

Deswell Announces Fourth Quarter 2016 Results

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

FOR IMMEDIATE RELEASE

MACAO (June 24, 2016) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal fourth quarter ended March 31, 2016.

Net sales for the fourth quarter ended March 31, 2016 were \$8.4 million, an increase of 3.5% compared to net sales of \$8.1 million for the same quarter ended March 31, 2015. Net sales decreased by 9.7% to \$4.1 million in the Company's plastic segment and increased by 20.3% to \$4.3 million in the electronic segment. The operating loss in the fourth quarter was \$1.8 million, compared to an operating loss of \$0.7 million for the same quarter of fiscal 2015.

Total gross margin increased to 15.1% in the fourth quarter ended March 31, 2016 compared to 11.5% in the same quarter last year. Gross profit margin in the plastic segment increased to 25.6% of net sales for the fourth quarter of fiscal 2016 compared to 22.8% of net sales for the same quarter of last fiscal year. The increase in gross profit and margin in the plastic segment was mainly due to a decrease in factory overheads as a percentage of sales offsetting an increase in raw materials cost. The improvement in gross profit and margin in the electronic segment was mainly attributed to decreases in labor cost and factory overheads as a percentage of sales, offsetting an increase in raw materials cost.

The Company reported a net loss of \$1.2 million for the fourth quarter ended March 31, 2016 compared to a net income of \$0.01 million for the quarter ended March 31, 2015. Deswell reported basic and diluted loss per share of (\$0.072) for the fourth quarter of fiscal 2016 (based on 16,056,000 and 16,056,000 weighted average shares outstanding, respectively), compared to basic and diluted income per share of \$0.001 (based on 16,056,000 and 16,056,000 weighted average shares outstanding, respectively), for the quarter ended March 31, 2015.

Net sales for the year ended March 31, 2016 were \$44.6 million, an increase of 17.0%, compared to sales of \$38.1 million for the corresponding period in fiscal 2015. Operating loss for the year ended March 31, 2016 was \$5.3 million, compared to operating loss of \$5.1 million for fiscal 2015. The Company reported a net loss of \$4.9 million in fiscal 2016, compared to net loss of \$2.8 million for the year ended March 31, 2015. Deswell reported basic and diluted net loss per share of (\$0.31) for fiscal 2016, (based on 16,056,000 and 16,056,000 weighted average share outstanding, respectively), compared to basic and diluted loss per share of (\$0.17) (based on 16,056,000 and 16,056,000 weighted average shares outstanding, respectively), for the prior fiscal year.

The Company's balance sheet remained strong at the end of the fourth quarter of fiscal 2016, with \$12.0 million in cash and cash equivalents at March 31, 2016 compared to \$14.3 million at March 31, 2015. Working capital totaled \$39.9 million as of March 31, 2016, versus \$45.9 million as of March 31, 2015. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2016.

Mr. Edward So, Chief Executive Officer, commented, "During the fourth quarter we saw increased revenues, primarily driven by continued growth in our electronics division and we achieved enhanced margin performance in both our electronics and our plastics segments. We've increased our focus on the ODM business and have had success in identifying and capturing opportunities in adjacent markets. The marketplace remains challenging, particularly as product

life cycles continue to shorten and we're working closely with our customers and accelerating our R&D efforts to ensure that products are going to market as quickly as possible. Our balance sheet remains strong, providing a solid foundation for the continued growth of our business."

Fourth Quarter Dividends

The Company also announced that on June 24, 2016 its board of directors declared a cash dividend of \$0.035 per share for the fiscal fourth quarter ended March 31, 2016. The dividend will be payable on July 27, 2016 to shareholders of record as of July 7, 2016.

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>2016</u>	March 31, <u>2015</u>
ASSETS	(Unaudited)	(Audited)
Current assets :		
Cash and cash equivalents	\$ 11,996	\$ 14,325
Fixed deposits maturing over three months	5,276	9,911
Marketable securities (note 2)	12,020	9,803
Available-for-sale securities (note 2)	1,603	1,676
Accounts receivable, net	9,208	9,577
Inventories (note 4)	8,114	10,828
Prepaid expenses and other current assets	1,658	2,120
Assets held for sale	778	-
Total current assets	<u>50,653</u>	<u>58,240</u>
Property, plant and equipment - net	32,352	36,598
Time deposits maturing over twelve months	4,566	1,601
Total assets	<u>\$ 87,571</u>	<u>\$ 96,439</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,228	\$ 3,348
Accrued payroll and employee benefits	4,035	4,228
Customer deposits	1,423	2,450
Other accrued liabilities	1,289	1,201
Income taxes payable	401	345
Deferred income tax liabilities	825	804
Dividend payable	562	-
Total current liabilities	<u>10,763</u>	<u>12,376</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of March 31, 2016 and		
March 31, 2015 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,492	5,492
Accumulated other comprehensive income	5,305	5,378
Retained earnings	<u>12,948</u>	<u>20,130</u>
Total shareholders' equity	<u>76,808</u>	<u>84,063</u>
Total liabilities and shareholders' equity	<u>\$ 87,571</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		Year ended	
	March 31,		March 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net sales	\$ 8,410	\$ 8,126	\$ 44,568	\$ 38,077
Cost of sales	<u>7,137</u>	<u>7,192</u>	<u>39,775</u>	<u>34,641</u>
Gross profit	1,273	934	4,793	3,436
Selling, general and administrative expenses	2,468	2,140	9,119	9,203
Other income (expense), net	<u>(574)</u>	<u>463</u>	<u>(1,021)</u>	<u>613</u>
Operating loss	(1,769)	(743)	(5,347)	(5,154)
Non-operating income, net (note 3)	<u>606</u>	<u>804</u>	<u>571</u>	<u>2,554</u>
Income (Loss) before income taxes	(1,163)	61	(4,776)	(2,600)
Income taxes	<u>(6)</u>	<u>48</u>	<u>158</u>	<u>208</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ (1,157)	\$ 13	\$ (4,934)	\$ (2,808)
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale securities	<u>\$ (12)</u>	<u>\$ (12)</u>	<u>\$ (73)</u>	<u>\$ 33</u>
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ (1,169)</u>	<u>\$ 1</u>	<u>\$ (5,007)</u>	<u>\$ (2,775)</u>
Net income (loss) per share attributable to				
Deswell Industries, Inc. (note 5)				
Basic:				
	<u>\$ (0.072)</u>	<u>\$ 0.001</u>	<u>\$ (0.3073)</u>	<u>\$ (0.1749)</u>
Net income (loss) per share	<u>\$ (0.072)</u>	<u>\$ 0.001</u>	<u>\$ (0.31)</u>	<u>\$ (0.17)</u>
Weighted average common shares outstanding				
shares (in thousands)	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>
Diluted:				
Net loss per share	<u>\$ (0.072)</u>	<u>\$ 0.001</u>	<u>\$ (0.31)</u>	<u>\$ (0.17)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>