

Deswell Announces First Half 2018 Results

FOR IMMEDIATE RELEASE

MACAO (November 16, 2017) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the first six months ended September 30, 2017.

Net sales for the first six months ended September 30, 2017 were \$29.8 million, an increase of 44.2% compared to net sales of \$20.6 million for the six months ended September 30, 2016. Net sales increased by 30.6% to \$13.8 million in the plastic segment and increased by 58.4% to \$16.0 million in the Company's electronic segment.

Total gross margin increased to 19.6% of net sales during the six months ended September 30, 2017, as compared to 14.3% of net sales in the same period last year. Gross profit margin in the plastic segment increased to 24.3% of net sales for the first half of fiscal 2018, compared to 17.9% 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 factory overhead, offsetting a slight increase in raw material and labor costs, as a percentage of sales. Gross profit margin in the electronic segment increased to 15.5% of net sales for the first half of fiscal 2018, compared to 10.5% of net sales for the corresponding period of last fiscal year. The increase in gross profit and margin in the electronic segment was mainly attributable to a decrease in labor cost and factory overhead, as a percentage of net sales. The operating income in the first half of fiscal 2018 was \$1.6 million, compared to an operating loss of \$1.8 million for the same period of fiscal 2017.

The Company reported net income of \$3.7 million for the six months ended September 30, 2017, compared to net income of \$0.7 million for the six months ended September 30, 2016. This was primarily due to an increase in gross profit and decrease in SG&A expense, as a percentage of sales, for the six months ended September 30, 2017. Deswell reported basic and diluted income per share of \$0.23 for the first half of fiscal 2018 (based on 15,885,000 weighted average shares outstanding), compared to basic and diluted income per share of \$0.04 (based on 16,056,000 weighted average shares outstanding), for the six months ended September 30, 2016.

The Company's financial position remained strong, with \$11.7 million in cash and cash equivalents and working capital totaled \$42.7 million as of September 30, 2017. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2017.

Mr. Edward So, Chief Executive Officer, commented, "Our strong operating performance in the first half of 2018 is a result of the strategic initiatives we have focused on over the past few years. The top line growth reflects our efforts to drive revenue by expanding business with existing customers and adding new customers; both our plastic and electronic assembly segments saw strong growth in the period. Furthermore, we have continued to reduce costs, enabling us to achieve enhanced margins and considerable growth in earnings per share. Our pipeline is healthy, and we remain diligently focused on aligning with the right customers and products."

First Half Dividend

The Company also announces that its board of directors today decided no cash dividend will be paid for the first half of the fiscal year ended September 30, 2017. The Company expects the distribution of dividend will be resumed no later than March 31, 2019.

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)**

	September, 30 <u>2017</u> (Unaudited)	March 31, <u>2017</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 11,713	\$ 8,078
Fixed deposits maturing over three months	2,116	5,422
Marketable securities (note 2)	15,850	16,327
Accounts receivable, net	15,023	13,159
Inventories (note 3)	13,211	10,688
Prepaid expenses and other current assets	<u>1,976</u>	<u>2,419</u>
Total current assets	59,889	56,093
Property, plant and equipment - net	31,492	31,992
Time deposits maturing over twelve months	<u>4,521</u>	<u>2,902</u>
Total assets	<u>\$ 95,902</u>	<u>\$ 90,987</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,995	\$ 5,152
Accrued payroll and employee benefits	5,408	4,643
Customer deposits	2,102	2,152
Other accrued liabilities	1,217	1,474
Income taxes payable	530	476
Deferred income tax liabilities	<u>892</u>	<u>889</u>
Total current liabilities	<u>17,144</u>	<u>14,786</u>
Shareholders' equity		
Common shares nil par value; authorized 30,000,000 shares; 15,885,239 shares issued & outstanding as of September 30, 2017 and March 31, 2017	53,063	53,063
Additional paid-in capital	5,184	5,184
Accumulated other comprehensive income	5,316	5,316
Retained earnings	<u>15,195</u>	<u>12,638</u>
Total shareholders' equity	<u>78,758</u>	<u>76,201</u>
Total liabilities and shareholders' equity	<u>\$ 95,902</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 September 30,	
	<u>2017</u>	<u>2016</u>
Net sales	\$ 29,759	\$ 20,634
Cost of sales	<u>23,938</u>	<u>17,687</u>
Gross profit	5,821	2,947
Selling, general and administrative expenses	4,434	4,526
Other income (expense), net	<u>198</u>	<u>(239)</u>
Operating income (loss)	1,585	(1,818)
Non-operating income, net (note 3)	<u>2,130</u>	<u>2,616</u>
Income before income taxes	3,715	798
Income taxes	<u>46</u>	<u>87</u>
Net income attributable to Deswell Industries, Inc.	\$ 3,669	\$ 711
Other comprehensive income	\$ -	\$ -
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 3,669</u>	<u>\$ 711</u>
Net income per share attributable to Deswell Industries, Inc. (note 4)		
Basic:		
Net income (loss) per share	<u>\$ 0.23</u>	<u>\$ 0.04</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,885</u>	<u>16,056</u>
Diluted:		
Net income (loss) per share	<u>\$ 0.23</u>	<u>\$ 0.04</u>
Weighted average number of shares outstanding (in thousands)	<u>15,885</u>	<u>16,056</u>

DESWELL INDUSTRIES, INC.**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

(U.S. dollars in thousands)

	Six months ended September 30,	Six months ended September 30,
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities :		
Net income (loss)	\$ 3,669	\$ 711
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	1,054	1,118
(Reversal of) provision for doubtful accounts	(84)	62
Allowances for obsolete inventories	85	(13)
Loss on disposal of property, plant and equipment	17	110
Unrealized holding gain on marketable securities	(537)	(1,626)
Realized holding gain on disposal of marketable securities	(340)	(69)
Realized loss on disposal of available-for-sale securities	-	14
Scrip dividend received	(139)	(58)
Deferred tax	3	22
Changes in operating assets and liabilities :		
Accounts receivable	(1,780)	(1,911)
Inventories	(2,608)	(1,785)
Prepaid expenses and other current assets	443	(263)
Accounts payable	1,843	3,051
Accrued payroll and employee benefits	765	575
Customer deposits	(50)	899
Other accrued liabilities	(257)	45
Income taxes payable	54	39
Net cash provided by (used in) operating activities	<u>2,138</u>	<u>921</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(577)	(397)
Proceeds from disposal of property, plant and equipment,	6	875
Purchase of marketable securities	(435)	(2,951)
Proceeds from disposal of marketable securities	1,928	920
Proceeds from disposal of available-for-sale securities	-	1,600
Increase in fixed deposits maturing over three months	3,306	(1,598)
Decrease in fixed deposits maturing over twelve months	(1,619)	74
Net cash provided by (used in) investing activities	<u>2,609</u>	<u>(1,477)</u>
Cash flows from financing activities		
Dividends paid	<u>(1,112)</u>	<u>(1,124)</u>
Net cash used in financing activities	(1,112)	(1,124)
Cash effect of exchange rate changes	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	3,635	(1,680)
Cash and cash equivalents, at beginning of period	<u>8,078</u>	<u>11,996</u>
Cash and cash equivalents, at end of period	<u><u>11,713</u></u>	<u><u>10,316</u></u>
Supplementary disclosures of cashflow information:		
Cash paid during the period for:		
Interest	-	-
Income taxes	<u>8</u>	<u>26</u>