

Deswell Announces Second Half 2018 Results

- Company Announces Second Half Cash Dividend of 0.04 Per Share -

FOR IMMEDIATE RELEASE

MACAO (June 12, 2018) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the second half of the fiscal year ended March 31, 2018.

Net sales for the six months ended March 31, 2018 were \$30.9 million, an increase of 29.4% compared to net sales of \$23.9 million for the six months ended March 31, 2017. Net sales increased by 13.7% to \$14.4 million in the plastic segment and increased by 47.2% to \$16.5 million in the Company's electronic segment.

Total gross margin decreased to 12.6% during the six months ended March 31, 2018, as compared to 18.9% in the same period last year. Gross profit margin in the plastic segment decreased to 14.7% of net sales for the second half of fiscal 2018, as compared to 24.4% of net sales for the corresponding period of last fiscal year. The decrease in gross profit and margin in the plastic segment was mainly due to the appreciation of Renminbi and the increase in raw materials cost, offsetting a slight decrease in factory overhead, as a percentage of sales. Gross profit for the electronic segment for the six months ended March 31, 2018 decreased from 12.6% in second half of fiscal 2017 to 10.8% in the second half of fiscal 2018. The decrease was mainly due to the appreciation of Renminbi and increased raw materials costs.

Operating income for the second half of fiscal 2018 was \$0.2 million, as compared to an operating loss of \$0.3 million for the same period of fiscal 2017.

The Company reported net income of \$2.5 million for the six months ended March 31, 2018, as compared to a net income of \$0.7 million for the six months ended March 31, 2017. Non-operating income for the six months ended March 31, 2018 was \$2.3 million, as compared to non-operating income of \$1.1 million in the year-ago six months. Non-operating income during the six months ended March 31, 2018 was primarily comprised of \$630,000 from rental income, \$459,000 of dividend income from securities investment, \$133,000 from interest income, \$865,000 from change in the fair value of marketable securities, as well as \$268,000 of realized gain from sale of marketable securities. Deswell reported basic and diluted income per share of \$0.16 for the second half of fiscal 2018 (based on 15,885,000 and 15,953,000 weighted average shares outstanding, respectively), as compared to basic and diluted income share of \$0.04 (based on 16,013,000 weighted average shares outstanding), for the six months ended March 31, 2017.

Net sales for the year ended March 31, 2018 were \$60.7 million, an increase of 36.3% compared to net sales of \$44.5 million for fiscal 2017. Operating income for the year ended March 31, 2018 increased to \$1.8 million, as compared to operating loss of \$2.1 million for fiscal 2017. The Company reported net income of \$6.2 million in fiscal 2018, as compared to net income of \$1.4 million for the year ended March 31, 2017. Deswell reported basic and diluted net income per share of \$0.39 for fiscal 2018, (based on 15,885,000 and 15,985,000 weighted average share outstanding, respectively), as compared to basic and diluted income per share of \$0.09 (based on 16,035,000 weighted average shares outstanding), for the prior fiscal year.

The Company's financial position remained strong, with \$15.2 million in cash and cash equivalents and working capital totaled \$49.8 million as of March 31, 2018. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2018.

Mr. Edward So, Chief Executive Officer, commented, "During the second half of 2018, we experienced strong revenue growth in both our plastic and electronic segments. In addition to our core audio customers, we saw increased business in new end markets such as kitchen appliances and gardening equipment. Gross margins were negatively impacted by currency, but we continue to focus on cost control and maintained our selling, general and administrative expenses consistent with the prior year period resulting in a positive operating income. Other income grew considerably, benefiting from rental income as well as to investment returns from marketable securities, helping to drive considerable net income growth for the period."

Second Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.04 per share for the second half of the fiscal year ended March 31, 2018. The dividend will be payable on July 12, 2018 to shareholders of record as of June 26, 2018.

Dividends to be declared in the future 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.

About Deswell

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

To learn more about Deswell Industries, Inc., please visit the Company's website at www.deswell.com.

Forward-Looking Statements

Statements in this press release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. For example, our statements regarding our expected growth in sales from the electronic division in the coming year and our efforts to reduce overhead costs in our plastic division are forward-looking statements. Actual results could differ materially because of the following factors, among others, which may cause revenues and income to fall short of anticipated levels or our overhead expenses to increase: our dependence on a few major customers; vigorous competition forcing product price reductions or discounts; the timing and amount of significant orders from our relatively few significant customers; continuing increases in resin prices that cannot be passed on to customers; unexpected production delays; obsolete inventory or product returns; losses resulting from fraudulent activity of our customers or employees; labor shortages that increase labor and costs; changes in the mix of product products we manufacture and sell; adverse currency fluctuations in the Renminbi and Hong Kong dollar when translated to US dollars; potential new accounting pronouncements; and the effects of travel restrictions and quarantines associated with major health problems, such as the Severe Acute Respiratory Syndrome, on general economic activity.

For further information regarding risks and uncertainties associated with the Company's business, please refer to the "Risk Factors" section of Company's Annual Report on Form 20-F, copies of which may be obtained from the Website maintained by the Securities and Exchange Commission at <http://www.sec.gov>.

All information in this release is made as of the date of this press release. Deswell undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in Deswell's expectations.

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

	March 31, <u>2018</u> (Unaudited)	March 31, <u>2017</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 15,192	\$ 8,078
Fixed deposits maturing over three months	2,190	5,422
Time deposits maturing over twelve months	3,129	-
Marketable securities (note 2)	17,282	16,327
Accounts receivable, net	15,912	13,159
Inventories (note 3)	12,933	10,688
Prepaid expenses and other current assets	<u>2,267</u>	<u>2,419</u>
Total current assets	68,905	56,093
Property, plant and equipment - net	31,494	31,992
Time deposits maturing over twelve months	<u>-</u>	<u>2,902</u>
Total assets	<u>\$ 100,399</u>	<u>\$ 90,987</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 8,596	\$ 5,152
Accrued payroll and employee benefits	5,566	4,643
Customer deposits	1,707	2,152
Other accrued liabilities	1,873	1,474
Income taxes payable	603	476
Deferred income tax liabilities	<u>775</u>	<u>889</u>
Total current liabilities	<u>19,120</u>	<u>14,786</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, 17,031,810 shares issued as of March 31, 2018 and 2017; 15,885,239 shares outstanding as of March 31, 2018 and 2017	53,063	53,063
Treasury stock at cost; 1,146,571 shares as of March 31, 2018 and 2017	(2,821)	(2,821)
Additional paid-in capital	8,005	8,005
Accumulated other comprehensive income	5,316	5,316
Retained earnings	<u>17,716</u>	<u>12,638</u>
Total shareholders' equity	<u>81,279</u>	<u>76,201</u>
Total liabilities and shareholders' equity	<u>\$ 100,399</u>	<u>\$ 90,987</u>

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(U.S. dollars in thousands, except per share data)

	Six months ended		Year ended	
	March 31,		March 31,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net sales	\$ 30,908	\$ 23,888	\$ 60,667	\$ 44,522
Cost of sales	<u>27,015</u>	<u>19,385</u>	<u>50,953</u>	<u>37,073</u>
Gross profit	3,893	4,503	9,714	7,449
Selling, general and administrative expenses	4,372	4,329	8,806	8,856
Other income (expense), net	<u>696</u>	<u>(457)</u>	<u>894</u>	<u>(696)</u>
Operating income (loss)	217	(283)	1,802	(2,103)
Non-operating income, net (note 3)	<u>2,265</u>	<u>1,073</u>	<u>4,395</u>	<u>3,688</u>
Income before income taxes	2,482	790	6,197	1,585
Income taxes	<u>(39)</u>	<u>123</u>	<u>7</u>	<u>209</u>
Net income attributable to Deswell Industries, Inc.	\$ 2,521	\$ 667	\$ 6,190	\$ 1,376
Other comprehensive income (loss)				
Unrealized loss on available-for-sale securities	\$ -	\$ -	\$ -	\$ (3)
Reclassification adjustment in connection with loss on disposal of available-for-sale securities transferred to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 2,521</u>	<u>\$ 667</u>	<u>\$ 6,190</u>	<u>\$ 1,387</u>
Net income per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net income per share	<u>\$ 0.16</u>	<u>\$ 0.04</u>	<u>\$ 0.39</u>	<u>\$ 0.09</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,885</u>	<u>16,013</u>	<u>15,885</u>	<u>16,035</u>
Diluted:				
Net income (loss) per share	<u>\$ 0.16</u>	<u>\$ 0.04</u>	<u>\$ 0.39</u>	<u>\$ 0.09</u>
Weighted average number of shares outstanding (in thousands)	<u>15,953</u>	<u>16,013</u>	<u>15,985</u>	<u>16,035</u>

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

	Year ended March 31, <u>2018</u>	Year ended March 31, <u>2017</u>
Cash flows from operating activities :		
Net income	\$ 6,190	\$ 1,376
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,138	2,135
Provision for doubtful accounts	(674)	371
Additional charges (usage) of inventories, net	296	(65)
Loss on disposal of property, plant and equipment	61	162
Unrealized holding gain on marketable securities	(1,401)	(1,999)
Gain on sales of marketable securities	(609)	(69)
Loss on disposal of available-for-sale securities	-	14
Scrip dividend received	(168)	-
Deferred tax	(114)	64
Changes in operating assets and liabilities :		
Accounts receivable	(2,079)	(4,322)
Inventories	(2,541)	(2,509)
Prepaid expenses and other current assets	152	(761)
Accounts payable	3,444	2,924
Accrued payroll and employee benefits	923	608
Customer deposits	(445)	729
Other accrued liabilities	399	185
Income taxes payable	127	75
Net cash provided by (used in) operating activities	<u>5,699</u>	<u>(1,082)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,707)	(2,152)
Proceeds from sale of property, plant and equipment, net of transaction costs	6	993
Purchase of marketable securities	(5,357)	(3,159)
Proceeds from sales of marketable securities	6,580	920
Proceeds from disposal of available-for-sale securities	-	1,600
Increase in fixed deposits maturing over three months	3,232	(146)
(Increase in) decrease in fixed deposits maturing over twelve months	(227)	1,664
Net cash from (used in) investing activities	<u>2,527</u>	<u>(280)</u>
Cash flows from financing activities		
Dividends paid	(1,112)	(2,248)
Repurchase of common stock	-	(308)
Net cash used in financing activities	<u>(1,112)</u>	<u>(2,556)</u>
Net increase (decrease) in cash and cash equivalents	7,114	(3,918)
Cash and cash equivalents, at beginning of year	<u>8,078</u>	<u>11,996</u>
Cash and cash equivalents, at end of year	<u>15,192</u>	<u>8,078</u>
Supplementary disclosures of cashflow information:		
Cash paid during the period for:		
Interest	-	-
Income taxes	85	21