

Deswell Announces First Half 2017 Results

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

FOR IMMEDIATE RELEASE

MACAO (November 17, 2016) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the first six months ended September 30, 2016.

Net sales for the first six months ended September 30, 2016 were \$20.6 million, a decrease of 12.7% compared to net sales of \$23.6 million for the six months ended September 30, 2015. Net sales increased by 14.0% to \$10.6 million in the plastic segment and decreased by 30.1% to \$10.0 million in the Company's electronic segment.

Total gross margin increased to 14.3% during the six months ended September 30, 2016, as compared to 8.9% in the same period last year. Gross profit margin in the plastic segment increased to 17.7% of net sales for the first half of fiscal 2017 compared to 13.5% 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 lower raw material and labor costs, offsetting a slight increase in factory overhead, as a percentage of sales. The operating loss in the first half of fiscal 2017 was \$1.8 million, compared to an operating loss of \$2.6 million for the same period of fiscal 2016.

The Company reported net income of \$0.7 million for the six months ended September 30, 2016 compared to a net loss of \$3.5 million for the six months ended September 30, 2015. Non-operating income for the six months ended September 30, 2016 was \$2,616,000, as compared to non-operating expense of \$728,000 in the year-ago six months. This was primarily due to increase of \$3,643,000 on the fair value of marketable securities, which offset a decrease of \$471,000 in realized gain on sale of marketable securities during the six months ended September 30, 2016, as compared to the same six months of the prior fiscal year. Deswell reported basic and diluted income per share of \$0.04 for the first half of fiscal 2017 (based on 16,056,000 weighted average shares outstanding), compared to basic and diluted loss per share of (\$0.22) (based on 16,056,000 weighted average shares outstanding), for the six months ended September 30, 2015.

The Company's financial position remained strong, with \$10.3 million in cash and cash equivalents and working capital totaled \$41.1 million as of September 30, 2016. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2016.

Mr. Edward So, Chief Executive Officer, commented, "Despite a decline in revenue for the first six months of fiscal 2017 we achieved solid gains in our overall gross margin performance as a result of improved gross margin in both our plastics and electronics segments. We continue to explore and develop growth opportunities for our ODM business and we are focused on working with our customers to bring new and innovative products to market. Our balance sheet is strong, providing us flexibility and a solid platform for the growth of our Company."

First Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.07 per share for the first half of the fiscal year ended September 30, 2016. The dividend will be payable on December 16, 2016 to shareholders of record as of November 29, 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.

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)

	September 30, <u>2016</u> (Unaudited)	March 31, <u>2016</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 10,3166	\$ 11,996
Fixed deposits maturing over three months	6,874	5,276
Marketable securities (note 2)	15,804	12,020
Available-for-sale securities (note 2)	-	1,603
Accounts receivable, net	11,057	9,208
Inventories (note 3)	9,912	8,114
Prepaid expenses and other current assets	1,921	1,658
Assets held for sale	-	778
Total current assets	<u>55,884</u>	<u>50,653</u>
Property, plant and equipment - net	31,424	32,352
Time deposits maturing over twelve months	4,492	4,566
Total assets	<u>\$ 91,800</u>	<u>\$ 87,571</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 5,279	\$ 2,228
Accrued payroll and employee benefits	4,610	4,035
Customer deposits	2,322	1,423
Other accrued liabilities	1,334	1,289
Income taxes payable	440	401
Deferred income tax liabilities	847	825
Dividend payable	-	562
Total current liabilities	<u>14,832</u>	<u>10,763</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of September 30, 2016 and March 31, 2016 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,492	5,492
Accumulated other comprehensive income	5,316	5,305
Retained earnings	13,097	12,948
Total shareholders' equity	<u>76,968</u>	<u>76,808</u>
Total liabilities and shareholders' equity	<u>\$ 91,800</u>	<u>\$ 87,571</u>

DESWELL INDUSTRIES, INC.

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

	Six months ended September 30,	
	<u>2016</u>	<u>2015</u>
Net sales	\$ 20,634	\$ 23,648
Cost of sales	<u>17,687</u>	<u>21,546</u>
Gross profit	2,947	2,102
Selling, general and administrative expenses	4,526	4,425
Other expense, net	<u>239</u>	<u>300</u>
Operating loss	(1,818)	(2,623)
Non-operating income (expense), net	<u>2,616</u>	<u>(728)</u>
Income (loss) before income taxes	798	(3,351)
Income taxes	<u>87</u>	<u>121</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ 711	\$ (3,472)
Other comprehensive loss		
Unrealized loss on available-for-sale securities	<u>\$ -</u>	<u>\$ (54)</u>
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 711</u>	<u>\$ (3,526)</u>
Net income (loss) per share attributable to Deswell Industries, Inc. (note 4)		
Basic:		
Net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.22)</u>
Weighted average common shares outstanding		
shares (in thousands)	<u>16,056</u>	<u>16,056</u>
Diluted:		
Net income (loss) per share	<u>\$ 0.04</u>	<u>\$ (0.22)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,056</u>	<u>16,056</u>