

Deswell Announces Second Half 2017 Results

- Company Announces Second Half Cash Dividend of \$0.07 Per Share -

FOR IMMEDIATE RELEASE

MACAO (June 12, 2017) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the second half of the fiscal year ended March 31, 2017.

Net sales for the six months ended March 31, 2017 were \$23.8 million, an increase of 14.2% compared to net sales of \$20.9 million for the six months ended March 31, 2016. Net sales increased by 20.9% to \$12.7 million in the plastic segment and increased by 7.4% to \$11.2 million in the Company's electronic segment.

Total gross margin increased to 18.9% during the six months ended March 31, 2017, as compared to 12.9% in the same period last year. Gross profit margin in the plastic segment increased to 24.4% of net sales for the second half of fiscal 2017, as compared to 20.2% of net sales for the corresponding period of last fiscal year. The increase in gross profit and margin in the plastic segment was mainly due to increased production efficiency of labor, introduction of robotic assembly arms, and decreased subcontracting charges, offsetting a slight increase in factory overhead, as a percentage of sales. Gross profit for the electronic segment for the six months ended March 31, 2017 was more than double that for the corresponding period of fiscal 2016. Gross margin increased from 5.4% in second half of fiscal 2016 to 12.6% in the second half of fiscal 2017. The increase was mainly due to better raw materials management and the implementation of lean manufacturing initiatives, as well as production automation.

Operating loss for the second half of fiscal 2017 was significantly reduced to \$0.3 million, as compared to an operating loss of \$2.7 million for the same period of fiscal 2016.

The Company reported net income of \$0.7 million for the six months ended March 31, 2017, as compared to a net loss of \$1.5 million for the six months ended March 31, 2016. Non-operating income for the six months ended March 31, 2017 was \$1.1 million, as compared to non-operating income of \$1.3 million in the year-ago six months. Non-operating income during the six months ended March 31, 2017 was primarily comprised of \$380,000 from rental income, \$302,000 of dividend income from securities investment, \$157,000 from interest income, as well as \$270,000 from change in the fair value of marketable securities. Deswell reported basic and diluted income per share of \$0.04 for the second half of fiscal 2017 (based on 16,013,000 weighted average shares outstanding), as compared to basic and diluted loss per share of (\$0.09) (based on 16,056,000 weighted average shares outstanding), for the six months ended March 31, 2016.

Net sales for the year ended March 31, 2017 were \$44.5 million, consistent with the corresponding period in fiscal 2016. Operating loss for the year ended March 31, 2017 decreased to \$2.1 million, as compared to operating loss of \$5.3 million for fiscal 2016. The Company reported a net income of \$1.4 million in fiscal 2017, as compared to net loss of \$4.9 million for the year ended March 31, 2016. Deswell reported basic and diluted net income per share of \$0.09 for fiscal 2017, (based on 16,035,000 weighted average share outstanding), as compared to basic and diluted loss per share of (\$0.31) (based on 16,056,000 weighted average shares outstanding), for the prior fiscal year.

The Company's financial position remained strong, with \$8.1 million in cash and cash equivalents and working capital totaled \$41.3 million as of March 31, 2017. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2017.

Mr. Edward So, Chief Executive Officer, commented, "We're pleased to have driven solid revenue growth and significantly improved margins in the second half of 2017, with increases in both our plastic and our electronic segments. We saw increased orders in our plastic segment related to office equipment and motor vehicle components and in our electronics segment, increased orders for professional audio equipment outpaced a decline in sales for home entertainment products.

"Our margin performance was favorably impacted by our continued focus on reducing costs and our emphasis on production efficiency, which is highlighted by our introduction of robotic assembly arms and less subcontracting activities in our plastics segment. Likewise, margins more than doubled in our electronics division, and during the second half of 2017 we achieved positive operating profit as compared to an operating loss in the same period of last

year, primarily because we demonstrated improved raw materials management and achieved better manufacturing efficiency by means of automation.

“We continue to see many opportunities to expand our work on behalf of existing customers as well as opportunities to capture new customers. Our balance sheet remains strong providing a solid foundation for the Company’s continued progress.”

Second Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.07 per share for the second half of the fiscal year ended March 31, 2017. The dividend will be payable on July 12, 2017 to shareholders of record as of June 26, 2017.

The Company expects the cash dividend to be declared in the coming two fiscal years may be reduced or suspended in order to increase capital investment in manufacturing equipment and facilities. These capital expenditures will be made for maintaining production capacity and efficiency of the plants.

Dividends to be declared after two fiscal years 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.

Investor Relations Contact:

John Nesbett/Jennifer Belodeau
Institutional Marketing Services (IMS)
203.972.9200

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

	March 31, <u>2017</u> (Unaudited)	March 31, <u>2016</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 8,078	\$ 11,996
Fixed deposits maturing over three months	5,422	5,276
Marketable securities (note 2)	16,327	12,020
Available-for-sale securities (note 2)	-	1,603
Accounts receivable, net	13,159	9,208
Inventories (note 3)	10,688	8,114
Prepaid expenses and other current assets	2,419	1,658
Assets held for sale	-	778
Total current assets	56,093	50,653
Property, plant and equipment - net	31,992	32,352
Time deposits maturing over twelve months	2,902	4,566
Total assets	\$ 90,987	\$ 87,571
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,152	\$ 2,228
Accrued payroll and employee benefits	4,643	4,035
Customer deposits	2,152	1,423
Other accrued liabilities	1,474	1,289
Income taxes payable	476	401
Deferred income tax liabilities	889	825
Dividend payable	-	562
Total current liabilities	14,786	10,763
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of March 31, 2017 and March 31, 2016 - 15,885,239 and 16,056,239, respectively.	53,063	53,063
Treasury stock at cost; 1,146,571 and 975,571 shares as of March 31, 2017 and 2016	(2,821)	(2,513)
Additional paid-in capital	8,005	8,005
Accumulated other comprehensive income	5,316	5,305
Retained earnings	12,638	12,948
Total shareholders' equity	76,201	76,808
Total liabilities and shareholders' equity	\$ 90,987	\$ 87,571

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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net sales	\$ 23,888	\$ 20,920	\$ 44,522	\$ 44,568
Cost of sales	<u>19,385</u>	<u>18,229</u>	<u>37,073</u>	<u>39,775</u>
Gross profit	4,503	2,691	7,449	4,793
Selling, general and administrative expenses	4,329	4,694	8,856	9,119
Other income (expense), net	<u>(457)</u>	<u>(721)</u>	<u>(696)</u>	<u>(1,021)</u>
Operating loss	(283)	(2,724)	(2,103)	(5,347)
Non-operating income, net (note 3)	<u>1,073</u>	<u>1,299</u>	<u>3,688</u>	<u>571</u>
Income (loss) before income taxes	790	(1,425)	1,585	(4,776)
Income taxes	<u>123</u>	<u>37</u>	<u>209</u>	<u>158</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ 667	\$ (1,462)	\$ 1,376	\$ (4,934)
Other comprehensive loss				
Unrealized gain (loss) on available-for-sale securities	\$ -	\$ (19)	\$ -	\$ (73)
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 667</u>	<u>\$ (1,481)</u>	<u>\$ 1,376</u>	<u>\$ (5,007)</u>
Net income (loss) per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>	<u>\$ (0.31)</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,013</u>	<u>16,056</u>	<u>16,035</u>	<u>16,056</u>
Diluted:				
Net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>	<u>\$ (0.31)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,013</u>	<u>16,056</u>	<u>16,035</u>	<u>16,056</u>