

## Deswell Announces First Quarter 2016 Results

### - Company Announces First Quarter Cash Dividend of \$0.035 Per Share -

#### **FOR IMMEDIATE RELEASE**

MACAO (September 4, 2015) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal first quarter ended June 30, 2015.

Net sales for the first quarter ended June 30, 2015 were \$11.3 million, an increase of 26.3% compared to net sales of \$8.9 million for the same quarter ended June 30, 2014. Net sales increased by 0.8% to \$4.5 million in the Company's plastic segment and increased by 52.0% to \$6.8 million in the electronic segment. The operating loss in the first quarter was \$1.7 million, compared to an operating loss of \$0.8 million for the same quarter of fiscal 2015.

Total gross margin decreased to 6.8% in the first quarter ended June 30, 2015 compared to 9.7% in the same quarter last year. Gross profit margin in the plastic segment decreased to 8.2% of net sales for the first quarter of fiscal 2016 compared to 14.7% of net sales for the same quarter of last fiscal year. The decrease in gross profit and margin in the plastic segment was mainly due to increases in raw materials and labor costs and subcontracting charges, offsetting a decrease in depreciation expense as a percentage of sales. The gross profit margin in the electronic segment increased slightly to 5.8% of net sales for the first quarter ended June 30, 2015 compared to 4.7% of net sales for the year-ago quarter. The improvement in gross loss and margin in the electronic segment was mainly attributed to the slight improvement of gross margin on certain products and decreases in factory overheads, offsetting an increase in raw materials cost as a percentage of sales.

The Company reported a net loss of \$1.1 million for the first quarter ended June 30, 2015 compared to net income of \$0.01 million for the quarter ended June 30, 2014. Deswell reported basic and diluted loss per share of (\$0.07) for the first quarter of fiscal 2016 (based on 16,056, weighted average shares outstanding), compared to basic and diluted income per share of \$0.00 (based on 16,257,000 weighted average shares outstanding), for the quarter ended June 30, 2014.

The Company's balance sheet remained strong at the end of the first quarter of fiscal 2016, with \$9.3 million in cash and cash equivalents and working capital of \$44.9 million at June 30, 2015. Furthermore, the Company has no long-term or short-term borrowings as of June 30, 2015.

Mr. Edward So, Chief Executive Officer, commented, "We're very pleased to have achieved a solid increase in sales during the quarter, driven by significant growth in revenues from our electronics segment. Our sales team has focused its efforts on developing new customer relationships and on finding opportunities for us to work with existing customers on new projects. Additionally, we are intent on controlling costs and are pleased to have delivered a reduction in SG&A as a percentage of sales during the first quarter."

#### **First Quarter Dividends**

The Company also announced that on September 4, 2015 its board of directors declared a cash dividend of \$0.035 per share for the fiscal first quarter ended June 30, 2015. The dividend will be payable on October 7, 2015 to shareholders of record as of September 17, 2015.

#### **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. The Company's customers include Vtech Telecommunications Ltd. and Lenbrook Industries, Ltd.

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

	June 30, <u>2015</u> (Unaudited)	March 31, <u>2015</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 9,347	\$ 14,325
Fixed deposits maturing over three months	11,769	9,911
Marketable securities (note 2)	11,106	9,803
Available-for-sale securities (note 2)	1,656	1,676
Accounts receivable, net	12,204	9,577
Inventories (note 4)	10,987	10,828
Prepaid expenses and other current assets	2,266	2,120
Total current assets	<u>59,335</u>	<u>8,240</u>
Property, plant and equipment - net	35,845	6,598
Time depositis maturing over twelve months	1,601	1,601
Total assets	<u>\$ 96,781</u>	<u>\$ 96,439</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,852	\$ 3,348
Accrued payroll and employee benefits	4,449	4,228
Customer deposits	2,123	2,450
Other accrued liabilities	1,201	1,201
Income taxes payable	365	345
Deferred income tax liabilities	845	804
Dividend payable	562	-
Total current liabilities	<u>14,397</u>	<u>12,376</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of June 30, 2015 and		
March 31, 2015 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,492	5,492
Accumulated other comprehensive income	5,358	5,378
Retained earnings	<u>18,471</u>	<u>20,130</u>
Total shareholders' equity	<u>82,384</u>	<u>84,063</u>
Total liabilities and shareholders' equity	<u>\$ 96,781</u>	<u>\$ 96,439</u>

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

	Quarter ended June 30, <u>2015</u>	Quarter ended June 30, <u>2014</u>
Net sales	\$ 11,273	\$ 8,924
Cost of sales	<u>10,508</u>	<u>8,059</u>
Gross profit	765	865
Selling, general and administrative expenses	2,234	1,953
Other income (expense), net	<u>(184)</u>	<u>275</u>
Operating loss	(1,653)	(813)
Non-operating income , net	<u>624</u>	<u>888</u>
Income (Loss) before income taxes	(1,029)	75
Income taxes	<u>68</u>	<u>61</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ (1,097)	\$ 14
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	\$ (20)	\$ 53
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ (1,117)</u>	<u>\$ 67</u>
Net income (loss) per share attributable to Deswell Industries, Inc. (note 5)		
Basic:		
Net income (loss) per share	<u>\$ (0.068)</u>	<u>\$ 0.001</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,056</u>	<u>16,257</u>
Diluted:		
Net income (loss) per share	<u>\$ (0.068)</u>	<u>\$ 0.001</u>
Weighted average number of shares outstanding (in thousands)	<u>16,056</u>	<u>16,257</u>