24	10,893	10,917
Hong Kong	883	6,025	6,908
Europe	44	12,502	12,546
Canada	—	3,882	3,882
Others	9	4,819	4,828
Total net sales	<u>\$ 11,206</u>	<u>\$ 56,404</u>	<u>\$ 67,610</u>

Allowance for credit losses — Effective on April 1, 2020, the Company adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses (Topic 326): The current expected credit losses (“CECL”) methodology requires that the full amount of expected credit losses for the lifetime of the financial instrument be recorded at the time it is originated or acquired, considering relevant historical experience, current conditions and reasonable and supportable macroeconomic forecasts that affect the collectability of financial assets, and adjusted for changes in expected lifetime credit losses subsequently, which may require earlier recognition of credit losses.

The Company estimated the expected credit losses for accounts receivable with similar risk characteristics on a pool basis. For each pool, the Company considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include payment terms offered in the normal course of business to customers and industry-specific factors that could impact the Company’s receivables. Additionally, macroeconomic factors are also considered.

Accounts receivable, net, as of March 31, 2024 and 2025 consisted of the following:

	March 31,	
	2024	2025
Accounts receivable	\$ 12,084	\$ 9,938
Less: Allowance for credit losses	(98)	(24)
Accounts receivable, net	<u>\$ 11,986</u>	<u>\$ 9,914</u>

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

The movement of allowance for credit losses for the years ended March 31, 2023, 2024 and 2025 was as follows:

Allowance for credit losses	Year ended March 31,		
	2023	2024	2025
Balance at beginning of the year.	\$ 268	\$ 39	\$ 98
(Reversal of) provision for credit losses, net.	(229)	76	(67)
Written off.	—	(17)	(7)
	<u>\$ 39</u>	<u>\$ 98</u>	<u>\$ 24</u>

The provision and reversal of credit losses for the years were charged to other income, net in consolidated statements of comprehensive income.

Shipping and handling cost — Shipping and handling costs related to the delivery of finished goods are included in selling expenses. During the years ended March 31, 2023, 2024 and 2025, shipping and handling costs expensed to selling expenses were \$450, \$537 and \$554, respectively.

Income taxes — Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Any PRC tax paid by subsidiaries during the year is recorded. Deferred income taxes are recognized for all significant temporary differences at enacted rates and classified as non-current. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all, the deferred tax asset will not be realized. The Company classifies interest and/or penalties related to unrecognized tax benefits, if any, as a component of income tax provisions.

The Company adopted the provisions of ASC No. 740 “Income Taxes” (“ASC 740”), which clarifies the accounting for uncertainty in income taxes recognized by prescribing a recognition threshold and measurement attribute 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 accounting guidance on de-recognition, classification, interest and penalties, disclosure and transition.

Foreign currency translation — The consolidated financial statements of the Company are presented in U.S. dollars as the Company is incorporated in the British Virgin Islands where the currency is the U.S. dollar. The Company’s subsidiaries conduct substantially all of their business in U.S. dollars, Hong Kong dollars or Chinese Renminbi. Notwithstanding this, U.S. dollar is considered by management to be the most appropriate functional currency of the Company’s subsidiaries because most of our customers contracted with our subsidiaries in U.S. dollars.

All transactions in currencies other than the functional currency during the year are translated at the exchange rates prevailing on the transaction dates. Monetary items existing at the balance sheet date denominated in currencies other than the functional currencies are translated at period end rates. Gains and losses resulting from the translation of foreign currency transactions and balances are included in the consolidated statement of comprehensive income.

The exchange rates between the Hong Kong dollars and the U.S. dollar were approximately 7.7904, 7.7904 and 7.7904 as of March 31, 2023, 2024 and 2025, respectively. The exchange rates between the Chinese Renminbi and the U.S. dollar were approximately 6.8806, 7.1447 and 7.2429 as of March 31, 2023, 2024 and 2025, respectively. Aggregate net foreign currency transaction (loss) gain included in other income, net.

Post-retirement and post-employment benefits — The Company and its subsidiaries contribute to a state pension scheme in respect of its Chinese employees.

Stock-based compensation — The Company adopts ASC No. 718, “Compensation — Stock Compensation”, which requires that share-based payment transactions with employees, such as share options, be measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period, with a corresponding addition to equity. Under this method, compensation cost related to employee

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

share options or similar equity instruments is measured at the grant date based on the fair value of the award and is recognized over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period.

There were no stock options granted during the year ended March 31, 2023, 2024 and 2025.

Net income per share — Basic net income 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 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 the exercise of options.

Basic net income per share and diluted net income per share calculated in accordance with ASC No. 260, “Earnings Per Share”, are reconciled as follows (shares in thousands):

	Year ended March 31,		
	2023	2024	2025
Net income attributable to Deswell Industries, Inc.	\$ 2,059	\$ 7,709	\$ 11,138
Basic weighted average common shares outstanding	15,935	15,935	15,935
Basic net income per share	\$ 0.13	\$ 0.48	\$ 0.70
	Year ended March 31,		
	2023	2024	2025
Basic weighted average common shares outstanding	15,935	15,935	15,935
Effect of dilutive securities – Options.	137	64	18
Diluted weighted average common and potential common shares outstanding.	16,072	15,999	15,953
Diluted net income per share	\$ 0.13	\$ 0.48	\$ 0.70

Use of estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company’s significant accounting estimates and assumptions include, but are not limited to, those used for assessment for impairment of long-lived assets, allowance for credit losses, inventory valuation for excess and obsolete inventories, and depreciation lives of property and equipment. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

Fair value of financial instruments — The fair value of a financial instrument is defined as the exchange price that would be received from an asset or paid to transfer a liability (as exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, time deposits, accounts receivable, prepaid expenses and other current assets, accounts payable, and other current liabilities, approximate their fair values because of the short maturity of these instruments and market rates of interest.

Fair value measurements — The Company has adopted ASC No. 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

It establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

- Level 1 — Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

Non-recurring fair value measurements — Long-lived assets are measured at fair value on a non-recurring basis using mostly Level 3 inputs as defined in the fair value hierarchy. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Assets that are written down to fair value when impaired and retained investments are not subsequently adjusted to fair value unless further impairment occurs.

Fair value of long-lived assets, including real estate, are determined by estimating the amount and timing of net future cash flows (which are unobservable inputs) and discounting them using a risk-adjusted rate of interest. The Company estimates future cash flows based on its experience and knowledge of the market. Significant increases or decreases in actual cash flows may result in valuation changes. For real estate, fair values are based on discounted cash flow estimates which reflect current and projected lease profiles and available industry information about capitalization rates and expected trends in rents and occupancy and are corroborated by external appraisals.

Reclassifications — Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation. These reclassifications had no impact on net income, shareholders' equity, or cash flows as previously reported.

Recently Adopted Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, Segment Reporting: Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which focuses on improving reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. A public entity shall disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the CODM and included in reported segment profit or loss. ASU 2023-07 also requires public entities to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Entities are permitted to disclose more than one measure of a segment's profit or loss if such measures are used by the CODM to allocate resources and assess performance, as long as at least one of those measures is determined in a way that is most consistent with the measurement principles used to measure the corresponding amounts in the consolidated financial statements. ASU 2023-07 is applied retrospectively to all periods presented in financial statements, unless it is impracticable. The Company adopted ASU 2023-07. See Note 16 — Segment Information for additional information.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

2. Summary of Significant Accounting Policies (cont.)

On June 30, 2022, the FASB issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions, which stipulates that a contractual restriction on the sale of an equity security should not be considered part of the equity security’s unit of account and, therefore, should not be considered in measuring its fair value. Effective from March 31, 2024, the Company adopted ASU 2022-03, which did not have a material impact on the Company’s consolidated financial statements.

Recent Accounting Pronouncement Not Yet Adopted

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Retrospective application is permitted. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03 Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. The new guidance is intended to provide investors enhanced disclosures and requires public companies to disaggregate key expense types. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2026, with early adoption permitted. The disclosure updates are required to be applied prospectively with the option for retrospective application. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

3. Marketable Securities

The Company acquired equity securities listed in Hong Kong Securities Exchange.

	March 31,	
	2024	2025
Cost	\$ 25,772	\$ 24,757
Market value	\$ 23,026	\$ 25,175

Included in non-operating income (expenses), net unrealized (loss) gain from marketable securities for the years ended March 31, 2023, 2024 and 2025 of \$(3,973), \$952 and \$3,163, respectively.

Net proceeds from sale of marketable securities for the years ended March 31, 2023, 2024 and 2025 were \$3,854, \$nil and \$5,647, respectively and realized gain from sales of marketable securities for the years ended March 31, 2023, 2024 and 2025 were \$581, \$nil and \$1,470, respectively. For the purposes of determining realized gains and losses, the cost of securities sold was determined based on the average cost method.

The marketable securities were classified as Level 1 of the hierarchy established under ASC No. 820 because the valuations were based on quoted prices for identical securities in active markets.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

4. Inventories, net

Inventories, net of allowances, by major categories are summarized as follows:

	March 31,	
	2024	2025
Raw materials	\$ 8,747	\$ 6,017
Work-in-progress	2,285	2,602
Finished goods	1,097	843
	<u>\$ 12,129</u>	<u>\$ 9,462</u>

Obsolescence allowance for inventory is as follows:

	Year ended March 31,		
	2023	2024	2025
Balance at beginning of the year	\$ 4,282	\$ 4,398	\$ 4,374
Additional charges (written off), net	116	(24)	(54)
Balance at the end of the year	<u>\$ 4,398</u>	<u>\$ 4,374</u>	<u>\$ 4,320</u>

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	March 31,	
	2024	2025
Rental and utility deposit	\$ 23	\$ 23
Advance to suppliers	5	58
Prepayment	404	412
Dividend receivable	196	222
Others	600	897
	<u>\$ 1,228</u>	<u>\$ 1,612</u>

6. Property, Plant and Equipment, net

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

	March 31,	
	2024	2025
At cost:		
Leasehold land and buildings	\$ 32,233	\$ 32,233
Plant and machinery	33,536	33,254
Furniture, fixtures and equipment	10,328	10,180
Motor vehicles	1,352	1,365
Leasehold improvements	4,540	4,565
Impairment	(2,308)	(2,254)
	<u>79,681</u>	<u>79,343</u>
Less: accumulated depreciation and amortization	(55,078)	(55,958)
Net book value	<u>\$ 24,603</u>	<u>\$ 23,385</u>

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

6. Property, Plant and Equipment, net (cont.)

Included in furniture, fixtures and equipment is computer software with net values of \$17 and \$9 as of March 31, 2024 and 2025, respectively.

Land use rights and long term leased land included in leasehold land and buildings consist of the following:

	March 31,	
	2024	2025
At cost:		
Land use right of state-owned land ^(a)	\$ 2,233	\$ 2,233
Long term leased land ^(b)	947	947
	3,180	3,180
Less: accumulated amortization	(1,795)	(1,882)
	\$ 1,385	\$ 1,298

Amortization expenses for land use rights were \$87, \$87 and \$87 for the years ended March 31, 2023, 2024 and 2025, respectively.

- (a) The land use rights of state-owned land and buildings erected thereon represent land and buildings located in the PRC on which an upfront lump-sum payment has been made for the right to use the land and building with terms of 50 years expiring in 2050. As of March 31, 2024 and 2025, the cost of land use rights of state-owned land and buildings erected were \$28,077 and \$28,077, respectively.
- (b) Long term leased land and buildings erected thereon represent land and buildings on collectively-owned land located in the PRC on which an upfront lump-sum payment has been made for the right to use the land and building for a term of 50 years to 2053. Dongguan Chang An Xiaobian District Co-operation, the lessor, is the entity to whom the collectively-owned land has been granted. According to existing PRC laws and regulations, collectively-owned land is not freely transferable unless certain application and approval procedures are fulfilled by the Dongguan Chang An Xiaobian District Co-operation to change the legal form of the land from collectively-owned to state-owned. As of March 31, 2025, the Company is not aware of any steps being taken by the Dongguan Chang An Xiaobian District Co-operation for such application. As of March 31, 2024 and 2025, the cost of land use rights of collectively-owned land and buildings erected were \$4,156 and \$4,156, respectively.

Included in leasehold land and buildings is property leased to third parties for rental income under operating lease with net values of \$2,576 and \$2,483 as of March 31, 2024 and 2025, respectively. Details of these property on lease are as follows:

Included in leasehold land and buildings:

	March 31,	
	2024	2025
Cost	\$ 4,273	\$ 4,273
Less: accumulated depreciation and amortization	(1,697)	(1,790)
Net book value	\$ 2,576	\$ 2,483

During the years ended March 31, 2023, 2024 and 2025, the Company had no impairment on its property, plant and equipment. Depreciation of property, plant and equipment were \$1,709, \$1,523 and \$1,519 during the years ended March 31, 2023, 2024 and 2025, respectively.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

7. Other Accrued Liabilities

Other accrued liabilities consist of the following:

	March 31,	
	2024	2025
Accrued expenses	\$ 806	\$ 479
Others	430	535
	\$ 1,236	\$ 1,014

8. Income Taxes

Net income before taxes of, \$2,314, \$7,819 and \$11,300 were solely attributed by non-U.S. operations for the years ended March 31, 2023, 2024 and 2025, respectively.

Under current BVI law, the Company’s income is not subject to taxation in the British Virgin Islands. Subsidiaries operating in Hong Kong and the PRC are subject to income taxes as described below, and the subsidiaries operating in Macau are exempted from income taxes. Under the current Samoa Law, subsidiary incorporated in Samoa is not subject to profit tax as it has no business operations in Samoa.

Effective from January 1, 2021, profit in excess of Macau Patacas (“MOP\$”) MOP\$600 derived from subsidiaries incorporated in Macau are subject to Macau Complementary Tax of 12%.

In accordance with the PRC Income Tax Law, the standard income tax for all subsidiaries operating in the PRC is 25%.

The provision for income taxes consists of the following:

	Year ended March 31,		
	2023	2024	2025
Current tax			
– PRC	\$ 164	\$ 143	\$ 6
– Macau.	246	126	176
Deferred tax	(155)	(159)	(20)
	\$ 255	\$ 110	\$ 162

Reconciliation between the provision for income taxes computed by applying the statutory tax rate in the PRC to income before income taxes and the actual provision for income taxes is as follows:

	Year ended March 31,		
	2023	2024	2025
Provision for income taxes at statutory tax rate in the PRC . . .	\$ 578	\$ 1,955	\$ 2,824
Tax rate differential on entities not subject to PRC income tax.	520	(547)	(1,642)
Additional deduction of research and development expenses	(476)	(273)	(218)
Foreign rate differences, net	724	175	125
Other non-taxable income.	(786)	(1,194)	(1,040)
Unrecognized tax benefits	(426)	119	(72)
Other non-deductible expenses	32	24	161
Net change in valuation allowances	90	(49)	19
Prior year true up	(1)	(100)	5
Effective tax	\$ 255	\$ 110	\$ 162

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

8. Income Taxes (cont.)

The net deferred income tax consists of the following:

	March 31,	
	2024	2025
Deferred income tax assets	\$ 419	\$ 335
Deferred income tax liabilities	(476)	(371)
Net deferred income tax liabilities	\$ (57)	\$ (36)

The components of net deferred income tax are as follows:

	March 31,	
	2024	2025
Deferred income tax assets (liabilities):		
Net operating loss carry forwards	\$ 81	\$ 99
Provision of employee benefits	1,271	1,413
Depreciation and amortization	(1,182)	(1,100)
Revenue and cost of sales recognized for financial reporting purpose before being recognized for tax purpose	(107)	(291)
Others	(39)	(58)
Less: Valuation allowances	(81)	(99)
Net deferred income tax liabilities	\$ (57)	\$ (36)

The Company operates through the PRC entities and the valuation allowance is considered on each individual basis.

The Company's assessment is that it is not more likely than not that these deferred tax assets will be realized.

The net operating loss attributable to those PRC entities can only be carried forward for a maximum period of five years. Tax losses of Macau entities can be carried forward for three years and tax losses of other non-PRC entities can be carried forward indefinitely.

Under the PRC Income Tax Law and the implementation rules, profits of the PRC entities earned on or after January 1, 2008 and distributed by the PRC entities to the Company are subject to a withholding tax at a rate of 10%, unless the Company will be deemed as a resident enterprise for tax purposes. Since the Company intends to reinvest the earnings of the PRC entities in operations in the PRC, the PRC entities do not intend to declare dividends to their immediate non-PRC established holding companies in the foreseeable future. Accordingly, no deferred taxation on undistributed earnings of the PRC entities has been recognized as of March 31, 2025.

The Company has adopted the provisions of ASC 740 on April 1, 2007. The evaluation of a tax position in accordance with ASC 740 begins with a determination as to whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is then measured at the largest amount of benefit that if greater than 50 percent likely of being realized upon ultimate settlement for recognition in the financial statements. The Company classifies interest and/or penalties related to unrecognized tax benefits as a component of income tax provisions; however, as of March 31, 2024 and 2025, there is no interest and penalties related to uncertain tax positions.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

8. Income Taxes (cont.)

A reconciliation of the beginning and ending amount of total unrecognized tax benefits is as follows:

	Year ended March 31,		
	2023	2024	2025
Balance at the beginning of the year	\$ 1,232	\$ 806	\$ 925
(Decrease) increase related to current year tax positions	(426)	119	(79)
Balance at end of the year	\$ 806	\$ 925	\$ 846

At March 31, 2024 and 2025, there are \$925 and \$846 of unrecognized tax benefits that if recognized, would affect the annual effective tax rate. For the year ended March 31, 2023, 2024 and 2025, the Company did not recognize any interest and penalties related to unrecognized tax benefits.

The Company is currently unable to provide an estimate of a range of the total amount of unrecognized tax benefits that is reasonably possible to change significantly within the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion.

In accordance with Guo Shui Fa [2009] No.2, the PRC tax authorities have the right to deem the Company for a tax amount based on the transfer pricing contemporaneous documentations (the “Contemporaneous Documentations”) or a basis that they considered reasonable. The amount of income taxes payable at March 31, 2024 and 2025 includes the deemed profit tax estimated by the management based on the Contemporaneous Documentations.

9. Lease

Operating leases as lessor

We have non-cancellable agreements to lease our factory buildings to tenants under operating lease. The lease terms are between 1 month to 36 months. The leases do not contain contingent payments. At March 31, 2025, the minimum future rental income to be received is as follows:

Year ending March 31, 2025	\$ 103
Total minimum future rental income	\$ 103

The following table represents lease income recognized in the consolidated statements of comprehensive income:

	March 31,	
	2024	2025
Operating lease income	\$ 523	\$ 386
Other information:		
Operating cash flows from operating leases as lessor	\$ 550	\$ 405

Operating leases as lessee

The Company leases premises and warehouses under various operating leases, certain of which contain escalation clauses. As of March 31, 2024 and 2025, the Company had no material operating lease arrangement with lease terms over 1 year, except for the land use rights and long term leased land. See Note 6 for additional description of the arrangement.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

9. Lease (cont.)

The following table represents lease costs recognized in the Company's consolidated statements of comprehensive income for the year ended March 31, 2023, 2024 and 2025. Lease costs are included in cost of sales, selling, general and administrative expense on the Company's consolidated statements of comprehensive income.

	Year ended March 31,		
	2023	2024	2025
Operating lease costs.	\$ 76	\$ 79	\$ 73
Total leases costs.	\$ 76	\$ 79	\$ 73

	Year ended March 31,		
	2023	2024	2025
Supplemental cash flow information for our leases was as follows			
Operating cash paid for operating lease	\$ 76	\$ 79	\$ 73

10. Commitments and Contingencies

The Company leases premises and warehouses under non-cancelable operating lease agreements. See note 9 for future minimum lease payments under non-cancelable operating lease agreements with initial terms of one year or more.

At March 31, 2025, the Company had capital commitments for purchase of plant and machinery, and leasehold improvement totaling \$82, which are expected to be disbursed during the year ending March 31, 2025.

11. Employee Benefits

The Company contributes to a state pension plan run by the Chinese government in respect of its employees in the PRC. The expense of \$754, \$852 and \$766 included in the consolidated statements of comprehensive income related to this plan, which is based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government, was provided for the years ended March 31, 2023, 2024 and 2025, respectively.

12. Stock Option Plan

On March 15, 1995, the Company adopted the 1995 Stock Option Plan that permits the Company to grant options to officers, directors, employees and others to purchase up to 1,012,500 shares of Common Stock. On September 29, 1997, the Company approved an increase of 549,000 shares making a total of 1,561,500 shares of common stock available under the stock option plan. On January 7, 2002, the Company adopted the 2001 Stock Option Plan to purchase an additional 1,125,000 shares of Common Stock. On September 30, 2003, the Company adopted the 2003 Stock Option Plan to purchase an additional 900,000 shares of Common Stock. On September 19, 2005, the Company's shareholders approved an increase of 500,000 shares making a total of 1,400,000 shares of common stock available under the 2003 Stock Option Plan. On August 17, 2007, the Company's Board of Directors, subject to shareholders' approval, approved an increase of 400,000 shares making a total of 1,800,000 shares of common stock available under the 2003 Stock Option Plan. The Company's shareholders approved this amendment at the Company's Annual Shareholders' Meeting held on October 9, 2007. On August 13, 2010, the Company's Board of Directors, subject to shareholders' approval, approved an increase of 800,000 shares making a total of 2,600,000 shares of common stock available under the 2003 Stock Option Plan. The Company's shareholders approved this amendment at the Company's Annual Shareholders' Meeting held on September 16, 2010.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

12. Stock Option Plan (cont.)

On August 7, 2013, the Company's Board of Directors, subject to shareholder approval, approved amendments to the 2003 Stock Option Plan to increase by 900,000 shares the number of shares that can be optioned and sold under the 2003 Stock Option Plan, bringing to a total of 3,500,000 shares the number of common shares that can be optioned and sold under the 2003 Stock Option Plan. The Company's shareholders approved this amendment at the Company's Annual Shareholders' Meeting held on September 11, 2013.

As of March 31, 2025, options to purchase an aggregate of 5,669,000 common shares had been granted under the stock option plans. Options granted under the stock option plans vest immediately and are exercisable for a period of up to 10 years commencing on the date of grant, at a price equal to at least the fair market value of the Common Stock at the date of grant, and may contain such other terms as the Board of Directors or a committee appointed to administer the plan may determine. A summary of the option activity (with weighted average prices per option) is as follows:

	Year ended March 31,								
	2023			2024			2025		
	Number of stock options	Weighted Average Exercise price	Weighted Average Grant Date Fair Value	Number of stock options	Weighted Average Exercise price	Weighted Average Grant Date Fair Value	Number of stock options	Weighted Average Exercise price	Weighted Average Grant Date Fair Value
Outstanding at beginning of the year . .	400,000	\$ 2.09	\$ 0.50	400,000	\$ 2.09	\$ 0.50	400,000	\$ 2.09	\$ 0.5
Exercised during the year	—	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —
Expired and cancelled during the year . .	—	\$ —	\$ —	—	\$ —	\$ —	(400,000)	\$ 2.09	\$ 0.5
Outstanding and exercisable at the end of the year	<u>400,000</u>	\$ 2.09	\$ 0.50	<u>400,000</u>	\$ 2.09	\$ 0.50	<u>—</u>	\$ —	\$ —
Range of exercise price per share		\$ 2.09			\$ 2.09			\$ —	

During the years ended March 31, 2023, 2024 and 2025, the Company recognized employee stock-based compensation expense of \$nil, \$nil and \$nil, respectively. No options were granted for the years ended March 31, 2023, 2024 and 2025. At March 31, 2024 and 2025, there were 1,318,000 and 1,718,000 options available for future grant under the plans, respectively.

As of March 31, 2024, the Company had outstanding stock options to acquire an aggregate of 400,000 shares of common stock with an intrinsic value of \$58. Of those outstanding options, 400,000 shares had vested as of March 31, 2024, representing an intrinsic value of \$58. No options were outstanding at March 31, 2025.

13. Other income, net

Other income, net consist of the following:

	Year ended March 31,		
	2023	2024	2025
Gain (loss) on disposal of property, plant and equipment, net	\$ 18	\$ (74)	\$ 38
Foreign exchange (loss) gain, net	(256)	(13)	111
Reversal of (provision for) credit losses, net.	229	(76)	67
Others	1,023	546	735
Other income, net	<u>\$ 1,014</u>	<u>\$ 383</u>	<u>\$ 951</u>

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

14. Non-operating income (expenses), net

Non-operating income (expenses), net consist of the following:

	Year ended March 31,		
	2023	2024	2025
Dividend income from marketable securities	\$ 1,093	\$ 1,506	\$ 1,822
Interest income from bank deposits	282	669	1,052
Unrealized (loss) gain from marketable securities	(3,973)	952	3,163
Realized gain from sales of marketable securities	581	—	1,470
Rental income, net of depreciation charges	1,328	498	386
Others	116	409	93
Non-operating (expenses) income, net	<u>\$ (573)</u>	<u>\$ 4,034</u>	<u>\$ 7,986</u>

15. Operating Risk

Concentrations of Major Customers — A substantial percentage of the Company’s sales are made to a small number of customers and are typically sold either under letter of credit or on an open account basis. Details of customers accounting for 10% or more of total net sales for each of the three years ended March 31, 2023, 2024 and 2025 are as follows:

	Percentage of net sales Year ended March 31,		
	2023	2024	2025
Customer B	21.4%	14.5%	20.0%
Customer E	19.6%	19.5%	13.8%
Customer G	*%	11.4%	*%

* Less than 10%

Sales to the above customers relate to electronic products.

Debtors accounting for 10% or more of total accounts receivable at March 31, 2023 and 2024, respectively, are as follows:

	Percentage of accounts receivable at March 31,	
	2024	2025
Customer E	16.1%	14.2%
Customer G	19.3%	*%
Customer H	*%	11.9%
Customer B	*%	13.7%

* Less than 10%

There were \$nil, \$17 and \$7 accounts receivable written off during the years ended March 31, 2023, 2024 and 2025, respectively. There were net provision for (reversal of) credit losses of \$(229), \$76 and \$(67) during the years ended March 31, 2023, 2024 and 2025, respectively. At March 31, 2024 and 2025, allowances for credit losses were \$98 and \$24, respectively.

Concentration of credit risk — Assets that potentially subject the Company to significant concentrations of credit risk primarily consist of cash and cash equivalents, time deposits, marketable securities, held-to-maturity investments, accounts receivable, and time deposits with maturities more than one year. The maximum exposure of such assets to

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

15. Operating Risk (cont.)

credit risk is their carrying amounts as of the balance sheet dates. As of March 31, 2025 and 2024, majority of the Company's cash and cash equivalents, time deposits, marketable securities, held-to-maturity investments, and time deposits with maturities more than one year were held at major financial institutions located in Dongguan, Macau and Hong Kong (collectively refer as the "China Cities") which the management believes are of high credit quality. Failure of reputable financial institutions is not common in the China Cities and the Company believes that those financial institutions that hold the Company's cash and cash equivalents, time deposits, marketable securities, held-to-maturity investments, and time deposits with maturities more than one year are financially sound based on publicly available information. Accounts receivable are typically unsecured and are mainly derived from revenues earned from customers in the United States, the PRC, United Kingdom, Hong Kong and Europe. The risk with respect to accounts receivable is mitigated by credit evaluations the Company performs on its customers and its ongoing monitoring processes of outstanding balances. Besides, Deswell performs the related credit assessment of the consumer financing receivables recorded in the Company's consolidated balance sheets.

Concentrations of Suppliers — For the years ended March 31, 2023, 2024 and 2025, the Company had no single suppliers contributed over 10% of total purchase.

Country risk — The Company has significant investments in the PRC. The operating results of the Company may be adversely affected by changes in the political and social conditions in the PRC, and by changes in Chinese government policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods taxation, among other things. There can be no assurance, however, those changes in political and other conditions will not result in any adverse impact.

Investment price risk — The Company is exposed to equity price risk on marketable securities. The Company's marketable securities are investment listed on the Stock Exchange of Hong Kong. Decisions to buy and sell securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Company's liquidity needs. The Company believes the exposure to investment price risk from the Company's investment activities is acceptable in the Company's circumstances.

16. Segment Information

Segment information is prepared on the same basis that our CEO, who is our Chief Operating Decision Maker ("CODM"), manages the segments, evaluates financial results, and makes key operating decisions. The CODM evaluates the performance of its operating segments based on net revenues, operating income and income before taxes. The accounting policies of the operating segments are the same as those described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

The Company has two reportable segments: plastic injection molding and electronic products assembling. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

16. Segment Information (cont.)

Contributions of the major activities, profitability information and asset information of the Company's reportable segments for the years ended March 31, 2023, 2024 and 2025 are as follows:

	Year ended March 31,		
	2023	2024	2025
Net sales			
Injection molded plastic parts	15,617	12,391	11,206
Electronic products	61,720	56,977	56,404
Total net sales	<u>\$ 77,337</u>	<u>\$ 69,368</u>	<u>\$ 67,610</u>
Cost of sales, operating expenses and other income			
Injection molded plastic parts	17,537	13,262	12,516
Electronic products	55,501	51,059	50,432
Corporate expenses	1,412	1,262	1,348
Total cost of sales, operating expenses and other income . .	<u>\$ 74,450</u>	<u>\$ 65,583</u>	<u>\$ 64,296</u>
Operating income (loss)			
Injection molded plastic parts	(1,920)	(871)	(1,310)
Electronic products	6,219	5,918	5,972
Corporate expenses	(1,412)	(1,262)	(1,348)
Total operating income	<u>\$ 2,887</u>	<u>\$ 3,785</u>	<u>\$ 3,314</u>
Income (loss) before income taxes			
Injection molded plastic parts	(2,423)	2,308	5,024
Electronic products	6,149	6,773	7,624
Corporate expenses	(1,412)	(1,262)	(1,348)
Total income before taxes	<u>\$ 2,314</u>	<u>\$ 7,819</u>	<u>\$ 11,300</u>

	Year ended March 31,					
	2023		2024		2025	
	Interest income from bank deposits	Interest expenses	Interest income from bank deposits	Interest expenses	Interest income from bank deposits	Interest expenses
Segment:						
Injection molded plastic parts	\$ 255	\$ —	\$ 423	\$ —	\$ 584	\$ —
Electronic products	27	—	246	—	468	—
Consolidated total	<u>\$ 282</u>	<u>\$ —</u>	<u>\$ 669</u>	<u>\$ —</u>	<u>\$ 1,052</u>	<u>\$ —</u>

	Year ended March 31,								
	2023			2024			2025		
	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization
Segment:									
Injection molded plastic parts	\$ 68,025	\$ 166	\$ 1,279	\$ 62,760	\$ 26	\$ 1,048	\$ 72,144	\$ 163	\$ 1,009
Electronic products	42,354	626	430	48,316	355	475	48,064	169	510
Consolidated totals	<u>\$ 110,379</u>	<u>\$ 792</u>	<u>\$ 1,709</u>	<u>\$ 111,076</u>	<u>\$ 381</u>	<u>\$ 1,523</u>	<u>\$ 120,208</u>	<u>\$ 332</u>	<u>\$ 1,519</u>

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

16. Segment Information (cont.)

The breakdown of sales by destination is analyzed as follows:

	Year ended March 31,		
	2023	2024	2025
Net sales			
United States of America	\$ 12,169	\$ 7,925	\$ 6,081
PRC	27,740	22,121	22,448
United Kingdom	9,108	11,985	10,917
Hong Kong	6,470	8,225	6,908
Europe	13,290	10,016	12,546
Canada	4,699	2,988	3,882
Others	3,861	6,108	4,828
Total net sales	<u>\$ 77,337</u>	<u>\$ 69,368</u>	<u>\$ 67,610</u>

The location of the Company's long-lived assets is as follows:

	March 31,	
	2024	2025
Hong Kong and Macao	\$ 4	\$ 2
PRC	24,599	23,383
Total long-lived assets	<u>\$ 24,603</u>	<u>\$ 23,385</u>

17. Condensed Financial Information of Deswell Industries, Inc.

The condensed financial statements for parent company only, have been prepared in accordance with accounting principles generally accepted in the United States of America. Under the PRC laws and regulations, Deswell Industries, Inc.'s PRC subsidiaries are restricted in their ability to transfer certain of their net assets to Deswell Industries, Inc. in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital and statutory reserves, as determined pursuant to PRC generally accepted accounting principles, totaling \$52,697 (equivalent to RMB376 million) and \$51,984 (equivalent to RMB376 million) as of March 31, 2024 and 2025, respectively.

Balance sheets

	March 31,	
	2024	2025
Assets		
Current assets:		
Cash and cash equivalents	\$ 204	\$ 212
Prepaid expenses and other current assets	47	50
Amounts due from subsidiaries	7,976	7,016
Total current assets	<u>8,227</u>	<u>7,278</u>
Investments in subsidiaries	87,195	95,861
Total assets	<u>\$ 95,422</u>	<u>\$ 103,139</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accrued payroll and employee benefits	\$ 1,013	\$ 1,013
Other accrued liabilities	239	6
Total current liabilities	<u>1,252</u>	<u>1,019</u>
Total shareholders' equity	94,170	102,120
Total liabilities and shareholders' equity	<u>\$ 95,422</u>	<u>\$ 103,139</u>

DESWELL INDUSTRIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except share and per share data, unless otherwise stated)

17. Condensed Financial Information of Deswell Industries, Inc. (cont.)

Statements of comprehensive income

	Year ended March 31,		
	2023	2024	2025
Equity in earnings of subsidiaries	\$ 2,488	\$ 8,229	\$ 11,854
Operating expenses	429	520	716
Income before income taxes	2,059	7,709	11,138
Income taxes	—	—	—
Net income	2,059	7,709	11,138
Share of other comprehensive income of subsidiaries	—	—	—
Total comprehensive income	<u>\$ 2,059</u>	<u>\$ 7,709</u>	<u>\$ 11,138</u>

Statements of cash flows

	Year ended March 31,		
	2023	2024	2025
Cash flows from operating activities			
Net income	\$ 2,059	\$ 7,709	\$ 11,138
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings of subsidiaries	(2,488)	(8,229)	(11,854)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	—	(2)	(3)
Amounts due from subsidiaries	4,305	252	960
Other accrued liabilities	3	(444)	(233)
Net cash provided by (used in) operating activities	<u>3,879</u>	<u>(714)</u>	<u>8</u>
Cash flows from investing activities			
Dividends received from subsidiary	—	3,188	3,188
Net cash provided by investing activities	<u>—</u>	<u>3,188</u>	<u>3,188</u>
Cash flows from financing activities			
Dividends paid	(3,188)	(3,188)	(3,188)
Net cash used in financing activities	<u>(3,188)</u>	<u>(3,188)</u>	<u>(3,188)</u>
Net increase (decrease) in cash and cash equivalents	691	(714)	8
Cash and cash equivalents, beginning of year	227	918	204
Cash and cash equivalents, end of year	<u>\$ 918</u>	<u>\$ 204</u>	<u>\$ 212</u>

Basis of presentation

In Deswell Industries, Inc.-only financial statements, Deswell Industries, Inc.'s investments in subsidiaries are stated at cost plus its equity interest in undistributed earnings of subsidiaries since inception. Accordingly, such financial statements should be read in conjunction with the Company's consolidated financial statements.

Deswell Industries, Inc. records its investments in its subsidiaries under the equity method of accounting as prescribed in ASC 323 "Investment-Equity Method and Joint Ventures". Such investment is presented on the balance sheets as "Investments in subsidiaries" and share of the subsidiaries' profit or loss as "Equity in earnings (loss) of subsidiaries", on the statements of comprehensive income.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted.

ITEM 19. EXHIBITS

The following documents are filed as exhibits herewith:

<u>Exhibit No.</u>	<u>Description</u>
1.1	Memorandum and Articles of Association (as amended and restated on 13 th December, 2007) (incorporated by reference to Exhibit 1.1 to registrant's Registration Statement on Form 8-A filed with the SEC on December 31, 2007).
1.2	Amendment to Regulation 6.15 of registrant's Articles of Association as filed with the Registrar of Corporate Affairs of the British Virgin Islands on March 26, 2010 (incorporated by reference to Exhibit 1.2 to registrant's Amendment No. 1 to Registration Statement on Form 8 A filed with the SEC on March 31, 2010).
2.1	Form of common share certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to Deswell's Registration Statement on Form F-1 filed with the SEC on July 13, 1995).
2.2	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934
4.1	2001 Stock Option Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement for its 2001 Annual Meeting of Stockholders filed with the SEC under cover of Form 6 K on December 12, 2001.)
4.2	2003 Stock Option Plan of Deswell Industries, Inc. (as adopted August 20, 2003 and amended August 1, 2005, August 17, 2007 and August 13, 2010) (incorporated by reference to Annex A to the Company's Proxy Statement furnished to the SEC on Form 6 K on August 16, 2010).
8.1	Diagram of the Company's operating subsidiaries and affiliates – (see page 2 of this Report)
11.1	Code of Ethics (incorporated by reference to Exhibit 11.1 of registrant's Form 20-F for the year ended March 31, 2004, filed with the SEC on July 16, 2004)
11.2	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11.2 of registrant's Form 20-F for the year ended March 31, 2024, filed with the SEC on August 9, 2024)
12.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934
12.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934
13.1	Certification Pursuant To 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002
15.1	Consent of BDO China Shu Lun Pan Certified Public Accountants LLP to incorporation of its report on the Company's consolidated financial statements into Registrant's Registration Statements on Form S-8.
97.1	Compensation Recovery Policy.
101*	Financial information from registrant for the year ended March 31, 2025 formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets as of March 31, 2024 and 2025; (b) Consolidated Statements of Comprehensive Income for the Years Ended March 31, 2023, 2024 and 2025; (c) Consolidated Statements of Shareholders Equity for the Years Ended March 31, 2023, 2024 and 2025; (d) Consolidated Statements of Cash Flows for the Years Ended March 31, 2023, 2024 and 2025; and (e) Notes to Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

DESWELL INDUSTRIES, INC.

By: /s/ Edward So Kin Chung
Edward So Kin Chung,
Chief Executive Officer

Date: July 29, 2025

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO
SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

As of March 31, 2025, Deswell Industries, Inc. (“Deswell,” “Company,” “our,” “we”) has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common shares.

The general terms and provisions of the Company’s common shares are summarized below. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, provisions in the Company’s Amended and Restated Memorandum and Articles of Association, dated December 13, 2007, as amended effective March 25, 2010 (collectively, the “Charter”), each of which is filed as an exhibit to this Form 20-F of which this Exhibit is a part, and the applicable provisions of the BVI Business Companies Act, 2004 (“BVI BC”). The Company encourages you to read the Company’s Charter and the applicable provisions of the BVI BC for additional information.

Authorized Shares

Deswell has one class and series of shares authorized or outstanding: common shares, no par value per share. Our authorized capital consists of 30,000,000 common shares, no par value per share, of which 15,935,239 common shares were outstanding on June 30, 2025. Under the Charter, Deswell shall only issue registered shares and is not authorized to issue bearer shares.

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 under British Virgin Islands (“BVI”) law. All of our common shares are equal to each other with respect to dividends.

Voting Rights

Holders of our common shares (a) are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors, and (b) do not have cumulative voting rights in the election of directors.

Preemptive Rights

Holders of our common shares have no preemptive rights to purchase any additional, unissued common shares.

Redemption Provisions

Under the Charter, we may purchase, redeem or otherwise acquire and hold our common shares with the consent of the Shareholders whose common shares are to be purchased, redeemed or otherwise acquired unless otherwise permitted by the BVI BC or other provisions of the Charter. We may only offer to purchase, redeem or otherwise acquire our common shares if the resolution of directors authorizing the purchase, redemption or other acquisition contains a statement that the directors are satisfied, on reasonable grounds, that immediately after the acquisition the value of the Company’s assets will exceed its liabilities and the Company will be able to pay its debts as they fall due.

Transfer Rights

Transfers of our common shares and matters incidental thereto are governed by the provision of Regulation 5 of Articles of Association. Our common shares may be transferred by a written instrument of transfer signed by the transferor and containing the name and address of the transferee and such other information, if any, as may be required by the Company’s transfer agent, which shall be sent to the Company or its transfer agent for registration. The transfer of a common share is effective when the name of the transferee is entered on the register of members. Subject to the Charter and to any rules and regulations of the Company’s transfer agent with respect thereto, the personal representative of a deceased shareholder may transfer a common share even though the personal representative is not a shareholder at the time of the transfer.

Rights on Liquidation

All of our common shares are equal to each other with respect to liquidation. In the event our liquidation, all assets available for distribution to the holders of our common shares are distributable among them according to their respective holdings.

Actions Required to Change Rights of Shareholders

Pursuant to our Charter and pursuant to the laws of the BVI, our board of directors by resolution of directors without shareholder approval may amend our Charter, which could have the effect of changing the rights of shareholders, provided that a majority of our independent directors do not vote against the amendment and provided further that our directors may not make an amendment:

- (a) to restrict the rights or powers of the shareholders to amend the Memorandum or the Articles;
- (b) to change the percentage of shareholders required to pass a Resolution of Shareholders to amend the Memorandum or the Articles;
- (c) where the Memorandum or the Articles cannot be amended by the Shareholders;
- (d) change Clause 7 of our Articles of Association conferring the rights of our shareholders to one vote per share, the right to equal share in dividend paid by the company, or to surplus assets on liquidation; or
- (e) change Clause 9 of our Articles of Association which sets forth rights of our shareholders and directors to amend our Memorandum and Articles of Association.

Limitation on Share Ownership

BVI law and our Charter do not impose any limitations on the right of anyone to own, hold or exercise voting rights to our common shares.

Potential Anti-Takeover Deterrence

Our Charter does not contain provisions that would have an effect of delaying, deferring or preventing a change in control of Deswell and that would operate only with respect to a merger, acquisition or corporate restructuring involving Deswell or any of its subsidiaries. Our directors' ability to amend our Charter, without shareholder approval in certain circumstances, could have the effect of delaying, deterring or preventing a change in control of Deswell, including a tender offer to purchase our common shares at a premium over the then current market price.

Ownership Information

Our Charter does not provide that information about our shareholders, even those owning significant percentages of our shares, must be disclosed publicly.

Differences from United States Law

The laws of the BVI governing the provisions of our Charter discussed above are not significantly different than the laws governing similar provisions in the charter documents of Delaware companies, other than with respect to amending our Charter without shareholder approval and with respect to potential anti-takeover deterrence. Delaware law requires shareholders to approve amendments to a corporation's Certificate of Incorporation, with limited exceptions, and contains provisions restricting the rights of a Delaware corporation with a class of voting stock listed on a national exchange or held of record by more than 2,000 stockholders to engage in a business combination with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder unless the business combination is approved in the manner prescribed under Delaware law.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13A-14(A)
OR RULE 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, EDWARD SO KIN CHUNG, certify that:

1. I have reviewed this Annual Report on Form 20-F of Deswell Industries, Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: July 29, 2025

/s/ Edward So Kin Chung

Edward So Kin Chung,
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER REQUIRED BY RULE 13A-14(A)
OR RULE 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, HERMAN WONG, certify that:

1. I have reviewed this Annual Report on Form 20-F of Deswell Industries, Inc. (the “Company”)
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: July 29, 2025

/s/ Herman Wong
Herman Wong,
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Deswell Industries, Inc. (the “Company”) on Form 20-F for the year ended March 31, 2025 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of our knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 29, 2025

/s/ Edward So Kin Chung

Edward So Kin Chung,
Chief Executive Officer

Date: July 29, 2025

/s/ Herman Wong

Herman Wong
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deswell Industries, Inc.

Tortola, British Virgin Islands

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-110236, 333-130738, 333-147790, 333-171314, and 333-199739) of Deswell Industries, Inc. and its subsidiaries (the “Company”) of our report dated July 29, 2025, relating to the consolidated financial statements, which appear in the Company’s Annual Report on Form 20-F for the year ended March 31, 2025.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

Shenzhen, People’s Republic of China

July 29, 2025

DESWELL INDUSTRIES, INC.
COMPENSATION RECOVERY POLICY
(Adopted and Approved on October 2, 2023)

1. Purpose. Deswell Industries, Inc. (the “Company”) has adopted this Compensation Recovery Policy (“Policy”) to comply with Section 10D of the Securities Exchange Act of 1934, as amended (“Exchange Act”) and Rule 10D-1 of the Exchange Act, which require the recovery of certain Incentive-Based Compensation erroneously awarded to a Covered Executive.

2. Administration of Policy. This Policy shall be administered by the Board of Directors of the Company (the “Board”). The Board will, subject to the provisions of this Policy, Rule 10D-1 of the Exchange Act, and the Company’s applicable exchange listing standards, make such determinations and interpretations and take such actions in connection with this Policy as it deems necessary, appropriate or advisable. All determinations and interpretations made by the Board will be final, binding and conclusive. Capitalized terms used in this Policy that are not otherwise defined shall have the meanings set forth in Section 8 of this Policy.

3. Recovery of Certain Incentive-Based Compensation. In the event the Company is required to prepare a Restatement, the Company shall recover, reasonably promptly, all Recoverable Incentive-Based Compensation from Covered Executives. The Board shall determine, in its sole discretion, the method of recovering any Recoverable Incentive-Based Compensation under this Policy. Notwithstanding the foregoing, if the Company is required to prepare a Restatement, the Company will not be required to recover the Recoverable Incentive-Based Compensation Received by a Covered Executive if a majority of the independent directors serving on the Board has made a determination that recovery would be impracticable and one of the following conditions is met:

a. the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered and the Company (i) has made a reasonable attempt to recover the Recoverable Incentive-Based Compensation, (ii) has documented such reasonable attempt(s) to recover, and (iii) has provided such documentation to the Company’s applicable listing exchange;

b. the recovery would violate the home country law of the jurisdiction of incorporation of the Company where that law was adopted prior to November 28, 2022 and the Company provides the Company’s applicable listing exchange with an opinion of home country counsel, acceptable to such listing exchange, that recovery would result in such a violation; or

c. the recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

4. No Indemnification or Reimbursement. Notwithstanding the terms of any other policy, program, agreement or arrangement, in no event will the Company indemnify or reimburse any current or former Covered Executive for any loss of Recoverable Incentive-Based Compensation under this Policy, and the Company shall not pay or reimburse any Covered Executive for premiums on any insurance policy to fund such Covered Executive’s potential recovery obligations under this Policy.

5. Notice. Before the Board determines to seek recovery pursuant to this Policy, it shall provide the Covered Executive with written notice and the opportunity to be heard at a meeting of the Board (either in person or via telephone).

6. Amendment and Interpretation. The Board may amend this Policy from time to time in its sole discretion, and shall amend this Policy as it deems necessary to reflect the regulations adopted by the Securities and Exchange Commission and to comply with any rules or standards adopted by a national securities exchange on which the Company’s securities are then listed. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the Securities and Exchange Commission and any national securities exchange on which the Company’s securities are then listed.

7. Acknowledgement by Covered Executives; Condition to Eligibility for Incentive-Based Compensation. The Company will provide notice and seek acknowledgement of this Policy from each Covered Executive, provided that the failure to provide such notice or obtain such acknowledgement will have no impact

on the applicability or enforceability of this Policy. The Company must be in receipt of a Covered Executive's acknowledgement as a condition to such Covered Person's eligibility to receive Incentive-Based Compensation after October 2, 2023.

8. Definitions. Unless the context otherwise requires, the following definitions apply for purposes of this Policy:

a. "Covered Executive" means any person who is, or was at any time, during the Relevant Period, an Executive Officer of the Company. For the avoidance of doubt, a Covered Person may include a former Executive Officer that left the Company, retired, or transitioned to an employee role (including after serving as an Executive Officer in an interim capacity) during the Relevant Period.

b. "Executive Officer" means the Company's president, principal executive officer, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (including an officer of the Company's parent(s) or subsidiaries) who performs similar policy-making functions for the Company.

c. "Incentive-Based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

d. "Financial Reporting Measure" means any measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return are each a Financial Reporting Measure.

e. "Received" Incentive-Based Compensation is deemed "Received" in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

f. "Recoverable Incentive-Based Compensation" means the amount of Incentive-Based Compensation Received by a Covered Executive on or after October 2, 2023 that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received by such Covered Executive had it been determined based on the amounts in the Restatement, in each case calculated without regard to any taxes paid; provided, however, for Incentive-Based Compensation based on stock price or total shareholder return, where the Recoverable Incentive-Based Compensation is not subject to mathematical recalculation directly from the information in an applicable Restatement, (i) the Recoverable Incentive-Based Compensation must be based on a reasonable estimate of the effect of the applicable Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received, and (ii) the Company must maintain documentation of the determination of such reasonable estimate and provide such documentation to the Company's applicable listing exchange.

For the avoidance of doubt "Recoverable Incentive-Based Compensation" does not include any Incentive-Based Compensation Received by a person (i) before such person began service in a position or capacity meeting the definition of an Executive Officer, (ii) who did not serve as an Executive Officer at any time during the performance period for that Incentive-Based Compensation, or (iii) during any period the Company did not have a class of its securities listed on a national securities exchange or a national securities association.

g. "Relevant Period" means the three completed fiscal years of the Company immediately preceding the earlier of (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes (or reasonably should have concluded) that a Restatement is required, or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare a Restatement. The "Relevant Period" also includes any transition period (that results from a change in the Company's fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence.

h. "Restatement" means an accounting restatement of the Company's financial statements due to the material noncompliance of the Company with any financial reporting requirement under U.S. securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

**DESWELL INDUSTRIES, INC.
COMPENSATION RECOVERY POLICY
CERTIFICATION**

I have received a copy of and read the Compensation Recovery Policy (the "Policy") of Deswell Industries, Inc. (together with its subsidiaries, the "Company"). I understand and agree to the terms and conditions set forth in the Policy. I further agree that the terms and conditions of the Policy shall amend or supplement the terms of any award, grant or other agreement with the Company related to Incentive-Based Compensation subject to the Policy, and if any terms or conditions of such award, grant or agreement conflict with the terms or conditions of the Policy, then the terms and condition of the Policy shall control.

Signature: _____
Print Name: _____
Date: _____